



Executive Summary of Performance
Prepared For

California Public Employees' Retirement System
Judges II
Long-Term Care
Legislators' Fund
California Employers' Retiree Benefit Trust
Supplemental Income Plans

Third Quarter 2012

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Capital Market Overview

The third quarter of 2012 founds stocks back in rally mode, with most equity markets yielding smart gains in spite of multiple headwinds. The U.S. economy continues to underperform in its recovery from the recent recession; real GDP grew at a weak 1.3% annual rate during the second quarter, a notable slowdown from fourth quarter 2011's 4.1% and first quarter 2012's 2.0%. Job growth through the end of the third quarter could not bring the official U.S. unemployment rate below its quarter-end 8.1% rate. Despite some commodities price volatility, the Consumer Price Index (All Urban Consumers) only rose 0.84% in the third quarter. The Federal Reserve announced in mid-September that it would commence another round of quantitative easing, known popularly as QE3; this new round will include an open-ended commitment to \$40 billion in monthly purchases of agency mortgage-backed securities. Treasury yields, which had been rising over the quarter, reversed course and ended the quarter roughly where they began. Global equity markets managed to participate in the rally despite continued turmoil and economic malaise worldwide.

U.S. Equity Market

The U.S. stock market rallied 6.15% in the third quarter with the Wilshire 5000 Total Market IndexSM posting gains across each underlying month (1.05% in July, 2.40% in August and 2.59% in September). The U.S. market has now risen in four consecutive months, up 10.25% over that period, and has now recouped all losses from the previous high on October 9, 2007. On a total return basis, the Wilshire 5000 reached a new closing high on September 14th. The S&P 500 managed to outperform the broader Wilshire 5000 with a 6.35% return for the third quarter. Large-cap stocks outperformed small-cap, but micro-cap stocks outdistanced larger issues (Wilshire US Large Cap, 6.25%; Wilshire US Small Cap, 5.16%; Wilshire US Micro Cap, 7.29%). As befits a rally, growth-oriented stocks outperformed value-oriented equity (Wilshire US Large Growth, 6.31%; Wilshire US Large Value, 6.19%; Wilshire US Small Growth, 5.24%; Wilshire US Small Value, 5.09%). The market's third quarter rally was broad based, with all economic sectors advancing. Looking at the Wilshire 5000 (GICS classification), Utilities, the worst performing sector, posted a 0.53% total return for the quarter. The Energy sector was the best performer in the third quarter, up 9.95%, but remains a laggard year-to-date, up only 6.57% versus 15.95% for the broader stock market. The Telecom Services sector was a strong performer over the quarter, up 7.89%, and leads other sectors in 2012 with a 25.71% return year-to-date. Real estate-related securities did not participate in the quarter's rally; the Wilshire US Real Estate Securities Index drifted lower, with a -0.11% return for the quarter.

Fixed Income Market

With the Federal Reserve holding fast on low interest rates and buying mortgage-backed paper to spur the job market, bond investors accelerated their move into riskier asset space, snapping up higher-yielding corporate paper whether investment-grade or "junk". As noted above, the stock markets' rally in the third quarter nudged Treasury yields higher until mid-September, when news of QE3 drove yields back down. At the end of the third quarter, the yield on two-year Treasuries had fallen 10 basis points to 0.23%, while the bellwether ten-year Treasury yield ticked down 2 bps to 1.65%. The yield on thirty-year Treasuries, on the other hand, actually rose 6 bps to 2.82%. Unsurprisingly, short-term Treasuries outperformed longer-dated Treasuries, albeit only slightly (Barclays 1-3 Year Treasury, 0.25%; Barclays Long



Treasury, 0.20%). Investor rotation into non-Treasury bonds tightened spreads across the board and boosted their performance (Barclays U.S. Government-Related, 1.64%; Barclays U.S. Securitized, 1.28%; Barclays U.S. Corporate, 3.83%). And high-yield bonds benefited from investors searching for yield as well as the strong performance in the stock market, handily outdistancing the broad investment-grade bond market (Barclays U.S. High Yield, 4.53%; Barclays U.S. Aggregate, 1.58%).

Non-U.S. Markets

Most global equity markets rallied in the third quarter of 2012 (MSCI ACWI ex-US, net dividends, 5.11% local currency, 7.40% US dollar terms). Developed markets returned strong performance (MSCI EAFE, net dividends, 4.67% local, 6.92% USD), with surprising resilience in the European bourses. The European Central Bank's actions to shore up the euro, and record low yields on the safest European sovereign debt, gave investors confidence to buy local-market stocks, even in the face of public unrest in Spain and Greece late in the quarter (MSCI Europe net, 6.46% local, 8.70% USD). The Asia-Pacific region's performance experienced headwinds from Japan, but still managed positive returns (MSCI Pacific net, 1.59% local, 3.73% USD). Emerging markets sprinted to stellar performance in the third quarter, despite continued signs of an economic slowdown in China (MSCI Emerging Markets net, 5.90% local, 7.74% USD). Global bond markets overall performed similarly to those in the U.S.: somewhat weak returns from sovereign debt countered by investors seeking yield in corporates (Barclays Global Aggregate ex U.S., 2.19% dollar-hedged, 4.37% USD unhedged).

Summary of Index Returns

For Periods Ended September 30, 2012

	Quarter	One Year	Three Years	Five Years	Ten Years
Domestic Equity					
Standard & Poor's 500	6.35%	30.18%	13.20%	1.04%	8.01%
Wilshire 5000	6.15	29.89	13.21	1.35	8.66
Wilshire 4500	5.24	29.20	13.88	2.64	10.95
Wilshire Large Cap	6.25	29.58	13.10	1.11	8.27
Wilshire Small Cap	5.16	32.38	14.39	3.78	11.90
Wilshire Micro Cap	7.29	35.87	10.34	0.68	11.03
Domestic Equity					
Wilshire Large Value	6.19%	28.71%	13.02%	-0.61%	7.95%
Wilshire Large Growth	6.31	30.42	13.13	2.73	8.48
Wilshire Mid Value	5.09	31.87	14.17	2.87	9.39
Wilshire Mid Growth	6.05	23.91	13.34	3.47	12.54
Wilshire Small Value	5.09	35.26	13.56	3.52	11.03
Wilshire Small Growth	5.24	29.18	15.06	3.99	12.70
International Equity					
MSCI All World ex U.S. (USD)	7.40%	14.48%	3.17%	-4.12%	9.84%
MSCI All World ex U.S. (local currency)	5.35	14.75	3.02	-4.28	6.84
MSCI EAFE	6.92	13.75	2.12	-5.24	8.20
MSCI Europe	8.70	17.31	2.02	-5.72	8.76
MSCI Pacific	3.73	7.73	2.64	-4.04	7.02
MSCI EMF Index	7.74	16.93	5.63	-1.28	17.00
Domestic Fixed Income					
Barclays Aggregate Bond	1.59%	5.16%	6.19%	6.53%	5.33%
Barclays Credit	3.54	10.09	8.73	7.90	6.45
Barclays Mortgage	1.13	3.71	4.99	6.35	5.24
Barclays Treasury	0.57	2.99	5.42	6.24	4.81
Citigroup High Yield Cash Pay	4.29	18.83	12.53	8.93	10.83
Barclays US TIPS	2.12	9.10	9.29	7.93	6.64
91-Day Treasury Bill	0.03	0.07	0.11	0.72	1.82
International Fixed Income					
Citigroup Non-U.S. Gov. Bond	3.98%	3.46%	4.02%	6.56%	7.27%
Citigroup World Gov. Bond	2.99	3.29	4.29	6.45	6.72
Citigroup Hedged Non-U.S. Gov.	1.80	4.89	3.64	4.62	4.34
Currency*					
Euro vs. \$	1.38%	-4.11%	-4.17%	-1.98%	2.67%
Yen vs. \$	2.56	-0.93	4.79	8.13	4.58
Pound vs. \$	2.96	3.66	0.32	-4.54	0.27
Real Estate					
Wilshire REIT Index	-0.15%	32.43%	20.72%	1.73%	11.35%
Wilshire RESI	-0.11	32.40	20.55	1.53	11.51

CalPERS
Performance Analysis
September 30, 2012



Summary Review of Plans Periods Ended 9/30/2012

	<u>Market Value</u>	<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
TOTAL FUND for PERF	\$243.2 bil	4.3%	13.5%	9.1%	0.4%	7.7%
<i>Total Fund Policy Benchmark ¹</i>		3.6%	13.4%	9.3%	2.9%	8.6%
<i>Actuarial Rate</i>		1.8%	7.7%	7.7%	7.7%	7.8%
Affiliate Fund						
Judges II	\$696.8 mil	5.9%	19.0%	9.8%	2.7%	7.9%
<i>Weighted Policy Benchmark</i>		5.8%	18.9%	9.7%	2.8%	7.8%
Long-Term Care ("LTC")	\$3,711.3 mil	5.0%	16.8%	10.0%	3.8%	8.4%
<i>Weighted Policy Benchmark</i>		4.9%	17.0%	9.8%	3.8%	8.0%
CERBT Strategy 1	\$1,876.1 mil	6.0%	20.0%	9.4%	1.8%	-.%
<i>Weighted Policy Benchmark</i>		5.9%	20.2%	9.4%	1.5%	-.%
CERBT Strategy 2	\$359.5 mil	5.3%	16.7%	-.%	-.%	-.%
<i>Weighted Policy Benchmark</i>		5.2%	16.9%	-.%	-.%	-.%
CERBT Strategy 3	\$30.9 mil	4.6%	-.%	-.%	-.%	-.%
<i>Weighted Policy Benchmark</i>		4.4%	-.%	-.%	-.%	-.%
Legislators' Fund						
LRS	\$125.9 mil	4.5%	15.2%	10.3%	5.5%	7.9%
<i>Weighted Policy Benchmark</i>		4.3%	15.0%	10.0%	5.4%	7.6%

¹ The Total Fund Policy Benchmark return equals the return for each asset class benchmark weighted at the current target asset allocation.



Total Fund Review PERF Periods Ended 9/30/2012

	Market Value	Five-Year Ratios							
		Qtr	1-Year	3-Year	5-Year	10-Year	VaR ¹²	Sharpe ¹³	Info ¹⁴
TOTAL FUND	\$243.2 bil	4.3%	13.5%	9.1%	0.4%	7.7%	\$32.0 bil	0.0	-0.8
<i>Total Fund Policy Benchmark</i> ²		3.6%	13.4%	9.3%	2.9%	8.6%		0.2	0.0
<i>Actuarial Rate</i>		1.8%	7.7%	7.7%	7.7%	7.8%			
GROWTH	151.5	5.4%	16.4%	9.8%	-0.8%	8.8%	\$30.3 bil	-0.1	-0.5
<i>Growth Policy Benchmark</i> ³		4.6%	17.1%	9.7%	1.0%	9.5%		0.0	0.0
PUBLIC EQUITY	118.6	7.0%	21.4%	7.9%	-1.6%	8.4%	\$22.5 bil	-0.1	-0.6
<i>Public Equity Policy Benchmark</i> ⁴		7.1%	21.6%	7.5%	-0.8%	8.8%		-0.1	0.0
PRIVATE EQUITY	32.8	-0.1%	1.5%	17.2%	4.9%	10.5%	\$10.4 bil	0.4	-0.4
<i>Private Equity Policy Benchmark</i> ⁵		-4.0%	0.0%	17.4%	10.5%	11.0%		0.6	0.0
INCOME	43.2	3.0%	9.0%	11.0%	9.4%	8.2%	\$5.7 bil	1.3	0.1
<i>Income Policy Benchmark</i> ⁶		2.4%	8.2%	9.4%	9.0%	7.1%		1.3	0.0
REAL ASSETS ⁷	24.7	0.9%	11.0%	4.6%	-11.4%	3.3%	\$2.8 bil	-0.7	-1.1
<i>Real Assets Policy Benchmark</i> ⁸		2.2%	10.8%	8.6%	3.2%	8.7%		0.5	0.0
INFLATION	7.5	5.9%	8.9%	8.9%	4.3%	-.%	\$0.6 bil	0.2	0.1
<i>Inflation Policy Benchmark</i> ⁹		4.9%	10.1%	7.5%	4.0%	-.%		0.3	0.0
LIQUIDITY	10.6	0.4%	1.8%	1.8%	2.0%	2.6%	\$0.5 bil	N/A	N/A
<i>Liquidity Policy Benchmark</i> ¹⁰		0.6%	2.3%	2.1%	2.1%	2.5%		N/A	N/A
ABSOLUTE RETURN STRATEGIES ¹¹	5.1	2.2%	1.4%	3.3%	0.2%	5.5%		-0.1	-1.0
<i>Absolute Return Strategies Policy Benchmark</i> ¹¹		1.4%	5.3%	5.6%	6.8%	9.0%		6.9	0.0
CURRENCY + ASSET ALLOCATION TRANSITION	0.7	-.%	-.%	-.%	-.%	-.%			

² The Total Fund Policy Benchmark return equals the return for each asset class benchmark weighted at the current target asset allocations.

³ Growth Policy Benchmark equals the benchmark returns of public equity and private equity weighted at policy allocation target percentages.

⁴ The Public Equity Policy Benchmark is a custom global benchmark maintained by FTSE.

⁵ The Private Equity Policy Benchmark is currently 1-quarter lagged (67% FTSE US TMI + 33% FTSE AW x-US TMI) with a hurdle of + 3%.

⁶ The Income Policy Benchmark equals the benchmark returns of domestic and international fixed income components weighted at policy allocation target percentages.

⁷ Real Assets include real estate, whose returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

⁸ The Real Assets Policy Benchmark equals the benchmark returns of real estate, timber, and infrastructure weighted at policy allocation target percentages.

⁹ The Inflation Policy Benchmark equals the benchmark returns of commodities and TIPS weighted at policy allocation target percentages.

¹⁰ The Liquidity Policy Benchmark is a custom index maintained by State Street Bank.

¹¹ The Absolute Return Strategies program was excluded from Public Equity on July 1, 2011. Public Equity history does not include Absolute Return Strategies performance. The Absolute Return Strategies Policy Benchmark is currently Merrill Lynch Treasury 1-Year Note + 5%.

¹² VaR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

¹³ The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the total risk taken. The 5-year period was selected to provide sufficient data points for a meaningful calculation, but is still short enough to reflect the changes to the investment programs over the last few years.

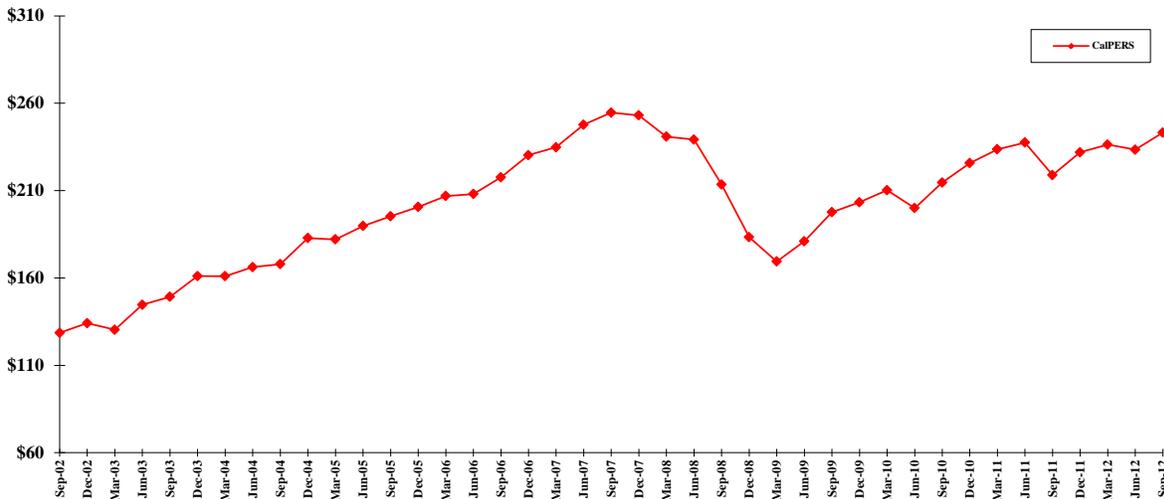
¹⁴ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.

Total Fund Review for PERF (continued) Periods Ended 9/30/2012

Total Fund Flow

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>1Q12</u>	<u>2Q12</u>	<u>3Q12</u>
Market Value (\$bil)	134.1	161.1	182.8	200.6	230.3	253.0	183.3	203.3	225.7	225.0	236.3	233.4	243.2

Total Fund Market Value



Asset Allocation

Asset Allocation: Actual versus Target Weights*

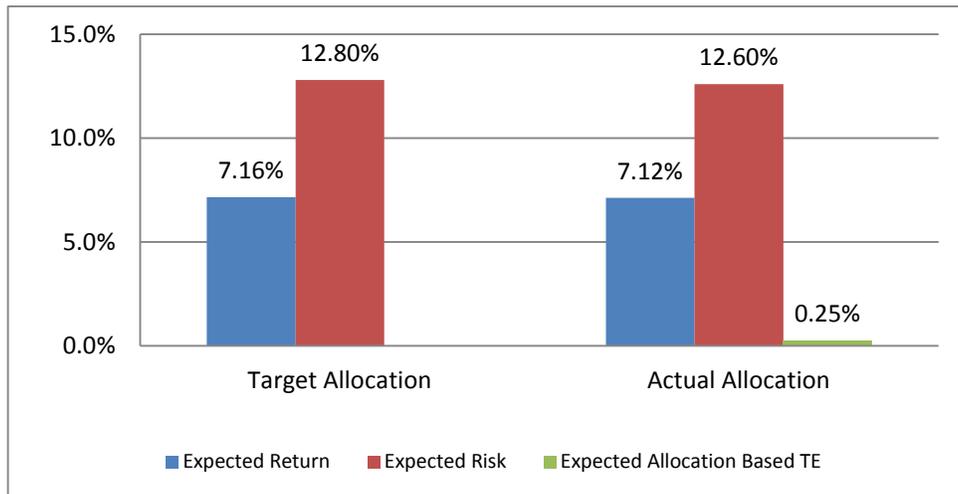
Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Growth	62.6%	64.0%	-1.4%
Income	17.7%	17.0%	0.7%
Real Assets	10.2%	11.0%	-0.8%
Inflation	3.1%	4.0%	-0.9%
ARS	2.1%	0.0%	2.1%
Liquidity	4.3%	4.0%	0.3%

