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(March 2009 Reporting Period)**

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May 11, 2009

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Quarterly Performance Report
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Consent
- IV. ANALYSIS:**

### **Background**

In accordance with AIM Program Policy and as provided for in the external resources' contracts, quarterly performance reports are required for the AIM Program. Attachment 1 provides the AIM Portfolio Performance Report as of December 31, 2008. The report may be modified over time to reflect additional enhancements.

### **Program Review**

As of December 31, 2008, the AIM Program had a total exposure of \$43.6 billion. Since inception, the AIM Program has made contributions of \$41.1 billion and received distributions of \$26.4 billion and has a reported value of \$20.0 billion. Of the \$26.4 billion in distributions, \$14.3 billion represents realized gains, income, and dividends. The AIM Program has realized a 1.3x return of contributed capital. Since Inception to December 31, 2008, the AIM Program has generated a net IRR of 6.9%.

**V. STRATEGIC PLAN:**

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

Attachment 1 provides the Executive Summary for the Alternative Investment Management Program - Quarterly Review prepared by the Private Edge group of State Street Corporation and verified by the Performance Monitoring Unit staff.

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Performance Monitoring Unit

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Joseph A. Dear  
Chief Investment Officer

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

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**ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM**

**QUARTERLY REVIEW**

**EXECUTIVE SUMMARY**

*For the quarter ended  
December 31, 2008*

*Prepared by The Private Edge<sup>®</sup> Group, State Street Corporation*



STATE STREET.

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## I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

### A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The Private Edge<sup>®</sup> Group (“PEG”) at State Street Corporation and verified by the Performance Monitoring Unit Staff, based on cash flow, valuation and activity data captured by PEG and various AIM Program External Resources. Specific highlights of the portfolio are given below.

#### Portfolio Summary

- As of December 31, 2008, the AIM Program had a total exposure of \$43.6 billion. Total exposure is the current reported value of investments plus the remaining amount of unfunded commitments.
- Since inception, the AIM Program has made contributions of \$41.1 billion, received distributions of \$26.4 billion and has a remaining reported value of \$20.0 billion. Of the \$26.4 billion in distributions, \$14.3 billion represents realized gains, income and dividends.

#### SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH DECEMBER 31, 2008 (US\$ IN MILLIONS)

	Capital Contributed <sup>(3)</sup>	Distributions		Reported Value <sup>(5)</sup>	Investment Multiple
		Return of Capital	Realized Gain <sup>(4)</sup>		
<b>Total Active Commitments<sup>(1)</sup></b>	<b>\$34,262.5</b>	<b>\$7,334.1</b>	<b>\$10,382.3</b>	<b>\$19,959.6</b>	<b>1.1x</b>
<b>Total Exited Commitments<sup>(2)</sup></b>	<b>\$6,846.6</b>	<b>\$4,791.1</b>	<b>\$3,932.4</b>	--	<b>1.3x</b>

<sup>(1)</sup> An active commitment refers to an investment that has not reached the end of its legal term.

<sup>(2)</sup> An exited commitment is defined as a commitment that has ended in accordance with the terms of the partnership agreement.

<sup>(3)</sup> Includes fees in excess of committed capital.

<sup>(4)</sup> Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

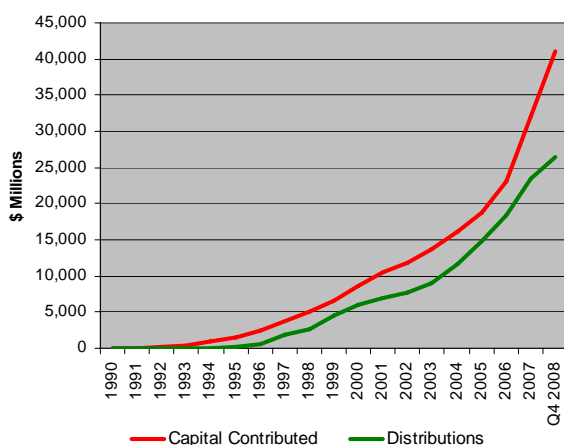
<sup>(5)</sup> Based on values reported by the general partners as of December 31, 2008.



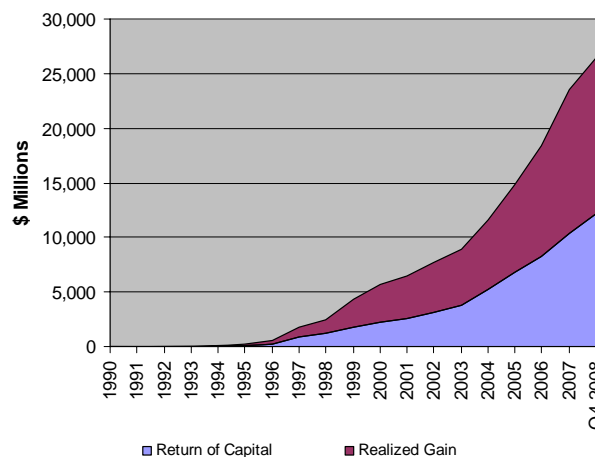
## Performance

- Since inception to December 31, 2008, the AIM Program generated a net IRR of 6.9%. At December 31, 2008, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index plus 300 basis points was 3.7%.
- As of December 31, 2008, the weighted average age of all of the current investments in the AIM portfolio was 3.4 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of September 30, 2008, the AIM young fund net internal rate of return ("IRR") was 0.9% which trailed the estimate of the September 30, 2008 Custom Young Fund Universe median return of 1.2% by 30 basis points.

**AIM PROGRAM CUMULATIVE  
CASH FLOW SINCE INCEPTION**



**AIM PROGRAM CASH DISTRIBUTIONS  
SINCE INCEPTION**



## Portfolio Activity

- Two new commitments were authorized during the fourth quarter of 2008 for a total of \$410.0 million.
- During the fourth quarter of 2008 the AIM Program received 158 proposals for new investment opportunities.
- During 2008, the AIM Program contributed \$9.0 billion to and received distributions of \$2.9 billion from the underlying portfolio. Of the \$2.9 billion in distributions, \$1.2 billion represents income and realized gains.

