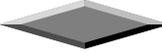


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
INVESTMENT COMMITTEE**

**MINUTES OF MEETING
OPEN SESSION**

June 11, 2012



The Investment Committee met on Monday, June 11, 2012 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:52 a.m. and the following members were present:

Henry Jones, Chair
George Diehr, Vice-Chair
Michael Bilbrey
Julie Chapman, represented by Greg Beatty
John Chiang, represented by Terry McGuire
Richard Costigan
Dan Dunmoyer
JJ Jelincic
Bill Lockyer, represented by Steve Coony
Priya Mathur

The following members were excused:

Rob Feckner

AGENDA ITEM 2 – EXECUTIVE REPORT, Chief Investment Officer (CIO) Briefing

Joseph Dear, Chief Investment Officer, provided the CIO Briefing. The report included a review on the conditions of the U.S. and global economies, ongoing developments in the European sovereign debt crisis, and general market conditions. Mr. Dear noted that volatility in the market is increasing and market conditions continue to be difficult. Mr. Dear also highlighted the role collaboration can play amongst large pension fund investors to increase value and reduce costs.

AGENDA ITEM 3 – CONSENT ITEMS

Action Consent Items

On **MOTION** by Mr. Diehr **SECONDED** and **CARRIED** that the following action consent items be approved as presented:

- a. Approval of the May 14, 2012 Open Meeting Minutes
- c. Report to the Legislature – Placement Agent Activity Report
- d. Primary Pension Consultant – Contract for Services

Agenda item 3b, Terminated Agency Pool Policy, was removed from the consent calendar for discussion at the end of the open session.

AGENDA ITEM 4 – CONSENT ITEMS

Information Consent Items

The Committee accepted the following information consent items:

- b. Annual Calendar Review
- c. Activity Reports – Total Fund Monthly Update

Agenda item 4a, Draft Agenda for the August 13, 2012 Committee Meeting, was removed for discussion at the end of the open session.

AGENDA ITEM 5 – ASSET ALLOCATION, PERFORMANCE & RISK, Absolute Return Strategies – Equity Beta Overlay

Ben Meng, Senior Portfolio Manager, presented the item. The presentation included staff's recommendation to maintain the current equity beta overlay program for the Absolute Return Strategies (ARS) Program. It was noted that the program purpose would be revisited upon recruitment of a Senior Portfolio Manager for the ARS Program. Michael Schlachter, Wilshire Associates Consulting, presented an alternative recommendation to use a 100% overlay instead of the 80% overlay as proposed by staff.

On **MOTION** by Mr. Jelincic **SECONDED** and **CARRIED** to approve staff's recommendation to maintain the equity beta overlay program for the ARS Program. The Chair directed staff to collaborate with Wilshire Associates Consulting and return with an updated recommendation on the beta equity overlay program when the SPM for the ARS Program has been recruited and a proposal regarding the strategic role of the ARS Program has been developed.

The Committee recessed from 11:04 a.m. to 11:22 p.m.

AGENDA ITEM 6 – ASSET ALLOCATION, PERFORMANCE & RISK, Quarterly Risk Management Update

Eric Baggesen, acting Senior Investment Officer for Risk Management, presented the item. The presentation included an update on the current risk for the Total Fund, regional and currency exposures, and forecasted risk. It was noted that the Total Fund forecasted risk has decreased from the previous quarter (16.1% to 15.8%); however, it remains higher than the 11.9% estimated at the 2010 Asset Liability Management Workshop. Mr. Baggesen also highlighted the role of the BarraOne Risk System as one of a number of tools to estimate and forecast risk.

AGENDA ITEM 7 – PROGRAM REVIEWS, Targeted Investment Programs Update

Janine Guillot, Chief Operating Investment Officer, noted that the complete Targeted Investment Programs update will be provided at the August 2012 meeting and will include an update on the CalPERS Five-Year Plan for Emerging Manager Participation, as required by SB294, and a report on the results of the 2012 Infrastructure Roundtable events. Ms. Guillot briefly highlighted the recent release of the CalPERS for California Report and the CalPERS California Initiative Report.

AGENDA ITEM 3b – POLICY & DELEGATION, Terminated Agency Pool Policy

Agenda item 3b was removed from the consent calendar at the beginning of the open session for additional discussion. Ben Meng, Senior Portfolio Manager, David Lamoureux, Deputy Chief Actuary, and Michael Schlachter, Wilshire Associates, were available to answer questions from the Committee. Mr. McGuire made a recommendation that staff revise the proposed portfolio, as outlined in the Terminated Agency Pool Policy, to exclude U.S. Treasuries in Separate Trading of Registered Interest and Principal Securities (STRIPS) from the investment policy. There was discussion that the proposed investment strategy from staff was conservative; however there is currently no recourse for CalPERS to obtain additional resources from agencies who join the Terminated Agency Pool in the event the Pool becomes underfunded.

On **MOTION** by Mr. McGuire **SECONDED** and **CARRIED** to approve the State Controller's recommendation to revise the proposed asset allocation to remove the 49% STRIPS, which will be replaced by short term high credit quality liquidity and equity resources. Dan Dunmoyer, JJ Jelincic, and Priya Mathur voted no.

The Chair instructed staff to evaluate the proposed revisions in asset allocation from the State Controller's Office and return with a revised Terminated Agency Pool Policy.

AGENDA ITEM 4a – Draft Agenda for the August 13, 2012 Committee Meeting

Agenda item 4a was removed from the consent calendar at the beginning of the open session for additional discussion. Mr. Jones, Mr. Jelincic, and Mr. Dear will discuss the item at a future date.

AGENDA ITEM 8 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at 12:43 p.m.

The next Committee meeting is scheduled for August 13, 2012 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer