

# Global Fixed Income Programs Update

Curtis D. Ishii  
SIO, Global Fixed Income

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# Global Fixed Income's Investment Beliefs

- CalPERS long term investor horizon allows staff to generate alpha by shifting sector risks during an economic cycle. This could cause short term under-performance.
- Alpha is achievable
- Costs matter
- Keys to success in internal management are attracting and retaining highly trained staff.

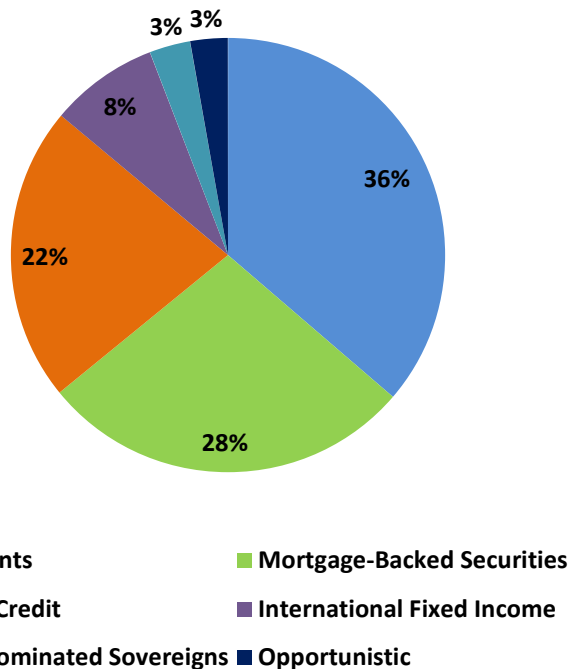
# Global Fixed Income

- **Role:** Serve as a diversifier for the market risk entailed by equity exposures and be a reliable source of income.

# Global Fixed Income Detailed Composition

as of 8/31/12

Global Fixed Income Portfolio Benchmark



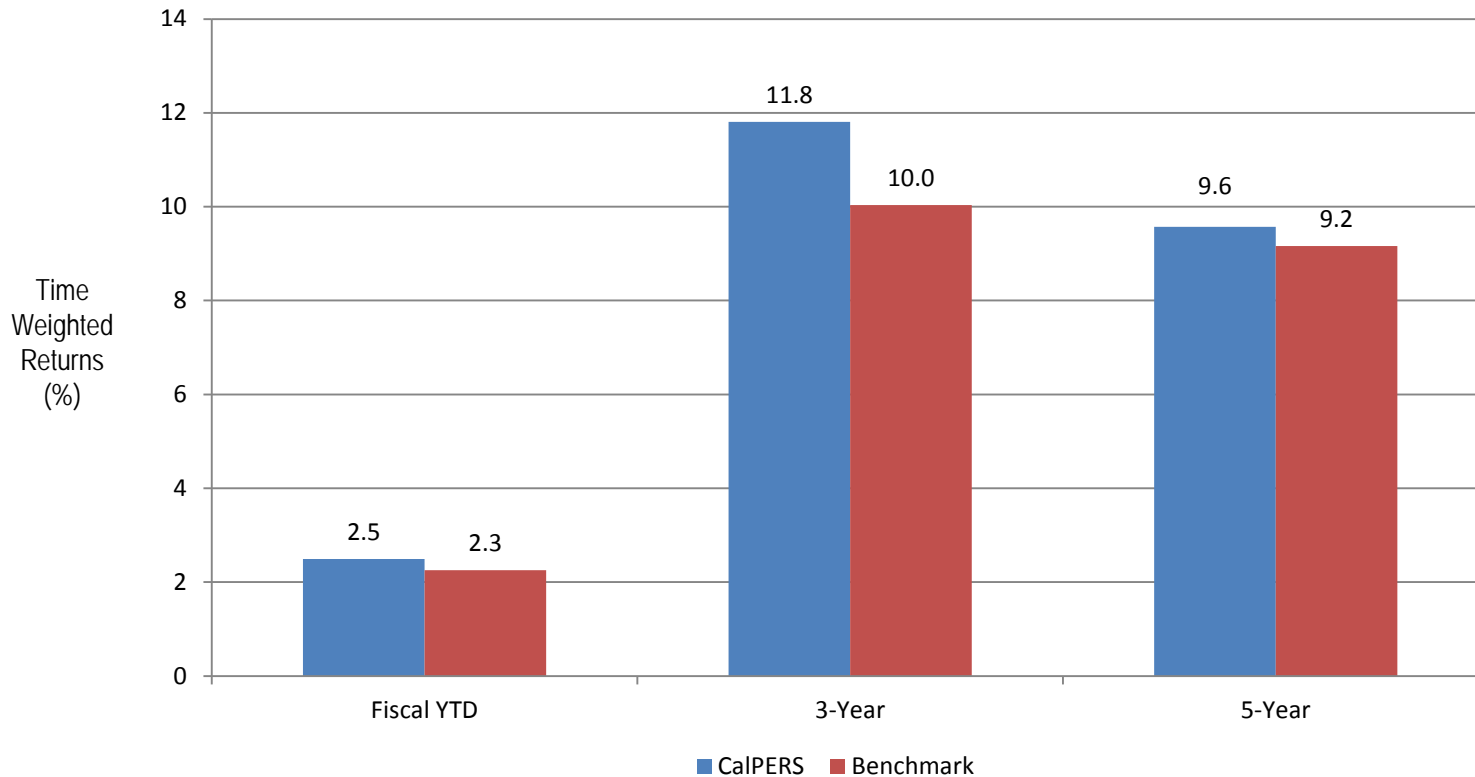
	MV (\$ bn)	%NAV			
		Permissible Range	CalPERS	Bench	Active
<b>Domestic Fixed Income</b>	<b>\$39.5</b>	<b>N/A</b>	<b>92%</b>	<b>92%</b>	<b>0%</b>
U.S. Governments	14.0	9 - 74	32	36	-4
IG Corporate Credit	9.3	9 - 37	22	22	0
Mortgage-Backed Securities	12.3	14 - 41	29	28	+1
IG Dollar-Denominated Sovereigns	1.3	0 - 9	3	3	0
Opportunistic	2.3	0 - 11	5	3	+2
High Yield Credit	1.7	N/A	4	3	N/A
Non-Credit Opportunistic	0.6	N/A	1	0	N/A
Cash Securities	0.3	N/A	1	0	+1
<b>International Fixed Income</b>	<b>3.5</b>	<b>N/A</b>	<b>8</b>	<b>8</b>	<b>0</b>
<b>Total Global Fixed Income</b>	<b>\$43.0</b>				