* Asset allocation targets are in the process of shifting to the new targets adopted by the Investment Committee in January 2008. Transitions accounts are included with their respective asset classes. The 9/30 cash allocation included transition assets that have been recaptured elsewhere since the adoption of a new asset allocation policy in July

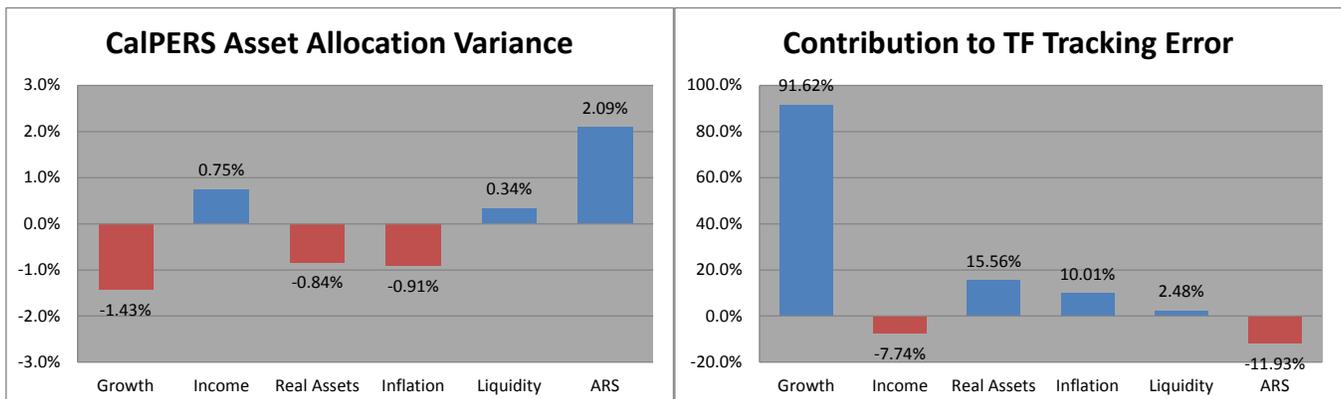
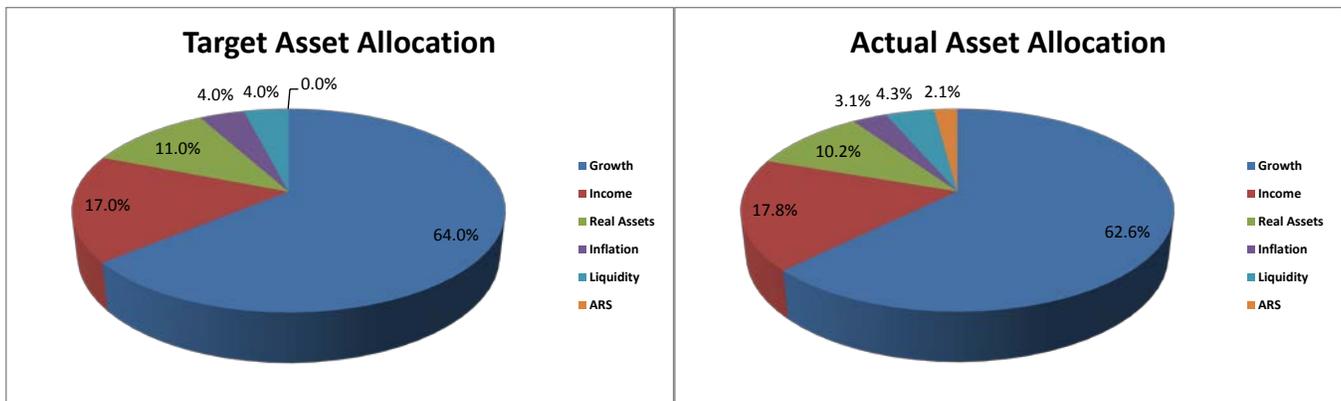


Total Fund Review for PERF (continued)
Periods Ended 9/30/2012

Expected Return/Risk and Tracking Error based on Wilshire's Asset Class Assumptions



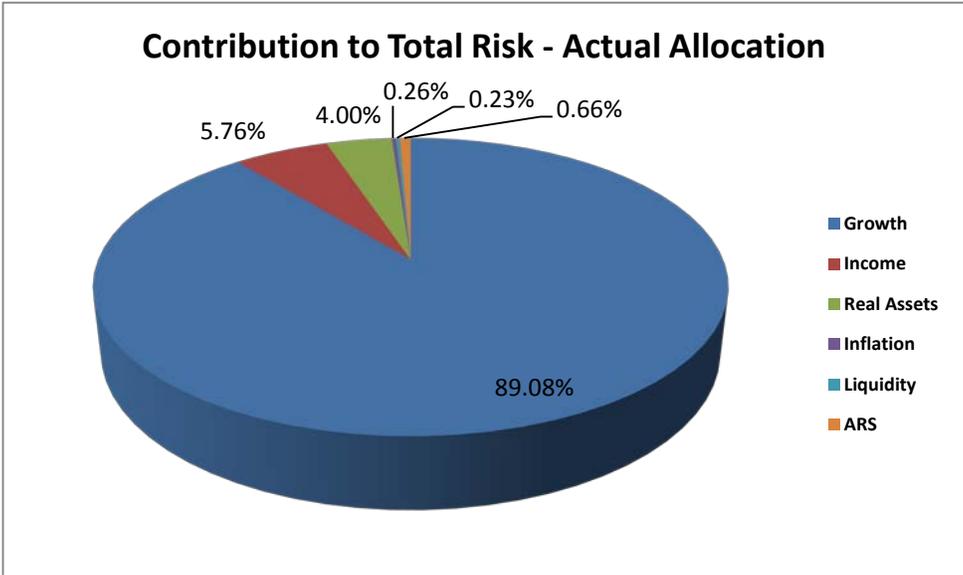
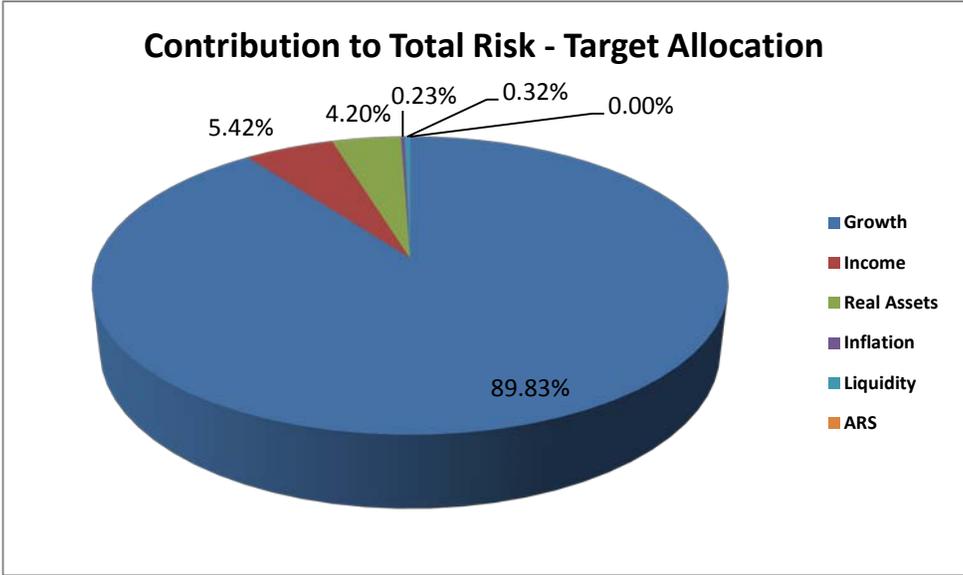
Total Fund Asset Allocation





Total Fund Review for PERF (continued)
 Periods Ended 9/30/2012

Contribution to Total Risk based on Wilshire's Asset Class Assumptions



California Public Employees' Retirement System
Total Fund Attribution - Quarter
As of 9/30/2012

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	62.86	5.39	64.00	4.63	-1.14	0.76	-0.01	-0.02	0.47	0.45
Public Equity	48.43	7.04	50.00	7.07	-1.57	-0.04	-0.06	0.00	-0.02	-0.07
Private Equity	14.43	-0.15	14.00	-4.00	0.43	3.85	-0.05	0.05	0.52	0.51
Income	18.27	2.97	17.00	2.40	1.27	0.57	-0.02	0.01	0.10	0.09
Real Assets	10.24	0.95	11.00	2.19	-0.76	-1.24	0.01	0.01	-0.14	-0.12
Inflation	3.10	5.89	4.00	4.92	-0.90	0.96	-0.01	-0.01	0.04	0.02
Absolute Return	2.15	2.24	0.00	1.37	2.15	0.87	-0.05	0.02	0.00	-0.03
Liquidity	3.39	0.39	4.00	0.57	-0.61	-0.18	0.03	0.00	-0.01	0.02
Monthly Linked Return	100.00	4.26	100.00	3.84		0.42	-0.05	0.01	0.46	0.42
Trading/Hedging		0.03		-0.21		0.23				0.24
Total		4.29		3.63		0.66				0.66

The Total Fund Attribution displays the return contribution of each asset class to the total fund. This is done by monthly linking each program's allocation at the beginning of the month with each month's returns to determine if tactical allocation and active management within asset classes helped or hurt performance. The interaction effect is a cross-factor, used to help further explain the combined impact of a portfolio's selection and allocation decisions within a segment.

