CalPERS Profile

The California Public Employees’ Retirement System (CalPERS) is the nation’s largest public pension fund with total net assets of $241.8 billion as of June 30, 2011.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.6 million people and 3,103 school and public employers. The System also operates eight Regional Offices located in Fresno, Glendale, Orange County, Sacramento, San Diego, San Bernardino, San Jose, and Walnut Creek.

Led by a 13-member Board of Administration, consisting of member-elected, appointed, and ex officio members, CalPERS membership consists of 1,103,426 active and inactive members and 536,234 retirees, beneficiaries, and survivors from State, school, and public agencies.

Established by legislation in 1931, the System became operational in 1932 for the purpose of providing a secure retirement to State employees. In 1939, new legislation allowed public agency and classified school employees to join the System for retirement benefits. CalPERS began administering health benefits for State employees in 1962, and five years later, public agencies joined the Health Program on a contract basis.

A defined benefit retirement plan, CalPERS provides benefits based on a member’s years of service, age, and highest compensation. In addition, benefits are provided for disability and death. Today CalPERS offers additional programs, including long-term care insurance, a deferred compensation retirement savings plan, and member education services.
# Table of Contents

President's Message .......................... 2
Board of Administration ......................... 4
Board Committees ............................. 6
Executive Staff ............................... 8
Division Chiefs, Project Managers, and Senior Investment Officers .......................... 10
Regional Office Managers ...................... 11
Financial Highlights ......................... 12
Customer Service and Education for Members and Employers .......................... 13
  California Employers' Retiree Benefit Trust Fund ........................................... 16
Health Overview 2010-11 ......................... 18
Investment Programs .......................... 24
Strengthening Enterprise-Wide Operations .................................................... 31
State and Federal Legislative Update ............ 35
The Year Ahead .................................. 40
I am honored to serve as president of the CalPERS Board of Administration, and pleased to present the CalPERS Operations Summary and Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011.

Several new members were appointed or elected to the CalPERS Board of Administration in the last fiscal year, bringing with them a diversity of experience and perspective that strengthens our Board and our organization.

The California State Personnel Board chose Richard Costigan as its CalPERS representative, effective January 1, 2011. He has substantial experience in public policy, both in government and the private sector, and was appointed to the SPB by Governor Arnold Schwarzenegger in 2007.

Ronald Yank joined the CalPERS Board as an ex officio member upon his appointment by Governor Jerry Brown as Director of the Department of Personnel Administration. He served through February 2012.

Michael Bilbrey won a special election in August 2011 to fill the vacancy created by the resignation of Kurato Shimada in August 2010. Mr. Bilbrey also serves as First Vice President of the California School Employees Association, and is currently employed as Bookstore Operations Coordinator at Citrus Community College in Glendora, California.

Finally, Board Member Henry Jones, formerly Chief Financial Officer of Los Angeles Unified School District, was re-elected by retirees for another four-year term.

Fiscal year 2010-11 was one of positive change and innovation for our organization. We launched new programs and revised policies to better protect the health and pension benefits of our members. New investment strategies, customer service capabilities and ethics guidelines all came to pass after careful evaluation and are already proving effective.

CalPERS adopted a risk-based asset allocation approach that provides better risk diversification in more volatile market conditions. The plan places assets in five major groups based on functional characteristics and asset performance under different economic scenarios.
such as growth/recession and inflation/deflation. Our new strategy is designed to reduce downside risk and improve risk adjusted investment performance.

Our CalPERS Investment Office decisions yielded excellent returns last fiscal year, with 21.7 percent earnings recorded at June 30, 2011. This gain boosted the market value of our assets to $241.8 billion from $201.6 billion the previous year. We look forward to continued success and enhanced portfolio stability as the markets continue to fluctuate into 2012.

Along with an examination of our investment strategy, CalPERS has also applied scrutiny to our internal structure to improve the quality of customer service for members and employers. The long-planned CalPERS reorganization went into effect in April 2011. It combined Customer Service and Support sections to position pension and health care business lines under a single point of leadership, providing employers and members “one-stop” service.

This reorganization paved the way for the successful launch of myCalPERS in the fall of 2011. More than 49 standalone databases were integrated into a single pension management data system. The secure online environment gives users access to pension information that is updated continuously.

Finally, in 2011, the CalPERS Board undertook a comprehensive review of its governance practices and adopted sweeping reforms to strengthen accountability and ethics. Board Members will now sign a statement acknowledging their fiduciary responsibilities, adhere to a confidentiality policy and undergo training and self-assessment. A third party will also assess Board performance once every two years.

In the new year, CalPERS will strive to strengthen and improve the financial and health security of all our members and retirees who depend on us. We will do this by continuing to evaluate our investment and corporate practices to achieve the highest standards of accountability, integrity and openness. We value our reputation as the nation’s leading public pension fund, and embrace our role as a responsible investor and guardian of the retirement dreams of our more than 1.6 million members.

Sincerely,

Rob Feckner,
President
CalPERS Board of Administration
Board of Administration

Rob Feckner, President
Employee Member (elected by school members)
Glazing Specialist,
Napa Valley Unified School District
Term Ends: January 15, 2015

George Diehr, Vice President
Employee Member (elected by State members)
Professor, CSU San Marcos
Term Ends: January 15, 2015

Michael Bilbrey
Employee Member (elected by all members)
Bookstore Operations Coordinator,
Citrus Community College, Glendora
Term Ends: January 15, 2014

John Chiang
State Controller
Ex Officio Member

Richard Costigan
(Patricia Clarey served through December 2010)
State Personnel Board Member (designated by the State Personnel Board)
Term Ends: Determined by SPB

Dan Dunmoyer
Official of Life Insurer
Senior Vice President,
Legislative and Regulatory Affairs
Farmers Insurance Groups of Companies and Zurich Financial Services
Term Ends: January 15, 2013

JJ Jelincic
Employee Member (elected by all members)
Term Ends: January 15, 2014

Henry Jones
Retired Member (elected by retirees)
Retired, Chief Financial Officer,
Los Angeles Unified School District
Term Ends: January 15, 2016

Bill Lockyer
State Treasurer
Ex Officio Member

Priya Mathur
Employee Member (elected by public agency members)
Economist, Bay Area Rapid Transit
Term Ends: January 15, 2015

Vacant
Louis F. Moret through December 2011
Public Representative

Vacant
Tony Oliveira through December 2011
Elected Official of Local Government
Kings County Supervisor

Vacant
Ronald Yank through February 2012
Director, Department of Personnel Administration
Ex Officio Member

1  All Board members, Board Committees and Staff assignments are current as of publication date
2  Governor appointee
3  Appointed jointly by the Speaker of the Assembly and the Senate Rules Committee
From top to bottom, left to right: Rob Feckner; George Diehr; Michael Bilbrey; John Chiang; Richard Costigan; Dan Dunmoyer; J.J. Jelincic; Henry Jones; Bill Lockyer; Priya Mathur; Tony Oliveira; Louis F. Moret; and Ronald Yank.
Board Committees

In addition to their regular duties, Board Members also serve on permanent and ad hoc committees to review specific programs, projects, or issues and make recommendations to the Board. The following committees are currently active:

**Board Governance Committee**
Responsible for the Board’s self-management, governance practices, and accountability as pension fund fiduciaries. Manages governance protocols and policies.

**Rob Feckner, Chair**
**George Diehr, Vice Chair**
Michael Bilbrey
Dan Dunmoyer
JJ Jelincic
Henry Jones
Priya Mathur

**Pension & Health Benefits Committee**
Oversees all matters related to strategy, policy, structure, and actuarial studies and rate setting for pension, health, and long-term care program administration

**Priya Mathur, Chair**
**George Diehr, Vice Chair**
Michael Bilbrey
John Chiang
Rob Feckner
JJ Jelincic
Henry Jones
Bill Lockyer

**Risk & Audit Committee**
Oversees system soundness, enterprise risk management, internal and external audits, privacy and information security, ethics, compliance and other independent reassurance activities.

**Vacant, Chair**
**Priya Mathur, Vice Chair**
Michael Bilbrey
George Diehr
Rob Feckner
JJ Jelincic
Henry Jones
Finance & Administration Committee
Ensures financial soundness through oversight of financial statements and reporting and all budget matters. Oversees the organization’s Strategic and Business Plans.

George Diehr, Chair
Richard Costigan, Vice Chair
John Chiang
JJ Jelincic
Henry Jones
Bill Lockyer

Performance & Compensation Committee
Oversees compensation mechanisms and criteria, and the hiring, termination, compensation and long-term succession planning of key personnel.

Dan Dunmoyer, Chair
Michael Bilbrey, Vice Chair
John Chiang
Richard Costigan
Bill Lockyer
Priya Mather

Investment Committee
Reviews and approves portfolio performance, asset allocation, investment transactions, and investment manager performance. Also establishes investment strategies and policies.