# Global Fixed Income Performance

U.S. and International as of 8/31/12

*Good Long Term Returns*

Ending Market Value \$43.0 bn

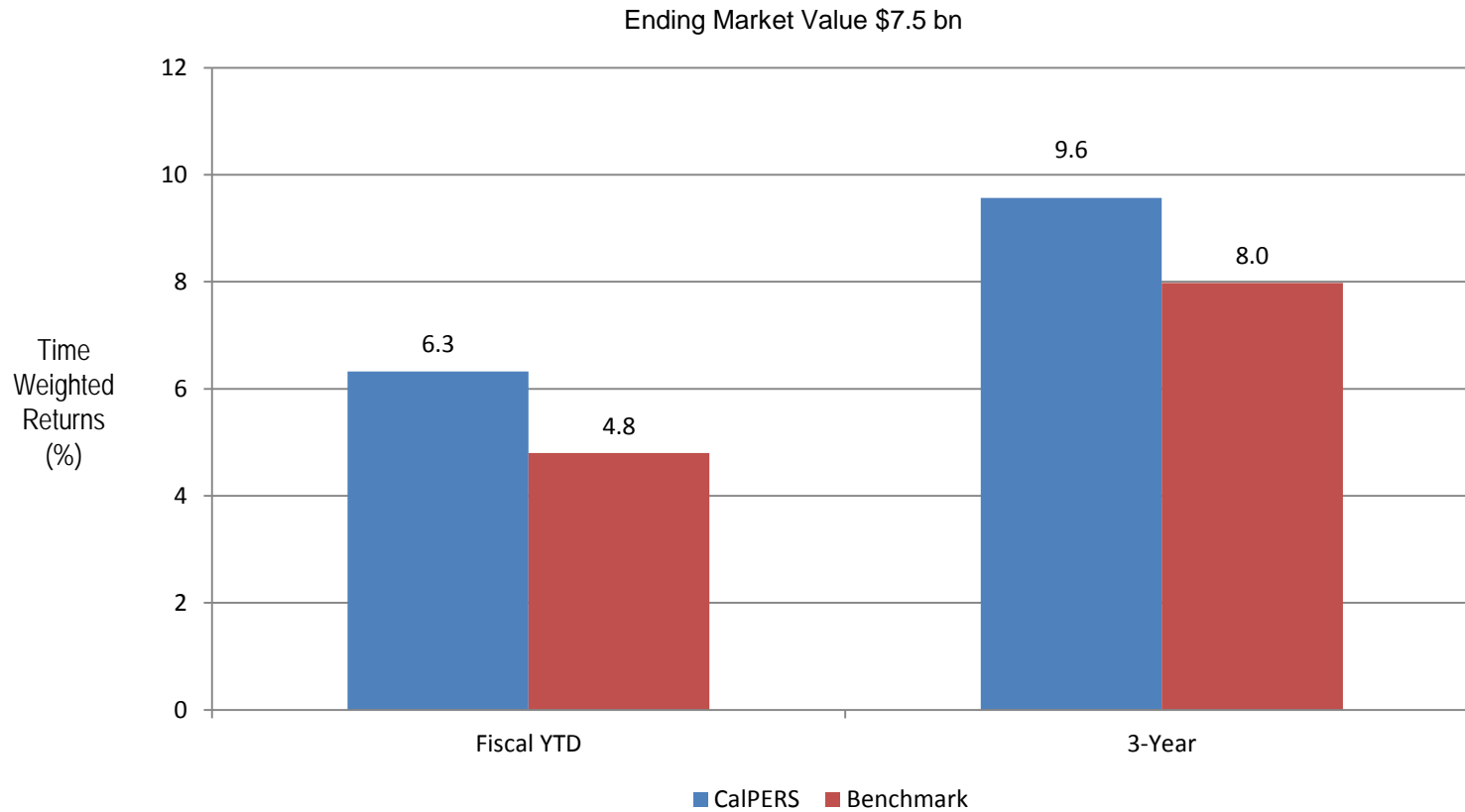


# Inflation Portfolios

- **Role:** Inflation linked bonds are to provide a direct hedge against inflation using liquid securities and be a partial liability hedge with some income yield. Commodities are primarily to be a hedge for inflation, with unlevered liquid securities.