California Public Employees' Retirement System
Total Fund Attribution - Calendar Year-to-Date
As of 9/30/2012

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	63.23	12.00	64.00	15.15	-0.77	-3.15	-0.08	0.02	-1.98	-2.04
Public Equity	48.96	13.24	50.00	13.41	-1.04	-0.16	-0.16	0.00	-0.08	-0.24
Private Equity	14.27	7.55	14.00	19.48	0.27	-11.94	-0.03	-0.02	-1.76	-1.81
Income	17.98	7.20	17.00	6.17	0.98	1.03	-0.12	0.01	0.17	0.07
Real Assets	9.69	10.83	11.00	7.59	-1.31	3.24	0.03	-0.05	0.37	0.34
Inflation	3.15	4.12	4.00	5.60	-0.85	-1.48	0.05	0.01	-0.06	0.00
Absolute Return	2.20	2.61	0.00	3.91	2.20	-1.30	-0.18	-0.03	0.00	-0.22
Liquidity	3.76	1.21	4.00	1.63	-0.24	-0.42	0.02	0.00	-0.02	0.00
Monthly Linked Return	100.00	10.10	100.00	11.95		-1.85	-0.29	-0.04	-1.52	-1.84
Trading/Hedging		0.20		-0.66		0.86				0.85
Total		10.30		11.29		-0.99				-0.99

The Total Fund Attribution displays the return contribution of each asset class to the total fund. This is done by monthly linking each program's allocation at the beginning of the month with each month's returns to determine if tactical allocation and active management within asset classes helped or hurt performance. The interaction effect is a cross-factor, used to help further explain the combined impact of a portfolio's selection and allocation decisions within a segment.

California Public Employees' Retirement System
Total Fund Attribution
Fiscal Year-to-Date 9/30/2012

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	62.86	5.39	64.00	4.63	-1.14	0.76	-0.01	-0.02	0.47	0.45
Public Equity	48.43	7.04	50.00	7.07	-1.57	-0.04	-0.06	0.00	-0.02	-0.07
Private Equity	14.43	-0.15	14.00	-4.00	0.43	3.85	-0.05	0.05	0.52	0.51
Income	18.27	2.97	17.00	2.40	1.27	0.57	-0.02	0.01	0.10	0.09
Real Assets	10.24	0.95	11.00	2.19	-0.76	-1.24	0.01	0.01	-0.14	-0.12
Inflation	3.10	5.89	4.00	4.92	-0.90	0.96	-0.01	-0.01	0.04	0.02
Absolute Return	2.15	2.24	0.00	1.37	2.15	0.87	-0.05	0.02	0.00	-0.03
Liquidity	3.39	0.39	4.00	0.57	-0.61	-0.18	0.03	0.00	-0.01	0.02
Monthly Linked Return	100.00	4.26	100.00	3.84		0.42	-0.05	0.01	0.46	0.42
Trading/Hedging		0.03		-0.21		0.23				0.24
Total		4.29		3.63		0.66				0.66

The Total Fund Attribution displays the return contribution of each asset class to the total fund. This is done by monthly linking each program's allocation at the beginning of the month with each month's returns to determine if tactical allocation and active management within asset classes helped or hurt performance. The interaction effect is a cross-factor, used to help further explain the combined impact of a portfolio's selection and allocation decisions within a segment.



Total Fund Review for PERF (continued) Periods Ended 9/30/2012

- ◆ The California Public Employees' Retirement System ("CalPERS, the System") generated a total fund return of 4.3%, for the quarter ended September 30, 2012. CalPERS' return can be attributed as follows:

3.63%	Strategic Policy Allocation
-0.05%	Actual/Tactical Asset Allocation
0.46%	Active Management
0.01%	Interaction
<u>0.24%</u>	Trading/Currency Hedging
4.29%	Total Return

- ◆ The total fund attribution table on the previous page displays the return contribution of each asset class to the total fund. This table will allow the Board to see if tactical allocation and active management within asset classes helped or hurt performance during the quarter.
 - Strategic Policy: The contribution to total return from each asset class, calculated as the percentage allocated to each asset class multiplied by the benchmark for that asset class.
 - Actual Allocation: The return contribution during the quarter due to differences in the actual allocation from the policy allocation (i.e. the actual allocation to total equity was higher than the policy allocation). A positive number would indicate an overweight benefited performance and vice versa.
 - Active Management: The return contribution from active management. The number would be positive if the asset class outperformed the designated policy index and vice versa (i.e. the US fixed income segment outperformed its custom benchmark during the quarter and contributed positively to active management).
 - Interaction: Captures the interaction of managers' performance and asset class weighting differences.
 - Actual Return: The actual return of the asset classes if allocations to them were static during the quarter. These returns will not match exactly with the actual segment returns since asset class allocations change during the quarter due to market movement, cash flows, etc.
- ◆ CalPERS' Total Fund saw a rebound and finished the third quarter on a positive note, returning 4.3% that outperformed its strategic policy benchmark's 3.6%. Per Wilshire's attribution, positive active management impact was this quarter's sole contributor. This result was driven by the strong relative performance from Private Equity of the Growth asset class as well as the Income asset class, which beat their respective policy benchmarks by 385 bps and 57 bps, and helped offset weaker results from Real Assets. Asset allocation variance had a small but negative impact, as the System had lower-than-target allocation to some of the better performing segments (in both absolute and relative terms), mainly equities and Inflation.
- ◆ The Total Fund composite's 4.3% return was higher than its actuarial rate this quarter (1.8%). Its longer-term track record over the one- and three-year marks also topped the actuarial rate, but continues to trail for time periods beyond that.

Total Fund Review for PERF (continued) Periods Ended 9/30/2012

Relative to the Total Fund Policy Benchmark:

- ◆ **Growth Exposure:** The Growth composite experienced a solid rebound in the third quarter by finishing up 5.4% and ahead of the total fund policy benchmark (3.6%). This gain was solely driven by public equities, which staged a rally throughout the quarter following pledges from global leaders on combating slowing growth. The developments, ranging from ECB announcing its intent on buying short-term Eurozone sovereign debt, Bank of Japan extending its asset repurchase program, to the Fed kicking off an open-ended QE3 campaign on buying mortgage backed securities, helped drive the Public Equity composite to earn an overall gain of 7.0%. Private equity, which is reported on a 1-quarter lagged basis, was nearly flat with a return of -0.1% for the quarter and behind the total fund policy benchmark.
- ◆ **Income Exposure:** Given the general rebound of riskier assets, CalPERS' overall Income composite did well for the quarter with a return of 3.0%, beating its own policy benchmark (2.4%) and was just modestly behind the total fund policy benchmark (3.6%). The U.S. fixed income composite produced an overall gain of 2.8%, down from last quarter's 4.0% as the Fed's pledge to keep interest rates low for an extended period of time and its continued asset purchase program helped provide additional liquidity that drove more yield-seeking investors away from investment grade issues. On the other hand, as the Fed's action further weakened the dollar in the third quarter, the international fixed income composite was able to earn a higher return relative to its U.S. counterpart with a gain of 4.6%.
- ◆ **Real Assets Exposure:** The System's Real Assets segment could not duplicate prior quarter's success, when it was the highest returning major asset class, but it still finished the third quarter with a small positive gain of 0.9%, which trailed both the total fund policy benchmark as well as its own custom policy benchmark (2.2%). Most of this performance was driven by the real estate component, whose portfolio assets represented 87% of the Real Assets composite and finished the quarter with a 1.2% return.
- ◆ **Inflation Exposure:** The CalPERS Inflation composite produced the highest gain among the six major asset classes during the third quarter, with a return of 5.9% that beat the total fund policy benchmark as well as its own custom policy benchmark (4.9%). Inflation's performance continued to be driven by the volatile commodities exposure, which worked in its favor this quarter as a large run up in energy (particularly oil) prices helped push the commodities portfolio return to 10.2%.
- ◆ **Liquidity:** CalPERS' Liquidity/short-term asset class reported a third quarter return of 0.4%, missing its custom policy benchmark's 1.5% return and the total fund policy benchmark.
- ◆ **Absolute Return Strategy:** The Absolute Return Strategy (ARS) program generated a modest gain of 2.2% during the third quarter. This performance trailed relative to the total fund policy benchmark but was ahead of ARS' own custom policy benchmark (1.4%).