Henry Jones, Chair
George Diehr, Vice Chair
Michael Bilbrey
John Chiang
Richard Costigan
Dan Dunmoyer
Rob Feckner
JJ Jelincic
Bill Lockyer
Priya Mathur
Executive Staff

Anne Stausboll
Chief Executive Officer

Russell Fong
Chief Financial Officer, Acting
Financial Office

Ann Boynton
Deputy Executive Officer,
Benefit Programs Policy & Planning

Peter H. Mixon
General Counsel
General Counsel Office

Robert Udall Glazier
Deputy Executive Officer
External Affairs

Alan W. Milligan
Chief Actuary
Actuarial Office

Donna Lum
Deputy Executive Officer
Customer Services & Support

Janine Guillot
Chief Operating Investment Officer,
Investment Office

Vacant
Deputy Executive Officer,
Operations & Technology

Dale Jablonsky
Assistant Executive Officer,
Information Technology Services Branch

Joseph A. Dear
Chief Investment Officer
Investment Office
From top to bottom, left to right:
Anne Stausboll; Ann Boynton; Robert Udall Glazier;
Donna Lum; Joseph A. Dear; Russell Fong; Peter H. Mixon;
Alan W. Milligan; Janine Guillot; and Dale Jablonsky.
Division Chiefs, Project Managers, and Senior Investment Officers

Rand Anderson
Division Chief, Interim
Affiliate Program Services

Christian Farland
Project Manager,
Enterprise Transition Management

Actuarial Office

Farouki Majeed
Senior Investment Officer,
Risk Management

Kimberly A. Malm
Division Chief,
Operations Support Services

Lori McGartland
Division Chief,
Customer Service & Outreach

Doug McKeever
Division Chief,
Health Policy Research

Ben Meng
Senior Portfolio Manager,
Asset Allocation

Carol Moody
Senior Portfolio Manager,
Investment Compliance & Operational Risk

Kami Niebank
Division Chief,
Policy & Business Services

Renee Ostrander
Division Chief,
Information Technology Administration

Eric Baggesen
Senior Investment Officer,
Global Equity

Mary Lynn Fisher
Division Chief,
Benefit Services


Danny Brown
Division Chief,
Office of Governmental Affairs

Matthew Flynn
Senior Portfolio Manager,
Investment Servicing


Dave Cornejo
Division Chief (Interim),
Fiscal Services

Katrina S. Hagen
Division Chief,
Human Resources


Karen DeFrank
Division Chief,
Customer Account Services

Curtis Ishii
Senior Investment Officer,
Global Fixed Income


Real Desrochers
Senior Investment Officer,
Alternative Investments Management

Larry Jensen
Risk Officer,
Enterprise Risk Management


Kathy Donneson
Division Chief,
Health Plan Administration

Geraldine Jimenez
Division Chief,
Affiliate Investment Programs


Ted Eliopoulos
Senior Investment Officer,
Real Assets

Margaret Junker
Chief Auditor,
Office of Audit Services


Laura Enderton
Division Chief,
Office of Stakeholder Relations

David Lamoureux
Deputy Chief Actuary,
Brad Pacheco
Division Chief,
Office of Public Affairs

Karen Ruiz
Project Manager,
Pension System Resumption Project

Anthony Suine
Business Deputy Project Manager,
Pension System Resumption Project

Lindy E. Plaza
Diversity Officer of Internal Operations,
Diversity Outreach Program

John Saxon
Division Chief,
Technology Innovation & Strategic Services

Sean Tracy
Division Chief,
Enterprise Strategy & Performance

Gina Ratto
Deputy General Counsel,
Legal Office

Anne Simpson
Senior Portfolio Manager,
Corporate Governance

Vacant
Senior Portfolio Manager,
Absolute Return Strategies

Ron Reagan
Division Chief,
Technology Services & Support

Stacie Sormano
Division Chief,
Retirement Research & Planning

Vacant
Chief Compliance Officer,
Office of Enterprise Compliance

Vacant
Division Chief,
Center for Innovation

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Regional Office Managers

Mary Aberg
Walnut Creek

Laura Duran
Orange

Evelyn Perez
Fresno

Christine Campana
Sacramento

Lea Landry
Glendale

Brenda Reponte
Glendale

June Copple
San Bernardino

Elwin Nash
San Jose

Betty White
San Diego
## Financial Highlights

### Public Employees' Retirement Fund¹

<table>
<thead>
<tr>
<th>Assets</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalent</td>
<td>$1,020,337</td>
<td>$660,374</td>
</tr>
<tr>
<td>Total Receivables</td>
<td>2,411,773</td>
<td>2,255,722</td>
</tr>
<tr>
<td>Total Investments at Fair Value</td>
<td>239,289,463</td>
<td>203,523,909</td>
</tr>
<tr>
<td>Securities Lending Collateral</td>
<td>20,420,264</td>
<td>17,047,678</td>
</tr>
<tr>
<td>Capital Assets &amp; Others</td>
<td>691,045</td>
<td>677,715</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$263,832,882</strong></td>
<td><strong>$224,164,948</strong></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Benefits in Process of Payment, Investment Settlement &amp; Other</td>
<td>$1,806,205</td>
<td>$4,970,727</td>
</tr>
<tr>
<td>Securities Lending Obligations</td>
<td>20,264,886</td>
<td>17,578,147</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$22,071,091</strong></td>
<td><strong>$22,548,874</strong></td>
</tr>
</tbody>
</table>

**Total Net Assets Held in Trust for Pension Benefits**: $241,761,791

### Additions & Deductions

<table>
<thead>
<tr>
<th>Additions</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Contributions</td>
<td>$3,600,089</td>
<td>$3,378,867</td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>7,465,397</td>
<td>6,955,049</td>
</tr>
<tr>
<td>Net Investment (Loss) Income</td>
<td>43,904,425</td>
<td>25,567,295</td>
</tr>
<tr>
<td>Other</td>
<td>3,011</td>
<td>10,234</td>
</tr>
<tr>
<td><strong>Total Additions</strong></td>
<td><strong>$54,972,922</strong></td>
<td><strong>$35,911,445</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deductions</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement, Death &amp; Survivor Benefits</td>
<td>$14,242,258</td>
<td>$12,972,457</td>
</tr>
<tr>
<td>Refunds</td>
<td>227,168</td>
<td>182,387</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>357,779</td>
<td>278,036</td>
</tr>
<tr>
<td><strong>Total Deductions</strong></td>
<td><strong>$14,827,205</strong></td>
<td><strong>$13,432,880</strong></td>
</tr>
</tbody>
</table>

**(Decrease) Increase in Net Assets Held in Trust for Pension Benefits**: $40,145,717

Complete financial information on all the funds administered by CalPERS can be found in the *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2011.

¹ Differences in the amount shown for investment assets in these financial highlights and the investment portfolio amount reported in the Investments Section of this Summary are due to differences in reporting methods. In accordance with Governmental Accounting Standards Board Statement No. 28, the financial statements include securities lending collateral. Net investment receivables/payables are not included here.
CalPERS member retirements have increased 35 percent in the last five years. Tough economic times that resulted in furloughs, little or no pay increases and even layoffs made retirement more attractive for some at an earlier age. Currently, we expect 30,000 CalPERS members from the State, local agencies and school districts to retire each year.

CalPERS is committed to improving customer service as more of our members navigate the retirement process. Our new automated system allows employers and members to find more of their information online. Eventually, our members will be able to manage a “paperless” retirement from start to finish.

SERVING OUR MEMBERS AND EMPLOYERS

We currently administer defined benefit pension plans for more than 1.6 million California public employees, retirees and their families on behalf of 3,103 public employers. Our membership is divided roughly into thirds, composed of State, local public agency and public school members.

During fiscal year 2010-11, the Benefit Services Division processed 31,470 service retirement applications and 3,588 disability retirement applications. As of June 30, 2011, CalPERS provided retirement benefits for 536,234 retirees, beneficiaries and survivors, and 1,103,426 million active and inactive members.

We paid $14.2 billion in retirement, death, and survivor benefits, an increase of $1.2 billion from the previous year. Every new retiree received his or her first retirement check within 30 days of retirement. We also processed 24,329 requests for refunds of member contributions.

Our CalPERS Customer Contact Center handled 666,055 member calls, and 56,327 member-related correspondences during the year. This represents a 4 percent increase in call volume, and 3 percent increase in correspondence from the previous year. The Contact Center also answered 108,965 employer calls, and processed 2,375 related pieces of correspondence.
CalPERS Operations Summary, Fiscal Year Ended June 30, 2011

14

CSOD launched a pilot webinar program as another Web-interactive training tool that 247 members attended. The first three webinars covered retirement benefits basics, service credit factor, and health benefits in retirement and was offered to a targeted segment of our members to test the effectiveness of this training method. Members learned about retirement options, how additional service credit can increase future retirement, and how retirement will affect health benefits and Medicare coverage. The pilot webinars were very successful, and CSOD will continue to offer these training opportunities in the next fiscal year.

Such a large volume of calls will inevitably cause some CalPERS customers to wait on hold until a representative is available. To reduce these hold times, CalPERS utilizes our customer callback management system that allows our callers to hang up without losing their place in the call queue. Not only is it a great convenience to our customers, the callback system has proven an effective cost-cutting tool for CalPERS. Hold times were reduced by over six million minutes, and CalPERS saved more than $222,000 in telephone toll charges.

Our Customer Service and Outreach Division (CSOD) offered valuable member education opportunities through workshops and webinars. More than 2,000 members attended training workshop events to learn about CalPERS benefits, and planning for a financially secure retirement. More than 4,000 members logged onto on-line classes. In addition, 84,216 CalPERS members visited our regional offices for assistance with retirement matters. Additionally, CalPERS offered over 100 employer training workshops, and nearly 800 employers logged onto online classes. The employer training is conducted quarterly in each Regional Office, and upon request. It covers topics such as contracts, annual employer statements, business rules, and the laws concerning enrollment and payroll reporting requirements.

CalPERS Membership

Five-Year Review

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total CalPERS Membership</td>
<td>(a) 1,549,270</td>
<td>(b) 1,513,252</td>
<td>(c) 1,126,133</td>
<td>(a) 1,549,270</td>
<td>(b) 1,639,660</td>
</tr>
<tr>
<td>Benefit Recipients</td>
<td>(b) 536,234</td>
<td>(a) 1,626,951</td>
<td>(c) 1,116,044</td>
<td>(b) 513,623</td>
<td>(a) 1,629,667</td>
</tr>
<tr>
<td>Active &amp; Inactive Members</td>
<td>(c) 1,103,426</td>
<td>(b) 1,103,229</td>
<td>(c) 1,116,044</td>
<td>(c) 1,103,426</td>
<td>(c) 1,116,044</td>
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CalPERS Membership

Five-Year Review

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<td>(c) 1,116,044</td>
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CalPERS Operations Summary, Fiscal Year Ended June 30, 2011

14
Our Customer Account Services Division (CASD) also served our employers quickly and efficiently. We processed more than 68,000 membership transaction requests, made more than 2,000 membership determinations, and conducted more than 6,000 compensation reviews. CASD also completed 187 public agency contract amendments, more than double the amount processed the previous year. In addition, CASD processed 57,000 payroll reports, and corrected over 994,000 payroll discrepancies.

Our eleventh annual Employer Education Forum held in Indian Wells, California, drew more than 560 attendees. Participants chose from 42 workshops on topics ranging from the nuts and bolts of administering CalPERS benefit programs, to CalPERS investment strategies, and impacts of national health care policy changes. Participants networked with their colleagues from around the State, and took advantage of a new Leadership Policy and Leadership Education Series aimed at high-level decision makers.

1 The increase in participating public agencies for June 30, 2009 reflects a correction made to the 2008 calculations. The previous calculations understated the number of participating public agencies by approximately 400.
CalPERS administers the California Employers’ Retiree Benefit Trust Fund (CERBTF). CERBTF is available to all California public employers including counties, cities, schools and special purpose districts, to pre-fund Other Post-Employment Benefits (OPEB) promised to their retired employees. OPEB includes non-pension benefits such as employer-paid retiree medical, dental, and vision insurance coverage.

As of June 30, 2011, 48 new public employers contracted to participate, bringing the number of participating employers to 306.

CalPERS investment managers guided the CERBTF to double-digit returns for the second consecutive year. With the fiscal year 2010-11 gain of 25.0 percent, the CERBTF outperformed its benchmark by nine basis points, and grew by nearly $600 million to a year-end total of $1.9 billion.

Much credit for the CERBTF’s asset growth lies with the participating employers that have consistently made contributions through the up-and-down markets. They showed dedication to the task of pre-funding their OPEB liabilities, perseverance in spite of tightened budgets, and trust in our investment management. We are grateful for their commitment and honored by their participation. We are also pleased to report the CERBTF program cost rate remained well below that of other OPEB trust service providers.

Staff efficiency contributed to the low administrative cost. Launching in 2012, a new easy-to-navigate online record keeping system will further improve program efficiency by allowing employers to view returns and costs on a daily basis. This change will improve record accuracy and timeliness of reporting results.

The OPEB trust fund differs from the public employee retirement fund in that employers decide when and how much to contribute. Recognizing this employer responsibility and discretion, the CalPERS Board newly established three asset allocation strategies to which CERBTF employers can choose to contribute. Each strategy has a distinctly different expected return rate and volatility. Employers choose the strategy that best matches their benefit plan characteristics and agency financial requirements. Beginning in the fiscal year 2011-12, CERBTF employers will elect to participate in one of these three asset allocation strategies.

The CERBTF program delivers support to employers as they work to meet their financial reporting requirements. Although CalPERS does not provide OPEB actuarial valuation reports, the CERBTF program does maintain a list of more than 50 credentialed consulting actuaries who prepare OPEB actuarial valuation reports.

During the year, CERBTF staff conducted 50 public workshops around California in which they educated employers about OPEB cost measurement and pre-funding, and about the services provided by the CERBTF program. In addition, staff met individually with more than 75 public employers to discuss OPEB related issues.
**CERBTF Highlights**

- Pre-funding retiree health benefits for more than 200,000 California public employees
- 306 participating employers, including the State of California
- Nearly $1.9 billion of trust fund assets

**CERBTF Public Agencies – Participating Public Agencies**

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>306</td>
</tr>
<tr>
<td>2010</td>
<td>258</td>
</tr>
<tr>
<td>2009</td>
<td>196</td>
</tr>
<tr>
<td>2008</td>
<td>72</td>
</tr>
</tbody>
</table>

**CERBTF Public Agencies – Cumulative Net Contributions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Contributions (Dollars in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1,585</td>
</tr>
<tr>
<td>2010</td>
<td>1,334</td>
</tr>
<tr>
<td>2009</td>
<td>1,014</td>
</tr>
<tr>
<td>2008</td>
<td>665</td>
</tr>
</tbody>
</table>

**CERBTF Covered Members – Four-Year Review**

<table>
<thead>
<tr>
<th>Year</th>
<th>Active &amp; Retired Covered Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>212,341</td>
</tr>
<tr>
<td>2010</td>
<td>187,213</td>
</tr>
<tr>
<td>2009</td>
<td>157,968</td>
</tr>
<tr>
<td>2008</td>
<td>109,416</td>
</tr>
</tbody>
</table>
Making affordable, sustainable, quality health care available to our more than 1.3 million members has been a priority for the CalPERS Health Benefits Program for nearly 50 years. We are the largest purchaser of employee health benefits in California and second largest in the U.S. after the federal government. Our Health Benefits Program remains stable as we maintain our focus on containing health care costs, improving and preserving benefits, and educating our members so they can effectively manage their health care needs and prevent disease.

In April 2011, the CalPERS Board of Administration approved a recommended internal reorganization to ensure the agency maintains its stability in Health and other CalPERS program areas, delivers improved service to members and employers, and enhances accountability. Health policy and planning operations are now part of the Benefit Programs Policy and Planning Group.

THE HEALTH CARE MARKET

With national health care reform still in its infancy, health care costs continue to take a large toll on family budgets. According to the Kaiser Family Foundation’s Annual Employer Health Benefits Survey ¹, the average annual family contribution for employer-sponsored health coverage in 2011 was $4,129. The 2011 annual Milliman Medical Index estimates the total health care cost for an average American family of four with an employer-sponsored Preferred Provider Organization (PPO) plan to be $19,393, an increase of 7.3 percent over 2010. ²

Even in the face of rising health costs and a lackluster economy, however, the CalPERS Board of Administration held 2012 premium rate increases to an average 4.1 percent, less than half the increase of the previous year.

Health Maintenance Organization (HMO) premiums for active members and early retirees on Basic program rose 5.3 percent, Basic PPO premiums rose by 3 percent, and Medicare premiums did not rise at all.

Rates in 2012 for three affiliated plans for public safety officers remained unchanged for Basic and Medicare plans of the California Association of Highway Patrolmen (CAHP). Basic and Medicare rates for the California Correctional Peace Officers Association (CCPOA) increased by 3.2 percent and 11.8 percent, respectively. The Peace Officers Research Association of California’s (PORAC) Basic premium rate increased by 5.5 percent, with no increase in the Medicare rate.

Benefit changes in the CalPERS 2012 health plan package will save more than $60 million while focusing on quality, patient safety and engaging members in their care. This year we spent nearly $7 billion providing health care to our members and their families. In an effort to continue providing the best possible care at the lowest possible cost to our members and employers, we modified some member benefits and co-payments to encourage more efficient use of medical services and products, for example using hospitals with lower surgical costs.

NATIONAL HEALTH CARE REFORM

January 1, 2011 marked CalPERS implementation of key parts of the historic passage of the national Patient Protection and Affordable Care Act (PPACA), which passed in March 2010. As amended by the Health Care and Education Reconciliation Act of 2010, the PPACA ensures all Americans have access to quality, affordable health care and significantly reduced health care costs.

CalPERS has been a staunch supporter of the PPACA since its inception. In November 2010, the CalPERS Board of Administration approved health plan benefit design changes and proposed regulations to conform with PPACA. In December 2010, Chief Executive Officer Anne Stausboll sent a letter to U.S. Health and Human Services Secretary Kathleen Sebelius affirming CalPERS success in implementing aspects of national health care reform measures. Stausboll also stated she believes the measures will dramatically shape the future of health care in the country.

The CalPERS implementation successes included three significant provisions that became effective January 2011:

- Adding 28,314 young adults to CalPERS health plans under the provision that allows the extension of dependent coverage to adult children up to age 26 – at less than 1 percent premium increase – and ensuring CalPERS health plan participants were well informed of the provision.
• Removing lifetime dollar value limits on health plan benefits from the few remaining CalPERS plans that had them
• Requiring employers using CalPERS-provided health coverage to adhere to the new law that generally prohibits the discontinuance of health coverage due to a reduction in time base or hours worked.

The PPACA required each state to establish a Health Insurance Exchange by 2014. These Exchanges are competitive “marketplaces” in which individuals and small businesses will be able to purchase health insurance at affordable rates. California enacted a law in 2010 establishing the five-member California Health Benefit Exchange Board (CHBEB). CalPERS is researching how our operations might work best with the CHBEB in providing health care plans for our employers and members.

National health care reform efforts also encourage broader use of electronic Health Information Exchanges (HIEs) to help improve health care quality, increase efficiency, and reduce costs. CalPERS is helping lead the way to expanded use of HIEs in California by working with other public, nonprofit and private organizations to develop HIE policies through Cal eConnect, a nonprofit corporation designated by the State to accomplish that goal.

Federal reform is helping our country move toward repairing and improving our national health care system. As the PPACA measures unfold, we continue to advocate for additional proposals in the best interest of our members and employers, and we continue working diligently to implement new aspects of the law as regulations develop and federal guidance is provided.

EXPANDING MEMBER AND EMPLOYER ENGAGEMENT

Our recruitment and retention strategies continued to attract new contracting agencies and retain existing agencies. During fiscal year 2010-11, we enrolled 39 new public agencies, including 10 school districts. These activities caused our contracting agency “total covered lives” to increase 3 percent to more than 567,000.

At the end of the fiscal year, we distributed another $16.8 million in Medicare Retiree Drug Subsidy (RDS) funds to more than 820 eligible contracting local public agencies. This is the fourth subsidy disbursement issued to contract agency employers since the federal government established the Medicare Part D Program in January 2006. Over the past four years, we distributed a total of $62.2 million in RDS funds. Contracting agencies receive RDS funds based on a formula that considers each agency’s contribution toward Medicare health care premiums in 2007. CalPERS participates in the Medicare Part D RDS Program for all Medicare health plans except Kaiser Permanente Senior Advantage. CalPERS provides the Kaiser Medicare Advantage Prescription Drug Plan for Kaiser Senior Advantage enrollees.

City and county agencies welcomed these reimbursements to assist them in maintaining health care benefits for retirees and their beneficiaries.
PARTNERING TO CONTAIN COSTS AND INCREASE VALUE

CalPERS may be the largest organization of its type in the country, but we realize even we cannot effect positive changes in the health care marketplace by ourselves. However, we do take advantage of our size to leverage the best value for our members’ health care dollars. Engaging in Value Based Purchasing Design (VBPD) pilot programs with our health plan partners to maintain quality, cost-effective services for our members is one way we use that leverage.

In January 2010, CalPERS embarked on a 12-month pilot program in collaboration with Blue Shield of California, Catholic Healthcare West, and Hill Physicians that examined ways to improve health care quality, enhance service and reduce costs. The pilot program – available to CalPERS members in El Dorado, Placer, and Sacramento counties – created an integrated health care model that aligned incentives among the health plan, hospital system and medical groups. One goal was to keep health care costs flat, with the health plan partners agreeing to bear the financial risk should cost reduction goals fall short of expectations.

The pilot program resulted in savings of $15.5 million for year one, and improved services, including a 14 percent drop in total days patients spend in a facility; a 50 percent reduction in the number of patients who stayed in a hospital 20 or more days; a 17 percent reduction in patient readmissions; and a half-day reduction in the average patient length of stay. The pilot’s first year was successful enough for CalPERS to extend it for an additional 12 months and plan for a similar pilot program to begin in Orange County near the end of 2011.

The pilot program is consistent with provisions under the health care reform laws that encourage wider use of integrated health care platforms known as Accountable Care Organizations (ACOs). These ACOs emphasize improving the quality of medical care while lowering costs.

In January 2011, CalPERS also began a hip and knee replacement program with Anthem Blue Cross. This program established a $30,000 limit for these surgeries and identified facilities where they could take place with little to no out-of-pocket costs for members beyond their deductible and coinsurance. If members use other facilities and incur charges in excess of the threshold, they must pay the difference in cost.

Long-term management of chronic diseases is one of the biggest health care challenges facing the United States, and a key driver in increasing costs. Type 2 diabetes – the form that most often strikes adults – is a chronic and often debilitating disease, but is prevent-
able with proper screening, intervention strategies, and patient motivation. CalPERS engaged in three pilot programs with the aim of meeting and overcoming the challenges of diabetes care.

We joined Kaiser Permanente, Solano County and California State University at Northridge in a comprehensive workplace program designed to engage member employees at risk for diabetes and work with them to encourage healthy lifestyle choices aimed at preventing the disease. Data from Kaiser Permanente had indicated Type 2 diabetes was more common among its CalPERS members than among its California membership as a whole.

The second pilot – called Pharmacist Care for Diabetes – is a joint effort between CalPERS, Blue Shield of California, Raley’s pharmacies and the University of California, San Francisco (UCSF). The program began in July 2010. It is designed to help CalPERS Blue Shield members with Type 2 diabetes achieve better control of their condition. Those who met the entry criteria are able to meet with specially trained pharmacists at Raley’s, Bel Air, or Nob Hill Foods pharmacies to discuss medication use and diabetes self-management techniques. The final study results will be provided in 2012.

In the third pilot, CalPERS in partnership with the California Association of Physician Groups and the Institute for Health and Productivity Management, implemented a wellness pilot project in the County of Santa Cruz, called “Cruzin to Health.” This innovative project engaged the employer, employees, and local physicians in a program that focused on employee wellness. Over 500 employees signed-up and the results were very positive. Most importantly, risk factors were reduced for the onset of chronic conditions such as diabetes and high blood pressure, while employee morale and productivity also went up.

Finally, CalPERS signed an interagency agreement with UCSF to study deficiencies in health care that cause harm to patients, and might be avoided with treatment by their health care providers that is more effective. Finding a solution to these Potentially Avoidable Complications (PACs), as they are known, is key to opening another door to improved, more effective care for CalPERS health plan members. The study began in May 2011.

CalPERS pilot programs are in line with our strategic vision to lead in providing best in class, sustainable health benefit options for members and employers. With the programs’ success, CalPERS hopes to positively influence health outcomes and costs for more members in the future.

**PHARMACY BENEFITS MANAGER CHOSEN FOR SELF-FUNDDED PPO PLANS**

In 2011, CalPERS awarded the pharmacy benefits manager (PBM) contract for its Self-Funded PPO plans to CVS Caremark. The three-year contract is effective January 2012 to December 2014 and represents approximately $565 million in annual drug spending. Four bidders had submitted proposals for the contract – CVS Caremark, Medco, MedImpact, and Prescription Solutions. Their proposals were required to focus on integrating evidence-based design with health improvement initiatives.

**LONG-TERM CARE**

The CalPERS Long-Term Care Fund (LTCF) is a self-funded, not-for-profit program providing approximately 154,000 members with financial support so they can acquire care they may need due to chronic illness, injury, old age, or due to a severe cognitive impairment, such as Alzheimer’s Disease.

The LTCF Program is voluntary and is funded entirely through member premium payments. These member premiums are invested independently from the Public Employees’ Retirement Fund. Public employers do not pay into the LTCF.

To ensure the continued sustainability of the LTCF, the CalPERS Board adopted a premium increase that ranged from 15 to 22 percent for LTCF policyholders in
2010. Policies issued prior to 2005 with either lifetime benefits and built-in inflation protection received an additional annual increase of 5 percent beginning in 2011. CalPERS LTC Program compares favorably in cost and benefits with other private long-term care plans and the federal government plan.

The fiscal outlook of the LTCF improved in fiscal year 2010-11 as premium revenues rose 9.8 percent to more than $314.1 million and net investment income was $537.2 million, about $185.5 million more than the previous year. A positive investment performance in the global equity market contributed to an increase in the unrestricted net assets of the LTCF in the fiscal year 2010-11, raising assets to $671.0 million from a deficit of $118.5 million in fiscal year 2009-10. The total LTCF investments were $3.3 billion at June 30, 2011.
Investment Programs

For the second straight year, CalPERS exceeded its return target by earning 21.7 percent on investments for the fiscal year 2010-11. The Fund’s net-of-fees performance was the highest in 14 years.

While the rising stock market tide lifted all investor boats, our investment officers exceeded their benchmarks in four of five major asset classes, with the Fund finishing the fiscal year with assets of $241.8 billion.

