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***California Public Employees' Retirement System***  
***Performance Review – March 31, 2012***

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*Managing Director & Principal*

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*Managing Director & Principal*

*May 2012*



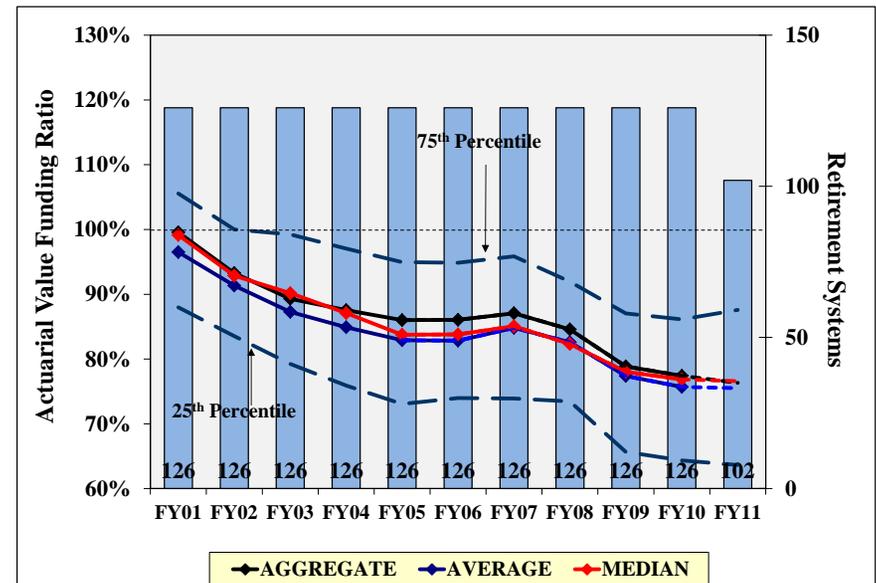
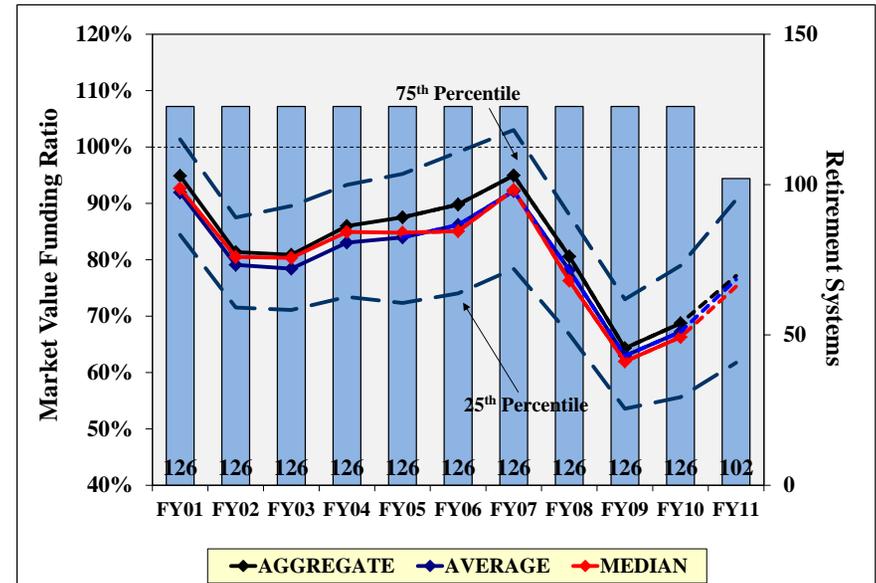
# Asset Class Assumptions Update

	Total Return (%)			Risk (%)
	2012 ACA	Q1 2012	Change vs YE	2012 ACA
<u>Investment Categories:</u>				
U.S. Stocks	7.50	7.25	(0.25)	17.00
Dev ex-U.S. Stocks	7.50	7.25	(0.25)	18.00
Emerging Mkt Stocks	7.50	7.25	(0.25)	26.00
Global Stocks	7.80	7.55	(0.25)	17.05
Private Markets	10.25	9.85	(0.40)	27.50
Cash Equivalents	1.50	1.75	0.25	1.25
Core Bonds	2.85	2.95	0.10	5.00
LT Core Bonds	3.20	3.50	0.30	10.00
TIPS	1.65	2.00	0.35	6.00
High Yield Bonds	5.45	5.25	(0.20)	10.00
Non-U.S. Bonds (Hdg)	2.50	2.60	0.10	3.50
U.S. RE Securities	5.05	5.30	0.25	15.00
Private Real Estate	5.80	6.05	0.25	12.25
Commodities	4.00	4.35	0.35	13.00
Real Asset Basket	5.85	6.10	0.25	7.75
Inflation:	2.00	2.35	0.35	1.75
<u>Returns minus Inflation:</u>				
U.S. Stocks	5.50	4.90	(0.60)	
U.S. Bonds	0.85	0.60	(0.25)	
Cash Equivalents	(0.50)	(0.60)	(0.10)	
<u>Stocks minus Bonds:</u>	4.65	4.30	(0.35)	
<u>Bonds minus Cash:</u>	1.35	1.20	(0.15)	



# Wilshire 2012 State Funding Study

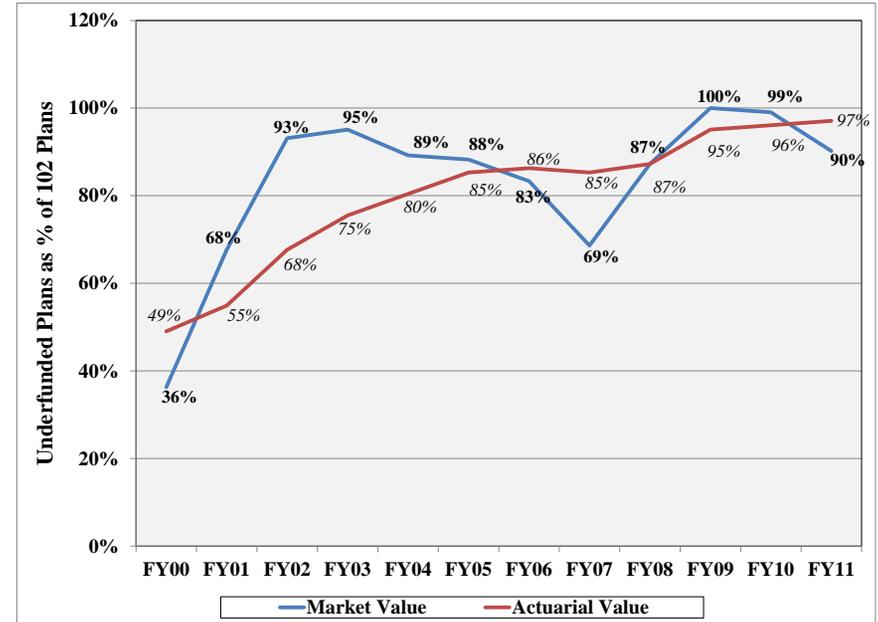
- 102 state retirement systems reported actuarial values on or after June 30, 2011
- Improvement in funding ratio fueled by strong global stock market performance in the 12 months ending June 30
- Funding ratios based on actuarial values fell slightly for 2011
- Actuarial ratios tend to exhibit moderated patterns of change, due to the smoothing of actuarial values



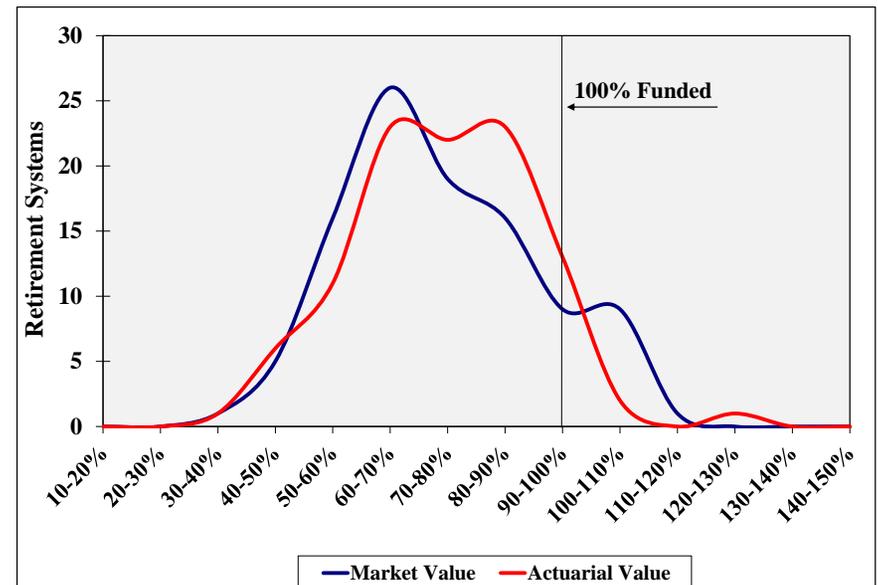


# Wilshire 2012 State Funding Study

- Of the 102 plans with 2011 data, 90% of them were underfunded based on market values



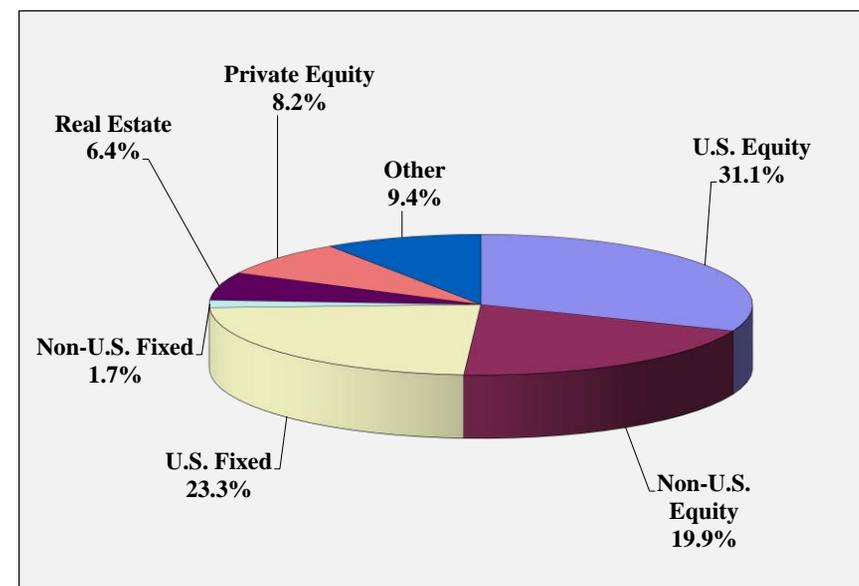
- On a market value basis, a majority of the 102 plans are less than or equal to 80% funded





## Wilshire 2012 State Funding Study

- U.S. Equity plus Non-U.S. Equity equals 51% of assets



- Average allocation to Non-U.S. Equities has increased while allocation to U.S. Bonds decreased

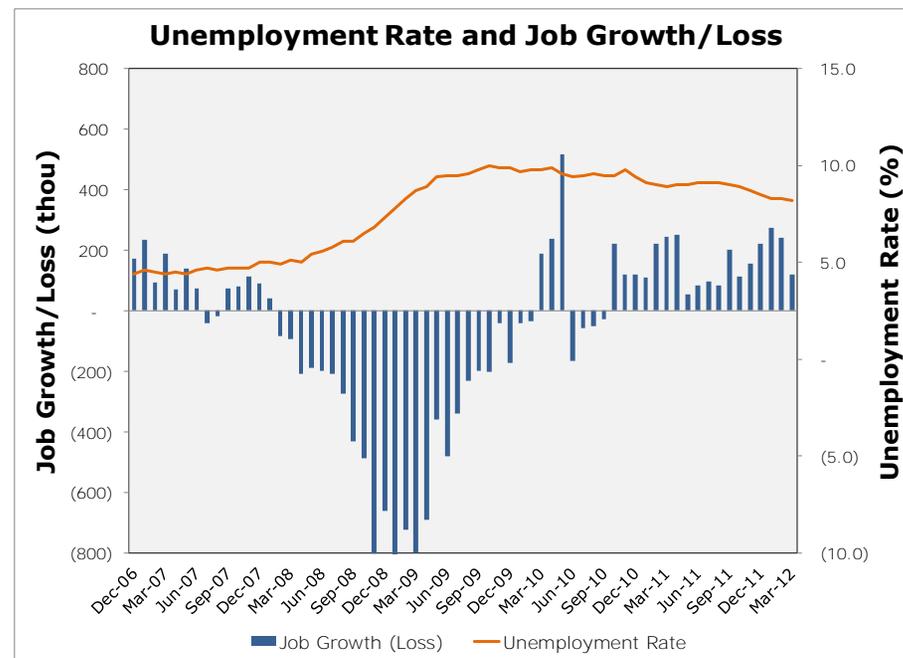
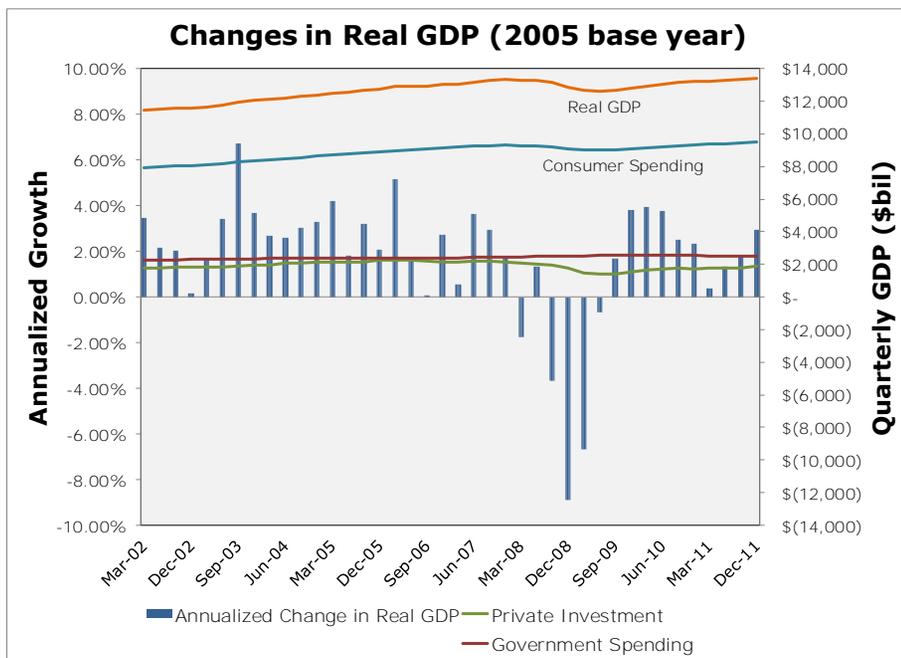
Equity	2001	2006	2011	Change in Exposure	
				01-11	06-11
U.S. Equity	43.8 %	42.3 %	31.1 %	-12.7 %	-11.2 %
Non-U.S. Equity	12.5	17.1	19.9	7.4	2.8
Real Estate	3.4	4.8	6.4	3.0	1.6
Private Equity	3.9	4.4	8.2	4.3	3.8
Equity Subtotal	63.6	68.6	65.6	2.0	-3.0
Debt					
U.S. Fixed	34.6	27.2	23.3	-11.3	-3.9
Non-U.S. Fixed	1.6	0.9	1.7	0.1	0.8
Other	0.2	3.3	9.5	9.3	6.2
Debt Subtotal	36.4	31.4	34.4	-2.0	3.0
Return *	6.2	6.4	6.4	0.2	0.0
Risk *	11.0	11.5	11.2	0.2	-0.3



# Economic Review

March 31, 2012	Key Economic Indicators			
<b>CPI (all items)</b> Seasonally adjusted	Monthly Change		Cumulative Change	
	Mar-12	0.3	3-Month	0.9
	Feb-12	0.4	12-Month	2.6
	Jan-12	0.2	10-Yr Annual	2.5
Breakeven Inflation	10-Year	2.3		
<b>Consumer Sentiment</b> Unv. of Michigan Survey	Mar-12	76.2		
	Feb-12	75.3		
	1-Yr Ago	67.5	10-Yr Avg	79.9
<b>Manufacturing</b> Inst. for Supply Mgmt Purchasing Mngrs' Idx	Mar-12	53.4	Change in Manufacturing Sector	
	Feb-12	52.4	>50	Expansion
	1-Yr Avg	53.6	<50	Contraction

Note: Seasonally adjusted CPI data is utilized to better reflect short-term pricing activity.

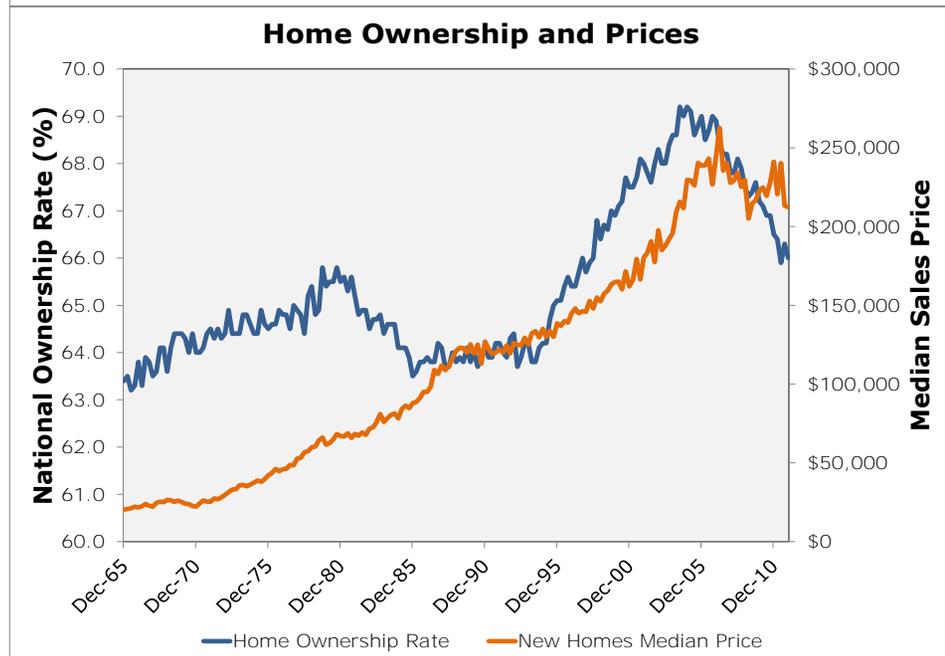
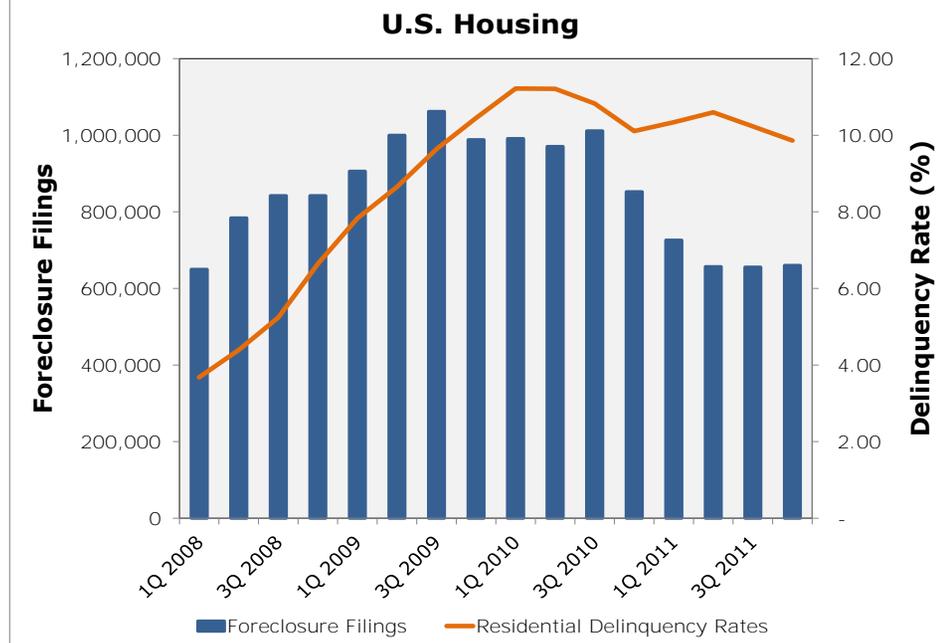


Data sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, Barclays Capital



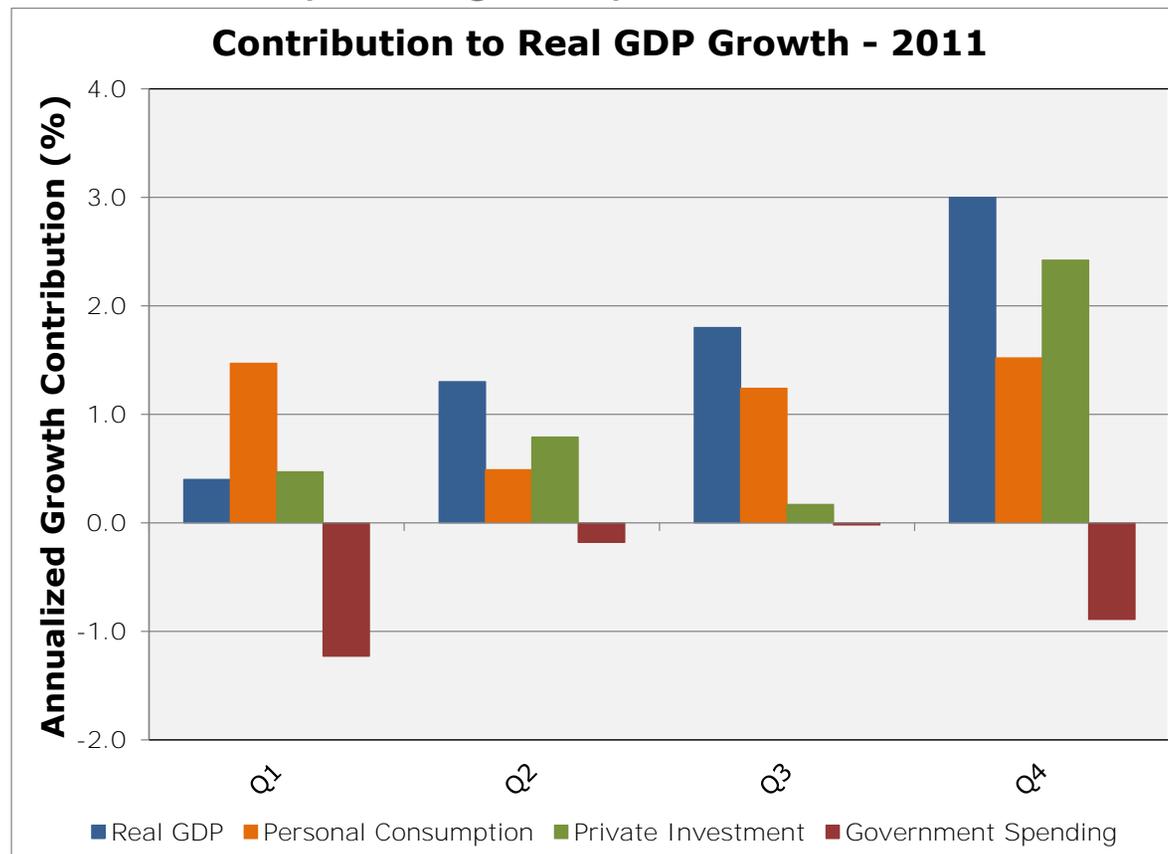
## Re-establishing the Housing Market

- Dramatic increase in foreclosures
  - 2006 = <1 million
  - 2007 = 1.7 million
  - 2008 = 3.2 million
  
