DRAFT

	Monterey Peninsula Regional Park District **Policy & Procedure Manual**

Title:	Other Post Employment Benefit (OPEB) Funding Policy	
Department:	Finance	Effective Date: March 4, 2020
Policy No:	3010	Revisions:

PURPOSE

The purpose of this OPEB Funding Policy (the "Policy") is to establish a methodology for funding benefits obligations accruing under the District's OPEB Plan (the "Plan"). It is anticipated that current assets plus future assets from employer contributions and investment earnings should be sufficient to fund Plan benefits and keep them financially sustainable. The Policy is intended to reflect a reasonable, conservative approach with each generation of rate payers financing, to the greatest extent possible, the cost of benefits being accrued.

The Policy documents the method the District will use to determine its actuarially determined contributions, to fund the long-term cost of OPEB benefits to District employees and retirees. The Policy also:

- Demonstrates prudent financial management practices;
- Promotes long-term and strategic thinking;
- Provides guidance in making annual budget decisions;
- Reassures bond rating agencies; and
- Demonstrates to employees and the public how OPEB will be funded to ensure adequate funding for contracted benefits.

This Policy recognizes that there will be investment marketplace volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this Policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic, and financially sound manner. Further, it is the intent of this Policy to comply with all applicable laws, rules and regulations (collectively "Laws"). In the event this Policy conflicts with any such Law, the applicable Law shall prevail.

BACKGROUND

The District currently provides OPEB medical benefits to retirees who meet certain eligibility requirements. Healthcare and other benefits are described as other postemployment benefits (OPEB) to distinguish them from pensions. The OPEB benefit consists of a cash contribution to

CalPERS for contracted retiree medical, at an amount approved by the District's Board of Directors.

While the benefit was historically funded on a pay-as-you-go (pay-go) basis, paying only the actual cost of the benefit for retirees in the current fiscal year, financial accounting standards require the District to account for the benefit as if it were actuarially funded. This accounting standard highlights an underlying budgetary and funding challenge. Meeting this challenge requires government Boards to ensure that OPEB is sustainable over the long term and that it is affordable to stakeholders, competitive, and sufficient to meet employee needs, and that it may be reasonably expected to remain so.

If the District did not replace the plan of pay-go only, the District's pay-go obligation would continue to grow, consuming resources annually that would otherwise pay for vital programs and services. Therefore, at its July 2, 2012 meeting, the Board of Directors approved using the California Employers' Retiree Benefit Trust (CERBT), which is managed by CalPERS. The CERBT is an IRS Section 115 trust fund dedicated to prefunding OPEB for all eligible California public agencies. By joining this trust fund, California public agencies help finance future costs in large part from investment earnings provided by CalPERS. Once the funds are invested into the trust, they can only be used to fund ongoing OPEB retirement obligations.

Good financial management requires a Policy that addresses three core elements:

- *Actuarial cost method* - the technique used to allocate the total present value of future benefits over an employee's working career (normal cost/service cost).

- *Asset smoothing method* - the technique used to recognize gains or losses in OPEB assets over some period of time so as to reduce the effects of market volatility and stabilize contributions.

- *Amortization policy* - The length of time and the structure selected for increasing or decreasing contributions to systematically eliminate any unfunded actuarial accrued liability or surplus.

POLICY

OPEB Actuarially Determined Contribution

The District shall engage an OPEB actuary to determine the Districts annual contribution to the Trust based on biennial actuarial valuations or valuations as required by the Trust. The annual contribution will include the normal cost for current service and amortization of the unfunded liability. The normal cost will be calculated using the entry age normal cost – level percentage of pay method using appropriate economic and non-economic assumptions approved by the District.

Actuarial assumptions are generally grouped into two major categories:

1. Demographic assumptions, which include withdrawal (termination), retirement, disability, and mortality rates, as well as assumptions regarding beneficiaries.

2. Economic assumptions, which include inflation, healthcare inflation and investment return.

Amortization of the unfunded actuarial accrued liability shall:

- Use fixed (closed) periods that

- Are selected so as to balance the two goals of demographic matching (equitable allocation of cost among generations) and volatility management (funding at a level percentage of payroll) and

- Never exceed 25 years, but ideally fall in the 15 to 20-year range;

- Use a layered approach for the various components to be amortized (that is, an approach that separately tracks the different components to be amortized); and emerge as a level percentage of member compensation or as a level dollar amount.

The Asset smoothing method shall:

- Be unbiased relative to market. For example:

  - The same smoothing period should be used for both gains and losses, and

  - Market corridors (a range beyond which deviations are not smoothed), if used, should be symmetrical, and

  - Provide for smoothing to occur over fixed periods (the use of rolling periods normally should be avoided), ideally of five years or less, but never longer than ten years.

  - Provide for a market corridor if smoothing is to occur over a period longer than five years.

Funding the Actuarially Determined Contribution

The District will continue to appropriate in the annual budget for contributions to the OPEB trust as needed to maintain a funded ratio near to, but not exceeding 100%. In addition, the District will continue to appropriate in the annual budget for the pay-go costs of the OPEB for current retirees.

Appropriated funds not required in any given annual budget year, to maintain a near 100% funded status, shall be available for appropriation to any existing unfunded Pension obligation.

FUNDING OBJECTIVES

The primary funding objectives of this Policy, in order of importance, are to:

1. Provide sufficient assets to permit the payment of all contracted benefits under the plan.

2. Establish improvement, on a projected basis, in the Plan's Funded Ratio, such that it approaches 100% over a given period of time, while attempting not to overfund the Plan.

3. Minimize the volatility of the employer's annual contributions by smoothing investment gains and losses over a period of years. Smoothing investment returns over a period of years recognizes that investment performance will fluctuate, and only by coincidence will it exactly equal the assumed rate of return for any given year. It is anticipated that this approach may reduce volatility within the calculation of the Unfunded Actuarial Accrued Liability.

INVESTMENT STRATEGY

At least biennially, in conjunction with the actuarial valuation, the Finance Committee shall consider the investment strategies offered by the Trust and shall make a recommendation to the Board on the recommended investment strategy.

TRANSPARENCY AND REPORTING

Funding of the District's OPEB should be transparent to all parties including District employees, retirees, Board and residents. In order to achieve this transparency, the following information shall be available:

1. Copies of the biennial actuarial valuations for the District's OPEB plan shall be made available to the Board.

2. The District's Basic Financial Statements with Report on Audit by Independent Certified Public Accountants shall be published on its website. This report includes information in the "Notes To Basic Financial Statements," on the District's OPEB plan, contributions to the OPEB Trust, and the funded status of the plan.

3. The District's annual operating budget shall include appropriations for contributions to the OPEB Trust as needed and annual pay-go costs.

REVIEW OF FUNDING POLICY

Funding OPEB requires a long-term plan. The District will review this policy at a minimum biennially, coincident with preparation of the actuarial valuations, to determine if changes to this Policy are necessary to ensure adequate resources are being accumulated to fund OPEB benefits.

From time to time, the Finance Committee may evaluate the IRS Section 115 trust advisor/organization to determine if the service and safety goals are being met for these funds.

The Finance Committee may make recommendations regarding continued use of the advisor/organization for consideration by the Board.

Employee Acknowledgement of OPEB Funding Policy

This is to acknowledge that I have received a copy of the Monterey Peninsula Regional Park District's OPEB Funding Policy and that I have read the policy and understand my rights and obligations under the Policy.

I understand that this Policy represents only current policies, procedures, rights and obligations and does not create a contract of employment. Regardless of what the Policy states or provides, the District retains the right to add, change or delete provisions of the Policy and all other working terms and conditions without obtaining another person's consent or agreement.

My signature below further signifies that I have read this Policy and that I accept and will abide by all of its provisions.

PRINT FULL NAME

SIGNED

DATE

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 1

December 31, 2019

Objective

The objective of the CERBT Strategy 1 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under “Composition”. Generally, equities are intended to help build the value of the employer’s portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 2 and Strategy 3, this portfolio consists of a higher percentage of equities than bonds and other assets. Historically, equities have displayed greater price volatility and therefore this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes, in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end, the aggregate total of assets under management for all CERBT Strategies was

$11,218,781,370.