# Inflation Portfolios Performance

as of 8/31/12



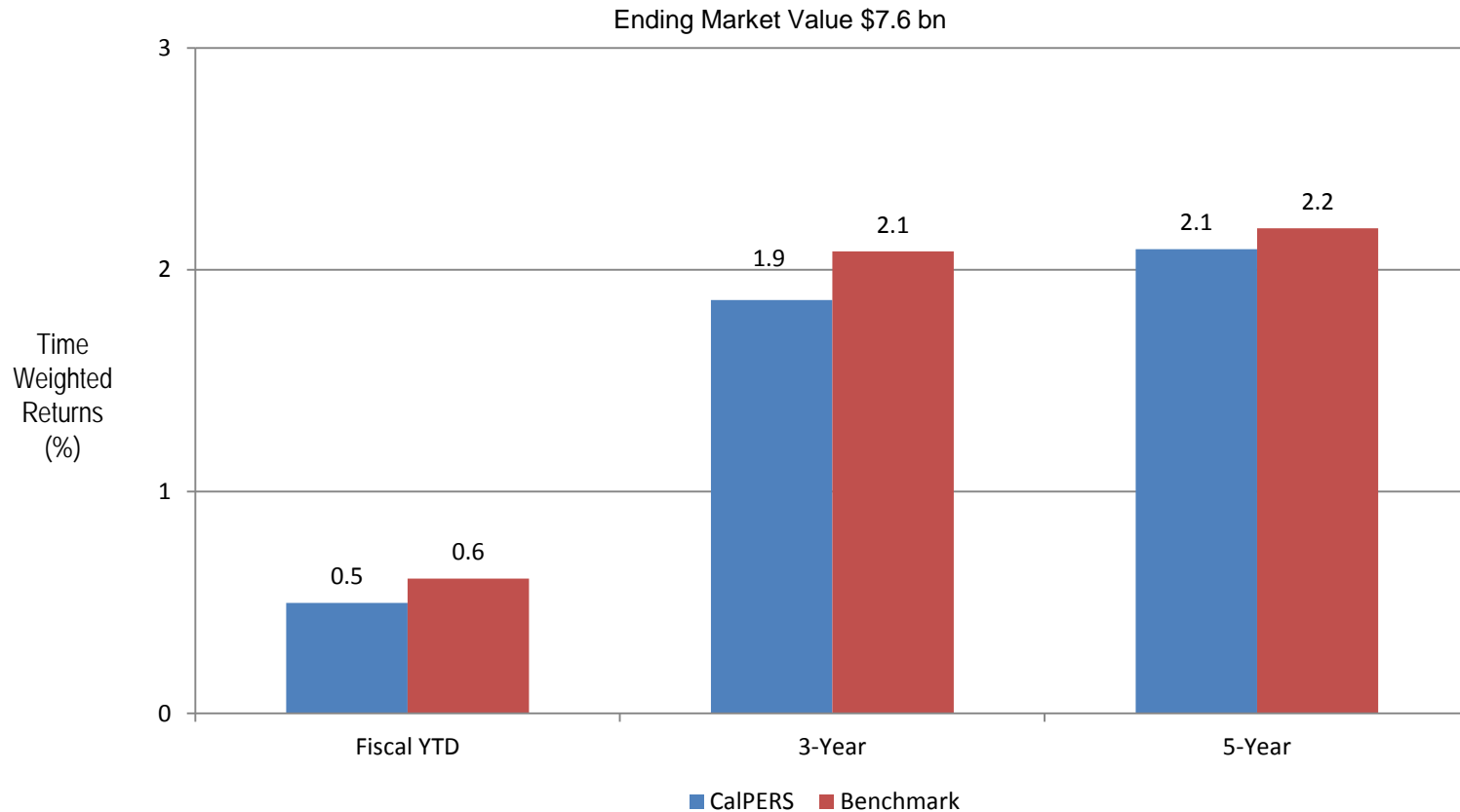


# Liquidity Portfolios

- **Role:** Effective hedge during financial crisis, a hedge for draw down risk entailed by significant equity exposures, a reliable source of income, a partial liability hedge (duration), and a liquidity source.

# Liquidity Portfolios Performance

as of 8/31/12

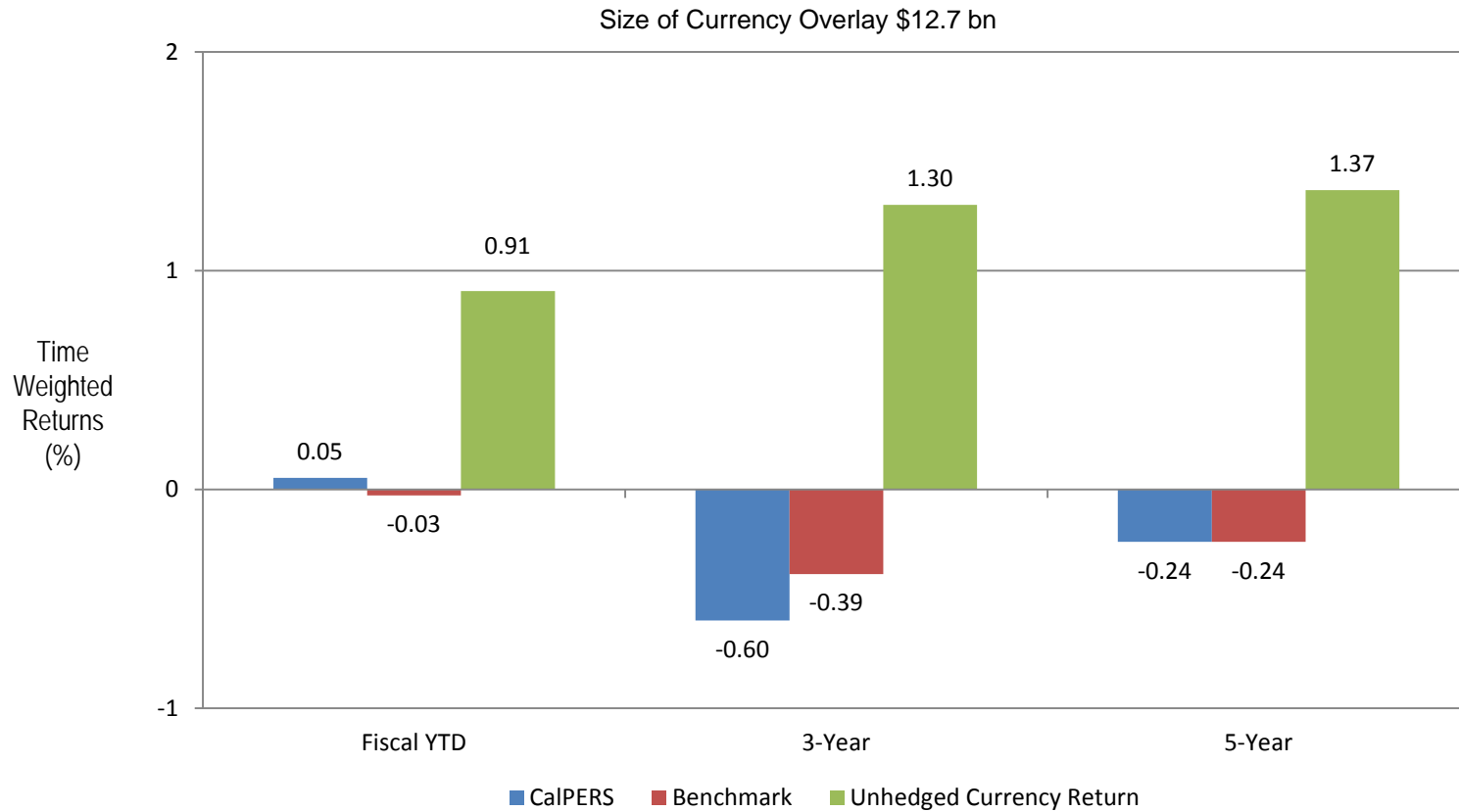


# Currency

- **Role:** Risk reduction through hedging currency exposure and providing foreign currency to settle trades in various non-U.S. markets.

# Currency Overlay Performance

as of 8/31/12

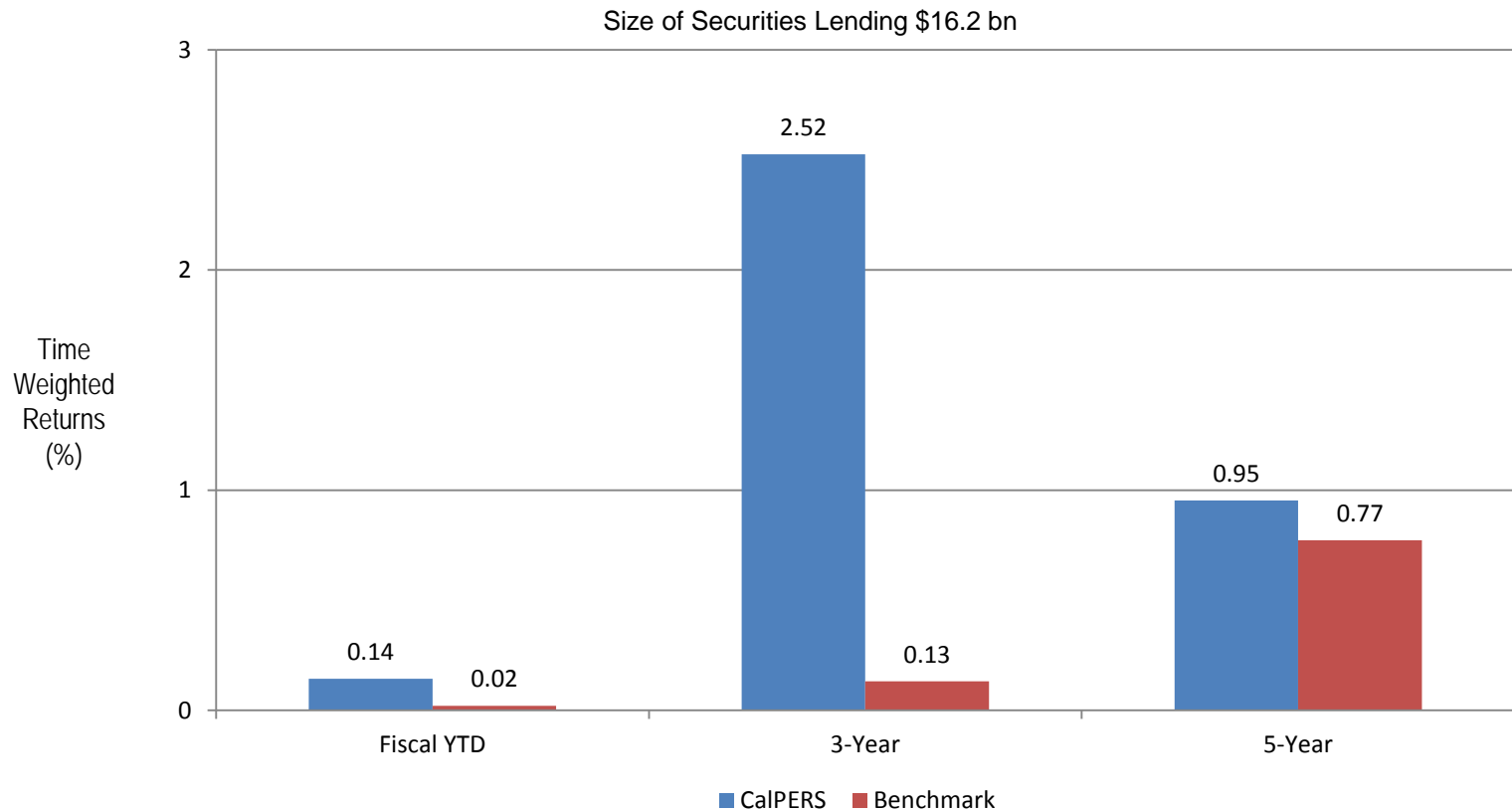


# Securities Lending

- **Role:** Generate income by lending securities to qualified borrowers and through a low-risk collateral investment strategy while maintaining sufficient liquidity for the total fund. FY 2011-12 Sec Lending earnings was \$135.8 million.

# Securities Lending Collateral Reinvest Performance

as of 8/31/12



# Market Update

Kevin Winter  
SPM, Global Fixed Income

# Macro Factors Affecting GFI Portfolio

- Global Slowdown
- Fiscal Cliff
- Middle East Turmoil/Iran
- Policy Response
- Low Interest Rates
- Housing



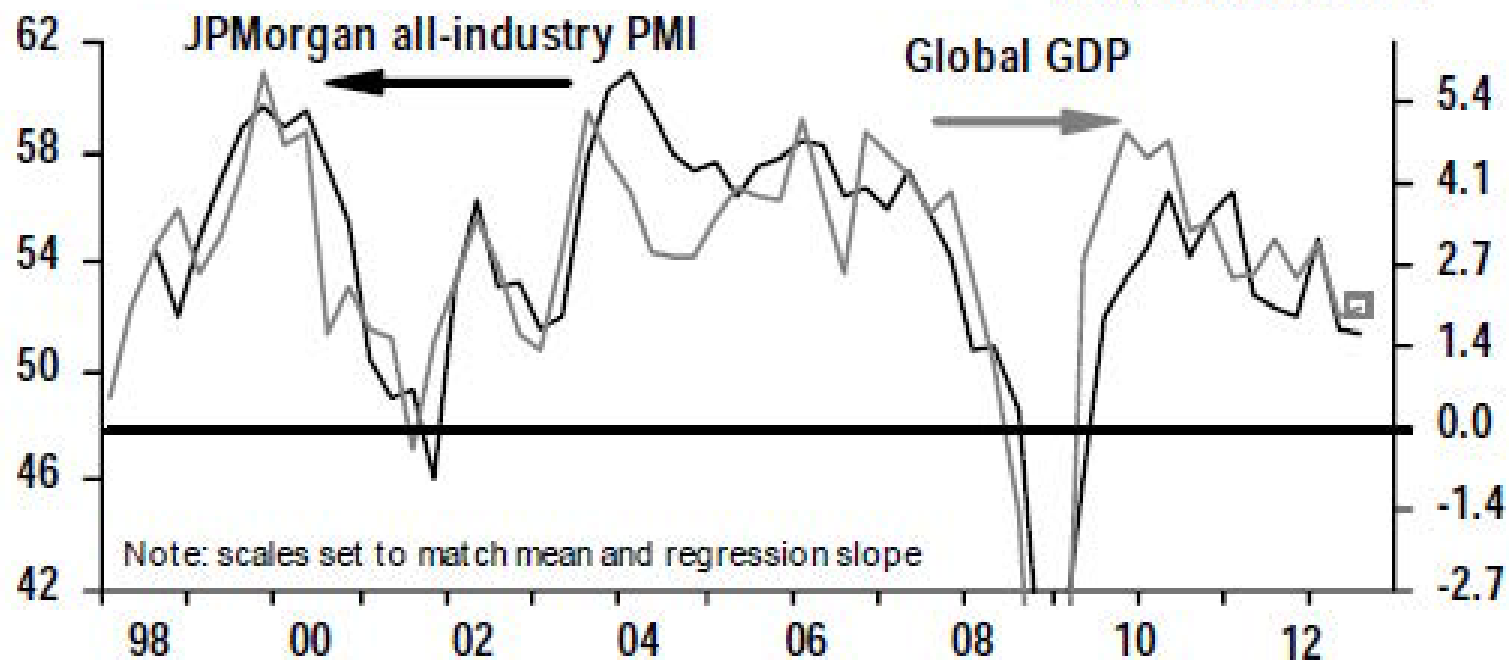
# Global Slowdown

*Global recovery falters*

## Global activity indicators

DI, sa (quarterly average)

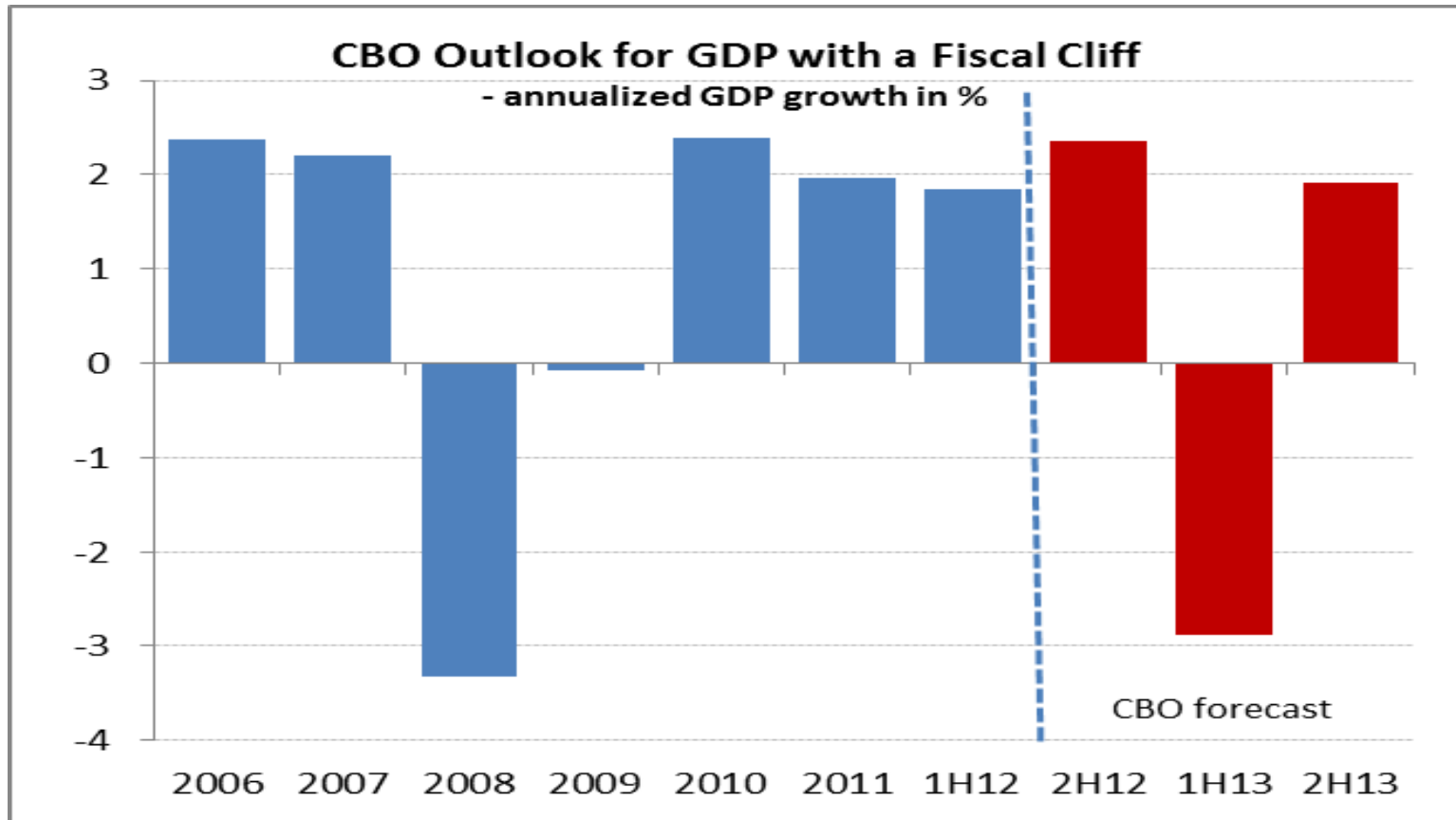
%q/q, saar; 3Q12 fcst



Source: MarkIt and JPMorgan monthly report on Global Manufacturing and Services PMI, for August 2012