Growth Review for PERF Periods Ended 9/30/2012

Growth Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Growth	62.6%	64.0%	-1.4%
Public Equity	49.1%	50.0%	-0.9%
Private Equity	13.5%	14.0%	-0.5%

Growth Segment Performance

	Market Value						VaR ²²	5-year Sharpe Ratio ²³	5-year Info Ratio ²⁴
		Qtr	1-Year	3-Year	5-Year	10-Year		Ratio ²³	Ratio ²⁴
GROWTH	151.5	5.4%	16.4%	9.8%	-0.8%	8.8%	\$30.3 bil	-0.1	-0.5
<i>Growth Policy Benchmark</i>		4.6%	17.1%	9.7%	1.0%	9.5%		0.0	0.0
<i>Value Added</i>		0.8%	-0.7%	0.1%	-1.8%	-0.7%			
PUBLIC EQUITY¹⁵	118.6	7.0%	21.4%	7.9%	-1.6%	8.4%	\$22.5 bil	-0.1	-0.6
<i>Public Equity Policy Benchmark¹⁶</i>		7.1%	21.6%	7.5%	-0.8%	8.8%		-0.1	0.0
<i>Value Added</i>		-0.1%	-0.2%	0.4%	-0.8%	-0.4%			
US Equity Composite (ex ARS)	55.3	6.4%	29.6%	13.0%	1.1%	8.4%		0.0	-0.2
<i>Custom US Equity Benchmark¹⁷</i>		6.3%	29.8%	13.0%	1.2%	8.4%		0.0	0.0
<i>Value Added</i>		0.1%	-0.2%	0.0%	-0.1%	0.0%			
Total Int'l Equity (ex ARS)	61.4	7.7%	14.8%	3.9%	-3.7%	9.9%		-0.2	0.3
<i>Custom Int'l Equity Benchmark¹⁸</i>		7.4%	14.4%	3.0%	-4.1%	9.7%		-0.2	0.0
<i>Value Added</i>		0.3%	0.4%	0.9%	0.4%	0.2%			
Global Equity Equitization	1.3	5.7%	22.0%	7.9%	-.%	-.%			
<i>Custom Benchmark¹⁹</i>		7.1%	21.6%	7.5%	-.%	-.%			
<i>Value Added</i>		-1.4%	0.4%	0.4%	-.%	-.%			
PRIVATE EQUITY (AIM)²⁰	32.8	-0.1%	1.5%	17.2%	4.9%	10.5%	\$10.4 bil	0.4	-0.4
<i>AIM Policy Benchmark²¹</i>		-4.0%	0.0%	17.4%	10.5%	11.0%		0.6	0.0
<i>Value Added</i>		3.9%	1.5%	-0.2%	-5.6%	-0.5%			
Private Equity Partnership Investments	32.8	-0.1%	1.6%	17.3%	5.0%	10.5%			
Private Equity Distribution Stock	0.0	-23.6%	-36.3%	-13.3%	-6.0%	5.9%			

¹⁵ Includes domestic equity, international equity, corporate governance, and MDP ventures. It does not include asset allocation transition accounts; those accounts are reflected in total fund but are not included in any composite.

¹⁶ The Public Equity Policy Benchmark is a custom global benchmark maintained by FTSE.

¹⁷ The Custom US Equity Benchmark currently represents the FTSE Total Market Index. It is linked historically to its prior benchmarks.

¹⁸ The Custom Int'l Equity Benchmark currently represents the FTSE All World ex US Index. It is linked historically to its prior benchmarks.

¹⁹ The Custom Global Equity Equitization Benchmark is currently the same as the Public Equity Policy Benchmark.

²⁰ The performance of CalPERS' private equity (AIM) investments is 1-quarter lagged.

²¹ The AIM Policy Benchmark currently equals 3% + 1-quarter lagged (67% FTSE US TMI + 33% FTSE AW x-US TMI), and is linked historically to its prior benchmarks.

²² VaR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value.

²³ The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

²⁴ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.

Growth Review for PERF (continued)

Comments Regarding Growth Segment Performance

Helped Performance:

- ◆ **U.S. Equity Exposure:** CalPERS' internal and external U.S. equity composite generated a 3Q return of 6.4% and 6.0%, respectively, and both outperformed the 4.6% return of the Growth policy benchmark.
- ◆ **International Equity Exposure:** The System's international equity portfolios rebounded strongly during the third quarter: the internally managed international equity composite saw a gain of 7.8% while the external international equity composite was closely behind at 7.3%, both beat the Growth asset class' policy benchmark by a good margin.
- ◆ **MDP:** The Manager Development Program also enjoyed a solid quarter with total return of 7.5%, outperforming the Growth policy benchmark.
- ◆ **FoF:** Similar to the other equity programs, the Total Fund of Funds composite did well during the third quarter by generating a 6.5% gain and helped lift the Growth composite's overall return.
- ◆ **Private Equity Exposure:** The private equity composite, represented by the AIM investments, was the only Growth program finishing on a negative note this quarter as it reported a small loss of -0.1%. However, on relative terms the AIM investments actually did very well given that it finished ahead of its own policy benchmark by a wide margin of 385 bps. Therefore the private equity composite, too, is a net performance contributor for the quarter.

Impeded Performance:

- ◆ **Corporate Governance:** The Corporate Governance Program's performance rebounded and finished the third quarter in positive territory, but its overall gain of 4.3% did not quite match the Growth policy benchmark's 4.6% return.
- ◆ **Asset Allocation:** Relative to its asset allocation target, the System was underweight in Growth throughout the third quarter. Given that the asset class as a whole outperformed its policy benchmark, this allocation variance served as a small detractor for the quarter.



Public Equity Review for PERF - U.S. Equity

	<u>Market Value</u>	<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>Date</u>
US Equity Composite (ex ARS)	55.3	6.4%	29.6%	13.0%	1.1%	8.4%	12/79
<i>Custom US Equity Benchmark</i> ²⁵		6.3%	29.8%	13.0%	1.2%	8.4%	
<i>Value Added</i>		0.1%	-0.2%	0.0%	-0.1%	0.0%	
Total Internal US Equity	47.9	6.4%	29.9%	13.3%	1.6%	8.6%	6/88
<i>Custom Internal US Equity Benchmark</i> ²⁶		6.3%	29.8%	13.0%	1.2%	8.4%	
<i>Value Added</i>		0.1%	0.1%	0.3%	0.4%	0.2%	
Total External US Equity	7.3	6.0%	27.6%	10.7%	-0.4%	7.7%	12/98
<i>Custom External US Equity Benchmark</i> ²⁷		6.1%	29.1%	12.7%	1.3%	8.9%	
<i>Value Added</i>		-0.1%	-1.5%	-2.0%	-1.7%	-1.2%	

Public Equity Review for PERF - International Equity

	<u>Market Value</u>	<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>Date</u>
Total Int'l Equity (ex ARS)	61.4	7.7%	14.8%	3.9%	-3.7%	9.9%	12/02
<i>Custom Int'l Equity Benchmark</i> ²⁸		7.4%	14.4%	3.0%	-4.1%	9.7%	
<i>Value Added</i>		0.3%	0.4%	0.9%	0.4%	0.2%	
Total Internal Int'l Equity	48.2	7.8%	14.6%	3.5%	-3.7%	-.%	3/05
<i>Custom Internal Int'l Equity Benchmark</i> ²⁹		7.7%	14.6%	2.8%	-4.4%	-.%	
<i>Value Added</i>		0.1%	0.0%	0.7%	0.7%	-.%	
Total External Int'l Equity	12.7	7.3%	14.9%	5.3%	-3.1%	11.0%	6/89
<i>Custom External Int'l Equity Benchmark</i> ³⁰		6.6%	13.4%	3.4%	-3.7%	10.9%	
<i>Value Added</i>		0.7%	1.5%	1.9%	0.6%	0.1%	

Public Equity Review for PERF - Corporate Governance/MDP/FoF

	<u>Market Value</u>	<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>Date</u>
Total Corporate Governance	4.1	4.3%	14.0%	4.5%	-4.3%	7.4%	12/98
<i>Policy Benchmark</i>		3.6%	15.9%	5.7%	-3.3%	7.3%	
<i>Value Added</i>		0.7%	-1.9%	-1.2%	-1.0%	0.1%	
Total MDP	1.4	7.5%	25.7%	9.7%	-0.1%	7.7%	6/00
<i>Policy Benchmark</i>		7.2%	25.3%	9.3%	0.9%	9.1%	
<i>Value Added</i>		0.3%	0.4%	0.4%	-1.0%	-1.4%	
Total FoF	0.9	6.5%	25.0%	11.7%	-.%	-.%	3/08
<i>Policy Benchmark</i>		6.2%	26.1%	10.9%	-.%	-.%	
<i>Value Added</i>		0.3%	-1.1%	0.8%	-.%	-.%	

²⁵ The Custom US Equity Benchmark currently represents the FTSE Total Market Index. It is linked historically to its prior benchmarks.

²⁶ The Custom Internal US Equity Benchmark currently represents the FTSE Total Market Index. It is linked historically to its prior benchmarks.

²⁷ The Custom External US Equity Benchmark return equals the return for each manager's benchmark weighted at the current target asset allocation.

²⁸ The Custom Int'l Equity Benchmark currently represents the FTSE All World ex US Index. It is linked historically to its prior benchmarks.

²⁹ The Custom Internal Int'l Equity Benchmark currently represents the FTSE Developed World ex US/Tobacco Index. This benchmark is linked historically to its prior benchmarks.

³⁰ The Custom External Int'l Equity Benchmark return equals the return for each manager's benchmark weighted at the current target asset allocation.