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation[1]	Target Range	Benchmark
Global Equity	59%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	25%	±5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+2%	91 Day Treasury Bill

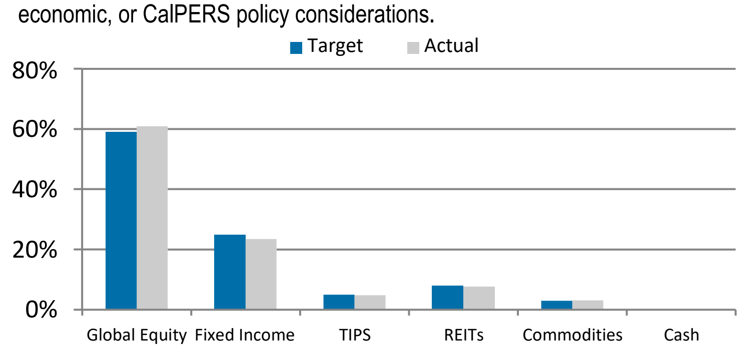
[1] Allocations were approved by the Board at the May 2018 Investment Committee meeting.

Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



CERBT Strategy 1 Performance as of December 31, 2019								
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return[1,3]	2.26%	5.64%	6.98%	21.71%	9.76%	6.84%	8.06%	5.28%
Net Return[2,3]	2.25%	5.62%	6.93%	21.61%	9.66%	6.75%	7.96%	5.21%
Benchmark returns	2.25%	5.58%	6.85%	21.55%	9.41%	6.45%	7.80%	4.85%
Standard Deviation[4]	-	-	-	-	7.55%	7.83%	9.42%	12.38%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

* Returns for periods greater than one year are annualized.

[1] Gross performance figures are provided net of SSGA operating expenses.

[2] Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

[3] See the Expense section of this document.

[4] Standard Deviation is based on gross returns.

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 1

December 31, 2019

General Information

Information Accessibility

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or by external advisors. Since it is not a mutual fund, a prospectus is not available nor is information available from a newspaper source. This summary is designed to provide descriptive information. CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and current performance information, including performance to the most recent month-end, please visit our website at: **www.calpers.ca.gov**.

Portfolio Manager Information

The CalPERS Investment Committee and Board of Administration directs the investment strategy and investments of the CERBT. State Street Global Advisors (SSGA) manages all asset classes for CERBT, which includes: Global Equity, Fixed Income, Real Estate Investment Trusts, Treasury Inflation-Protected Securities, and Commodities.[1]

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as record keeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the fee, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per share. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or market conditions. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

What Employers Own

Each employer choosing CERBT Strategy 1 owns a percentage of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits. CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives nor provide sufficient funding to meet these employer obligations. Further, CalPERS will not make up the difference between the employer's CERBT assets and the actual cost of Other Post Employment Benefits provided to employer's plan members.

An investment in the portfolio is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at **www.calpers.ca.gov**.

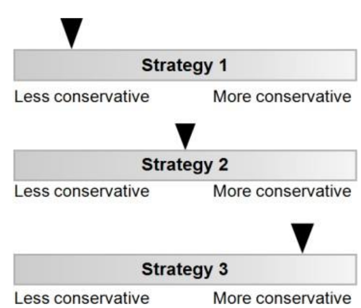
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit **www.calpers.ca.gov** and follow the links to California Employers' Retiree Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	59%	40%	22%
Fixed Income	25%	43%	49%
Treasury Inflation-Protected Securities	5%	5%	16%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	4%	5%



[1] Since June 2018 SSGA has managed passively all CERBT asset classes. Previously Fixed Income, TIPS and Commodity asset classes were internally managed.

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 2

December 31, 2019

Objective

The objective of the CERBT Strategy 2 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 2 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under "Composition". Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 1 and Strategy 3, this portfolio consists of a moderate allocation of equities, bonds, and other assets. Historically, equities have displayed greater price volatility and therefore, this portfolio may experience comparatively less fluctuation of value compared to CERBT Strategy 1 but more fluctuation of value compared to CERBT Strategy 3. Employers that seek a moderate approach to investing may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes, in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end, the aggregate total of assets under management for all CERBT Strategies was

$11,218,781,370.

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 2 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation[1]	Target Range	Benchmark
Global Equity	40%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	43%	±5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	4%	± 3%	S&P GSCI Total Return Index
Cash	-	+2%	91 Day Treasury Bill

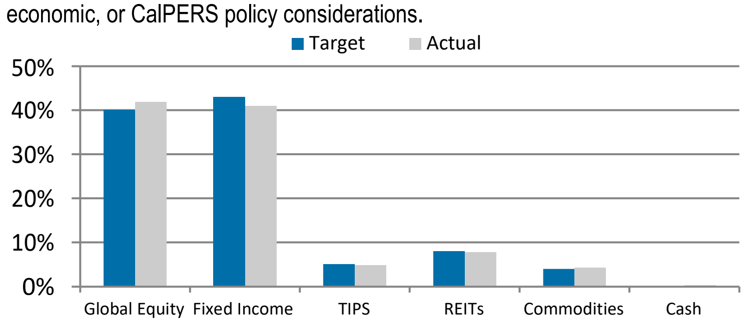
[1] Allocations were approved by the Board at the May 2018 Investment Committee meeting.

Portfolio Benchmark

The CERBT Strategy 2 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



CERBT Strategy 2 Performance as of December 31, 2019							
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (October 1, 2011)
Gross Return[1,3]	1.54%	3.87%	5.90%	19.12%	8.59%	6.05%	7.73%
Net Return[2,3]	1.54%	3.85%	5.86%	19.02%	8.50%	5.96%	7.62%
Benchmark returns	1.53%	3.82%	5.80%	19.01%	8.25%	5.69%	7.43%
Standard Deviation[4]	-	-	-	-	5.78%	6.14%	6.71%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

*Returns for periods greater than one year are annualized.

[1] Gross performance figures are provided net of SSGA operating expenses.

[2] Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

[3] See the Expense section of this document.

[4] Standard Deviation is based on gross returns.

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 2

December 31, 2019

General Information

Information Accessibility

The CERBT Strategy 2 portfolio consists of assets managed internally by CalPERS and/or by external advisors. Since it is not a mutual fund, a prospectus is not available nor is information available from a newspaper source. This summary is designed to provide descriptive information. CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and current performance information, including performance to the most recent month-end, please visit our website at: **www.calpers.ca.gov**.

Portfolio Manager Information

The CalPERS Investment Committee and Board of Administration directs the investment strategy and investments of the CERBT. State Street Global Advisors (SSGA) manages all asset classes for CERBT, which includes: Global Equity, Fixed Income, Real Estate Investment Trusts, Treasury Inflation-Protected Securities, and Commodities.[1]

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as record keeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the fee, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per share. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or market conditions. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

What Employers Own

Each employer choosing CERBT Strategy 2 owns a percentage of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits. CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives nor provide sufficient funding to meet these employer obligations. Further, CalPERS will not make up the difference between the employer's CERBT assets and the actual cost of Other Post Employment Benefits provided to employer's plan members.

An investment in the portfolio is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at **www.calpers.ca.gov**.

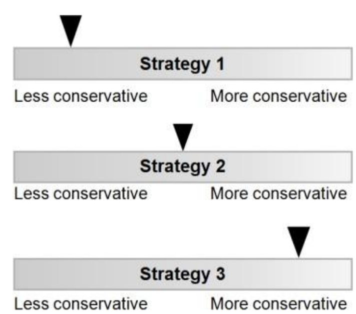
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit **www.calpers.ca.gov** and follow the links to California Employers' Retiree Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	59%	40%	22%
Fixed Income	25%	43%	49%
Treasury Inflation-Protected Securities	5%	5%	16%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	4%	5%



[1] Since June 2018 SSGA has managed passively all CERBT asset classes. Previously Fixed Income, TIPS and Commodity asset classes were internally managed.