# Fiscal Cliff

*Potentially disruptive to markets in 4Q12*



# Middle East Turmoil/Iran

*Another potential drag on the global economy*

**Dated Brent Crude Oil Prices**



Source: Platts, IHS CERA.  
20804-12

# Policy Response

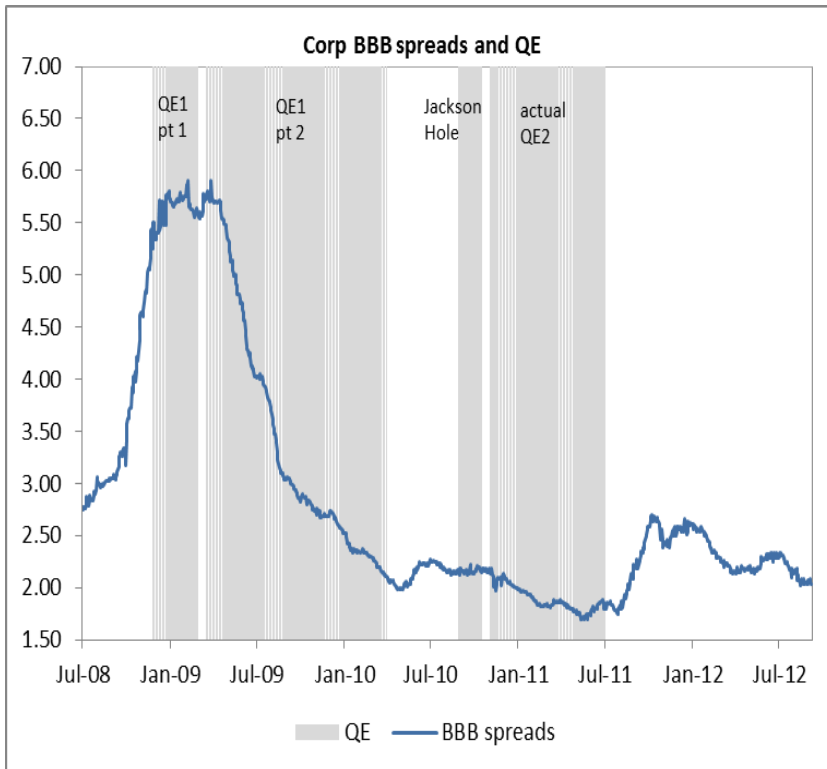
*Global central banks respond to risks*

Announced Measures	U.S.	Euro	UK	Japan
Open Ended/Expanded Mortgage Bond Purchase Program	X	X	X	X
Committed to low rates until recovery is well established	X			
Tied Bond Purchases to improvement in the labor markets	X			
Established New ESM – European Bailout Fund		X		
Created Framework for ECB Supervision of Banks		X		
Funding for Banks' Lending Program			X	

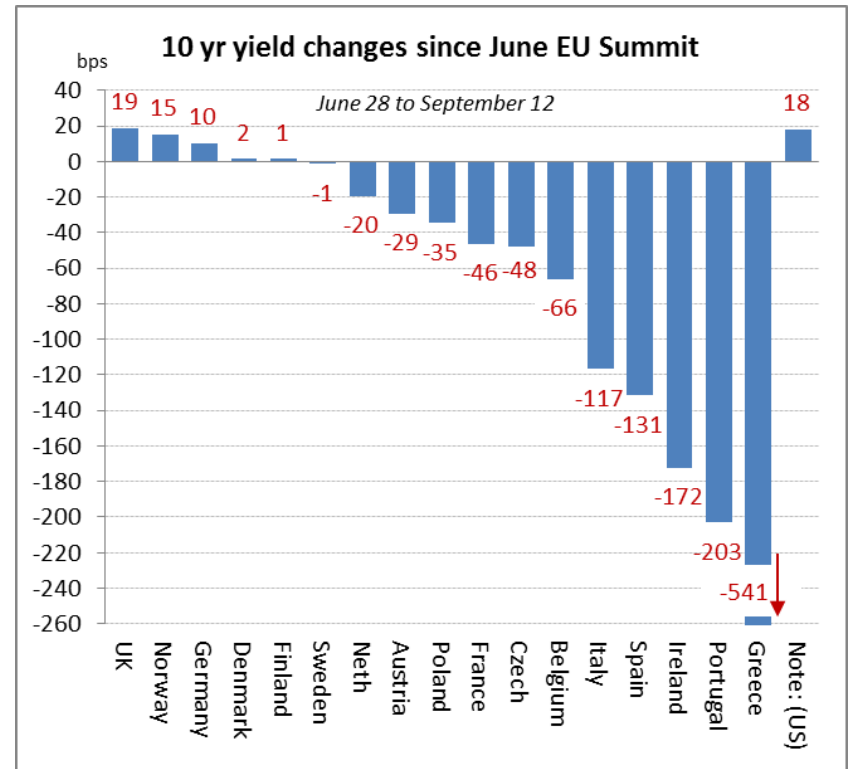
# Market Response

*Central bank policy response and market implications*

UNITED STATES - Earlier rounds of QE resulted in corporate bond spread narrowing



EUROPE - Advancement of policy tools has increased market confidence in periphery bonds