The performance followed earnings of 13.3 percent in the previous fiscal year, again exceeding the assumed rate of return of 7.75 percent. It was the strongest Fund growth since the 20.1 percent return of 1997. The Fund has averaged an 8.4 percent net return on investments over the past 20 years.

Asset performance gains included:
• global fixed income, 7 percent
• private equity, 25.3 percent
• public stocks, 30.2 percent
• commodities, infrastructure, forestland and inflation-linked bonds, a combined 13.6 percent
• real estate, 10.2 percent

Chief Investment Officer Joseph A. Dear credited CalPERS strategy, the skills of our investment team and strong equity markets for the positive one-year performance. But as the preliminary return figures emerged in early July 2011, he strongly cautioned against over-optimism in a global market still plagued by debt, joblessness, a depressed housing market and economic uncertainty.

Share values and earnings of public companies rose steadily during the fiscal year, but business was generally reluctant to commit capital and expand in the face of stubborn systemic weaknesses in the global economy. Investors feared contagion affecting U.S. financial institutions from debt in Greece, Portugal, Italy and Spain. Several key pieces of the U.S. financial market reform approved in June 2010 were still stalled a year later. Our top corporate governance priority – giving long-term shareowners access to corporate election ballots – was overturned in court, with the U.S. Securities and Exchange Commission now faced with new rule making.
Still, the Investment Office reported several promising developments as the 2010-11 fiscal year ended. They included:

- Policies to implement our new risk-based asset allocation structure
- A plan to implement environmental, social and governance issues into our investment decision-making across all asset classes
- Restructured portfolios to achieve significant fee savings of $357 million in the 2010 calendar year, new reporting transparency by external managers and better alignments with external partners

CalPERS historical performance was a factor in the Board’s decision to retain the 7.75 assumed rate of return (also called the discount rate), which represents what a pension fund believes it can realistically earn from its investments on annual basis when averaged over 50 to 70 years. In any given year, investment returns are likely to be higher or lower than the long-term assumed rate to fund pension obligations.

**ASSET ALLOCATION/RISK MANAGEMENT**

Anticipated investment returns also influenced the Board’s adoption in December 2010 of a new asset allocation structure for 2011 through 2013 to position the Fund for improved risk-adjusted performance. The focus is on such key drivers of risk and return as economic growth, inflation, liquidity (the availability of cash) and interest rates.

To develop the plan, the Board, investment staff and external advisors participated in a nearly yearlong review of our asset allocation structure in response to the hard lessons of the financial crisis and the 2007-09 recession. In that downturn, historical diversified asset allocation strategies failed to account for unforeseen factors that upset the global markets.

We wanted more flexibility to respond to such varying market conditions as the growth and low inflation conditions of the 1990s, the falling markets and liquidity constraints of the recent recession, and the rampant inflation of the 1970s. In each case, growth assets like equities, high-yield and corporate bonds perform differently than inflation hedges like commodities and Treasury inflation-protected securities (TIPS).

The new allocation structure placed CalPERS assets in five major groups according to how they function in high- or low-growth markets and an inflationary environment. The five groups and their target allocations as a share of total CalPERS market value are:

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>BENCHMARK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Fixed Income</td>
<td>Barclays Long Liability Index</td>
</tr>
<tr>
<td></td>
<td>Barclays International Fixed Income</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>FTSE US Total Market Index</td>
</tr>
<tr>
<td>International</td>
<td>FTSE All World ex U.S. Index</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>Wilshire 2500 +3%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>NCREIF FTSE Custom Index</td>
</tr>
</tbody>
</table>

**Growth of Investment Portfolio at Market Value**

Five-Year Review (Dollars in Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$239.3</td>
</tr>
<tr>
<td>2010</td>
<td>$203.5</td>
</tr>
<tr>
<td>2009</td>
<td>$183.5</td>
</tr>
<tr>
<td>2008</td>
<td>$237.1</td>
</tr>
<tr>
<td>2007</td>
<td>$251.4</td>
</tr>
</tbody>
</table>
• Liquidity – Cash, government bonds like Treasuries that can be quickly converted to cash: 4.0 percent
• Growth – Public equity (stocks) and private equity that provide positive returns in rising markets: 63.0 percent
• Income – Fixed income securities to provide income return in falling equities markets: 16.0 percent
• Real Assets – Real estate, infrastructure and forestland to provide long-term income returns that are less sensitive to inflation risk: 13.0 percent
• Inflation – TIPS, commodities and other inflation-linked bonds that provide protection against inflation: 4.0 percent.

The Board also set ranges for investing. Relative to each asset class target allocation, ranges are +/- 7 percent for growth (public and private equity); +/- 5 percent for income and real estate; and +/-3 percent for inflation and liquidity.

The new risk-based structure was implemented July 1, 2011.

GLOBAL FIXED INCOME
As the fiscal year ended, the $53.0 billion Global Fixed Income program achieved one-year earnings of 7.0 percent, beating its benchmark of 5.6 percent. The asset class represented about 18 percent of total CalPERS market value. Domestic fixed income generated a 6.4 percent return, while the international portfolio generated 15.8 percent and high-yield bonds returned 15.5 percent on investment.

Since its inception in June 1986, the Global Fixed Income program has generated annualized earnings of 8.5 percent, compared with the benchmark of 8 percent. It also created positive excess return, or alpha,

in 19 out of 25 fiscal years and an average annual alpha of +71 basis points. The asset class took part in a $70 billion Federal Reserve program aimed at rescuing the nation’s troubled credit markets. CalPERS invested $5.3 billion in a portfolio of high-performing credit card loans with $350 million of its own money and $5.0 billion from the Fed to earn a $175 million profit – a return of approximately 50 percent.

During the 2010-11 fiscal year, the Securities Lending program changed policy to reduce volatility and risk. The Credit Enhancement Program, which generates fee income by backing up municipal debt, earned up to $10 million in fee income during the year, with about 29 percent of its commitments in the State of California.

GLOBAL EQUITY
The $116.7 billion Global Equity program attained an overall one-year return of 30.2 percent. The majority of the Global Equity portfolio is managed to closely track

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>CURRENT ALLOCATION</th>
<th>CURRENT YEAR TARGET</th>
<th>PRIOR YEAR TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH EQUIVALENTS</td>
<td>4.5%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>GLOBAL DEBT SECURITIES</td>
<td>17.3%</td>
<td>21.0%</td>
<td>22.5%</td>
</tr>
<tr>
<td>GLOBAL EQUITY</td>
<td>52.7%</td>
<td>49.0%</td>
<td>49.0%</td>
</tr>
<tr>
<td>ALTERNATIVE INVESTMENTS/PRIVATE EQUITY</td>
<td>14.2%</td>
<td>14.0%</td>
<td>13.0%</td>
</tr>
<tr>
<td>INFLATION LINKED (ILAC)</td>
<td>3.4%</td>
<td>4.0%</td>
<td>3.5%</td>
</tr>
<tr>
<td>TOTAL REAL ESTATE</td>
<td>7.9%</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td><strong>TOTAL FUND</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

1 The current allocation percentages differ from investment asset percentages presented in the MD&A and Statement of Net Assets as a result of different methodologies used for categorizing investment assets for investment purposes versus financial statement presentation purposes.
and slightly exceed its benchmark, which is the FTSE All-World, All-Capitalization Benchmark, including companies in 47 countries. The Global Equity team generated an excess return of more than $140 million in a successful cross-asset class collaboration with the Global Fixed Income program on CalPERS Synthetic Enhanced Equity portfolio.

The “alignment of interest” initiative involving hedge fund and corporate governance external managers reduced one-time and ongoing fees by $61 million. The Global Equity program also terminated 10 low-performing external managers and re-allocated $17 billion to internal strategies.

We endorsed a new guide by the Investor Steering Committee of the Alternative Investment Management Association, the global hedge fund association, to promote better alignment of interest between institutional investors and hedge fund managers.

**REAL ESTATE**

Real estate moved back into positive territory, with a fiscal year gain of 10.2 percent, after reversals during the financial crisis and recession. “Opportunistic” real estate that included housing and land development had a market value decline of 6.3 percent, while “core” office, retail, industrial and multifamily housing properties had a one-year gain of 29.3 percent.

The superior performance of core properties confirmed the direction of the $19.2 billion real estate portfolio under a new strategic plan approved by the CalPERS Board in February 2011. While core assets represented approximately 40.3 percent of total real estate market value, the 2011 strategic plan envisions moving as much as 75.0 percent of CalPERS real estate into core in U.S. retail, office, industrial and multi-family housing core properties over the next few years. Most new commitments will go to up to 15 to 20 strategic long-term partners managing exclusive CalPERS real estate accounts.

The back-to-basics strategic plan affirms the historic diversifying role of real estate with investment
in relatively stable, commercial cash-generating properties. Key concepts of the plan include winding down a “legacy portfolio” of non-core opportunistic assets over five to seven years because they no longer fit the new role of real estate. Meanwhile, we will develop a “new portfolio” of high-quality U.S. core assets with strategic partners for 10- to 20-year periods, with a target share of 75.0 percent of total CalPERS real estate market value. The new portfolio will include a tactical sector for repositioning U.S. assets, distressed situations and development, with a target allocation of 15.0 percent. The portfolio will have an international growth and income sector in emerging markets like China and Brazil, with an allocation target of 10.0 percent.