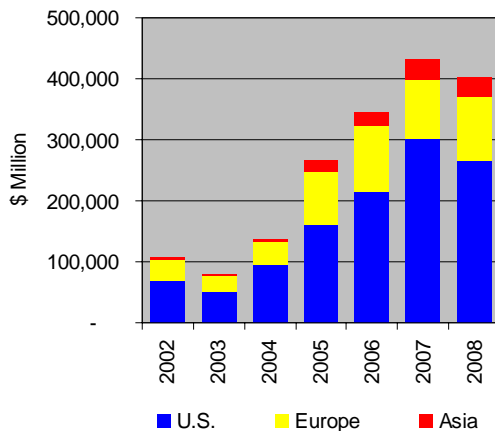


## B. MARKET OVERVIEW

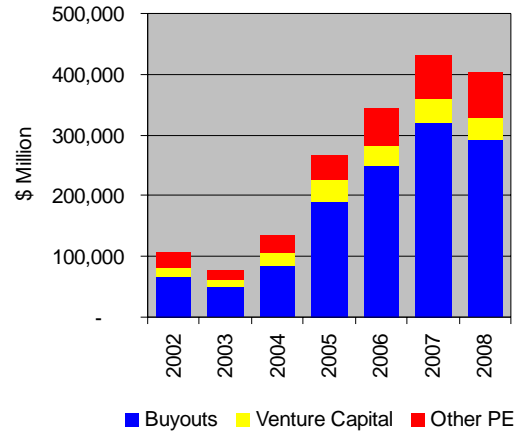
### Market

- According to the Private Equity Analyst, \$403.2 billion was committed globally to 593 funds during 2008. The commitment pace is down 12% from 2007 when \$457.3 billion was committed globally to 776 funds. Between 2003 - 2007, the global pace of new commitments increased at an annual rate of 53%. The decline in the amount committed to new funds in 2008 is the first annual decline since 2003.
- Commitments to U.S. private equity funds decreased by 18% during 2008 to \$265.6 billion, comprising 66% of all new funds. Commitments to European private equity funds grew by 10% during 2008 to \$105.7 billion, comprising 26% of all new funds. Commitments to Asian private equity partnerships declined by 10% during 2008 to \$32.0 billion, comprising 8% of all new funds.
- Venture capital fundraising decreased by 10% during 2008 with \$37.1 billion of commitments, comprising 9% of all new funds. Buyout fundraising was down 14% from 2007 with \$292.1 billion committed in 2008, comprising 73% of all new funds. The remaining \$74.1 billion raised in 2008 was committed to other private equity funds (primarily mezzanine funds, fund of funds and secondary funds), comprising 18% of all new funds.
- Venture capital fundraising increased most rapidly for Asian funds, with a 138% increase in 2008. European venture capital fundraising increased 12% during 2008, while U.S. venture capital fundraising decreased by 25%. Overall, the average size of a new venture capital fund increased by 3% during 2008 to \$161.1 million.
- Buyout fundraising increased most rapidly for European funds, with a 40% increase in 2008. U.S. and Asian buyout fundraising declined by 26% and 35%, respectively, during 2008. Overall, the average size of a new buyout fund increased by 17% during 2008 to \$1.2 billion.

Funds Raised (All Private Equity)



Funds Raised (All Private Equity)

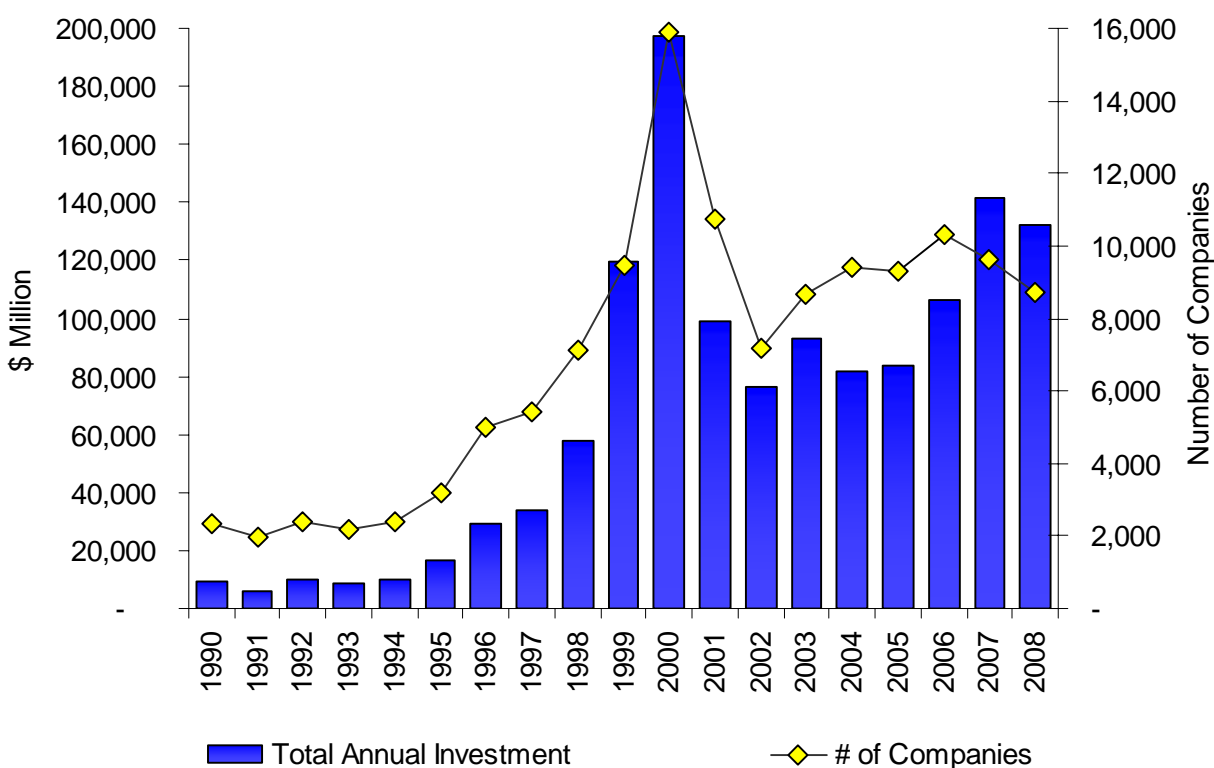


Source: Private Equity Analyst



- Deal activity for all private equity during 2008 decreased in dollar amount and in the number of companies receiving funding compared to 2007. According to Venture Economics, 8,739 companies received \$132.3 billion in funding in 2008, compared with 9,598 companies that received \$141.3 billion in 2007.
- In 2008, venture capital activity increased in dollar amount but decreased in the number of companies receiving funding compared to 2007. According to Venture Economics, 6,637 companies received \$74.8 billion in venture funding in 2008 compared with 7,063 companies that received \$63.9 billion in 2007. During 2008, buyout activity decreased in dollar amount and in the number of companies that received funding. According to Venture Economics, 4,009 companies received \$67.9 billion in buyout funding in 2008, compared with 9,598 companies that received \$141.3 billion in 2007.<sup>(6)</sup>

### Dollars Invested (All Private Equity)



Source: Venture Economics

<sup>(6)</sup> According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.



## C. PORTFOLIO OVERVIEW

### Portfolio Diversification – By Strategy

The AIM Program invests in all types of private equity and is well diversified. The total exposure is generally consistent with the diversification within the private equity marketplace. Thus, a majority of AIM Program's total exposure is to Corporate Restructuring, Venture Capital and Distressed Securities.

#### TOTAL EXPOSURE BY PORTFOLIO STRATEGY (US\$MILLION)

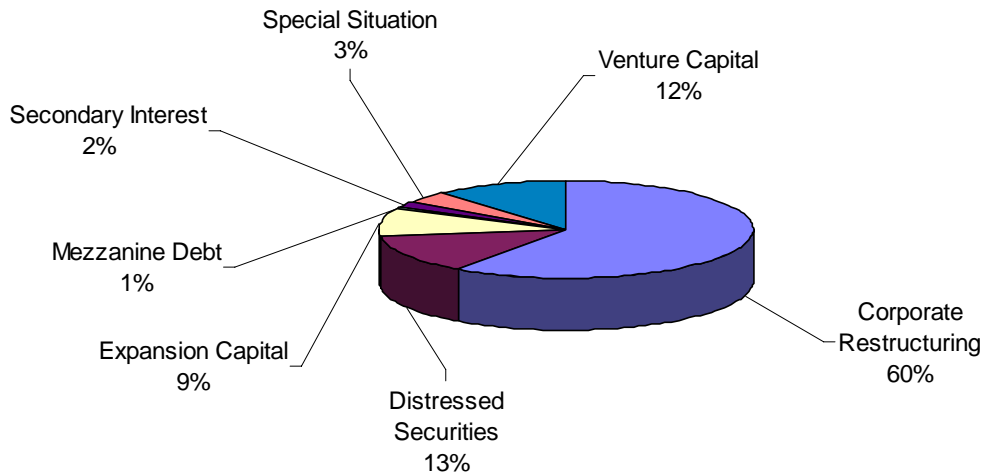
	Unfunded Commitments	Reported Value	Total Exposure	Contributions	Distributions	
					Return of Capital	Realized Gain <sup>(7)</sup>
<b>Corporate Restructuring</b>	\$15,130.1	\$11,029.3	\$26,033.4	\$18,882.0	\$4,344.8	\$7,251.1
<b>Distressed Securities</b>	\$1,956.7	\$3,638.0	\$5,648.9	\$5,390.7	\$464.6	\$499.9
<b>Expansion Capital</b>	\$1,801.6	\$2,125.0	\$3,971.8	\$4,129.8	\$726.8	\$914.7
<b>Mezzanine Debt</b>	\$220.2	\$227.9	\$461.0	\$536.9	\$244.2	\$129.3
<b>Secondary Interest</b>	\$441.0	\$379.8	\$819.9	\$851.0	\$596.0	\$143.7
<b>Special Situation</b>	\$989.9	\$542.9	\$1,522.8	\$773.9	\$182.0	\$200.1
<b>Venture Capital</b>	\$3,103.0	\$2,016.7	\$5,119.7	\$3,698.2	\$775.7	\$1,243.5
<b>Total</b>	<b>\$23,642.5</b>	<b>\$19,959.6</b>	<b>\$43,577.5</b>	<b>\$34,262.5</b>	<b>\$7,334.1</b>	<b>\$10,382.3</b>

<sup>(7)</sup> Realized gains include interest, dividends and gains distributed by the general partners.



The below graph depicts the AIM Program's strategy diversification by total exposure.

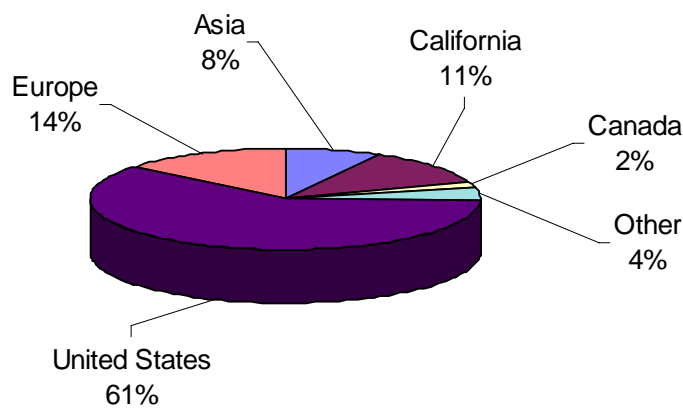
**AIM Program - Portfolio Diversification by Strategy  
As a Percentage of Total Exposure  
As of December 31, 2008**



**Portfolio Geographic Diversification**

As of December 31, 2008, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 11% of the investments were in companies with their primary locations within California and 61% of the investments were in non-California domestic areas. International portfolio companies represented 28% of the total reported market value of all portfolio companies.

**Portfolio Diversification by Geographic Location  
As Measured by CalPERS' Reported Value  
As of December 31, 2008**



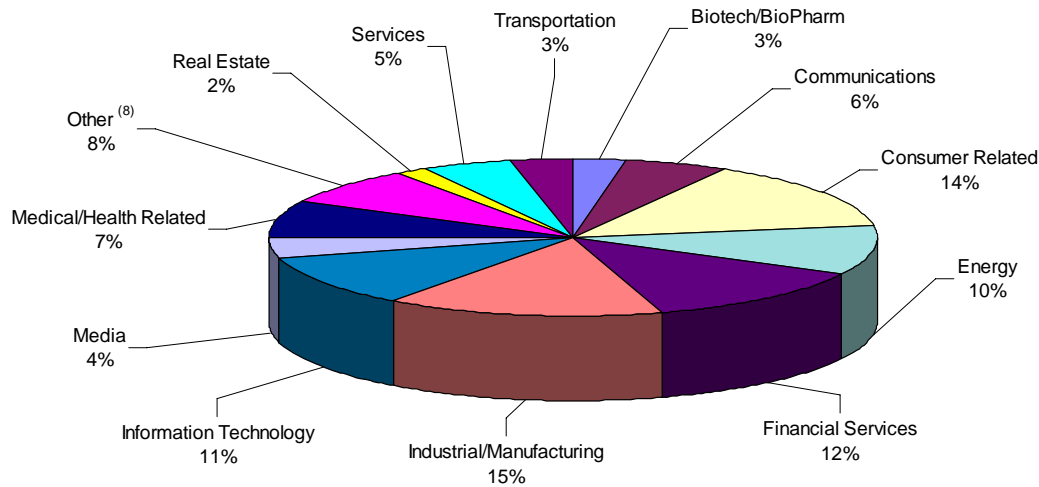
**Portfolio Company Diversification by Industry**

As of December 31, 2008, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were industrial/manufacturing, consumer related, and financial services.

**PORTFOLIO DIVERSIFICATION BY INDUSTRY  
AS OF DECEMBER 31, 2008**

<b>Industry</b>	<b>Reported Value (US\$ MILLIONS)</b>
Biotechnology/BioPharm.	\$528.9
Communications	\$1,135.9
Consumer Related	\$2,823.4
Energy	\$2,046.9
Financial Services	\$2,520.3
Industrial/Manufacturing	\$2,923.5
Information Technology	\$2,172.0
Media	\$814.3
Medical/Health Related	\$1,489.8
Other <sup>(8)</sup>	\$1,528.4
Real Estate	\$378.5
Services	\$925.9
Transportation	\$660.4
<b>Total</b>	<b>\$19,948.2</b>

**Portfolio Diversification by Industry  
As Measured by CalPERS' Reported Value  
As of December 31, 2008**



<sup>(8)</sup> Includes CalPERS' investments held through fund-of-funds.



## California Focus

As of December 31, 2008, the AIM Program had \$11.8 billion in total exposure to funds that were either headquartered or had a major presence in California. The total exposure to funds that focus primarily on investments in California were \$1.6 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 11% of the reported market value of the AIM portfolio.

### **CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF DECEMBER 31, 2008**

<b>Industry</b>	<b>Reported Value (US\$ IN MILLIONS)</b>
Biotechnology/BioPharm.	147.1
Communications	138.0
Consumer Related	413.9
Energy	123.2
Financial Services	487.8
Industrial/Manufacturing	53.7
Information Technology	453.1
Media	59.8
Medical/Health Related	222.5
Other <sup>(1)</sup>	75.0
Real Estate	27.4
Services	32.5
Transportation	21.1
<b>Total</b>	<b>2,255.1</b>

<sup>(9)</sup> Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.