Absolute Return Strategies Review for PERF Period Ended 9/30/2012

ARS Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
ARS	2.1%	0.0%	+2.1%

ARS Segment Performance

	<u>Market</u>		<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>5-Year</u>	<u>5-Year Up</u>	<u>5-Year</u>	<u>5-Year</u>
	<u>Value</u>	<u>Qtr</u>					<u>Info</u>	<u>Capture</u>	<u>Sharpe</u>	<u>Sortino</u>
Absolute Return Strategies	5.1	2.2%	1.4%	3.3%	0.2%	5.5%	-1.0	0.0	-0.1	-0.2
ARS Policy Benchmark ³¹		1.4%	5.3%	5.6%	6.8%	9.0%				
Value Added		0.8%	-3.9%	-2.3%	-6.6%	-3.5%				
Total Direct Investments	3.6	2.4%	2.2%	4.7%	0.8%	6.1%				
Total Emerging Fund of Hedge Funds	1.5	1.9%	-0.4%	0.0%	-1.0%					
HFRI Fund of Funds Index		2.4%	2.9%	1.5%	-1.7%	3.6%				

ARS Characteristics

Percentage of positive <u>Months</u>	<u>Beta vs.</u> <u>S&P 500</u>	<u>Rolling Correlations vs. Index</u>			
		<u>PERS</u>	<u>Domestic</u>	<u>MSCI AW</u>	
		<u>W5000</u>	<u>2500</u>	<u>Fixed Index</u>	<u>X US</u>
63%	0.2	0.5	0.5	-0.2	0.5

- ◆ Beta vs. S&P 500: This measures the amount of stock market risk in the portfolio. A beta of 1.0 would indicate that the portfolio's performance should closely track the stock market, while a beta higher than 1.0 implies greater-than-market risk and possibly leverage. The portfolio's beta is 0.2 which implies a weak relationship to stock market return, which is appropriate for this program.
- ◆ Correlation vs. various indices: We have calculated the historical correlation between the ARS and CalPERS' other main asset classes. Over a market cycle, the ARS has shown positive correlation to the equity markets while exhibiting a negative correlation with fixed income markets.

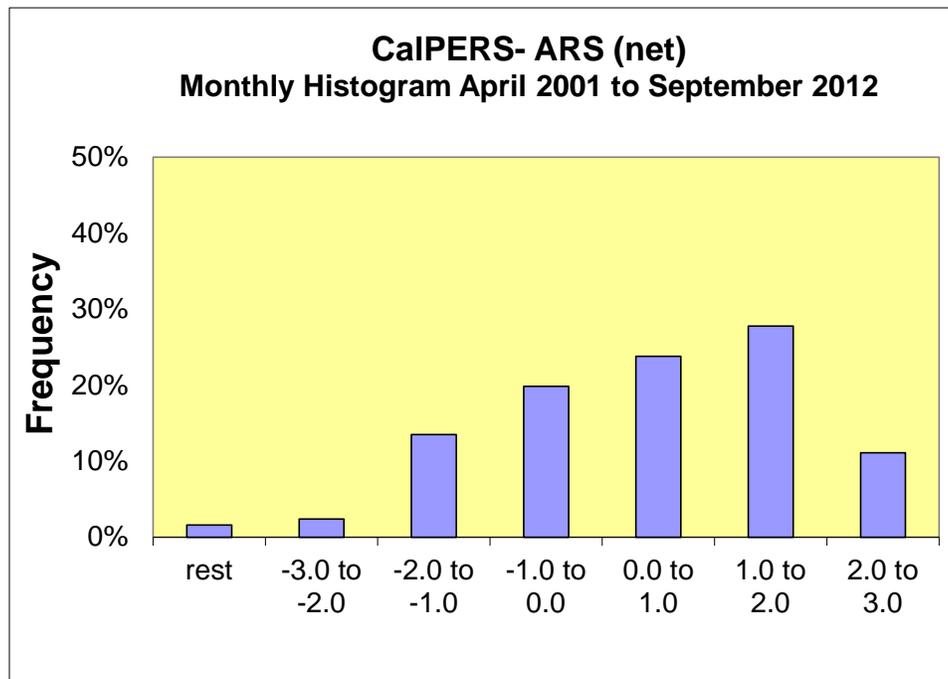
³¹ The ARS Policy Benchmark consists of the Merrill Lynch 1-Year Treasury Note + 5% and is linked historically to its prior benchmark.

³² The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.

³³ The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

³⁴ The Sortino Ratio is measure of a risk-adjusted return of an investment asset. It is an extension of the Sharpe Ratio. While the Sharpe ratio takes into account any volatility, in return of an asset, Sortino ratio differentiates volatility due to up and down movements. The up movements are considered desirable and not accounted in the volatility.

Absolute Return Strategies Review for PERF (Continued)
Period Ended 9/30/2012



- ◆ Histogram: The ARS is designed to generate small amounts of return on a consistent basis. This chart shows the frequency of monthly performance results. A significant number of outlying monthly performance returns would indicate insufficient risk controls. We believe that the distribution of monthly returns is as expected.



Income Review for PERF Periods Ended 9/30/2012

Income Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Income	17.7%	17.0%	+0.7%

Income Segment Performance

	Market Value						5-year Sharpe Ratio ³⁹	5-year Info Ratio ⁴⁰	
		Qtr	1-Year	3-Year	5-Year	10-Year	VaR ³⁸		
INCOME	43.2	3.0%	9.0%	11.0%	9.4%	8.2%	\$5.7 bil	1.3	0.1
<i>Income Policy Benchmark³⁵</i>		2.4%	8.2%	9.4%	9.0%	7.1%		1.3	0.0
<i>Value Added</i>		0.6%	0.8%	1.6%	0.4%	1.1%			
U.S. Income	39.6	2.8%	9.4%	11.5%	9.6%	8.1%		1.3	0.1
<i>U.S. Income Policy Benchmark³⁶</i>		2.3%	8.6%	9.8%	9.2%	7.0%		1.3	0.0
<i>Value Added</i>		0.5%	0.8%	1.7%	0.4%	1.1%			
Non-U.S. Income	3.6	4.6%	5.6%	6.7%	8.2%	8.2%		0.7	0.8
<i>Non-US Income Policy Benchmark³⁷</i>		4.0%	3.7%	4.4%	6.6%	7.3%		0.6	0.0
<i>Value Added</i>		0.6%	1.9%	2.3%	1.6%	0.9%			

Comments Regarding Income Segment Performance

Helped Performance:

- ◆ **Corporate Bonds:** Corporate bonds was among the best performing fixed income portfolios during the third quarter, as investors' search for yield intensified after the Fed announced intention to hold interest rates low through 2015 and by injecting further liquidity into the market through QE3. CalPERS' corporate bonds portfolio returned 6.3% this quarter, easily beating out the Income policy benchmark's 2.4% return.
- ◆ **Sovereign Bonds:** The sovereign bonds portfolio continues to do well; it followed up its 4.8% return from last quarter by gaining another 4.6% during Q3, and was again a small but positive contributor to the Income composite's overall performance.

³⁵ The Income Policy Benchmark return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

³⁶ The US Fixed Income Policy Benchmark consists of the Barclays Long Liability Index and is linked historically to its prior benchmark.

³⁷ The Non-US Fixed Income Policy Benchmark consists of the Barclays International Fixed Income and is linked historically to its prior benchmark.

³⁸ VaR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value.

³⁹ The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

⁴⁰ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.



- ◆ **High Yield Bonds:** Similar to corporate credits, high yield securities benefited from investors' relaxed risk tolerance during the third quarter and saw continued appreciation. Both of the System's internal and external high yield portfolios reported solid gains (of 4.5% and 4.6%, respectively) and outperformed the Income policy benchmark by a large margin.
- ◆ **International Fixed Income:** With the Fed's action during the third quarter further weakened the dollar, the international fixed income portfolio was able to generate a healthy unhedged return of 4.6%, performing better than its own custom benchmark as well as the Income policy benchmark.

Impeded Performance:

- ◆ **Treasury Bonds:** With the expectation of a prolonged low-yield environment drove investors rotating into risk assets, the treasuries portfolio could not keep pace with other higher yielding securities and only posted a small gain of 1.3% in the third quarter.
- ◆ **Mortgage Bonds:** CalPERS' mortgage portfolio reported a small return of 1.6% that underperformed the overall Income policy benchmark for the quarter.



Income Review for PERF (Continued)

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	Date
INCOME	43.2	3.0%	9.0%	11.0%	9.4%	8.2%	6/88
<i>Income Policy Benchmark</i> ⁴¹		2.4%	8.2%	9.4%	9.0%	7.1%	
<i>Value Added</i>		0.6%	0.8%	1.6%	0.4%	1.1%	
Internal US Income + Opportunistic	39.6	2.8%	9.4%	11.5%	9.6%	8.1%	12/95
Mortgage Bonds*	9.7	1.6%	5.1%	7.3%	6.7%	5.6%	12/82
Long Duration Mortgages*	3.3	3.5%	11.5%	13.4%	10.3%	-.-%	6/05
Corporate Bonds*	7.8	6.3%	16.7%	12.7%	10.5%	9.4%	3/02
U.S. Government*	15.1	1.3%	7.3%	10.3%	9.7%	6.5%	12/99
Sovereign Bonds* ⁴²	1.4	4.6%	16.4%	12.3%	9.8%	8.4%	6/96
Long Duration Corporates*	1.9	7.9%	23.1%	17.7%	13.0%	-.-%	9/05
<i>Custom Benchmark</i> ⁴³		2.3%	8.6%	9.8%	9.2%	7.0%	
Opportunistic ⁴⁴	2.3	1.6%	6.1%	15.6%	0.5%	11.7%	6/00
Internal High Yield Bonds*	0.6	4.5%	11.0%	10.4%	12.6%	16.8%	9/99
External High Yield*	1.1	4.6%	17.1%	13.6%	3.4%	8.6%	3/02
High Yield Mortgage*	0.2	7.9%	12.9%	14.0%	-.-%	-.-%	3/08
<i>Citigroup High Yield Cash Pay</i>		4.3%	18.5%	12.4%	8.8%	10.7%	
Special Investments	0.0	2.1%	8.7%	4.4%	5.7%	5.5%	3/91
Total International Fixed Income	3.6	4.6%	5.6%	6.7%	8.2%	8.2%	3/89
<i>Custom Benchmark</i> ⁴⁵		4.0%	3.7%	4.4%	6.6%	7.3%	
<i>Value Added</i>		0.6%	1.9%	2.3%	1.6%	0.9%	
Currency overlay ⁴⁶							
Pareto	0.0	0.2%	-1.4%	-1.4%	-0.9%	0.2%	6/02
<i>Custom Benchmark</i>		0.0%	-0.3%	-0.4%	-0.3%	0.1%	
<i>Value Added</i>		0.2%	-1.1%	-1.0%	-0.6%	0.1%	
SSgA	-0.1	0.2%	-0.5%	-0.2%	0.0%	0.6%	12/96
<i>Custom Benchmark</i>		0.0%	-0.3%	-0.4%	-0.3%	0.1%	
<i>Value Added</i>		0.2%	-0.2%	0.2%	0.3%	0.5%	

⁴¹ The Income Policy Benchmark return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

⁴² The Internal Sovereign Bond market value is also included in the Internal Treasury Bond market value.