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 3

December 31, 2019

Objective

The objective of the CERBT Strategy 3 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 3 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under “Composition”. Generally, equities are intended to help build the value of the employer’s portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 1 and Strategy 2, this portfolio consists of a lower percentage of equities than bonds, and other assets. Historically, funds with a lower percentage of equities have displayed less price volatility and therefore, this portfolio may experience less fluctuation of value. Employers that seek greater stability of value, in exchange for possible lower investment returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes, in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end, the aggregate total of assets under management for all CERBT Strategies was

$11,218,781,370.

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 3 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation[1]	Target Range	Benchmark
Global Equity	22%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	49%	±5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	16%	± 3%	Bloomberg Barclays US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	5%	± 3%	S&P GSCI Total Return Index
Cash	-	+2%	91 Day Treasury Bill

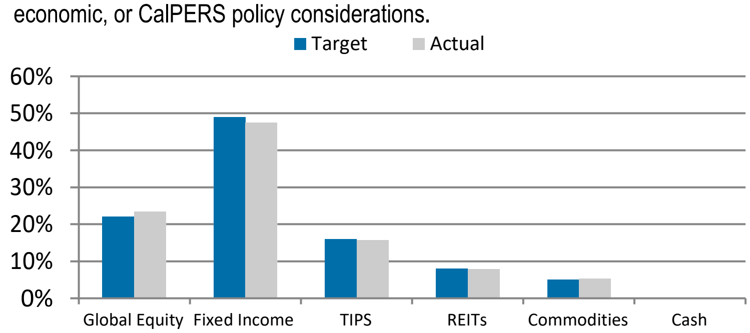
[1] Allocations were approved by the Board at the May 2018 Investment Committee meeting.

Portfolio Benchmark

The CERBT Strategy 3 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



CERBT Strategy 3 Performance as of December 31, 2019							
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (January 1, 2012)
Gross Return[1,3]	0.96%	2.36%	4.73%	16.19%	7.15%	5.08%	5.97%
Net Return[2,3]	0.96%	2.34%	4.68%	16.10%	7.06%	4.99%	5.86%
Benchmark returns	0.96%	2.32%	4.65%	16.07%	6.86%	4.77%	5.64%
Standard Deviation[4]	-	-	-	-	4.47%	4.86%	5.09%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

*Returns for periods greater than one year are annualized.

[1] Gross performance figures are provided net of SSGA operating expenses.

[2] Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

[3] See the Expense section of this document.

[4] Standard Deviation is based on gross returns.

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 3

December 31, 2019

General Information

Information Accessibility

The CERBT Strategy 3 portfolio consists of assets managed internally by CalPERS and/or by external advisors. Since it is not a mutual fund, a prospectus is not available nor is information available from a newspaper source. This summary is designed to provide descriptive information. CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and current performance information, including performance to the most recent month-end, please visit our website at: **www.calpers.ca.gov**.

Portfolio Manager Information

The CalPERS Investment Committee and Board of Administration directs the investment strategy and investments of the CERBT. State Street Global Advisors (SSGA) manages all asset classes for CERBT, which includes: Global Equity, Fixed Income, Real Estate Investment Trusts, Treasury Inflation-Protected Securities, and Commodities.[1]

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as record keeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the fee, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per share. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or market conditions. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

What Employers Own

Each employer choosing CERBT Strategy 3 owns a percentage of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits. CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives nor provide sufficient funding to meet these employer obligations. Further, CalPERS will not make up the difference between the employer's CERBT assets and the actual cost of Other Post Employment Benefits provided to employer's plan members.

An investment in the portfolio is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at **www.calpers.ca.gov**.

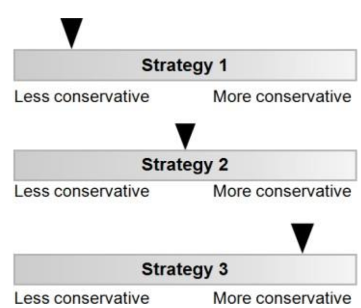
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit **www.calpers.ca.gov** and follow the links to California Employers' Retiree Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	59%	40%	22%
Fixed Income	25%	43%	49%
Treasury Inflation-Protected Securities	5%	5%	16%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	4%	5%



[1] Since June 2018 SSGA has managed passively all CERBT asset classes. Previously Fixed Income, TIPS and Commodity asset classes were internally managed.

Principal Risks of the Portfolio

An investment in CERBT is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. It is possible to lose money by investing in this portfolio. The portfolios risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. Some principal risks associated with CERBT are identified and described on the following pages.

Type of Risk:	Risk Description:
Allocation Risk	Allocation risk pertains to the manager's skill in achieving the portfolio's investment objectives by determining the portfolio's sector allocations and in selecting and weighting the underlying investments. The manager's evaluations and assumptions regarding asset classes and underlying investments may differ from actual market conditions.
Commodity Risk	Commodity Risk refers to the uncertainties of future market values and of the size of the future income caused by the fluctuation in the prices of commodities (grains, metals, gas, electricity, etc.).
Credit Risk	Credit Risk is the risk that the Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a derivative contract, is unable or unwilling to meet its financial obligations.
Default Risk	Default Risk is a risk that the counterparty will not pay what it is obligated to pay on a bond, credit derivative, trade credit insurance or payment protection contract, or other trade or transaction when it is supposed to.
Derivatives Risk	Derivatives Risk is the risk of investing in derivative instruments, including liquidity, interest rate, market, credit and management risks, mispricing or improper valuation. Changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index, and the Fund could lose more than the principal invested.
Focus (Concentration) Risk	Focus Risk increases as CERBT's exposure to any single type of investment increases. This includes investments in a given industry, sector, country, region, or type of security. The greater investment concentration, the greater the impact the performance on that investment will have on the Fund's performance. To the extent the Fund has greater exposure to any single type of investment, the Fund's potential for loss (or gain) will be greater than if its portfolios were invested more broadly in many types of investments.
Foreign Exchange Risk	Foreign Exchange Risk is the financial risk posed by an exposure to unanticipated changes in the exchange rate between two currencies. This risk is also known as "Exchange Rate Risk" or "Currency Risk".
Foreign Risk	Some of the underlying investments are in foreign securities, which are generally riskier than U.S. securities. As a result, the portfolio is subject to foreign risk, meaning that political events (such as civil unrest, national elections, and imposition of exchange controls), social and economic events (such as labor strikes and rising inflation), and natural disasters occurring in a country where the portfolio invests could cause the portfolio's investments in that country to experience losses.

Principal Investment Risks

Type of Risk	Risk Description
Inflation-Indexed Security Risk	Inflation-Indexed Security Risk is the risk that inflation-indexed debt securities are subject to the effects of changes in market interest rates cause by factors other than inflation (real interest rates). In general, the value of an inflation-indexed security, including TIPS, tends to decrease when real interest rates increase and can increase when real interest rates decrease. Interest payments on inflation-indexed securities are unpredictable and will fluctuate as the principal and interest are adjusted for inflation. There can be no assurance that the inflation index used will accurately measure the real rate of inflation in the price of goods and services. Any increase in the principal amount of an inflation-indexed debt security will be considered taxable ordinary income, even though the Fund will not receive the principal until maturity.
Interest Rate Risk	Interest Rate Risk is the risk that fixed income securities will decline in value when interest rates rise. A fixed income fund with a longer average portfolio duration will be more sensitive to changes in interest rates than a fund with a shorter average portfolio duration. Equity investments are also subject to interest rate risk since higher interest rates mean higher costs of borrowing, which in turn may negatively affect a securities price.
Liquidity Risk	Liquidity Risk exists when particular investments are or become difficult to purchase or sell at the price at which the fund has valued the security, whether because of current market conditions or the specific type of investment. Liquidity risk generally increases (meaning that securities become more illiquid) as the number, or relative need, of investors seeking to liquidate in a given market increases. To the extent that CERBT strategies involve foreign securities or non-US securities with a thin trading market, CERBT will tend to have greater exposure to liquidity risk.
Management Risk	Management Risk is the risk that the investment techniques and risk analyses applied by CalPERS and external managers will not produce the desired results. Legislative, regulatory, compliance and other industry developments may affect investment techniques available to CalPERS and external managers in connection with managing the CERBT. Management risk is greater when less qualitative information is available to CalPERS staff or external managers about an investment. There is no guarantee that the investment objective of the CERBT will be achieved.
Market Risk	Market risk is the risk that the value of securities owned by the Fund may go up or down, sometimes rapidly or unpredictably, due to factors affecting securities markets generally or particular industries. Market risk is called "systemic risk" which can be defined as financial system instability, potentially catastrophic, caused by or exacerbated by idiosyncratic events or conditions in financial intermediaries. System risk refers to the risks imposed by interdependencies in a system or market, where the failure of a single entity, or cluster of entities can cause a cascading failure, which could potentially bankrupt or bring down the entire system or market.
Principal Loss Risk	Employers own a percentage of the CERBT portfolio they invest in (expressed as "units"). At any given time, the value of an employer's units may be worth less than the price paid for them.