INFLATION-LINKED ASSET CLASS
Nearly all components of the inflation-linked asset class had strong positive returns. Inflation-linked bonds returned 11.8 percent, totaling $2.6 billion in value. Commodities, which had $2.5 billion in market value on June 30, earned 27.0 percent on investment over the year. Infrastructure, totaling about $690 million earned 48.4 percent over the year. Forestland, with $2.3 billion, had a negative return of 2.4 percent, attributable to the economic downturn in the U.S. housing market.

PRIVATE EQUITY
The $34.4 billion portfolio of the Alternative Investment Management (AIM) program benefited from a one-year return of 28.3 percent. The program had invested approximately 65.0 percent in the United States. Réal Desrochers, who joined CalPERS in June 2011 as AIM’s Senior Investment Officer (SIO), attributed the strong returns mainly to the large buyout segment of the portfolio that increased substantially in value during the year. We also repositioned assets and enlisted new private equity partners to enhance prospects of future earnings. Under the direction of AIM’s new SIO, AIM conducted a thorough review of its program to identify key trends and prospective investment opportunities to ultimately assist AIM in setting objectives. AIM’s forward-looking strategy intends to focus less on venture capital and credit-related strategies, while increasing its focus on growth/expansion and opportunistic investments. Additional restructuring includes the rebalancing of the portfolio over the next few years to go toward more controlled funds, such as co-investments and secondaries, fewer partners and more direct relationships as opposed to fund-of-funds and investment vehicles.

CORPORATE GOVERNANCE
As an investor in more than 9,000 public companies around the world, we pressed on with a campaign aimed at securing the majority vote for directors in uncontested elections. By the end of the fiscal year, 30 of 58 major companies that we identified on the issue had implemented or publicly committed to the majority vote standard. In February 2011, a strong majority of Apple Inc. shareholders supported our non-binding advisory proposal for a majority vote threshold.

Out of the public eye, we continued to privately engage companies on our annual Focus List in response to their weak financial performance and poor gover-
nance practices. The CalPERS Board decided in fall 2010 to discontinue the practice of publicly naming Focus List companies, as we had done every spring for two decades. Instead, we concentrated on private engagements, following up where needed with CalPERS filing proposals to address governance reform. Wilshire Associates found that private engagements historically have led to better performance than publicly naming Focus List companies.

Late in the 2010-11 fiscal year, the CalPERS Board decided to divest shares of the remaining public companies operating in Iran and Sudan, and to block new investments in the countries. Strong sanctions adopted in 2010 by the federal government, the United Nations and European Union prompted the withdrawal of several large multi-national oil and energy companies from Iran and Sudan. Consistent with our fiduciary duties, we decided that the cost of continuing to hold the stock of the eight companies that we identified for divestment was greater than the value of divesting them.

As the year ended, we launched the Diverse Director DataSource, known as “3D,” which became available for the recruitment of corporate board candidates. The datasource, created in conjunction with the California State Teachers’ Retirement System, is a resource for organizations seeking individuals who can bring a fresh perspective and needed skills to a corporate boardroom. It is now owned and operated by an independent provider of global corporate governance ratings and research.

Environmental Investment Initiatives

We have substantial environment-related investments, including $1.5 billion in private equity clean technology and more than $500 million in an internally-managed strategy for investing in global public companies that are actively working to improve the environment and mitigate the adverse impact of climate change. The internal team responsible for managing the strategy modeled it after HSBC’s Global Climate Change Benchmark Index. To be included in the portfolio, companies must derive a material portion of their revenues from low-carbon energy production, including wind, solar, biofuels and other alternative energy; water, waste and pollution control; energy efficiency and management, including building insulation, fuel cells and energy storage; and carbon trading and other capital deployment and financial products. During the fiscal year, we also announced the successful conclusion of a five-year program that reduced energy use by 20 percent in our core real estate portfolio.

As the year closed, CalPERS Investment Office staff were developing a plan to incorporate environmental, social and governance commitments into decision-
making across all asset classes. The effort was aimed at enhancing long-term sustainability of natural resources and the economic health of our investment program.

**California Investments & Commitments**

100% $23.3 billion

- 20% $4.7 billion
  - Fixed Income
- 21% $4.9 billion
  - Real Estate
- 25% $5.9 billion
  - AIM (Private Equity)
- 34% $7.8 billion
  - Equities

1 Figures presented differ from the California Investments reported in the 2011 Comprehensive Annual Financial Report due to the inclusion of commitment amounts to CalPERS California investments. Commitment amounts represent funds earmarked for particular investment strategies that have not yet been deployed.
Strengthening Enterprise-Wide Operations

CalPERS made “risk intelligence” a key priority during fiscal year 2010-11, and evaluated processes in order to improve our resilience to adversity, and ability to respond and adapt quickly to changing circumstances.

In September 2010, the Board of Administration approved the creation of the Office of Enterprise Risk Management (OERM) managed by the Chief Risk Officer. Since its creation, the OERM has made significant strides toward creating a more risk-intelligent culture at CalPERS. In coordination with senior leadership across all divisions, the OERM conducted an initial assessment, identifying key enterprise risk points. The OERM has also teamed with business areas to analyze risks associated with key decisions, such as the myCalPERS launch, health care reform, and the reorganization effort. With the creation of the Executive Risk Management Committee, the OERM has also developed reporting and escalation channels, ensuring the most critical issues are being reported to and addressed by the Board and Executive Staff.

We also evaluated our core values, the guiding principles that make CalPERS an excellent service provider. Through an online conversation that involved all of our staff, we determined that the core values of Quality, Respect, Integrity, Openness, and Accountability continued to support our mission and vision. However, CalPERS employees added Balance to the list. The new value supports a healthy personal and professional balance, maintains focus on long-term goals while meeting short-term needs, embraces opportunities for personal and professional development, and supports an environment that is optimistic and enjoyable in which relationships can prosper across our organization and communities.

DIVERSITY OUTREACH PROGRAM

Diversity and inclusion (D&I) continues to play an integral role at CalPERS. D&I initiatives are strategically woven into CalPERS Business Plans giving way to a positive work environment that values the dignity of all people through respect and inclusion. The CalPERS Diversity Outreach Program (CDOP) serves as a
information that was used to help align our D&I strategy to our business plan.

Following the survey we took an opportunity to gain more insight from staff. A group of employees from across all job classifications in the organization was brought together to form the CalPERS D&I Employee Focus Group. It was tasked with analyzing the survey results, and developing recommendations for future D&I initiatives.

Including D&I in our procurement of goods and services is also important at CalPERS. That is why the CalPERS Business Connection (CBC) was established in 1998. CBC ensures diversity among suppliers providing products and services to CalPERS through the contracting process. CalPERS continues to increase participation of small businesses (SB), disabled veteran business enterprises (DVBE), and new emerging California businesses. This year, CBC staff made contact with an estimated 2,000 SB and DVBE vendors by attending four regional business partnership conferences. Internally, CBC sponsored forums to educate our employees about its goals, built a database to track the certification status of all SB and DVBE vendors, and assisted in the development of a new CBC marketing brochure.

This year our D&I efforts reached across the world when top-level human resource professionals from China visited CalPERS. The China delegation was comprised of human resource director generals and deputy directors representing every province of China. They came to gain insight on how CalPERS manages diversity in the workplace.

The D&I journey continues at CalPERS. CDOP is dedicated to creating a positive work environment, leveraging the talents of all employees, and increasing the awareness of D&I enterprise-wide.

CalPERS LAUNCHES NEW SYSTEM

This past year we entered the final phases of the creation of myCalPERS, the Web-based platform designed to consolidate 49 standalone “legacy” informa-
tion systems. The creation of myCalPERS is the largest automation and business transformation ever undertaken by any state agency in California. myCalPERS sets the foundation for CalPERS vision to use the Internet as a primary channel for conducting business.

This vision is based on a state-of-the-art technology infrastructure that provides the flexibility, expandability, and scalability required to serve the needs of our customers well into the future. The hardware we’re implementing is modular and highly efficient – saving on space and energy consumption. We’ll be able to eliminate massive amounts of tape storage and replace numerous legacy system monitoring stations with just a few modern ones. As our needs increase, we’ll be able to easily add data storage – and, if data is ever lost, it will automatically be regenerated.

The new system allows us to transition to a single corporate database, which greatly enhances our financial and operational integrity. We are also now using a CalPERS ID – reducing our dependency on the Social Security Number as a unique identifier. This will strengthen our ability to ensure the security of our members’ data.

During the 2010-11 fiscal year, the Pension System Resumption (PSR) project team tested system functionality, prepared for the conversion of 3.2 billion records from a variety of legacy systems for use in the new environment, and trained staff and business partners to use the new system.

Because of the size and scope of the new myCalPERS, the testing process was a large and complex undertaking. While testing has been part of each phase of development over the last four years, in just the final two years of the project over 300,000 hours of testing were completed.