⁴³ The custom benchmark consists of the Barclays Long Liability Index. Prior of 3Q 2004 the benchmark was Citigroup LPF.

⁴⁴ Opportunistic includes internal and external high yield. Internal High Yield's market value is included in both the Total Internal Bonds and the Opportunistic Market Values.

⁴⁵ The custom benchmark consists of the Barclays International Fixed Income Index and is linked historically to its prior benchmark.

⁴⁶ The Currency Overlay program is rolled directly into total fund but it is managed by the fixed income managers. The market value is the gain or loss.

* These portfolios and/or composites are unitized and are included across multiple plans.

** These portfolios hold the collateral for the security lending program.



Income Review for PERF (Continued)

	<u>Market</u>	<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>Date</u>
Securities Lending*	11.9	0.2%	0.8%	2.1%	0.9%	2.0%	8/00
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	0.7%	1.9%	
<i>Value Added</i>		0.2%	0.7%	2.0%	0.2%	0.1%	
High Quality LIBOR**	0.8	0.3%	0.9%	0.8%	0.5%	1.8%	9/00
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	0.7%	1.9%	
<i>Value Added</i>		0.3%	0.8%	0.7%	-0.2%	-0.1%	
Short Duration LIBOR**	0.4	0.6%	2.9%	5.1%	2.1%	-.-%	9/02
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	0.7%	-.-%	
<i>Value Added</i>		0.6%	2.8%	5.0%	1.4%	-.-%	
Sec Lending Internal Collateral Reinvest**	0.2	0.2%	1.2%	-.-%	-.-%	-.-%	9/09
<i>Custom Benchmark</i>		0.0%	0.1%	-.-%	-.-%	-.-%	
<i>Value Added</i>		0.2%	1.1%	-.-%	-.-%	-.-%	
Internal Active Short Term**	1.0	0.0%	0.2%	-.-%	-.-%	-.-%	3/11
<i>Custom Benchmark</i>		0.0%	0.0%	-.-%	-.-%	-.-%	
<i>Value Added</i>		0.0%	0.2%	-.-%	-.-%	-.-%	
CaPERS ESEC Cash Collateral**	7.4	0.0%	0.2%	-.-%	-.-%	-.-%	6/10
<i>Custom Benchmark</i>		0.0%	0.1%	-.-%	-.-%	-.-%	
<i>Value Added</i>		0.0%	0.1%	-.-%	-.-%	-.-%	
External Collateral Portfolio***	2.1	4.7%	12.3%	-.-%	-.-%	-.-%	11/00

* The Securities Lending composite is a non-PERF composite. The composite includes the Structure Investment Vehicles performance.

** These portfolios hold the collateral for the securities lending program.

*** This is a structure investment vehicle.



Inflation Performance for PERF Period Ended 9/30/2012

Inflation Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Inflation	3.1%	4.0%	-0.9%

Inflation Performance

	Market Value						5-year Sharpe Ratio ⁵⁰	5-year Info Ratio ⁵¹	
		<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	VaR ⁴⁹		
INFLATION	7.5	5.9%	8.9%	8.9%	4.3%	-.-%	\$0.6 bil	0.2	0.1
<i>Inflation Policy Benchmark</i> ⁴⁷		4.9%	10.1%	7.5%	4.0%	-.-%		0.3	0.0
<i>Value Added</i>		1.0%	-1.2%	1.4%	0.3%	-.-%			
Commodities ⁴⁸	3.5	10.2%	11.7%	6.9%	-5.6%	-.-%			
<i>GSCI Total Return Index</i>		11.5%	12.7%	6.5%	-5.6%	-.-%			
<i>Value Added</i>		-1.3%	-1.0%	0.4%	0.0%	-.-%			
Inflation Linked Bonds	4.1	2.5%	8.4%	8.1%	-.-%	-.-%			
<i>Custom Benchmark</i>		2.7%	8.7%	7.9%	-.-%	-.-%			
<i>Value Added</i>		-0.2%	-0.3%	0.2%	-.-%	-.-%			

- ◆ The CalPERS Inflation asset class posted a gain of 5.9% in the third quarter, erasing all of its losses from the prior quarter and comfortably outperformed its policy benchmark. Most of this can be attributed to the strong appreciation of the commodities portfolio, which benefited from a quick rebound of crude oil prices and to a lesser extent, the draught-driven rally of agricultural items (i.e. wheat). While the commodities portfolio's return of 10.2% for the quarter was strong on an absolute basis, it trailed the 11.5% gain of the GSCI Total Return Index. The inflation linked fixed income portfolio could not keep pace with the commodities counterpart, but still earned a return of 2.5%, just narrowly missing its custom benchmark. While the Inflation asset class' one-year return remains behind its policy benchmark, its longer-term track record have done well and added value.

⁴⁷ The Inflation Policy Benchmark equals the benchmark returns of commodities and TIPS weighted at policy allocation target percentages.

⁴⁸ The commodities overlay portfolio is a derivatives portfolio which has no market value but a notional value approximately equal to the size of the commodities collateral.

⁴⁹ VaR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value.

⁵⁰ The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

⁵¹ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.



Real Assets Review for PERF Period Ended 9/30/2012

Real Assets Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Real Assets	10.2%	11.0%	-0.8%

Real Assets Segment Performance

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	VaR ⁵⁶	5-year Sharpe Ratio ⁵⁷	5-year Info Ratio ⁵⁸
REAL ASSETS	24.7	0.9%	11.0%	4.6%	-11.4%	3.3%	\$2.8 bil	-0.7	-1.1
<i>Real Assets Policy Benchmark</i> ⁵²		2.2%	10.8%	8.6%	3.2%	8.7%		0.5	0.0
<i>Value Added</i>		-1.3%	0.2%	-4.0%	-14.6%	-5.4%			
Real Estate ⁵³	21.6	1.2%	14.3%	5.2%	-12.6%	2.5%	\$2.9 bil	-0.7	-1.1
<i>Real Estate Policy Benchmark</i> ⁵⁴		2.5%	12.6%	10.4%	4.1%	9.1%		0.5	0.0
<i>Value Added</i>		-1.3%	1.7%	-5.2%	-16.7%	-6.6%			
Forestland ⁵⁵	2.1	-0.2%	-11.5%	-3.8%	-.%	-.%			
<i>NCREIF Timberland Index</i>		0.6%	1.1%	-0.7%	-.%	-.%			
<i>Value Added</i>		-0.8%	-12.6%	-3.1%	-.%	-.%			
Infrastructure ⁵⁵	1.0	-0.9%	3.7%	28.1%	-.%	-.%			
<i>CPI + 400 BPS 1Qtr Lag</i>		1.0%	5.7%	7.1%	-.%	-.%			
<i>Value Added</i>		-1.9%	-2.0%	21.0%	-.%	-.%			

- ◆ After posting a strong performance in the second quarter, CalPERS' Real Assets composite cooled off during the third quarter by earning a small positive return of 0.9% and trailed its policy benchmark. The System's real estate portfolios, which mostly consist of private real estate investments and currently represent 87% of the Real Assets composite, underperformed its policy benchmark but did finish the quarter on a positive note with a 1.2% return. On the other hand, Real Assets' remaining two components, forestland and infrastructure portfolios, both reported small losses for the quarter and also underperformed their respective policy benchmarks. The Real Assets composite's one-year return currently remains ahead of its policy benchmark, but it continues to trail over the long-term.

⁵² The Real Assets Policy Benchmark equals the benchmark returns of real estate, timber, and infrastructure weighted at policy allocation target percentages.

⁵³ The Real Estate performance is reported on a 1-quarter lagged basis. The Real Estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

⁵⁴ The Real Estate Policy Benchmark consists of the NCREIF ODCE Index (1-quarter lagged) and the FTSE EPRA/NAREIT Developed Index weighted at their policy allocation target percentages. It is historically linked to its prior benchmarks.

⁵⁵ These investments are reported on a 1-quarter lagged basis.

⁵⁶ VaR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value.

⁵⁷ The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

⁵⁸ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.