- Since peak ownership (Dec-2004), 10 mil new housing units
  - Owner occupied = 1 mil
  - Renter occupied = 6 mil
  - Vacant = 3 mil



## Waiting on Consumer Spending

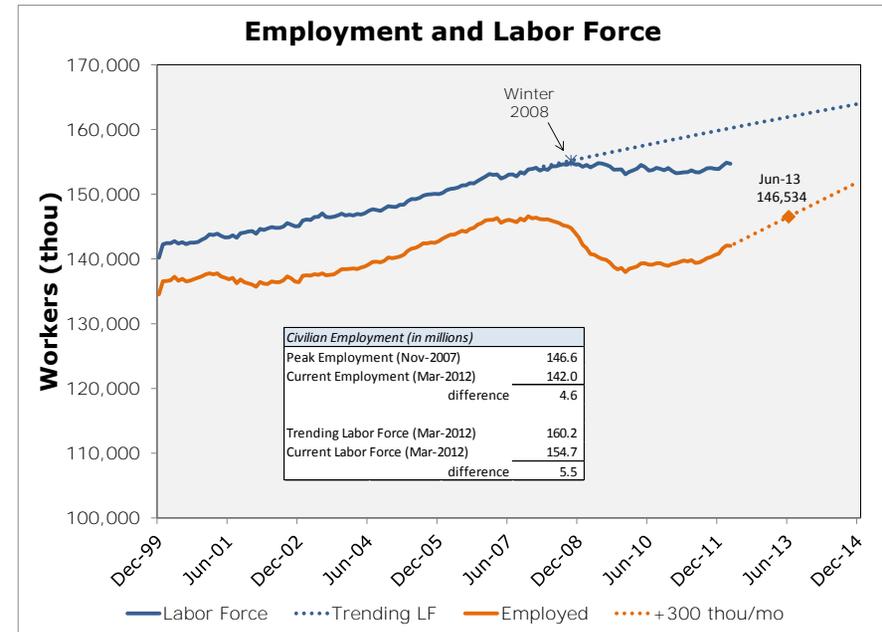
- Consumer spending comprises 70% of GDP
- Growth slowed in 2011
  - Real GDP Growth of 1.6% versus 3.1% in 2010
  - Moderate consumer spending, but positive





# Employment Constraints

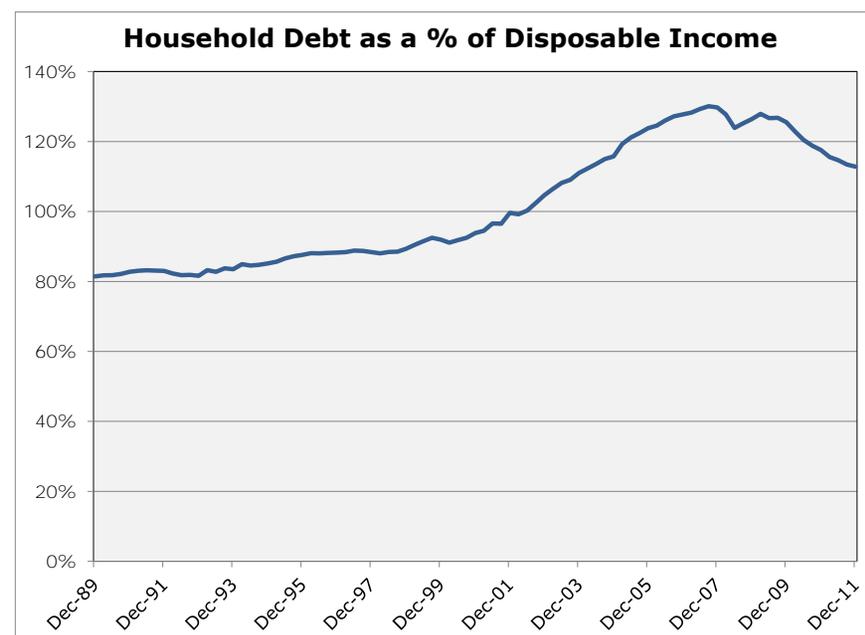
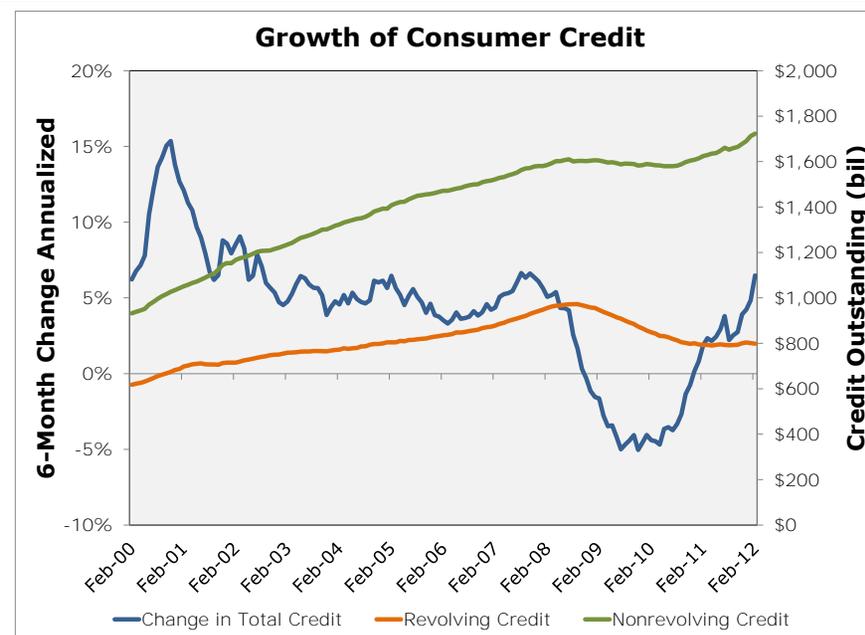
- High unemployment continues to restrain growth
  - Labor force has not been growing
  - Jobs slowly coming back
  
- Wage growth remains stagnant
  
- Weak employment and wage growth translates to weak consumer demand





## Debt Constraints

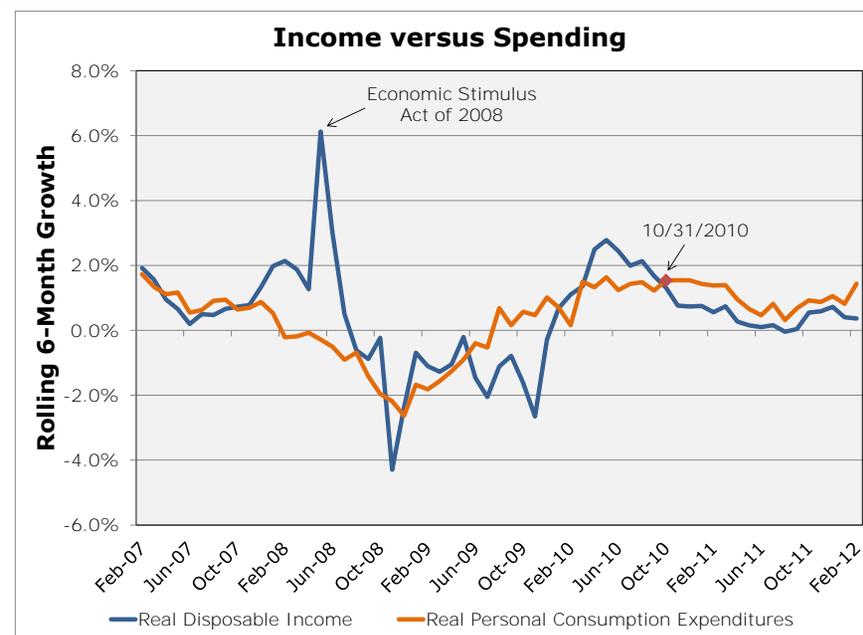
- Consumers again willing to utilize debt
  - Revolving credit (i.e. credit cards) has flat lined
  - Non-revolving credit (i.e. autos, school loans) moving higher
  
- Household debt, which includes mortgages, continuing to fall versus disposable income



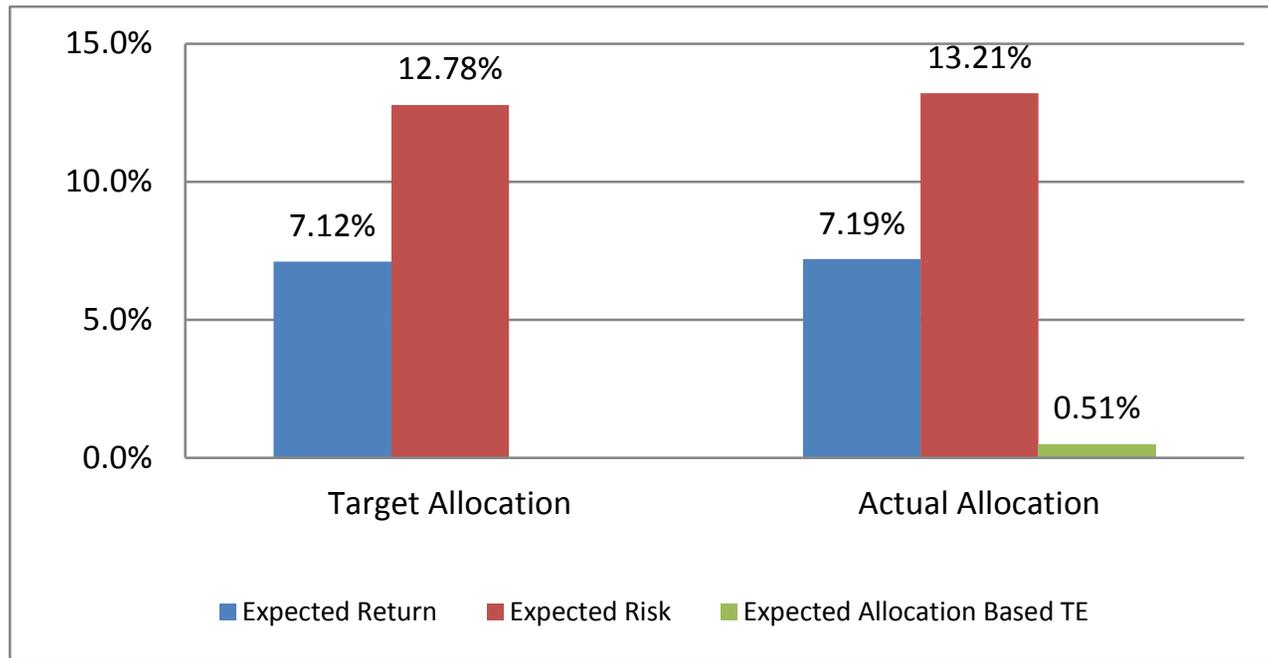


## Drop in Savings

- Growth in personal consumption has been outpacing disposable income growth, with the difference coming from savings
- Assuming mild growth in real disposable income, savings rate would have to fall to ~3.4% to produce 2% real growth in personal consumption



# CalPERS Investments are Expected to Provide Return

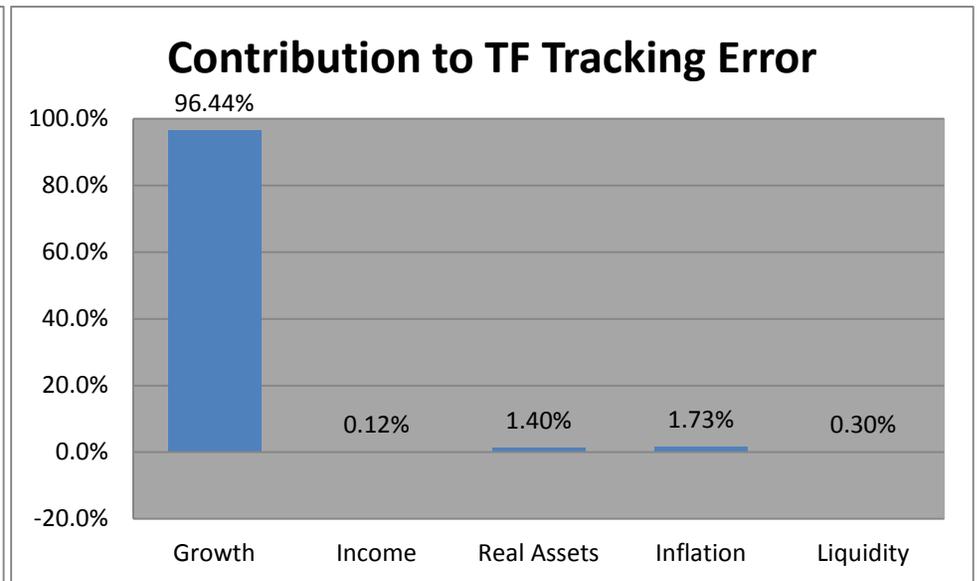
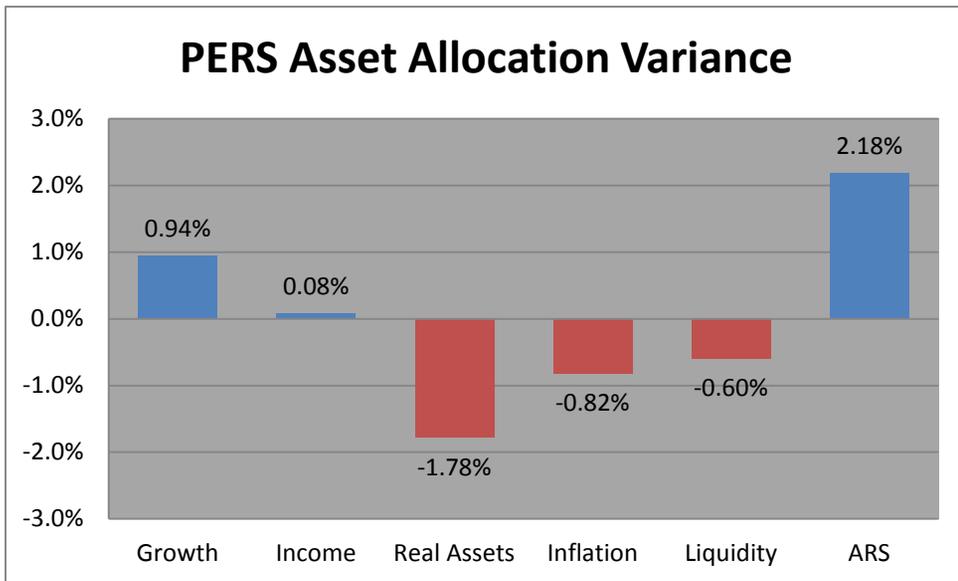
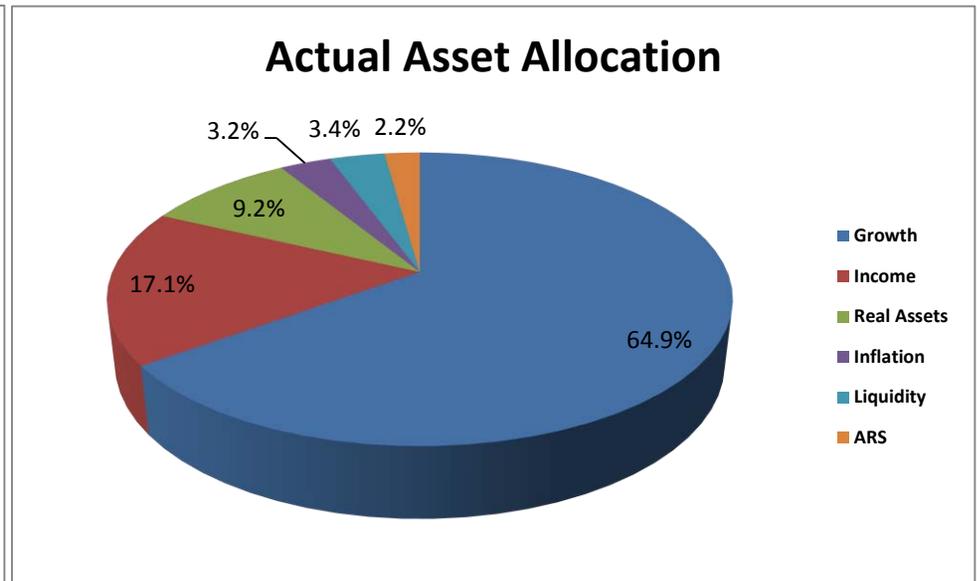
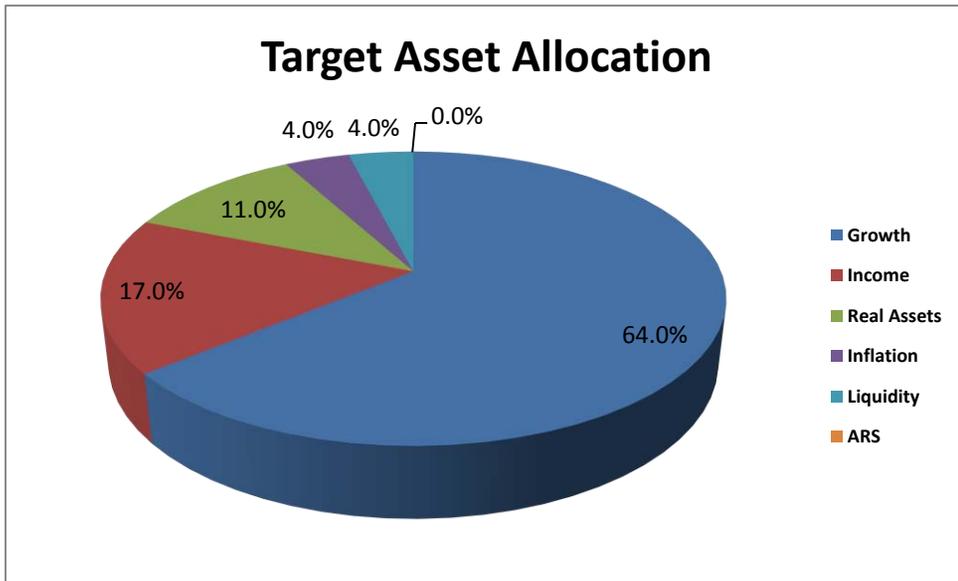


	Based on 3/31/2012 Assumptions	Based on 1/01/2012 Assumptions	Difference
<b>Expected Return - Target</b>	7.12	7.19	-0.07
<b>Expected Risk - Target</b>	12.78	12.78	0.00

Forecasts using Wilshire's March 2012 Asset Class Assumptions.



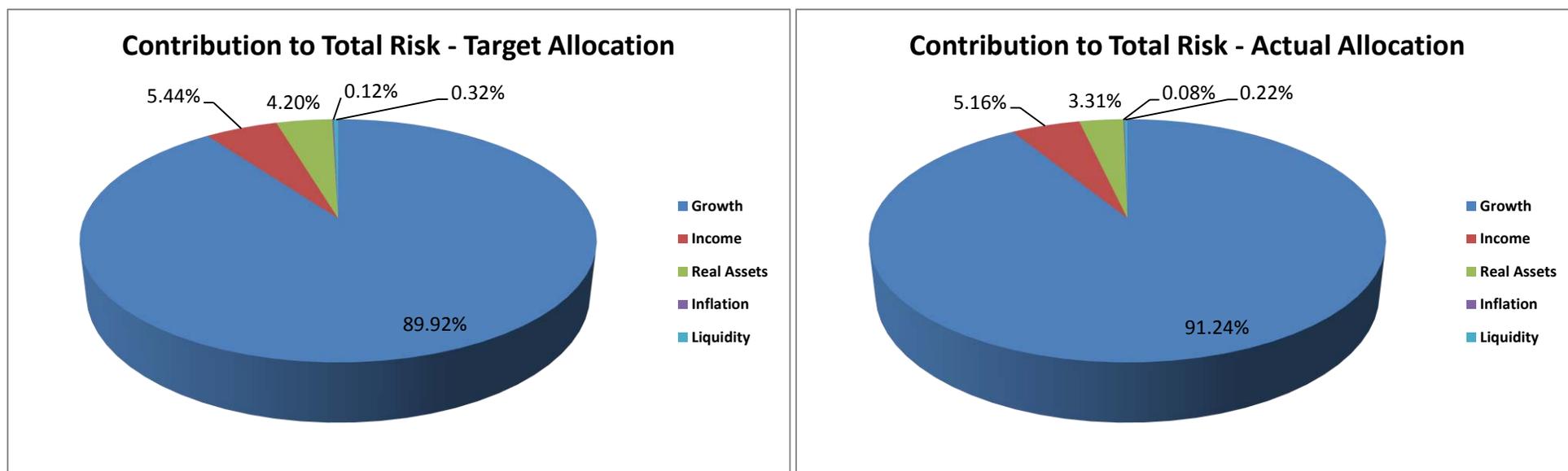
# Asset and Risk Allocation



Forecasts using Wilshire's March 2012 Asset Class Assumptions.



## Drivers of Expected Tracking Error



- This tracking error forecast is based on asset allocation variance only.
- Other sources of tracking error (structural within asset classes, manager/program specific source of tracking error, covariance) are not considered here.



# Total Fund – Performance

	Market Value	Five-Year Ratios							
		Qtr	1 Year	3 Year	5 Year	10 Year	VaR	Sharpe	Info
<b>TOTAL FUND</b>	<b>\$236.3 bil</b>	<b>6.7%</b>	<b>3.7%</b>	<b>13.5%</b>	<b>1.2%</b>	<b>5.7%</b>	<b>\$28.1 bil</b>	<b>0.0</b>	<b>-0.7</b>
<i>Total Fund Policy Benchmark</i>		<b>7.4%</b>	<b>3.9%</b>	<b>16.5%</b>	<b>3.6%</b>	<b>6.6%</b>		<b>0.2</b>	<b>0.0</b>
<i>Actuarial Rate</i>		1.9%	7.8%	7.8%	7.8%	7.8%			
<b>GROWTH</b>	<b>153.0</b>	<b>10.0%</b>	<b>0.6%</b>	<b>19.2%</b>	<b>0.9%</b>	<b>5.6%</b>	<b>\$30.4 bil</b>	<b>0.0</b>	<b>-0.4</b>
<i>Growth Policy Benchmark</i>		11.8%	-0.8%	21.0%	2.3%	6.0%		<b>0.1</b>	<b>0.0</b>
<b>PUBLIC EQUITY</b>	<b>119.5</b>	<b>12.2%</b>	<b>-1.3%</b>	<b>21.7%</b>	<b>0.0%</b>	<b>5.1%</b>	<b>\$22.6 bil</b>	<b>-0.1</b>	<b>-0.6</b>
<i>Public Equity Policy Benchmark</i>		12.2%	-1.2%	21.8%	0.9%	5.5%		<b>0.0</b>	<b>0.0</b>
<b>PRIVATE EQUITY</b>	<b>33.4</b>	<b>2.6%</b>	<b>7.0%</b>	<b>12.4%</b>	<b>7.8%</b>	<b>9.3%</b>	<b>\$10.6 bil</b>	<b>0.6</b>	<b>-0.2</b>
<i>Private Equity Policy Benchmark</i>		9.9%	-0.9%	19.1%	10.6%	8.0%		<b>0.6</b>	<b>0.0</b>
<b>INCOME</b>	<b>40.4</b>	<b>0.1%</b>	<b>11.3%</b>	<b>14.8%</b>	<b>8.5%</b>	<b>8.2%</b>	<b>\$5.2 bil</b>	<b>1.0</b>	<b>0.1</b>
<i>Income Policy Benchmark</i>		-0.4%	12.8%	10.1%	8.1%	7.6%		<b>1.1</b>	<b>0.0</b>
<b>REAL ASSETS</b>	<b>21.8</b>	<b>1.9%</b>	<b>7.1%</b>	<b>-12.5%</b>	<b>-11.9%</b>	<b>2.6%</b>	<b>\$2.5 bil</b>	<b>-0.8</b>	<b>-1.2</b>
<i>Real Assets Policy Benchmark</i>		2.9%	12.2%	3.7%	4.4%	9.8%		<b>0.5</b>	<b>0.0</b>
<b>INFLATION</b>	<b>7.5</b>	<b>3.6%</b>	<b>3.5%</b>	<b>12.4%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>\$0.6 bil</b>	<b>N/A</b>	<b>N/A</b>
<i>Inflation Policy Benchmark</i>		3.0%	5.4%	10.3%	-.-%	-.-%		<b>N/A</b>	<b>N/A</b>
<b>LIQUIDITY</b>	<b>8.0</b>	<b>-0.4%</b>	<b>3.4%</b>	<b>1.4%</b>	<b>2.2%</b>	<b>2.5%</b>	<b>\$0.4 bil</b>	<b>N/A</b>	<b>N/A</b>
<i>Liquidity Policy Benchmark</i>		-0.5%	3.7%	1.4%	2.2%	2.4%		<b>N/A</b>	<b>N/A</b>
<b>ABSOLUTE RETURN STRATEGIES</b>	<b>5.2</b>	<b>1.5%</b>	<b>-1.9%</b>	<b>6.7%</b>	<b>0.7%</b>	<b>4.9%</b>		<b>-0.1</b>	<b>-0.9</b>
<i>Absolute Return Strategies Policy Benchmark</i>		1.2%	5.4%	5.8%	7.4%	7.4%		<b>6.5</b>	<b>0.0</b>
<b>CURRENCY + ASSET ALLOCATION TRANSITION</b>	<b>0.5</b>	<b>-.-%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>-.-%</b>			



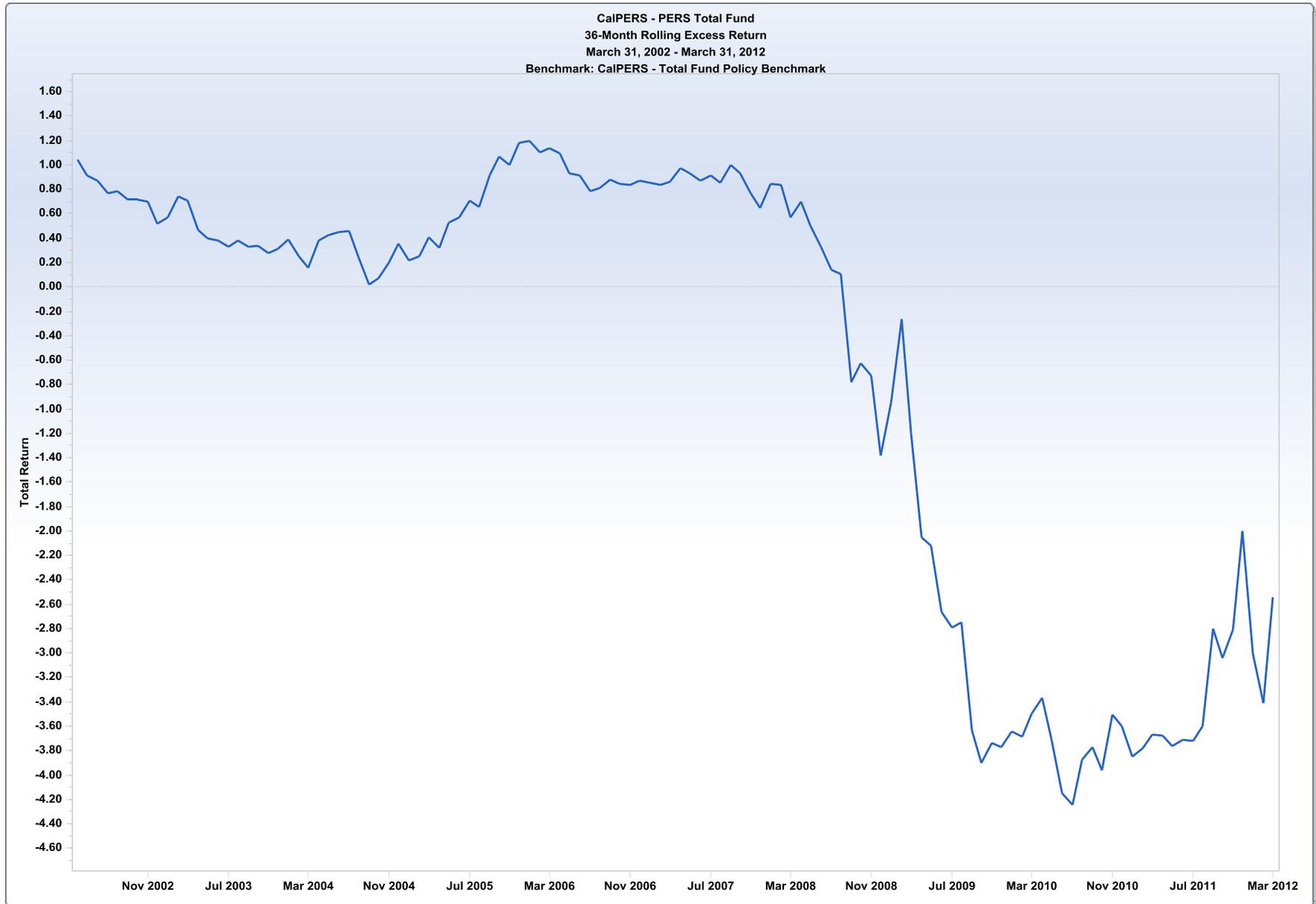
# Total Fund – Attribution

**California Public Employees' Retirement System**  
**Total Fund Attribution**  
**Quarter Ended 3/31/2012**

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
<b>Growth</b>	63.06	10.00	64.00	11.77	-0.94	-1.78	-0.05	0.04	-1.15	-1.16
<b>Income</b>	17.80	0.14	17.00	-0.44	0.80	0.59	-0.08	0.00	0.10	0.03
<b>Real Assets</b>	9.47	1.93	11.00	2.86	-1.53	-0.94	0.06	0.02	-0.10	-0.02
<b>Inflation</b>	3.21	3.58	4.00	3.00	-0.79	0.57	0.04	-0.01	0.02	0.06
<b>Absolute Return</b>	2.24	1.48	0.00	1.23	2.24	0.25	-0.15	0.01	0.00	-0.15
<b>Liquidity</b>	4.22	-0.41	4.00	-0.46	0.22	0.06	-0.01	0.00	0.00	-0.01
<b>Total Buy/Hold</b>	<b>100.00</b>	<b>6.57</b>	<b>100.00</b>	<b>7.81</b>		<b>-1.24</b>	<b>-0.19</b>	<b>0.06</b>	<b>-1.12</b>	<b>-1.25</b>
<b>Trading/Hedging</b>		0.15		-0.42		0.58				<b>0.59</b>
<b>Total</b>		<b>6.72</b>		<b>7.39</b>		<b>-0.66</b>				<b>-0.66</b>