The Enterprise Transition Management (ETM) training team coordinated nearly 80 instructor-led and computer-based training courses representing our core business processes. These courses provided over 1,100 CalPERS staff with the skills necessary to use the new system. Our Public Employer Readiness Team (PERT) assisted over 2,500 Business Partners with training, education, and technical support to transition to the new system. PERT also provided a wide variety of demonstrations, information sessions, and written and Web-based publications to keep our Business Partners up-to-date on the progress of myCalPERS.

In addition to the activities related to myCalPERS, the Information Technology Services Branch (ITSB) focused on the transition to specific technologies and systems, which formed a service-based model aligned to support the new environment and CalPERS business needs. “Work area” transition plans were created to bridge the gap between existing and prospective roles, responsibilities, and skill sets.

These activities culminated with the initial launch of myCalPERS in September of 2011. With this launch, our staff now have increased access to comprehensive member and employer data, ultimately allowing us to provide enhanced service to our members. In addition, our Business Partners will experience expanded self-service options.
<table>
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<tr>
<th>STAFF CAPABILITIES/BENEFITS</th>
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<tr>
<td>(Released in September 2011)</td>
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<tr>
<td>&gt; Integrated full view of customer data</td>
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<tr>
<td>&gt; Reduced time needed for paper processing</td>
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<td>&gt; Single source of financial and pension data</td>
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<td>&gt; Increased integrity of all member and employer data</td>
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<td>&gt; Reduced time required to prepare for and conduct annual valuations</td>
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<td>&gt; Ability to quickly implement changes resulting from legislation</td>
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<td>&gt; Modular infrastructure can be easily maintained and expanded</td>
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<th>EMPLOYER CAPABILITIES/BENEFITS</th>
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<tr>
<td>(Released in September 2011)</td>
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<tr>
<td>&gt; Ability to view contract information and initiate contract processes</td>
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<td>&gt; Ability to resolve payroll discrepancies</td>
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<td>&gt; Ability to make electronic payments</td>
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<td>&gt; Ability to track status of requests</td>
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<td>&gt; Ability to view billing invoices, reporting, and contribution histories</td>
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<td>&gt; Ability to view employee and retiree health enrollment data</td>
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<td>&gt; Ability to make prior year payroll and contribution adjustments</td>
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<td>&gt; More agencies participating in the Supplemental Income Plan can use electronic reporting</td>
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<th>MEMBER CAPABILITIES/BENEFITS</th>
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<tr>
<td>(Released in September 2011)</td>
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<tr>
<td>&gt; Greater security of personal information</td>
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<tr>
<td>&gt; Access to more accurate information</td>
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<tr>
<td>(Under development)</td>
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<tr>
<td>&gt; Generate accurate benefit statements</td>
</tr>
<tr>
<td>&gt; Apply for retirement</td>
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<tr>
<td>&gt; View health account summaries</td>
</tr>
<tr>
<td>&gt; Monitor health enrollment and deduction history</td>
</tr>
<tr>
<td>&gt; Enroll in health plan (retirees)</td>
</tr>
<tr>
<td>&gt; Track status of requests</td>
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<tr>
<td>&gt; Update demographic information</td>
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This past fiscal year, the CalPERS Board of Administration sponsored legislative proposals, adopted legislative positions and supported policy initiatives that served the interest of our members and employers. Using its Legislative Policy Standards as a guide in formulating positions, the Board considered legislation on a variety of fronts.

The Office of Governmental Affairs (GOVA) advocates on behalf of CalPERS members and stakeholders at the direction of the Board to ensure the integrity of the CalPERS trust and advance CalPERS mission in State and federal policy areas.

**STATE LEGISLATIVE UPDATE**

Following is a brief summary of some the CalPERS related State Legislation enacted during the first year of the 2011-12 legislative session.

Assembly Bills (AB) 36, Chapter 17 (Perea) State Tax Conformity for Dependent Care Coverage up to Age 26

Conforms to federal tax law by excluding from an employee's gross income for State personal income tax purposes, the value of employer-provided health coverage for a child who, at the end of the taxable year, has not attained age 27. It also allows parents to exclude from their gross income, any reimbursements for medical expenses made under a flexible spending arrangement.

*AB 782, Chapter 107 (Brownley) Recovery of Additional Audit Expenses

Allows, but does not require, CalPERS to recover its additional administrative expenses when the time necessary to complete an employer audit exceeds estimates provided to the employer.

AB 873, Chapter 551 (Furutani) Post-Separation Employment for State Retirement System Board and Staff

Prohibits CalPERS and CalSTRS Board Members, executive employees, and senior managers in Investment, Health and Information Technology (IT) from repre-
senting another entity before CalPERS or CalSTRS to influence specified actions for a period of four years after leaving service. The bill also prohibits those individuals from aiding, advising, consulting with, or assisting a business entity, for a period of two years after leaving service, in obtaining the award of, or in negotiating, a contract or contract amendment with CalPERS or CalSTRS. In addition, the bill prohibits those individuals from accepting compensation for providing services as a placement agent, for a period of 10 years after leaving service.

*AB 1028, Chapter 440 (Assembly PER&SS Committee) CalPERS 2011 Omnibus Bill
Makes minor policy and technical changes to the Public Employees’ Retirement Law (PERL).

*AB 1042, Chapter 668 (Allen) Compensation of Key Employees
Adds a Chief Financial Officer to the list of key positions under which the CalPERS Board has authority to set compensation and terms and conditions of employment, including performance standards and more stringent conflict of interest standards.

AB 1151, Chapter 441 (Feuer) Fiduciary Determinations for Iran Divestment
Imposes additional procedural requirements if either CalPERS or CalSTRS invokes fiduciary responsibilities (described in Section 17 of Article XVI of the California Constitution) as the reason to continue investments in companies with specified dealings in Iran’s energy sector. These new requirements include holding hearings and adopting findings on a quarterly basis that demonstrate how divestment disadvantages Fund beneficiaries, and indicating that any feasible investment alternatives would yield a lower rate of return with commensurate degrees of risk, or create a higher degree of risk with commensurate rates of return.

AB 1247, Chapter 733 (Fletcher) State Employee Retirement Plans: Financial and Investment Reporting Requirements
Modifies CalPERS reporting requirements that were enacted as part of the 2010-11 Budget package to instead require CalPERS to produce an annual report describing the investment return assumptions, discount rates, and amortization periods used to calculate contribution rates for State employee retirement plans. The bill also deletes the requirement that the Treasurer express his or her opinion of the reasonableness of the Board’s calculation of the contribution rates, and instead requires the Chair of the California Actuarial Advisory Panel (CAAP), or a designee to report on CalPERS investment return assumptions and amortization periods used in the calculation of contribution rates at a joint hearing of the Senate and Assembly committees on public retirement. It also deletes the requirement of the Board to provide the Legislature with a revised calculation of the forecasted contribution rates utilizing a specified investment rate assumption.

Senate Bills (SB) 80, Chapter 11 (Senate Budget and Fiscal Review Committee) Budget Trailer Bill: State Government
Requires the CalPERS Board to negotiate with health benefit carriers to add a Core Health Plan Option to its existing portfolio of health plans, and/or implement measures to achieve ongoing cost savings beginning in the 2012-13 fiscal year.

SB 87, Chapter 33 (Leno) 2011-12 Budget Act
Makes appropriations for support of State government for the 2011-12 fiscal year to, among other things, require that the CalPERS Board negotiate with health benefit carriers to achieve a one-time savings of $80 million of General Fund moneys and approximately $37 million of other Funds’ moneys in the 2011-12

* CalPERS sponsored bill 2011
Health Benefits Program. As a budget bill, SB 87 went into effect immediately upon its signing, June 30, 2011.

SB 151, Chapter 25 (Correa) State Employees: Memoranda of Understanding
Approves the memoranda of understanding (MOU) between the State and Bargaining Units 2, 6, 7, 9, 10, and 13, and approves addenda to memoranda of understanding between the State and Bargaining Units 1, 3, 4, 11, 12, 14, 15, 16, 17, 18, 19, 20, and 21. Among other things, the MOUs increase the contribution rates by 5 percent for State miscellaneous, State industrial, or State safety members who are represented by State Bargaining Unit 13, by 3 percent for State miscellaneous, State industrial, or State safety members who are represented by State Bargaining Unit 2, 6, 7, 9, or 10, by 3 percent for State peace officer/firefighter members who are represented by State Bargaining Unit 6, by 2 percent for State peace officer/firefighter members who are represented by Bargaining Unit 7, and reduces contribution rates by 1 percent for excluded State miscellaneous or State industrial members related to Bargaining Unit 2.

SB 294, Chapter 701 (Price) Emerging Investment Managers: Five Year Plan
Requires both the CalPERS Board of Administration and the CalSTRS Board to each provide a five year strategic plan for emerging investment manager participation across all asset classes and define the term “emerging investment manager.” The bill also requires each of the Boards to submit an annual report to the Legislature, until January 1, 2018.