CalPERS Investment Policy for the California Employers' Retiree Benefit Trust Fund

Effective Date

This policy is effective as of October 1, 2018 and supersedes all previous California Employers' Retiree Benefit Trust (CERBT) Fund policies.

Contents

Introduction

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

This document sets forth the investment policy (Policy) for the policy portfolios (Portfolios) of the California Employers' Retiree Benefit Trust 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 Portfolios. Additionally, use of this Policy ensures sufficient flexibility in managing investment risks and returns associated with the Fund.

The Fund was established March 1, 2007 for public employers to prefund their retiree health and other post-employment benefit obligations. The Fund is currently known in statute as the Annuitants' Healthcare Coverage Fund. There are three separate Portfolios (Strategy 1, Strategy 2, and Strategy 3) for the Fund, that provide employers a choice of asset allocation strategies.

This Policy should be read in conjunction with and is subject to applicable 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 Fund seeks to offer to employers distinct investment alternatives given their specific liabilities and cash flow needs.

Responsibilities

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

Investment Approach & Parameter

A. Performance Objective and Benchmark

   The benchmark for the Portfolios is specified in the CalPERS Total Fund Investment Policy benchmark appendix.

B. Strategic Asset Allocation Process

   A comprehensive Asset Allocation Strategy analysis shall be completed periodically that follows the schedule and process as described in the CalPERS Total Fund Investment Policy, Asset Allocation Strategy Section, and Reporting to the Investment Committee appendix. As further described in the Asset Allocation Strategy Section, the schedule may be altered to accommodate pending Board actions.

C. Restrictions, Prohibitions and Authorized Securities

Restrictions, Prohibitions and Authorized Securities of the Fund are governed by the CalPERS Total Fund Investment Policy for internal funds and defined in each Manager's contract with CalPERS for external funds.

All transactions involving derivatives are governed by the CalPERS Total Fund Investment Policy, Global Derivatives and Counterparty Risk Section.

Investment Constraints/ Limitations

See Appendix 3 for Fund investment constraints/limitations.

Glossary of CalPERS Specific Terms

Bold 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.

Appendices

Appendix 1: Reporting to the Investment Committee

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

1. Investment Office Staff
2. ***General Pension Consultant***

Table 1: Investment Office Staff Reporting Responsibilities

Ref #	Report Content	Frequency
1.	Staff shall provide a review that will include, but is not limited to, asset class allocations compared to Policy targets and ranges (as applicable), current market value, performance, and risk metrics.	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 the next Committee meeting, or sooner if deemed necessary

*Table 2: **General Pension Consultant** Reporting Responsibilities*

Ref #	Report Content	Frequency
1.	The Consultant shall monitor, evaluate, and report on the performance of the Fund relative to the benchmarks and this Policy and other applicable CalPERS Policies.	No less than annually

Appendix 2: Investment Responsibilities

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

- Investment Committee
- Investment Office Staff
- ***General Pension Consultant***
- ***External Manager***

Investment Committee Responsibilities

1. Approve asset classes for investment and set a policy target allocation, permissible range, and benchmark for each asset class.