## Commitments and Contributions Since Inception

Since inception to December 31, 2008, CalPERS has contributed capital of \$41.1 billion, including exited investments. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

### SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS (US\$ IN MILLIONS)

<i>Vintage Year</i>	<i>Capital Committed</i>	<i>Capital Contributed</i>	<i>Reported Value</i>	<i>Return of Capital</i>	<i>Realized Gain<sup>(10)</sup></i>	<i>Investment Multiple</i>
<b>1990</b>	\$125.3	\$121.9	\$0.2	\$119.6	\$176.1	2.4x
<b>1991</b>	184.4	179.6	0.4	150.4	358.9	2.8x
<b>1992</b>	160.0	156.6	0.5	109.4	232.1	2.2x
<b>1993</b>	563.0	560.0	7.7	461.3	614.6	1.9x
<b>1994</b>	1,507.6	1,416.9	11.7	972.1	1,425.7	1.7x
<b>1995</b>	1,197.9	1,141.4	19.5	744.7	1,149.8	1.7x
<b>1996</b>	1,156.4	1,132.5	18.6	662.9	841.5	1.3x
<b>1997</b>	1,102.5	1,091.0	56.7	629.2	870.7	1.4x
<b>1998</b>	2,208.0	2,181.6	223.8	1,430.5	1,245.6	1.3x
<b>1999</b>	1,206.0	1,147.1	189.9	611.9	667.3	1.3x
<b>2000</b>	3,978.2	3,689.7	1,062.9	1,914.4	1,811.3	1.3x
<b>2001</b>	4,786.5	4,361.2	1,880.5	2,014.7	2,508.0	1.5x
<b>2002</b>	1,093.4	1,018.3	560.3	421.6	459.5	1.4x
<b>2003</b>	1,496.2	1,315.8	753.1	554.9	781.5	1.6x
<b>2004</b>	2,068.2	1,696.7	1,056.1	595.9	619.3	1.3x
<b>2005</b>	3,904.7	3,318.6	2,509.1	438.6	350.5	N/M
<b>2006</b>	9,103.7	6,139.4	4,320.0	128.4	162.6	N/M
<b>2007</b>	15,863.5	7,202.1	4,913.8	110.0	38.1	N/M
<b>2008</b>	12,300.4	3,238.8	2,374.8	54.6	1.6	N/M
<b>Authorized<sup>(11)</sup></b>	1,695.0	-	-	-	-	N/A
<b>Total</b>	<b>65,700.9</b>	<b>41,109.2</b>	<b>19,959.6</b>	<b>12,125.1</b>	<b>14,314.7</b>	<b>1.1x</b>

<sup>(10)</sup> Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

<sup>(11)</sup> These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.



## **D. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)**

### **Significant Events**

- During Q2 2008, the AIM Program closed on a portion of its planned secondary sale of partnership investments.
- No other events to report for the quarter ended December 31, 2008.

### **Material Exceptions to Policy**

- None to report for the quarter ended December 31, 2008.





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May 11, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Proxy Voting – Quarterly Report Results
- II. PROGRAM:** Public Markets
- III. RECOMMENDATION:** Consent Item
- IV. ANALYSIS:**

On a quarterly basis, Corporate Governance staff provide the Investment Committee with a report on CalPERS' proxy voting results. This supplemental item provides detailed results on CalPERS' proxy votes for the period of January 1, 2009 to March 31, 2009. Staff is delegated the authority and responsibility to execute all proxies and voting instructions in a manner consistent with the Board's Global Proxy Voting Principles.

Table 1 provides a summary of CalPERS' internal proxy voting results for the period. Staff continues to update this table to provide the Committee with a 5-quarter rolling analysis of CalPERS' proxy voting results.

**Table 1: Summary of CalPERS proxy voting results**

<b>Period</b>	<b>Approximate Number of Meetings Voted</b>	<b>Approximate Number of Individual Items Voted</b>	<b>Number of Shareowner Proposals Voted</b>	<b>Percent of Shareowner Proposals Supported</b>
01/01/09 to 03/31/09	1,308	9,086	68	80%
10/01/08 to 12/31/08	1,437	9,086	37	60%
07/01/08 to 09/30/08	1,308	8,819	35	64%
04/01/08 to 06/30/08	5,797	53,917	743	72%
01/01/08 to 03/31/08	1,042	6,695	46	67%

**Source: Glass Lewis (Viewpoint)**

Additionally, staff has prepared detailed reports of CalPERS' proxy votes cast during the period of January 1, 2009 to March 31, 2009 as attachments for this item. Attachment 1 contains the internal proxy voting decisions made in CalPERS' domestic and international portfolios, including staff comments. Although this and the remaining attachments are not included in the agenda materials due to their size, they may be requested through the Investment Committee Secretary.

**PROXY VOTING HIGHLIGHTS FOR THE DOMESTIC AND INTERNATIONAL PORTFOLIOS January 1, 2009 to March 31, 2009:**

**1) Executive Compensation:**

Table 2 provides a summary of the executive compensation CalPERS voted **AGAINST**.

**Table 2: Votes AGAINST executive compensation plans**

<b>Company</b>	<b>Meeting</b>	<b>Reason</b>
Alico Inc.	2/20/09	The plan allows for reload stock options.
Replidyne Inc.	2/24/09	The plan contains an evergreen provision.
Cabot Corp.	3/12/09	CalPERS believes the plan is too costly when compared to its peers.
Brookfield Homes Corp.	3/24/09	CalPERS believes equity grants should have minimum vesting periods of at least 3 years.
Arrowhead Research Corp.	3/26/09	The plan allows for the repricing of stock options.

**2) Shareowner proposals:**

Table 3 provides a summary of the shareowner proposals CalPERS voted **FOR**.

**Table 3: Votes FOR shareowner proposals**

<b>Company</b>	<b>Meeting</b>	<b>Proposal</b>	<b>Reason</b>
RGC Resources Inc.	1/29/09	Declassify the Board of Directors	CalPERS believes every director should be elected annually.
DR Horton Inc.	1/29/09	Majority Vote Standard for Director Elections	CalPERS believes a majority of the proxies cast should be required to elect a director.
Becton Dickinson & Co.	2/3/09	Request for Cumulative Voting	CalPERS believes shareowners should have the right to cumulate votes in director elections.
Tyson Foods Inc.	2/6/09	Report on Greenhouse Gas Emissions	CalPERS recommends that to ensure sustainable long-term returns, companies should provide accurate and timely disclosure of environmental risks and opportunities, such as those associated with climate change.
Whole Foods Market Inc.	3/16/09	Proposal Regarding Simple Majority Vote	CalPERS believes a majority of proxies cast should be able to amend the company's bylaws.

Table 4 provides a summary of the shareowner proposals CalPERS voted **AGAINST**.

**Table 4: Votes AGAINST shareowner proposals**

<b>Company</b>	<b>Meeting</b>	<b>Proposal</b>	<b>Reason</b>
Tyson Foods Inc.	2/6/09	Proposal Regarding Elimination of Gestation Crates	CalPERS believes the proposal could pose long-term harm to the company and that management and the board are best suited to make these types of business decisions.
Apple Computers Inc.	2/25/09	Proposal Regarding Adoption of Principles for Health Care Reform	CalPERS believes this proposal, if implemented, may be too restrictive and could pose long-term harm to the company.

**3) Website votes:**

Table 5 contains a sample of Website votes cast during the quarter.

**Table 5: Website votes cast**

<b>Company/Date</b>	<b>Issue</b>	<b>Vote</b>	<b>Reason</b>
Walgreen Co. 1/14/09	Director Election	Against	CalPERS is withholding vote from director nominee J. Skinner for serving on an excessive number of public company boards.
Shaw Group Inc. 1/28/09	Regarding Policy Related to Death Benefit Payments	For	CalPERS believes the proposal would be a benefit to shareowners and not pose any long-term harm to the company.
Deere & Co. 2/25/09	Separate Chairman and CEO	For	CalPERS believes if the Chairman is not the CEO the board may be able to exercise stronger oversight of management.
Walt Disney Co. 3/10/09	Advisory Vote on Executive Compensation	For	CalPERS believes an advisory vote on executive compensation would be a benefit to shareowners and the company.
Analog Devices Inc. 3/10/09	Declassify the Board of Directors	For	CalPERS believes every director should be elected annually.
Applied Materials Corp. 3/10/09	Eliminate Supermajority	For	CalPERS believes shareowner voting rights should not be subject to supermajority voting requirements.

**4) International Proxy Voting:**

Table 6 contains a sample of International votes cast **AGAINST** management during the quarter.

**Table 6: International AGAINST votes cast**

Company	Country	Issue	Reason
Metorex Limited 1/20/09	South Africa	Director Election	CalPERS is withholding from director nominee R. Still. The composition of all key committees should be composed of a majority of independent directors.
Stockmann PLC 3/17/09	Finland	Amend Equity Compensation Plan	The plan allows for reload and the repricing of stock options without shareowner approval.
BNP Paribas 3/27/09	France	Authority to Issue Preferred Shares	The new share issuance allows for unequal voting rights. CalPERS believes all investors should be treated equitably and upon the principle of one-share/one-vote.

**5) Mergers & Acquisitions:**

Table 7 contains a sample of votes **FOR** mergers and acquisitions during the quarter.

**Table 7: Votes cast for mergers acquisitions**

Target	Acquirer	Date	Vote	Rationale
Intraware Inc.	Acesso Software Inc	1/6/09	For	CalPERS believes the merger makes economic sense because of the market premium offered and expected strategic synergies.
Interwoven Inc.	Autonomy Corporation	3/11/09	For	CalPERS believes the merger makes economic sense because of the market premium offered and expected strategic synergies.

**V. STRATEGIC PLAN:**

This item will further the following goals of CalPERS Strategic Plan:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX. Achieve long-term, sustainable, risk adjusted returns.

**VI. RESULTS/COSTS:**

Costs associated with proxy voting are contained within the Investment Office budget.

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Todd Mattley  
Investment Officer

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Bill McGrew  
Portfolio Manager

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Eric Baggesen  
Senior Investment Officer

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Joseph A. Dear  
Chief Investment Officer



**CalPERS**  
**Investment Office**

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May 11, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Domestic Fixed Income  
(Quarter Ended March 31, 2009)
- II. PROGRAM:** Dollar-Denominated Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the Internally Managed Domestic Fixed Income Portfolio to approved policy guidelines for the quarter ended March 31, 2009.

The Investment Committee approved the "Statement of Internally Managed Dollar Denominated Fixed Income Policy, Guidelines and Procedures" at its February 17, 2009 meeting. As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Barclays Capital Long Liability Index (BCLL). Duration is a measure of price sensitivity to interest rate changes. It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates. As indicated in the graph, the portfolio is well within the guideline of  $\pm 20\%$  of the Barclays Capital Long Liability Index on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in the benchmark index, the Barclays Capital Long Liability. The table lists the permissible range for weightings in each sector, and sector weightings of the Barclays Capital Long Liability and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines during the quarter ended March 31, 2009.

**V. STRATEGIC PLAN:**

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

The market value of the Internally Managed Domestic Fixed Income Portfolio as of March 31, 2009 was \$33.7 billion. This agenda item provides a review of portfolio compliance to its guidelines.

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Robert Perez  
Investment Officer

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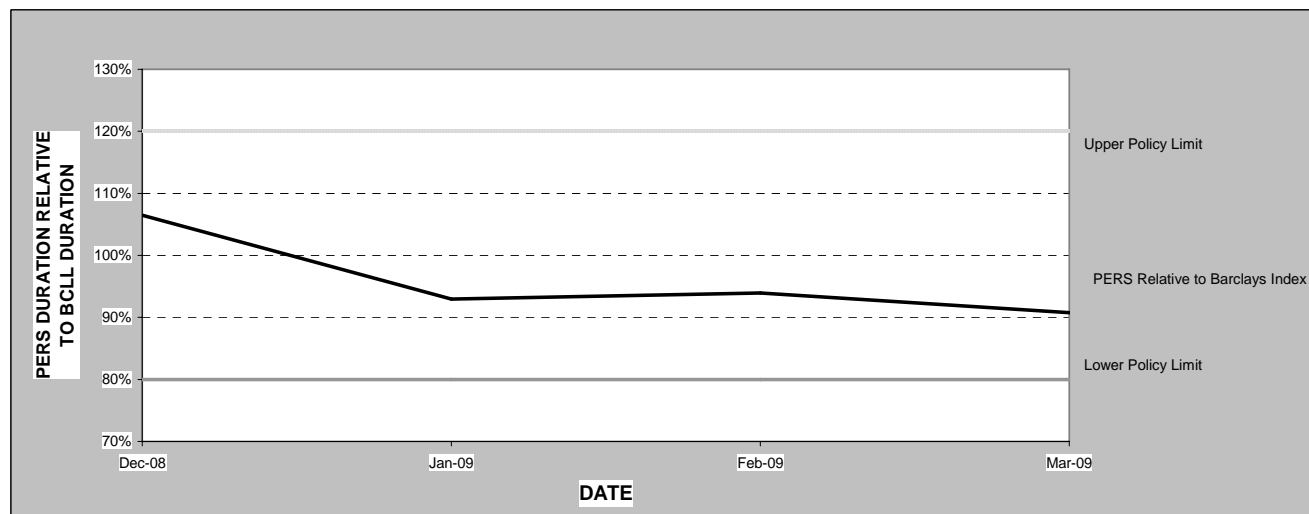
Curtis D. Ishii  
Senior Investment Officer

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Joseph A. Dear  
Chief Investment Officer

**QUARTERLY REVIEW OF THE  
DOMESTIC FIXED INCOME PORTFOLIO  
ENDING March 31, 2009**

**I. Interest Rate Risk**



**II. Sector Risk**

SECTOR	PERMISSIBLE RANGE	LONG LIABILITY	6/30/08 PERS	9/30/08 PERS	12/31/08 PERS	03/31/09 PERS
Government	0-50	40	18	19	25	17
Mortgages	10-60	30	43	44	34	38
Sovereigns	0-15	3	2	2	2	3
Investment Grade						
Corporates	10-60	24	31	29	34	35
Opportunistic <sup>1</sup>	0-19	3	6	6	5	7

<sup>1</sup> High Yield

**III. Violations to Policy:**

None



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May 11, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Barclays Aggregate Fixed Income (Quarter Ended March 31, 2009)
- II. PROGRAM:** Barclays Aggregate Program
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the Internally Managed Barclays Aggregate Program to approved policy guidelines for the quarter ended March 31, 2009.