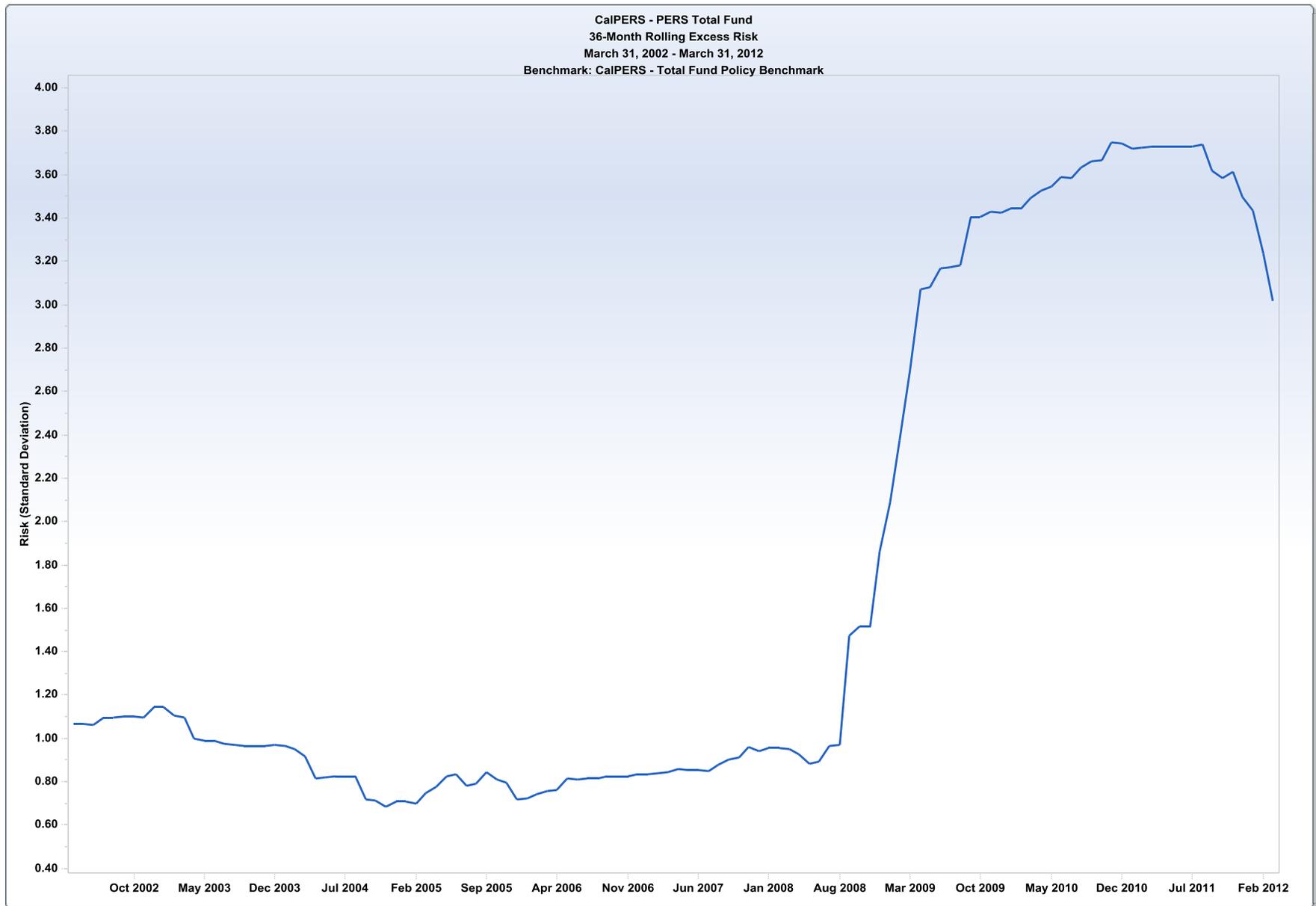


# Total Fund – Rolling Excess Returns





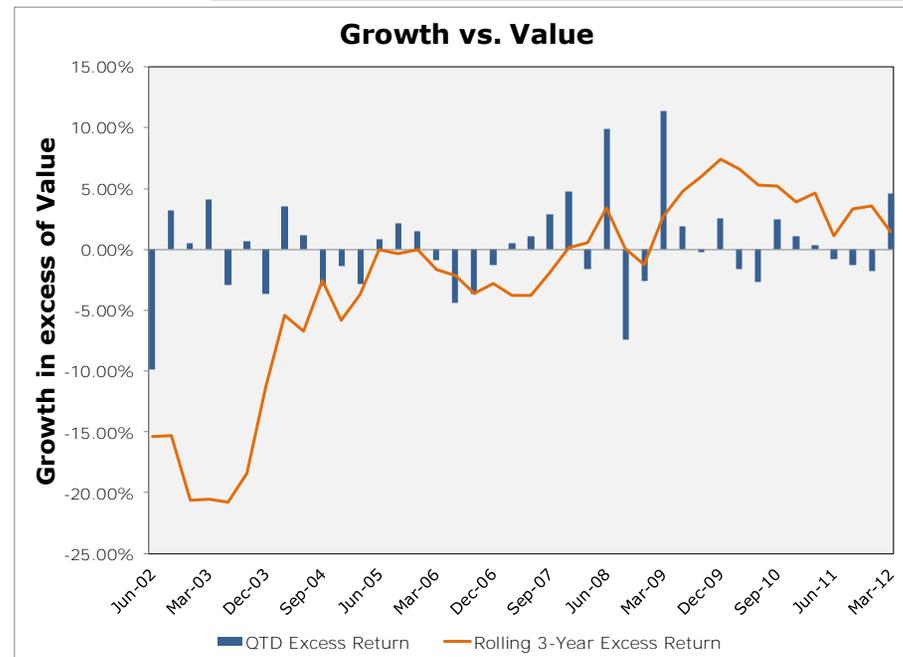
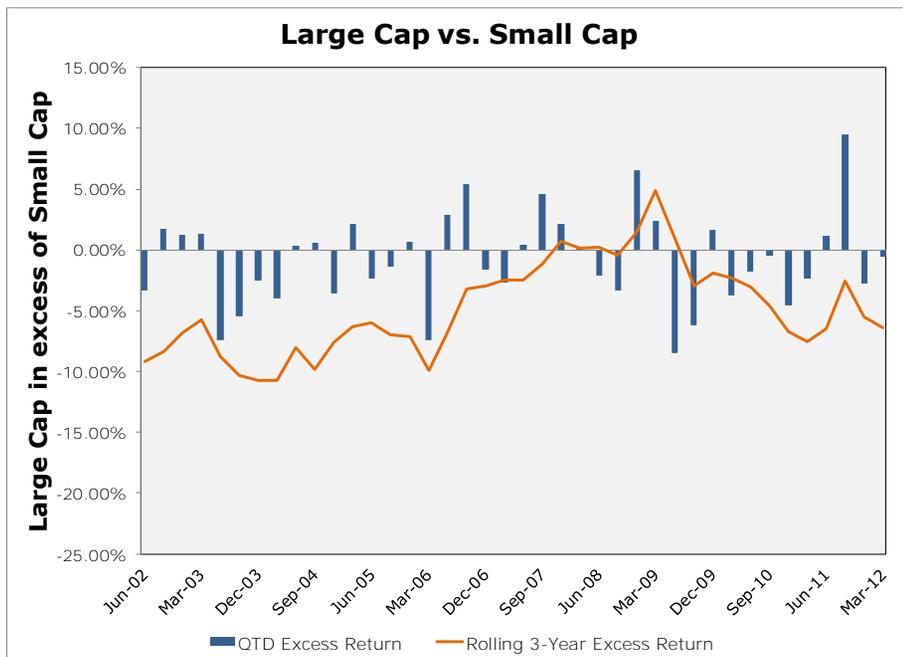
# Total Fund – Rolling Tracking Error





# U.S. Capital Markets: Equity

March 31, 2012	Qtr	Ytd	1 Yr	3 Yr	5 Yr	10 Yr
Wilshire 5000	12.8	12.8	7.2	24.2	2.3	5.0
Wilshire U.S. Large Cap	12.7	12.7	8.1	23.3	2.2	4.6
Wilshire U.S. Small Cap	13.3	13.3	0.9	31.7	4.1	8.4
Wilshire U.S. Large Growth	15.6	15.6	8.4	24.1	4.4	4.6
Wilshire U.S. Large Value	9.9	9.9	7.7	22.4	-0.1	4.5
Wilshire U.S. Small Growth	12.8	12.8	0.8	32.7	5.2	8.3
Wilshire U.S. Small Value	13.7	13.7	0.8	30.6	2.9	8.3
Wilshire REIT Index	10.8	10.8	13.4	44.7	-0.7	10.4
MSCI USA Minimum Volatility Index	6.2	6.2	13.9	22.0	3.5	4.4
FTSE RAFI U.S. 1000 Index	11.4	11.4	5.0	38.8	2.9	n.a.

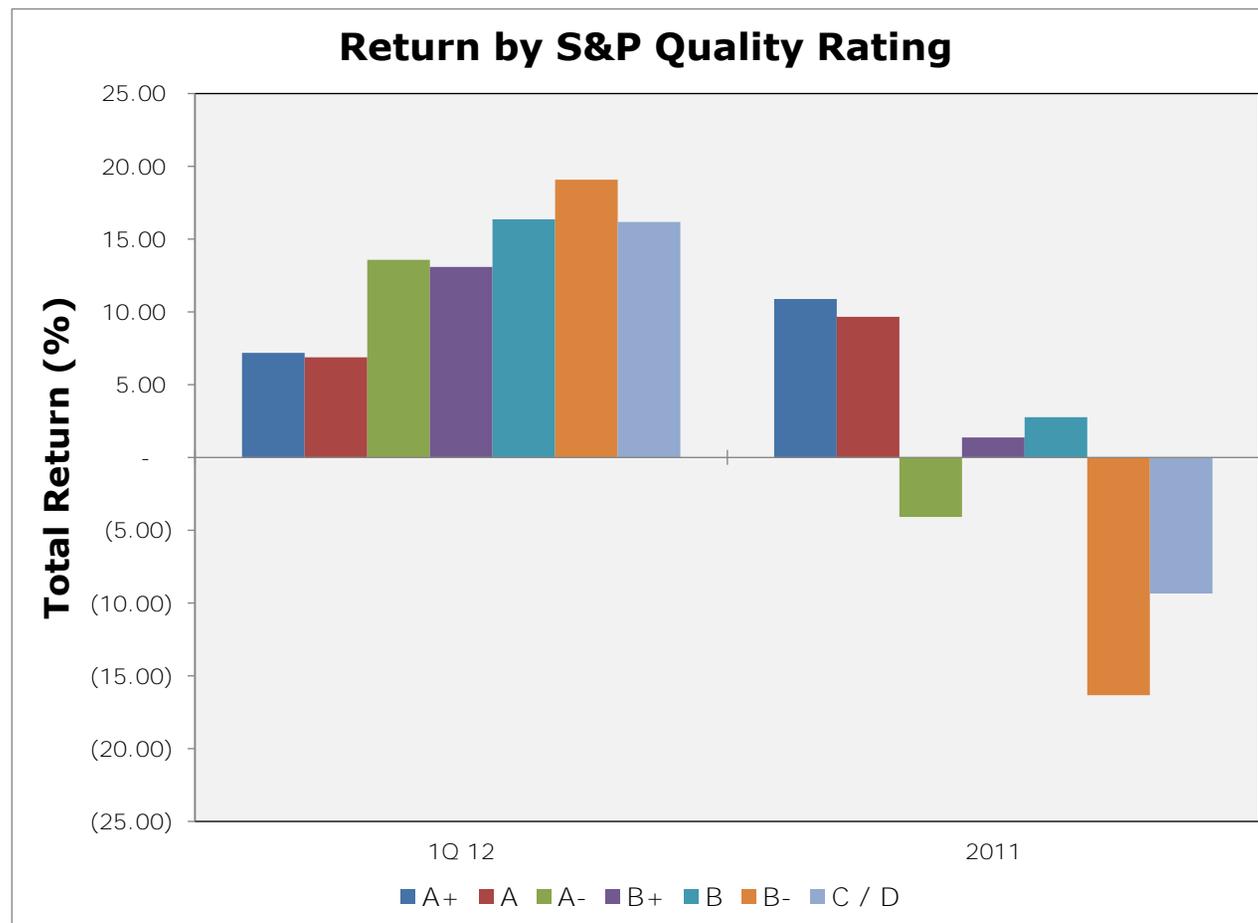


Data sources: Wilshire Compass, Wilshire Atlas



## Returns by Quality Segment

After the highest quality names dominated the market in 2011, lower quality led the market for the first quarter of 2012



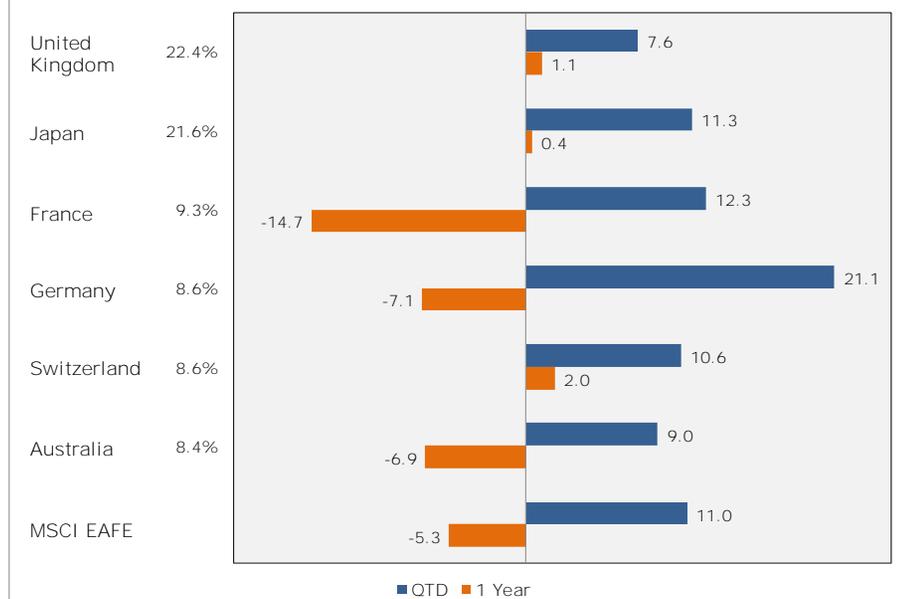
Data sources: Wilshire Atlas



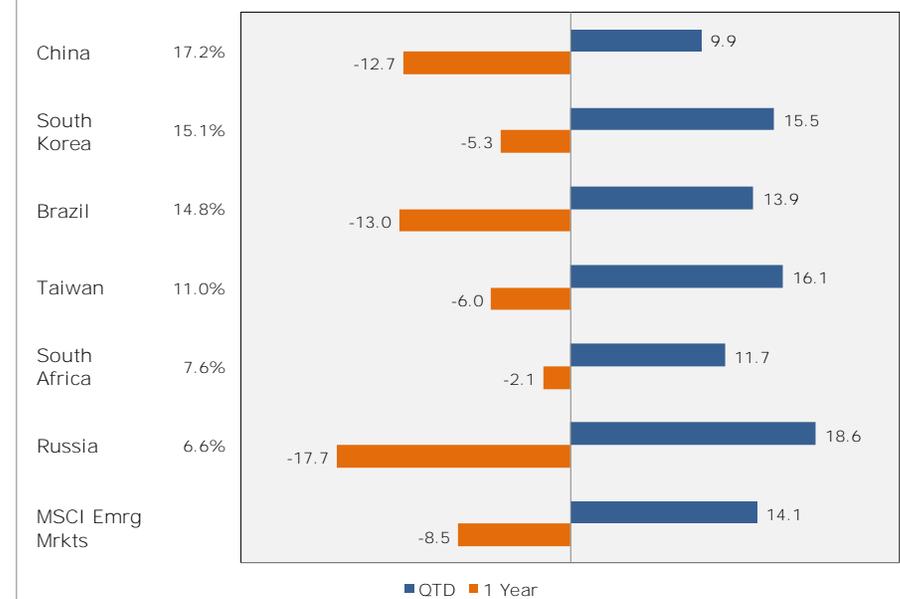
## Non-U.S. Capital Markets

March 31, 2012	Qtr	Ytd	1 Yr	3 Yr	5 Yr	10 Yr
MSCI ACWI ex-US (\$g)	11.3	11.3	-6.7	19.6	-1.1	7.7
MSCI EAFE (\$g)	11.0	11.0	-5.3	17.7	-3.0	6.2
MSCI Emerging Markets (\$g)	14.1	14.1	-8.5	25.4	5.0	14.5
MSCI Frontier Markets (\$g)	5.6	5.6	-8.9	14.3	-5.8	n.a.
MSCI EAFE Minimum Volatility Idx	5.8	5.8	3.9	17.1	0.6	10.2
FTSE RAFI Developed ex-US Index	10.6	10.6	-10.0	19.9	-2.1	n.a.
JPM Non US Global Bond	-0.7	-0.7	4.3	7.4	7.4	8.8
JPM Non US Global Bond Hedged	1.2	1.2	6.5	4.3	5.0	4.9
JPM EMBI Global	4.9	4.9	12.6	16.5	8.6	10.9
Euro vs. Dollar	2.6	2.6	-6.1	0.0	0.0	4.3
Yen vs. Dollar	-6.5	-6.5	0.7	6.3	7.5	4.9
Pound vs. Dollar	2.8	2.8	-0.3	3.7	-4.0	1.1

### MSCI EAFE: Largest Countries and Return



### MSCI EM: Largest Countries and Return



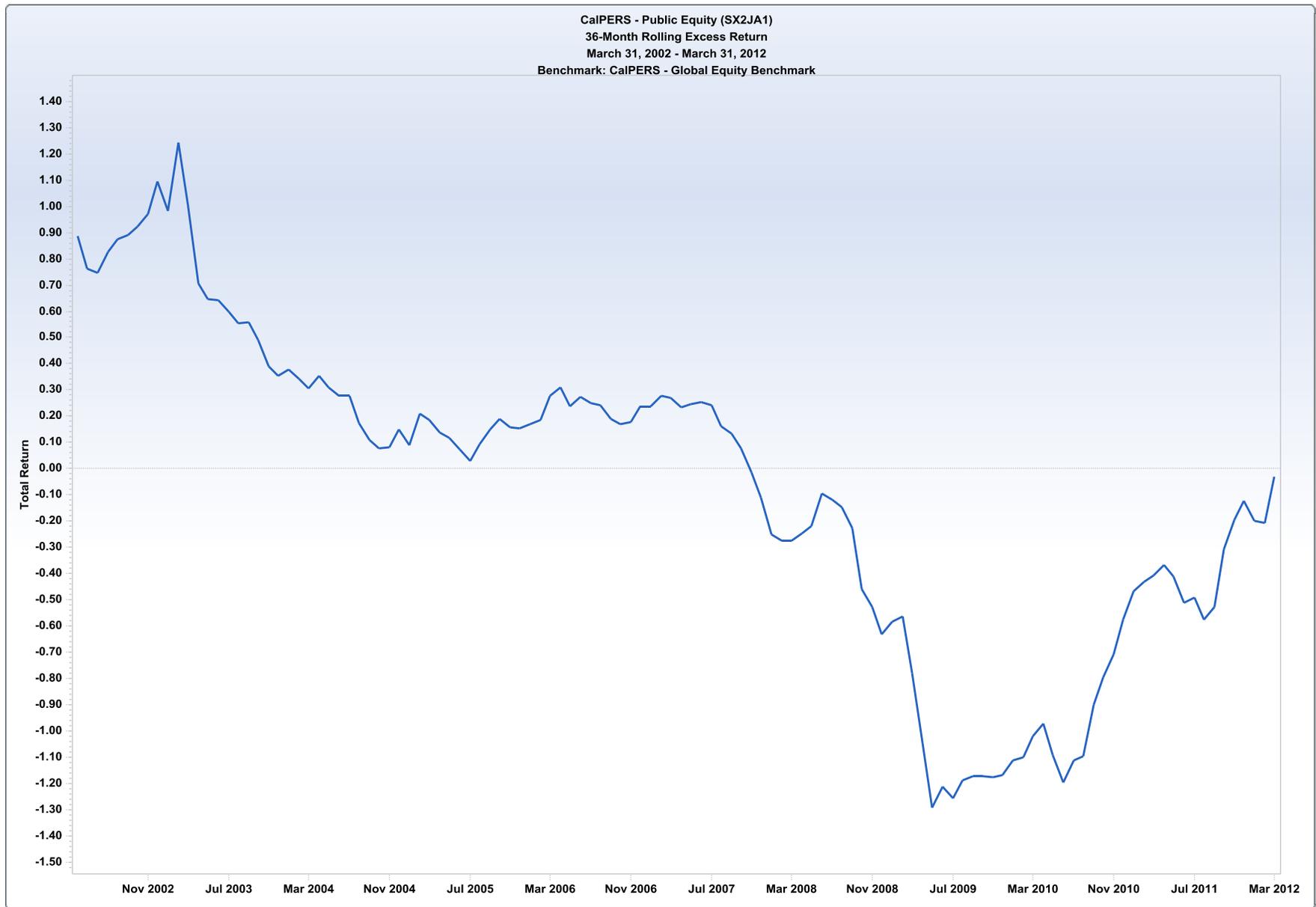
Data sources: Wilshire Compass, MSCI Barra