Investment Office Staff Responsibilities

1. All aspects of portfolio management, including monitoring, trading, analyzing, evaluating performance relative to the appropriate benchmark, and selecting and contracting with managers.
2. Provide individualized asset allocation strategy recommendations to the Committee, including selection of asset class benchmarks, and Policy targets and ranges.
3. Manage the asset class allocations of the Fund within Policy ranges approved by the Committee, in accordance with Policy guidelines.
4. Monitor internal and external managers in the implementation of, and compliance with, the Policy.
5. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.

General Pension 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.

External Manager *Responsibilities*

1. Manage the Fund in accordance with each manager’s contract with CalPERS and the Policy.

2. Communicate and cooperate with Investment Office Staff and authorized third parties regarding the management of the Fund.

Appendix 3: Investment Constraints/Limitations

Portfolio Asset Class Allocation Targets & Ranges

The following tables provide details regarding the asset allocation targets and ranges for each CERBT strategy. Upon adoption of significant policy changes, Staff will implement the changes within a reasonable time period.

Table 3: Allocation Targets and Ranges – Strategy 1, Effective October 1, 2018

Asset Class	Policy Target	Policy Range Relative to Target
Global Equity	59%	+/- 5%
Fixed Income	25%	+/- 5%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 3%
Commodities	3%	+/- 3%
Real Estate Investment Trusts (REITs)	8%	+/- 5%
Liquidity*	0%	+ 2%
Total	**100%**	

*The Liquidity asset class is constrained to frictional/operational cash flows

Table 4: Allocation Targets and Ranges – Strategy 2, Effective October 1, 2018

Asset Class	Policy Target	Policy Range Relative to Target
Global Equity	40%	+/- 5%
Fixed Income	43%	+/- 5%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 3%
Commodities	4%	+/- 3%
Real Estate Investment Trusts (REITs)	8%	+/- 5%
Liquidity*	0%	+ 2%
Total	**100%**	

*The Liquidity asset class is constrained to frictional/operational cash flows.

Table 5: Allocation Targets and Ranges – Strategy 3, Effective October 1, 2018

Asset Class	Policy Target	Policy Range Relative to Target
Global Equity	22%	+/- 5%
Fixed Income	49%	+/- 5%
Treasury Inflation-Protected Securities (TIPS)	16%	+/- 3%
Commodities	5%	+/- 3%
Real Estate Investment Trusts (REITs)	8%	+/- 5%
Liquidity*	0%	+ 2%
Total	**100%**	

*The Liquidity asset class is constrained to frictional/operational cash flows.

Target Tracking Error

The Portfolios will be managed in a manner that minimizes any tracking error.

Appendix 4: Policy Document History

Table 6: CERBT Fund Policy History

Date	Detail
2011-06-15	Approved by the Policy Subcommittee
2011-08-15	Adopted by the Investment Committee
2013-12-03	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	Approved by the Investment Committee
2016-03-14	Approved by the Investment Committee. Previous versions of the California Employers’ Retiree Benefit Trust Fund Policy were reformatted to align with investment policy updates incorporated during the Investment Policy Revision Project
2018-10-01	Administrative changes to the strategic asset allocation targets and ranges as approved by the Committee on May 14, 2018 (agenda item 5a).
2019-01-04	Administrative changes made to migrate policy into an accessible template.

The CERBT Fund Policy was previously the Annuitants' Healthcare Coverage Fund Policy and Attachment A of the Affiliate Fund Policy. Tables 7 and 8 below reflect the revision history of those documents.

Table 7: Affiliate Fund Policy History

Date	Detail
2008-08-18	Approved by the Policy Subcommittee
2008-09-15	Adopted by the Investment Committee
2008-12-15	Revised by the Investment Committee
2009-06-16	Administrative changes made due to Policy Review Project
2009-09-28	Administrative changes due to adoption of Benchmark Policy

Table 8: Annuitants' Healthcare Coverage Fund (Policy consolidated into the Affiliate Fund Policy) History

Date	Detail
2006-12-15	Approved by the Policy Subcommittee
2006-12-18	Adopted by the Investment Committee
2008-08-18	Repealed by the Policy Subcommittee
2008-09-15	Administrative changes made due to Policy Review Project