The Investment Committee approved the "Statement of Barclays Aggregate Program Policy, Guidelines and Procedures" at its December 15, 2008 meeting. As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Barclays Capital Aggregate Index (BCAI). Duration is a measure of price sensitivity to interest rate changes. It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates. As indicated in the graph, the portfolio is well within the guideline of  $\pm 20\%$  of the Barclays Capital Aggregate Index on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in the benchmark index, the Barclays Capital Aggregate. The table lists the permissible range for weightings in each sector, and sector weightings of the Barclays Capital Aggregate Index and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines during the quarter ended March 31, 2009.

**V. STRATEGIC PLAN:**

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

The market value of the Internally Managed Barclays Aggregate Program as of March 31, 2009 was \$502.6 million. This agenda item provides a review of portfolio compliance to its guidelines.

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Robert Perez  
Investment Officer

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Kevin Winter  
Senior Portfolio Manager

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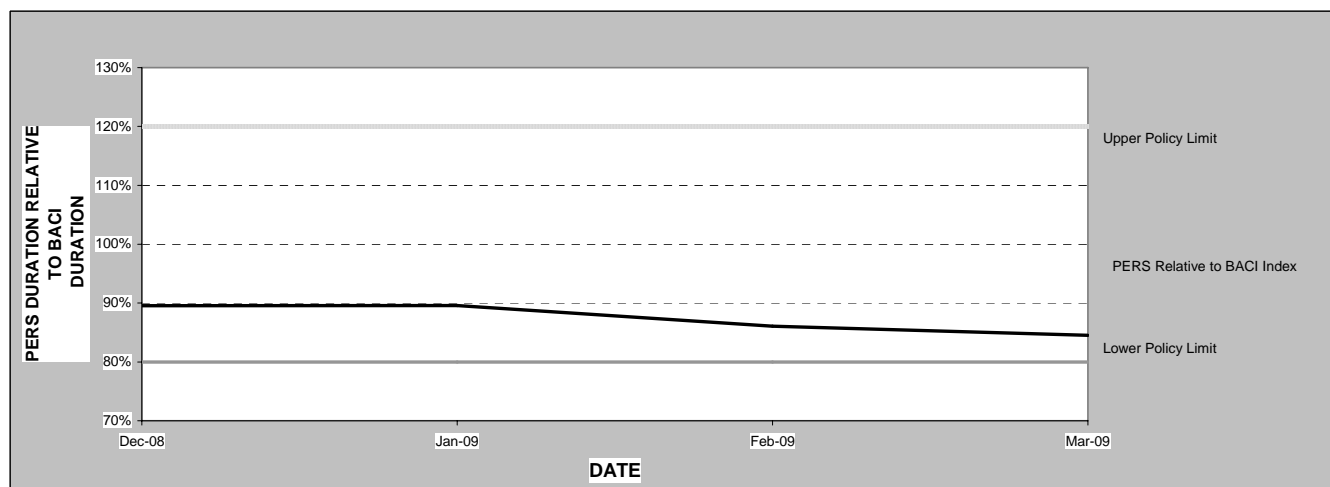
Curtis D. Ishii  
Senior Investment Officer

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Joseph A. Dear  
Chief Investment Officer

**QUARTERLY REVIEW OF THE  
BARCLAYS AGGREGATE PROGRAM  
ENDING March 31, 2009**

**I. Interest Rate Risk**



**II. Sector Risk**

SECTOR	PERMISSIBLE RANGE	BARCLAYS AGGREGATE	6/30/08 PERS	9/30/08 PERS	12/31/08 PERS	3/31/09 PERS
US Treasury & Govt. Sponsored	0-80	32	21	23	26	28
Securitized	0-70	45	52	52	49	48
Corporates	10-50	23	27	25	25	24
Opportunistic	0-20	0	0	0	0	0

**III. Violations to Policy:**

None



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May 11, 2009

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Treasury Inflation Protected Securities Fixed Income (Quarter Ended March 31, 2009)
- II. PROGRAM:** Treasury Inflation Protected Securities Program
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the Treasury Inflation Protected Securities Program to approved policy guidelines for the quarter ended March 31, 2009.

The Investment Committee approved the "Statement of Treasury Inflation Protected Securities Program Policy, Guidelines and Procedures" at its December 15, 2008 meeting. As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Barclays Capital Global Real: U.S. TIPS Index. Duration is a measure of price sensitivity to interest rate changes. It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates. As indicated in the graph, the portfolio is well within the guideline of  $\pm 10\%$  of the Barclays Capital Global Real: U.S. TIPS Index on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in the benchmark index, the Barclays Capital Global Real: U.S. TIPS Index. The table lists the permissible range for weightings in each sector, and sector weightings of the Barclays Capital Global Real: U.S. TIPS Index and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines during the quarter ended March 31, 2009.

**V. STRATEGIC PLAN:**

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

The market value of the Treasury Inflation Protected Securities Program as of March 31, 2009 was \$142.8 million. This agenda item provides a review of portfolio compliance to its guidelines.

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Robert Perez  
Investment Officer

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Christopher Gray  
Investment Officer

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Warren Trepeta  
Senior Portfolio Manager

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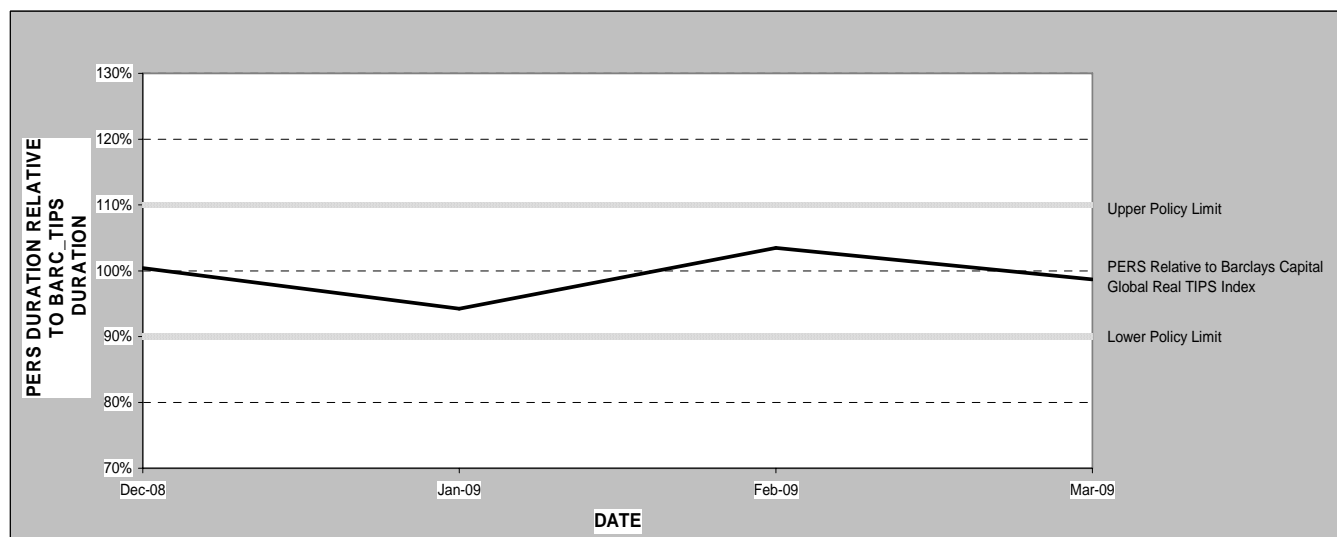
Curtis D. Ishii  
Senior Investment Officer