SB 322, Chapter 47 (Negrete-McCleod) Benefit Limits for Members Employed by Multiple CalPERS Employers
Clarifies that the benefit limit for a member who receives benefits based on credited service with multiple employers cannot exceed the annual federal limit on retirement benefit payments pursuant to Section 415 of the Internal Revenue Code.

SB 398, Chapter 704 (Hernandez) Investments: External Managers
Clarifies the definitions of “external manager” in the Political Reform Act and other parts of the Government Code with regard to external investment managers retained by public retirement systems.

SB 751, Chapter 244 (Gaines) Health Care Coverage: Transparency
Prohibits contracts between licensed health care facilities and health plans or insurers from including nondisclosure clauses that restrict the release of information on the cost of medical procedures and quality of care to members of the plan or insurer. The bill also requires that on an annual basis, a plan or insurer must provide a hospital or facility the opportunity to review and validate data provided to subscribers or enrollees of the plan, or to policyholders or insured’s of the insurer.

FEDERAL UPDATE
As trustees of the nation’s largest pension plan and largest non-federal purchaser of health care benefits, the CalPERS Board of Administration is uniquely positioned to take a leading role in advocating for sensible legislation and regulation on retirement security, investments, health care and other issues that benefit CalPERS 1.6 million members and the nation as a whole. Following a year when CalPERS achieved an unprecedented level of success, including the passage of landmark health care and financial regulatory reforms, the mid-term elections—and the changes they produced in Washington—presented new challenges to these and other key CalPERS priorities.

The new majority in the House of Representatives came to Washington with the goal of repealing the landmark Patient Protection and Affordable Care Act (PPACA). Since CalPERS believes the PPACA represents a fundamental and positive shift in the way health care will be purchased and delivered in the United States, CalPERS has opposed repeal efforts and has
worked to ensure that regulators implement the bill’s provisions in appropriate ways. To that end, CalPERS has developed a strong working relationship with the Department of Health and Human Services (HHS) and the Centers for Medicare & Medicaid Services (CMS).

Early in the implementation process, CalPERS emphasized the benefits of many health care reform provisions—including extension of dependent coverage, elimination of lifetime limits, and the Early Retiree Reinsurance Program. The fund’s achievements in these areas were widely praised by HHS Secretary Kathleen Sebelius and California leaders in Congress, including then-Speaker Nancy Pelosi who said, “CalPERS is showing us the real, human impact of these and other reform provisions.”

In June, CalPERS welcomed new federal rules that will give consumers and employers better information about the quality of health care offered by hospitals, physicians and other health care providers. At the time, Ann Boynton, Deputy Executive Director for Benefit Programs, Policy and Planning said, “Improving insights into cost and quality variations is an integral part of transforming the health care system for all.” The new CMS rules are intended to facilitate selection of higher-quality, lower-cost physicians, hospitals and other health care providers by allowing qualified organizations to obtain Medicare data.

Some in Congress and the financial services industry also have attacked the sweeping financial regulatory reform legislation enacted in 2010 – the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Considered the most significant overhaul of financial regulations since the Great Depression, the main provisions of Dodd-Frank are intended to end the notion that some firms are too big to fail, establish oversight of entities and activities whose failure could threaten the stability of the nation’s entire financial system, and create a regulator for mortgages, credit cards and other consumer financial products. In addition, Dodd-Frank advanced a number of CalPERS governance priorities, including clarifying the authority of the Securities and Exchange Commission (SEC) to issue rules that enable shareholders to nominate directors on corporate proxy ballots.

In July, CalPERS corporate governance chief, Anne Simpson, was invited to testify before the U.S. Senate Banking Committee as part of the committee’s effort to highlight the successes of the historic law on its first anniversary. Ms. Simpson applauded the efforts of the committee for including critical governance reforms in Dodd-Frank, particularly proxy access. “The most fundamental of investor rights is the right to nominate elect and remove directors.” Simpson told the committee.

Regulators have taken great strides in developing rules to implement Dodd-Frank, but have faced committed opposition. While CalPERS and other institutional investors were pleased that one of the first orders of business by the SEC following the enactment of Dodd-Frank was the adoption of meaningful proxy access regulations, disappointment followed when the Court of Appeals for the DC Circuit found the rule violated certain administrative requirements. Investors were further discouraged when the SEC did not appeal the ruling to the US Supreme Court. As recently as September, CalPERS and other pension funds and institutional investors representing more than $2 trillion, strongly urged the SEC to restore accountability and integrity to financial markets by issuing new rules on full proxy access.

Congress has also impaired the ability of market regulators to implement Dodd-Frank through the power of the purse. While the Obama Administration requested significant increases in funding for the SEC and Commodity Futures Trading Commission (CFTC), appropriators have balked at the idea. Although they gave the agencies small increases for fiscal year 2011, as part of the debt ceiling deal, House budget officials are looking to cut the funding to the agencies for fiscal year 2012.

Meanwhile, legislation has been advanced to roll back some of the important investor protections, including provisions that expose credit rating agencies
to liability in a securities offering. Other legislation has been debated that would remove the internal control audit requirement for companies with market caps of $350 million or less and loosen regulations for swaps. CalPERS continues to support the Dodd-Frank law and has actively opposed efforts to undermine its provisions.

Despite these strong headwinds, CalPERS is continuing to play a leadership role in the implementation of Dodd-Frank. For example, CalPERS is currently leading a coalition of like-minded funds from Wisconsin, Colorado, Texas, Missouri and Virginia to find a workable solution to certain derivative reforms in Dodd-Frank. These so-called business conduct standards were developed to help ensure that financial swaps dealers could not take advantage of state and local government finance officials or others that might lack a deep understanding of the swaps markets. However, these provisions may also limit public pension plans’ ability to hedge their risks in the swaps markets. CalPERS and its coalition partners are working with the CFTC to craft a regulatory solution that will protect less sophisticated investors while preserving access the markets without undue regulations.

In the area of retirement security, the Board of Administration adopted a 12-point set of federal legislative priorities that underscores the fund’s commitment to preserving defined benefit programs. “Our defined benefit plan has served as the foundation for a secure retirement for more than three quarters of a century,” said Rob Feckner, President of the CalPERS Board of Administration. In addition to establishing an affirmative federal legislative agenda to preserve retirement security, the priorities call for CalPERS to oppose any federal mandates on pension plan design features or policies that would undermine defined benefit plans and any legislation that would establish mandates requiring specific funding, accounting or actuarial standards for State and local pension plans.

As challenges continue, CalPERS remains committed to working with Congress and the federal government to preserve hard fought gains in the areas of health care and financial regulatory reform and to advance policies that preserve the retirement security of our members.
The Year Ahead

In the last several years, CalPERS has experienced challenges that have led us to examine our values, adjust our internal business practices, and respond to changes in the global economy. We are invigorated and ready for the future.

Looking ahead, we are dedicated to achieving three fundamental objectives. First, CalPERS considers our obligation to protect the financial and health security of each of our 1.6 million members as our most important and unrelenting goal. We will ensure the stability of CalPERS pension and health programs by delivering sound investment results, and adapting to changing conditions.

Secondly, as we shepherd the Funds through tumultuous markets and uncertain times, we will continue to reach for and meet the highest standards of integrity and openness to earn your trust. We will further develop our staff to create a high-performing employee team with a broad and diverse range of skills, ideas and perspectives.

And finally, we will persevere as a responsible investor, demanding corporate accountability and reform that will ultimately lead to a more stable economy. We will continue to examine our own internal business practices while exercising leadership in pension, health and financial market policy.

In the next 12 months, we will focus on improved customer service as we implement the myCalPERS self-service system. We will prepare staff and our members with training that will allow full realization of the automated “one-stop” capabilities of myCalPERS and conduct assessments to ensure online processes are meeting the needs of stakeholders, members and staff.

We expect renewed calls for pension reform, and will continue our research into pension policy, ultimately publishing the results of our findings. We will also enhance our “risk intelligence” by developing additional recommendations for our Board to determine the best strategies for growth and protection of the Fund.

In the coming year, the Investment Office will continue its work on implementing real estate’s new emerging manager plan and the proposal to target as
much as $800 million to infrastructure investments in California over the next three years. During 2012, staff also will present to the CalPERS Board a plan to integrate environmental, social and governance issues – commonly known as ESG – into the investment decision-making process across all asset classes. The economic landscape will no doubt continue to be challenging. But with our long-term investing horizon, we can stay focused on achieving good risk-adjusted returns that add value to the Fund and benefit all our members.

In the health care arena, CalPERS will work toward policies that contain premium increases and other health care costs while improving the quality of medical service to our members. To that end, we will seek to leverage our upcoming contracts and procurements to expand successful strategies statewide. Our focus will be on initiating more programs like the integrated health care model we established through a pilot program in Northern California and expanded into Southern California. We will also pursue improvements in our health benefits through the implementation of successful cost-saving initiatives and aspects of national health care reform under the Patient Protection Affordability and Care Act.
The 2011 Comprehensive Annual Financial Report (CAFR) and this Operations Summary are available online at www.calpers.ca.gov. For questions, please contact the Office of Public Affairs at (916) 795-3991.