# Low Interest Rates

*U.S. Treasury yields are at long term lows*

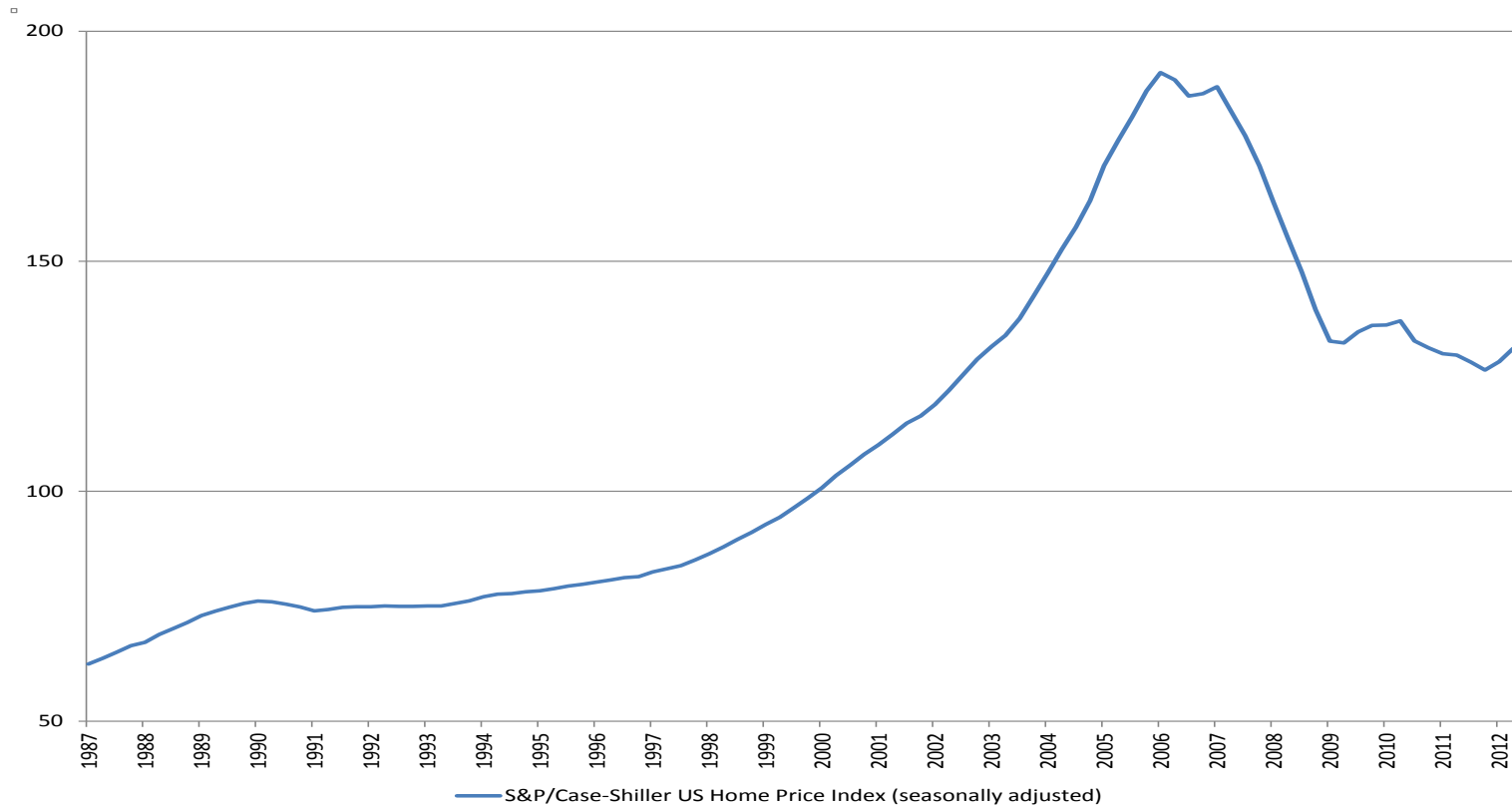
*Rates are unsustainable if central banks' policy responses are successful*



Source: The Yield Book

# Housing

*Possible housing bottom  
Potential positive to U.S. GDP*



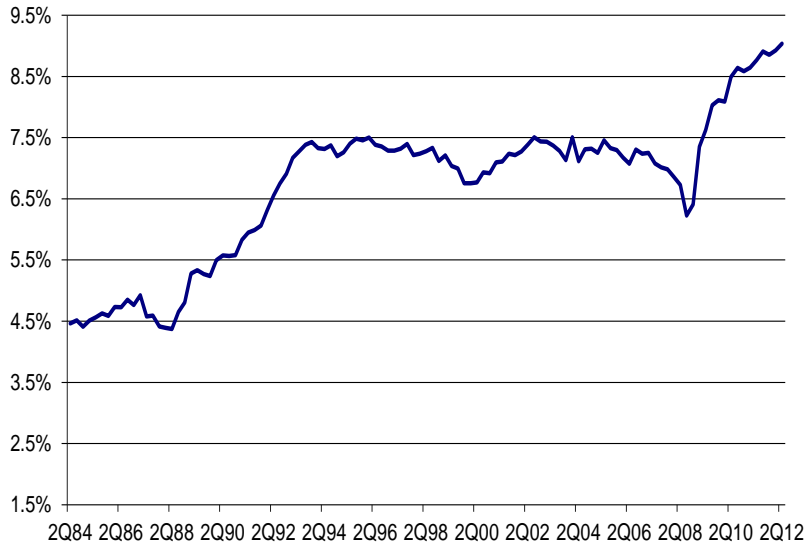
Source: Case-Shiller; Bloomberg

# Banking Fundamentals

*Bank asset quality continues to improve*

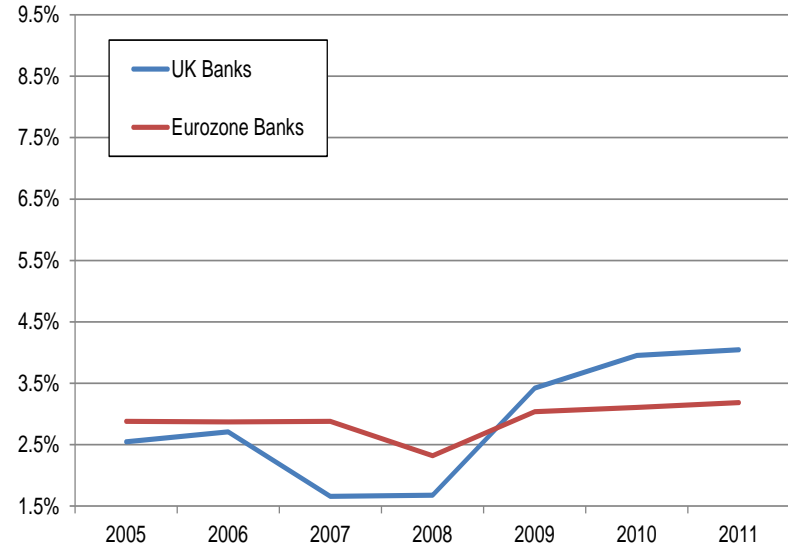
## Domestic (U.S.) banks

**Tangible Common Equity to Tangible Assets**  
All FDIC-Insured U.S. Banks



## UK and Eurozone banks

**Tangible Common Equity to Tangible Assets**  
European Banks w/ Assets > €10 billion



Source: FDIC, CalPERS, SNL – data through 2Q 2012