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Joseph A. Dear  
Chief Investment Officer

**QUARTERLY REVIEW OF THE  
TREASURY INFLATION PROTECTED SECURITIES PROGRAM  
ENDING March 31, 2009**

**I. Interest Rate Risk**



**II. Sector Risk**

SECTOR	PERMISSIBLE RANGE	BARCLAYS CAPITAL GLOBAL REAL U.S. TIPS INDEX	6/30/08	9/30/08	12/31/08	03/31/09
			PERS	PERS	PERS	PERS
TIPS	80-100	100	98	100	100	99
Nominal US Treasury	0-15	0	0	0	0	0
STIF	0-5	0	2	0	0	1

**III. Violations to Policy:**

None



May 11, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Low Duration Fixed Income Funds  
(Quarter Ended March 31, 2009)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed Low Duration Fixed Income funds to approved policy guidelines for the quarter ended March 31, 2009.

The Investment Committee approved the "California Public Employees' Retirement System Statement of Investment Policy for Low Duration Fixed Income Program Policy" (Policy) at its December 15, 2008 meeting. These guidelines require at least quarterly reporting of portfolios duration, sector weightings, fixed and floating rate breakout, security rating scales, and an exceptions report that covers policy violations. This policy is for the High Quality Libor Fund (HQL), Short Duration Fund (SDF), and the Short Term Fund (ST). Attachment A is the quarter review of the High Quality Libor Fund. Attachment B is the quarter review of the Short Duration Fund. Attachment C is the quarter review of the Short Term Fund.

Section I measures HQL and SDF funds interest rate exposure using portfolio duration and the ST's interest rate exposure using weighted-average days to maturity. HQL, SDF, and ST portfolios are within approved guidelines.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. HQL, SDF, and ST portfolios are within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were two violations in the HQL portfolio during the quarter ended March 31, 2009 in addition to the violation that was previously noted in the SDF portfolio in the Q3 2008 report. In Q3 2008, the security was downgraded from BBB to BB due to the downgrade of the monoline insurer guaranteeing this security. Staff analyzed the security and decided that it was in the best interest of CalPERS to hold on the security and allow it to pay off over time.

During the quarter ended March 31, 2009, the total current face of the two securities was \$240,161,812.00, which was 1.56% of the HQL portfolio (0.7% of the total Limited Duration portfolios). Staff reviewed each security and determined the securities provided good value for the SDF portfolio given the current depressed level of price. The securities were sold at market value to the SDF portfolio to bring the HQL portfolio back in compliance.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

As of March 31, 2009, the market value of the High Quality Libor Fund was \$6.1 billion, the market value for the Short Duration Fund was \$6.3 billion and the market value of the Short Term Fund was \$11.5 billion. The total market value of the Low Duration Fixed Income portfolios as of March 31, 2009 was \$23.9 billion. This agenda item reviews the portfolios' compliance to its guidelines.

Prepared by:

\_\_\_\_\_  
Robert Perez  
Investment Officer

\_\_\_\_\_  
Racel Sy  
Investment Officer

\_\_\_\_\_  
Jean Hsu  
Portfolio Manager

\_\_\_\_\_  
Curtis D. Ishii  
Senior Investment Officer

\_\_\_\_\_  
Joseph A. Dear  
Chief Investment Officer

**QUARTER REVIEW OF THE INTERNALLY MANAGED  
HIGH QUALITY LIBOR FUND ENDING March 31, 2009**

**I. Interest Rate Risk**

The policy states that duration of the portfolio shall not exceed 90 days. The portfolio duration of the High Quality LIBOR Fund was 22 days.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u>Asset Type</u>	<u>Policy Limits</u>	<u>Portfolio Holdings</u>
STIF Funds	100%	8.05%
AAA Floating Rate Structured Securities	100	91.95
AAA Fixed Rate Structured Securities	20	0.00
Money Market Securities ( $\geq$ A1/P1)	100	0.00
Money Market Securities ( $<$ A1/P1)	25	0.00
High Quality Libor Fund		100.0%

**Credit Quality**

Securities rated AAA (LT) or A1/P1 (ST) or higher	100%	100.00%
Total Split Rated or A2/P2 money market securities ( $>$ 1 day maturity)	25	0.00
High Quality Libor Fund		100.0%

**Other Restriction**

Total Fixed Rate Exposure ( $>$ 35 day maturity)	20%	0.00%
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**III. Violations To Policy**

The following policy violations occurred this quarter:

On 1/28/09 and 2/5/09, Moody's and S&P downgraded SMRTF 2007-1 A to "Aa2" and "AA+" respectively from "AAA". This triggered violation of the following issue: "MBS, CMBS, & and ABS must be  $\geq$ AAA". Current face of the security is \$179,000,000. The staff has reviewed the security and determined that given its level of credit enhancement (around 25%) and the market price of \$65, the security provides good value for the SDF portfolio. The security was transferred at market value to SDF portfolio which accepts higher risks. This action brought HQL portfolio back in compliance.

**QUARTER REVIEW OF THE INTERNALLY MANAGED  
HIGH QUALITY LIBOR FUND ENDING March 31, 2009 cont.**

On 2/4/09, Moody's downgraded MSM 06-15XS A1 to "Aa2" from "AAA". This triggered violation of the following issue: "MBS, CMBS, & and ABS must be  $\geq$ AAA". Current face of the security was \$61,161,812. The staff has reviewed the security and determined that due to the security being the first pay cash flow of the whole deal and the market price of low to mid-\$60's, the security provides good value for the SDF portfolio. Based on staff's internal scenario runs, the deal shows positive yield even under a stressed scenario. The security was transferred at market value to SDF portfolio which accepts higher risks. This action brought HQL portfolio back in compliance.

**QUARTER REVIEW OF THE INTERNALLY MANAGED  
SHORT DURATION FUND ENDING March 31, 2009**

**I. Interest Rate Risk**

The policy states that duration of the portfolio shall not exceed 180 days. The portfolio duration of the Short Duration Fund was 0 days.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u>Asset Type</u>	<u>Policy Limits</u>	<u>Portfolio Holdings</u>
State Street Bank STIF	100%	7.14%
AAA Structured Securities	100	81.79
Non AAA Structured Securities	50	6.35
ABL Line Item	100	4.72
Money Market Securities ( $\geq$ A1/P1)	100	0.00
Money Market Securities ( $<$ A1/P1)	25	0.00
Total Corporate Securities	50	0.00
Short Duration Fund		100.0%
 <b><u>Credit Quality</u></b>		
Securities rated AAA (LT) or A1/P1 (ST) or higher	100%	88.93%
Total Split Rated and A2/P2 (ST) or non-AAA (LT)	50	11.07
Short Duration Fund		100.0%
 <b><u>Other Restriction</u></b>		
Total Fixed Rate Exposure ( $>$ 35 day maturity)	35%	0.00%

**III. Violations To Policy**

As previously noted in the Q3 2008 report, S&P downgraded CWL 2006-S5 A1 to a "BB" from a "BBB". The downgrade was due primarily to its monoline insurer, FGIC, being downgraded. This triggered violation of the following issue: "Structured Securities must be  $\geq$ Baa2/BBB. Staff reviewed the security and recommended holding the bond for several reasons.

