

Targeted Investment Programs Update

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Targeted Investment Programs

- This update will cover the following:
 - Role and Objectives of the Targeted Investment Programs
 - California Investment Initiative
 - Emerging Manager and Diversity & Inclusion Initiatives
 - Real Assets: Sustainability Initiatives

Role of Targeted Investment Programs

- Total Fund coordination and reporting of:
 - California investment initiatives
 - Emerging manager programs and strategies
 - Diversity & inclusion strategies
 - Labor relations (Update and Annual Report December 2012)
- Real Assets management of:
 - ESG integration efforts and strategies
 - Urban and California portfolio investments (Update with Real Estate Unit December 2012)

From/To Statement

From	To
Asset class focused program administration and reporting	Integrated Total Fund performance approach
Unclear value creation	Skill based generation of value
Unplanned, unintended and unreported strategies and outcomes	Robust risk assessment and clear strategic objectives
Poor performance data and lack of attribution analysis	Performance targets are met and performance drivers are understood
Low awareness of cost	Costs are understood and incorporated into decision making

Targeted Investment Programs

- 2012/2013 Initiatives
 - Establish structure, governance and staffing. Identify required reports, presentations and research
 - Improve coordination and reporting of California investment, emerging manager and diversity initiatives across the Total Fund
 - Lead Real Assets sustainability efforts
 - Manage and improve investment performance of strategic and legacy Urban and California real estate portfolio

California Infrastructure Outreach

- Investment Committee directed staff to:
 - Target up to \$800 million in California infrastructure
 - Establish two track outreach effort:
 - Increase the potential for investment in CA infrastructure through a series of roundtable discussions; and
 - Engage in a series of conversations and negotiations intended to result in investments in California-based infrastructure.

Infrastructure Outreach Roundtable Discussions

Date and Location	Topic
March 5, 2012 Sacramento	Pension Investment in Infrastructure
April 5, 2012 San Francisco	Transportation Infrastructure
April 23, 2012 Los Angeles	Water Infrastructure
May 24, 2012 San Diego	Energy Infrastructure

Outcomes of Roundtables

- Impediments identified to pension investment in infrastructure include:
 - Availability of lower cost tax-exempt financing
 - Difficulty in identifying new revenue sources
 - Potential public resistance to new/increased user pay
 - Sensitivities regarding ownership/control of assets
 - Outcomes of prior public private partnerships a cause for concern by public, labor and investors
 - Public sector agencies not considering alternate financing models

Outcomes of Roundtables

- Opportunities identified to pension investment in infrastructure include:
 - \$200 - \$500 billion unmet need for infrastructure in CA
 - Potential for investment in assets that currently exist that meet CalPERS investment parameters where ownership and control remain in public hands
 - On-going communication and exchange of information between public sector agencies and private capital
 - Organized labor is largely supportive and positively engaged in the process

Infrastructure Outreach Effort

- Next Steps include:
 - Follow-on conversations with interested groups
 - Possible additional outreach discussions such as Energy Efficiency Retrofit Financing and Redevelopment Financing
 - Report back to the Investment Committee in August on final outcomes of Infrastructure Outreach process

CalPERS for California Report

- Fiscal Year 2011 CalPERS CA investments total \$19.4 Billion, an increase of 13% from \$17.1 Billion in 2010
- Fiscal Year 2011 CalPERS CA investments represent 8.2% of the Total Fund
- 1.4 million jobs are supported or created as a result of investment

Private Equity's California Initiative

- Primary Objective: to achieve appropriate risk adjusted returns that meet or exceed industry benchmarks
- Ancillary Objective: to invest in traditionally underserved areas where opportunities may have been bypassed, aiming to impact the economic infrastructure of the state
- Total investment approximately \$1 billion since inception in 2001
- Current investment totals \$374 million of which \$272 million (or 73%) is invested in California companies
- Active investment in 166 companies, 130 of which (or 78%) are California companies

Ancillary Benefits of California Initiative

- For the reporting year ancillary benefits are as follows:
 - 41% of CA Initiative companies are located in areas traditionally underserved by institutional capital
 - 55% of employees are living in economically disadvantaged (LMI) areas
 - 38% of companies have at least one woman officer
 - 32% of companies have at least one minority officer

Five-Year Plan for Emerging Manager Participation

- October 2011 Governor Brown signed SB 294 (Price), took effect January 1, 2012
- Legislation requires CalPERS and CalSTRS to:
 - Provide a five-year strategic plan for emerging manager participation across all asset classes
 - Submit annual reports to the Legislature
 - Define “emerging investment manager”
- Staff will present the CalPERS Five-Year Plan to the Investment Committee via a two step process: Draft CalPERS Five-Year Plan in August, Final Plan in December 2012.

Five-Year Plan for Emerging Manager Participation

- Hired RG & Associates from diversity consultant pool
- Established cross asset class team, project milestones and emerging manager (EM) definitions
- The Plan will:
 - Identify existing EM efforts - program descriptions, successful case studies, dedicated staff and resources;
 - Establish, track and report EM program success including investment performance, cost, and diversity of participants.

Current Emerging Manager Program Update

- Real Estate Unit's \$200 million EM Program:
 - Selected mentoring manager
 - Operating agreement in place by August 2012
- Private Equity's \$100 million expansion of EM Program:
 - Credit Suisse Customized Fund Investment Group (CFIG) was selected as the new EM fund of funds manager

CalPERS Annual Diversity Report

- INVO's contribution to the 2011 Annual Diversity Report - "Investing in Diversity: The CalPERS Investment Office"
- The report may be replaced with CalPERS Five-Year Plan Annual Reports to Legislature in the future
- Most notably the report documents that over the past two years, the Investment Office has committed close to \$1 billion to emerging manager strategies.

Real Assets: Sustainability

- CalPERS and managers' membership in Greenprint. Establish a baseline carbon footprint of Core RE portfolio.
- Two leading RE managers first time sustainability reports:
 - Bentall Kennedy, "Leading Through Action, Corporate Sustainability"
 - Hines, "2011 Sustainability Report"
- Co-Chair of United Nations Environmental Program Finance Initiative Property Working Group