# Growth: Public Equity – Performance

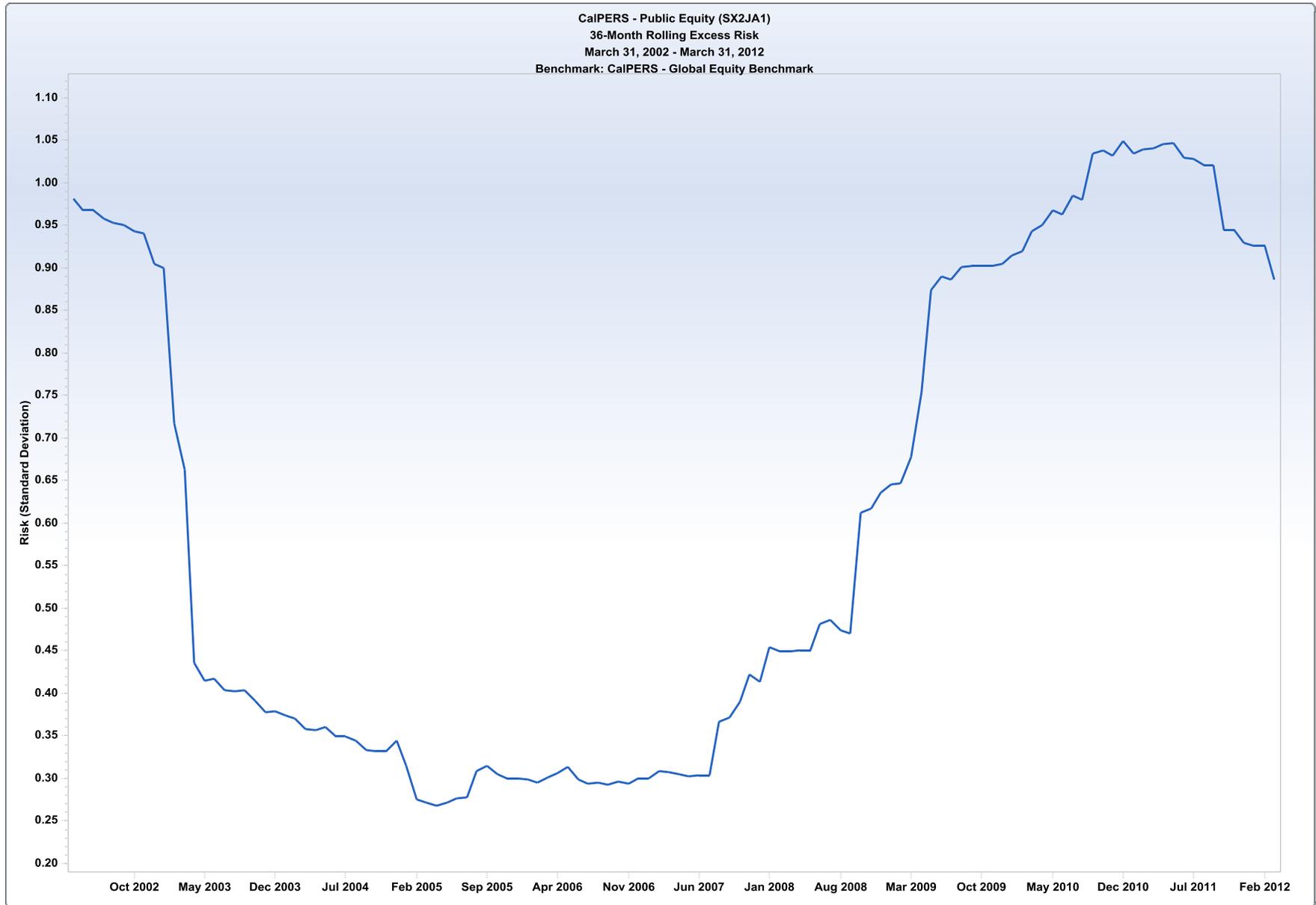


	<b>Market Value</b>	<b>Qtr</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>VaR</b>	<b>5-year Sharpe Ratio</b>	<b>5-year Info Ratio</b>
<b>PUBLIC EQUITY</b>	<b>119.5</b>	<b>12.2%</b>	<b>-1.3%</b>	<b>21.7%</b>	<b>0.0%</b>	<b>5.1%</b>	<b>\$22.6 bil</b>	<b>-0.1</b>	<b>-0.6</b>
<i>Public Equity Policy Benchmark</i>		12.2%	-1.2%	21.8%	0.9%	5.5%		<b>0.0</b>	<b>0.0</b>
<i>Value Added</i>		0.0%	-0.1%	-0.1%	-0.9%	-0.4%			
<b>US Equity Composite (ex ARS)</b>	<b>56.5</b>	<b>12.8%</b>	<b>6.0%</b>	<b>24.1%</b>	<b>2.1%</b>	<b>4.7%</b>		<b>0.0</b>	<b>-0.3</b>
<i>Custom US Equity Benchmark</i>		12.9%	6.6%	23.9%	2.3%	4.7%		<b>0.1</b>	<b>0.0</b>
<i>Value Added</i>		-0.1%	-0.6%	0.2%	-0.2%	0.0%			
<b>Total Int'l Equity (ex ARS)</b>	<b>62.2</b>	<b>11.7%</b>	<b>-7.1%</b>	<b>20.2%</b>	<b>-1.4%</b>	<b>7.4%</b>		<b>-0.1</b>	<b>0.4</b>
<i>Custom Int'l Equity Benchmark</i>		11.2%	-7.0%	18.6%	-1.8%	7.1%		<b>-0.1</b>	<b>0.0</b>
<i>Value Added</i>		0.5%	-0.1%	1.6%	0.4%	0.3%			
<b>Global Equity Equitization</b>	<b>0.9</b>	<b>10.6%</b>	<b>0.6%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>-.-%</b>			
<i>Custom Benchmark <sup>19</sup></i>		12.2%	-1.2%	-.-%	-.-%	-.-%			
<i>Value Added</i>		-1.6%	1.8%	-.-%	-.-%	-.-%			

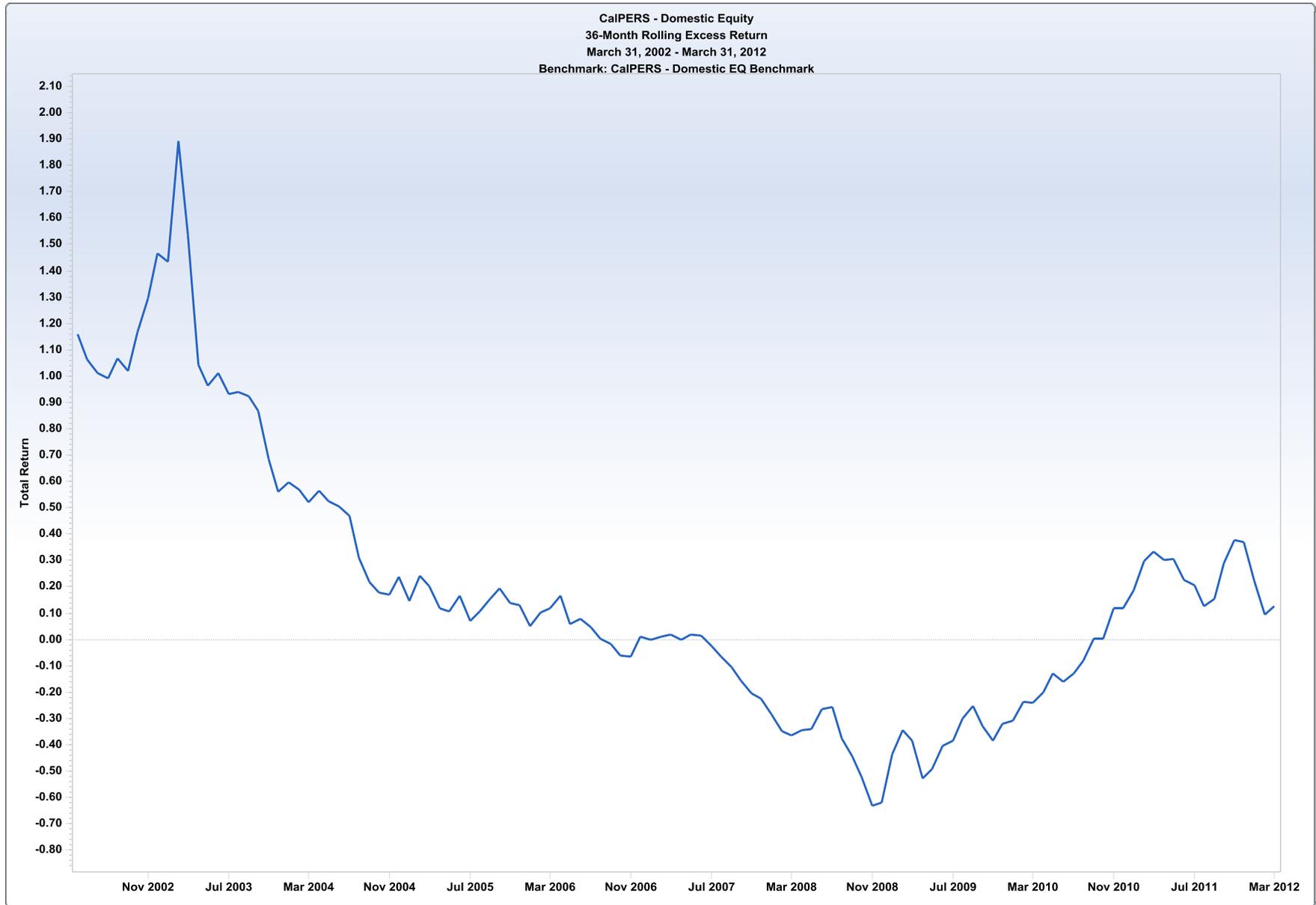
# Growth: Public Equity – Rolling Excess Returns



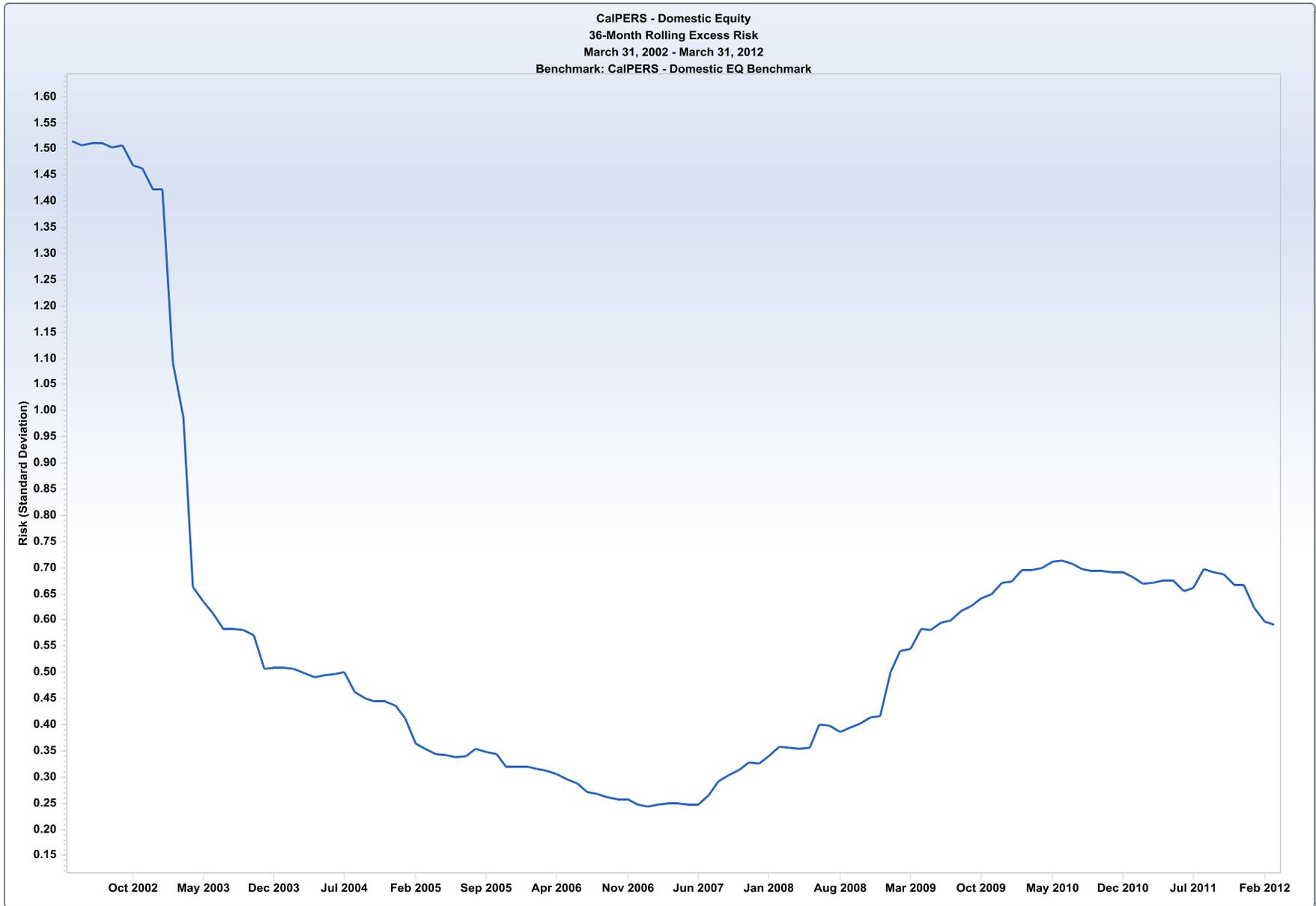
# Growth: Public Equity – Rolling Tracking Error



# Growth: US Equity – Rolling Excess Returns



# Growth: US Equity – Rolling Tracking Error



# Growth: International Equity – Rolling Excess Returns