The CWL 06-S5 A1 bond is the first tranche of a sequential pay structure. The underlying collateral is 2nd lien for prime borrowers.

**QUARTER REVIEW OF THE INTERNALLY MANAGED  
SHORT DURATION FUND ENDING March 31, 2009 cont.**

In addition to FGIC as a bond level wrapper, this deal also has Old Republic as a pool policy insurer up to 8% of the pool balance. Old Republic holds A3 senior debt rating and Aa3 insurance financial strength rating (Moody's credit opinion 2/23/09). This provides an extra layer of protection

Currently, this bond is at 0.172147313 factor and we own 5.16mm current face. The three-month average voluntary prepayment rate, default rate, and loss severity are 6.32%, 5.70%, and 63.28% respectively. Under this scenario, the bond will pay off by September of 2010.

**QUARTER REVIEW OF THE DOMESTIC  
SHORT-TERM FUND ENDING March 31, 2009**

**I. Interest Rate Risk**

The weighted-average days to maturity of the Short-Term Fund was 1 day.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u>Asset Type</u>	<u>Policy Limits</u>	<u>Portfolio Holdings</u>
State Street Bank STIF	100%	100.00%
U.S. Treasury and Agencies	100	0.0
Repurchase Agreements	20	0.0
Corporate Securities	100	0.0
Asset-Backed Securities	25	0.0
Total Short-Term Fund		<u>100.0%</u>

**Credit Quality**

Securities rated A1/P1 or higher	100%	100.00%
Total Split Rated and A2/P2	30	0.00
Total Short-Term Fund		<u>100.0%</u>

**Other Restriction**

Total Floating Rate Exposure	50%	0.0%
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**III. Violations To Policy**

None



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May 11, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. **SUBJECT:** Corporate Governance Quarterly Co-Investment Program Performance Review
- II. **PROGRAM:** Global Equity
- III. **RECOMMENDATION:** Information Only
- IV. **ANALYSIS:**

**Executive Summary**

This agenda item addresses the performance of the Corporate Governance Co-Investment Program (the Program). The Program manages \$477 million of assets as of March 31, 2009. The objectives of the Program are:

- Produce a positive alpha through the generation of superior investment returns with co-investment opportunities.
- Identify new co-investment opportunities to take advantage of innovative and sustainable investment strategies.

The portfolio managed within the Program tends to be very concentrated with few holdings, and has a very deep “value” style bias. The portfolio positions taken are limited to those situations where the external partners believe an engagement process can affect positive investment returns.

**Performance**

There are five positions in the Corporate Governance Co-Investment Program’s portfolio. The long-term performance results relative to the benchmark are excellent as shown by Attachment 1 where the 1-year and since inception numbers demonstrate positive value added of 10.65% and 11.16% respectively.

**V. STRATEGIC PLAN:**

This item will further the following goals of CalPERS Strategic Plan:

- Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX: Achieve long-term, sustainable, risk adjusted returns.

**VI. RESULTS/COSTS:**

The costs associated with this item are minimal as they are already absorbed by other ongoing CalPERS investment programs.

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Celina Lu  
Investment Officer  
Corporate Governance

---

Aeisha Mastagni  
Investment Officer  
Corporate Governance

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Mike Riffle  
Portfolio Manager  
Corporate Governance

---

Eric Baggesen  
Senior Investment Officer  
Global Equity

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Joseph A. Dear  
Chief Investment Officer

Attachment 1

Corporate Governance Co-Investment Program Quarterly Performance Detail For the Period Ending March 31, 2009										
FUND NAME	Number of Positions	Ending Market Value (\$)	Capital Contributed	Capital Distributed	QTR (%)	FYTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	Since Inception (%)
GOVERNANCE FOR OWNERS CO-INVESTMENT	2	118,387,452			-30.20	-51.52	-56.12			-47.09
FTSE ALL WORLD EUROPE					-14.21	-48.57	-50.25			-36.18
KNIGHT VINKE CO-INVESTMENT	1	107,319,354			-15.18	-44.08	-37.79	-1.45		-1.45
FTSE ALL WORLD EUROPE					-14.21	-48.57	-50.25	-13.94		-13.94
NEW MOUNTAIN CO-INVESTMENT	1	81,637,900			-2.99	-44.71	-33.09			-7.42
S&P 500 INDEX					-11.01	-36.35	-38.09			-18.46
RELATIONAL CO-INVESTMENT	1	169,416,120			3.33	0.31	-9.39	1.18	10.61	16.15
CUSTOM S&P 500					-11.01	-36.36	-38.09	-13.50	-4.62	0.85
<b>TOTAL CORPORATE GOVERNANCE CO-INVESTMENT</b>	<b>5</b>	<b>476,760,826</b>			<b>-12.37</b>	<b>-34.53</b>	<b>-33.88</b>	<b>-7.87</b>	<b>4.45</b>	<b>11.03</b>
<b>CALPERS CORPORATE GOVERNANCE INTERNAL (BENCHMARK)<sup>1</sup></b>					<b>-12.73</b>	<b>-42.83</b>	<b>-44.53</b>	<b>-15.30</b>	<b>-5.81</b>	<b>-0.13</b>
<b>Excess</b>					<b>0.36</b>	<b>8.30</b>	<b>10.65</b>	<b>7.43</b>	<b>10.26</b>	<b>11.16</b>

State Street methodology is CFA Institute compliant.

All figures are net of all fees for periods ending March 31, 2009.

Inception dates for each manager are based on the initial investment.

<sup>1</sup>The benchmark for the Program is the portfolio market value weighted total return for the benchmark for each external partner with whom an actual co-investment has been made.



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May 11, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Quarterly Public Records Act Requests
- II. PROGRAM:** Legal Office
- III. RECOMMENDATION:** None - Information Only
- IV. ANALYSIS:**

The following is attached:

- A. Quarterly Public Records Act Requests Report

**V. STRATEGIC PLAN:**

This item is not a specific product of either the Strategic or Annual Plans, but is part of the ongoing workload of the General Counsel and the Legal Office.

**VI. RESULTS/COSTS:**

This information is provided to assist the Board in its oversight of responsibilities delegated to its staff. Providing the information does not involve any additional costs to the System, but results in the dual benefits of greater Board awareness of issues and greater disclosure to CalPERS' participants.

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PETER H. MIXON  
General Counsel

**PUBLIC RECORDS ACT REQUESTS**  
**January 1, 2009 – March 31, 2009**

<b>Request Date</b>	<b>Requester</b>	<b>Subject</b>	<b>Response</b>
02/10/09	Business	Real Estate-related	Response completed on 04/15/09.
03/09/09	Business	Real Estate-related	Response completed on 04/17/09.