Real Assets Review for PERF (Continued) Period Ended 9/30/2012

Real Estate Segment Performance

	<u>Market Value</u>	<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>YaR⁶¹</u>	<u>5-year Sharpe Ratio⁶²</u>	<u>5-year Info Ratio⁶³</u>
Real Estate⁵⁹	21.6	1.2%	14.3%	5.2%	-12.6%	2.5%	\$2.9 bil	-0.7	-1.1
<i>Real Estate Policy Benchmark⁶⁰</i>		2.5%	12.6%	10.4%	4.1%	9.1%		0.5	0.0
<i>Value Added</i>		-1.3%	1.7%	-5.2%	-16.7%	-6.6%			
Strategic Real Estate	13.2	0.3%	16.9%	13.7%	5.0%	14.3%			
<i>Wt. NCREIF ODCE+FTSE EPRA NAREIT</i>		2.5%	12.6%	10.4%	4.1%	9.1%			
<i>Value Added</i>		-2.2%	4.3%	3.3%	0.9%	5.2%			
Legacy Real Estate ex Public	6.9	2.0%	6.7%	-0.8%	-18.4%	-1.5%			
<i>Wt. NCREIF ODCE+FTSE EPRA NAREIT</i>		2.5%	12.6%	10.4%	4.1%	9.1%			
<i>Value Added</i>		-0.5%	-5.9%	-11.2%	-22.5%	-10.6%			
Public REITs	1.1	5.5%	30.4%	12.3%	-3.1%	10.5%			
<i>FTSE EPRA/NAREIT DE Index</i>		5.5%	30.6%	12.9%	-2.2%	11.8%			
<i>Value Added</i>		0.0%	-0.2%	-0.6%	-0.9%	-1.3%			

⁵⁹ The Real Estate performance is reported on a 1-quarter lagged basis. The Real Estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

⁶⁰ The Real Estate Policy Benchmark consists of the NCREIF ODCE Index (1-quarter lagged) and the FTSE EPRA/NAREIT Developed Index weighted at their policy allocation target percentages. It is historically linked to its prior benchmarks.

⁶¹ VaR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value.

⁶² The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

⁶³ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.



Liquidity Review for PERF Period Ended 9/30/2012

Liquidity Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Liquidity	4.3%	4.0%	+0.3%

Liquidity Segment Performance

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	VaR ⁶⁶	5-year Sharpe Ratio ⁶⁷	5-year Info Ratio ⁶⁸
LIQUIDITY	10.6	0.4%	1.8%	1.8%	2.0%	2.6%	\$0.5 bil	N/A	N/A
<i>Liquidity Policy Benchmark</i> ⁶⁴		0.6%	2.3%	2.1%	2.1%	2.5%			
<i>Value Added</i>		-0.2%	-0.5%	-0.3%	-0.1%	0.1%			
US 2-10 Year	5.3	0.7%	2.9%	--%	--%	--%			
<i>Barclays Gov Liquidity 2-10 Yr Idx</i>		0.8%	3.1%	--%	--%	--%			
<i>Value Added</i>		-0.1%	-0.2%	--%	--%	--%			
Cash Composite	5.3	0.0%	0.1%	0.2%	1.0%	2.1%			
<i>Csutom STIF</i> ⁶⁵		0.0%	0.0%	0.1%	0.9%	1.9%			
<i>Value Added</i>		0.0%	0.1%	0.1%	0.1%	0.2%			

⁶⁴The Liquidity Policy Benchmark is a custom index maintained by State Street Bank.

⁶⁵The Custom STIF Policy Benchmark is a custom index maintained by State Street Bank.

⁶⁶VaR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value.

⁶⁷The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

⁶⁸The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.

*CalPERS
Performance Analysis
September 30, 2012*

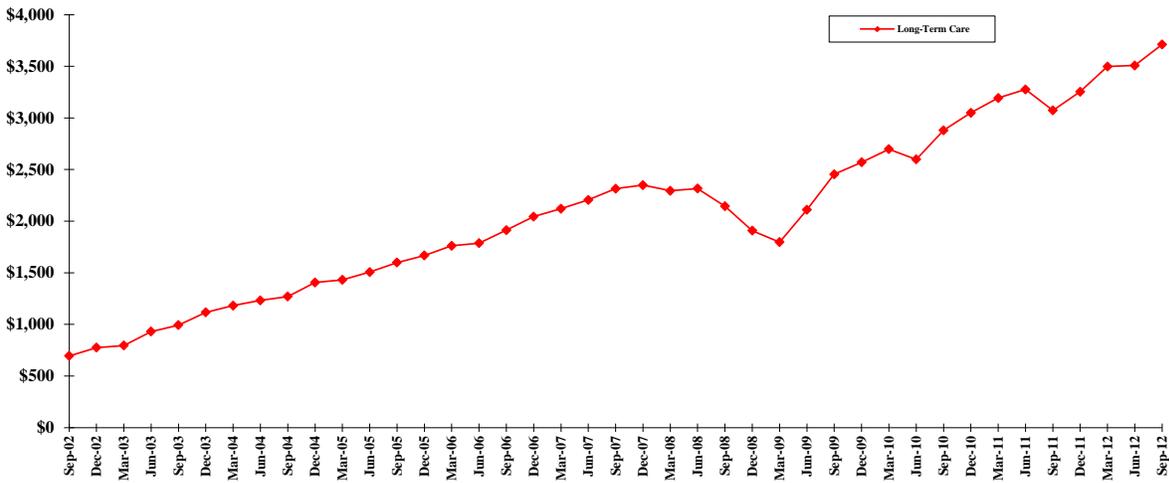
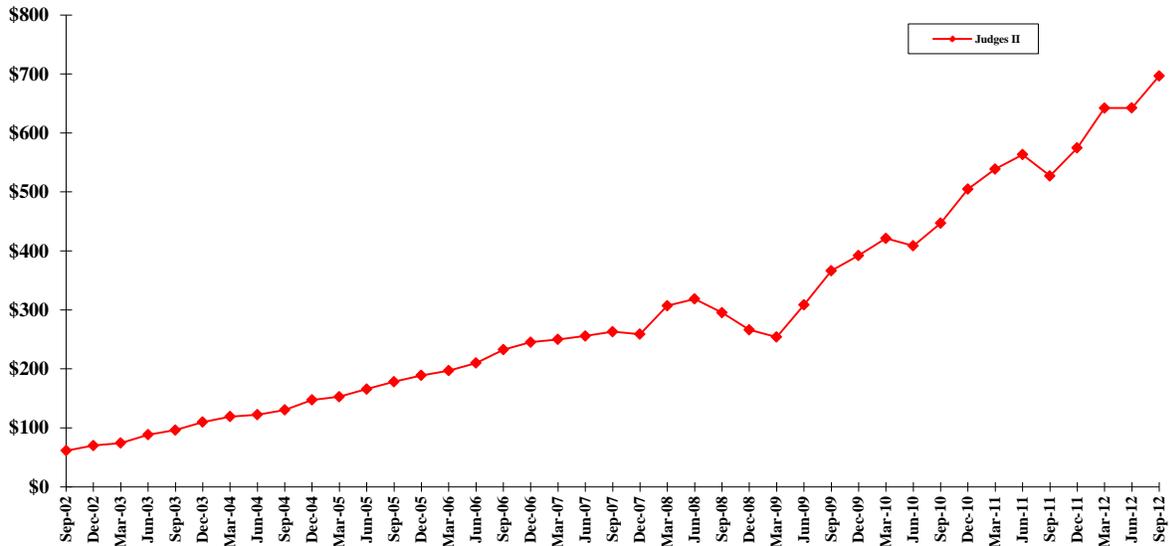


Affiliate Fund Information



Affiliate Fund Performance Period Ended September 30, 2012

Growth in Assets (in \$Millions)





Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2012

	<u>Market Val</u> <u>ue</u>	<u>Qtr</u>	<u>One</u> <u>Year</u>	<u>Three Y</u> <u>ear</u>	<u>Five Ye</u> <u>ar</u>	<u>Ten</u> <u>Year</u>
Judges II <i>Weighted Policy Benchmark</i> ⁶⁹	\$696.8 mil	5.9%	19.0%	9.8%	2.7%	7.9%
		5.8	18.9	9.7	2.9	7.8
Long-Term Care ("LTC") <i>Weighted Policy Benchmark</i> ⁶⁹	\$3,711.3 mil	5.0	16.8	10.0	3.8	8.4
		4.9	17.0	9.8	3.8	8.0

Total Fund Asset Allocation

Judges II Asset Allocation: Actual versus Target Weights*

<u>Asset Class</u>	<u>Actual Asset</u> <u>Allocation (%)</u>	<u>Target Asset</u> <u>Allocation (%)</u>	<u>Difference</u>
Global Equity	62.7	63.0	-0.3
US Fixed Income	20.2	20.0	0.2
TIPS	6.0	6.0	0.0
REITs	8.0	8.0	0.0
Commodities	3.1	3.0	0.1
Total	100.0	100.0	0.0

LTC Asset Allocation: Actual versus Target Weights*

<u>Asset Class</u>	<u>Actual Asset</u> <u>Allocation (%)</u>	<u>Target Asset</u> <u>Allocation (%)</u>	<u>Difference</u>
US Equity	24.9	25.0	-0.1
Int'l Equity	18.8	19.0	-0.2
US Fixed Income	30.2	30.0	0.2
TIPS	15.0	15.0	0.0
REITs	8.0	8.0	0.0
Commodities	3.1	3.0	0.1
Total	100.0	100.0	0.0

⁶⁹ The weighted policy benchmark returns for Judges II and LTC are based on asset class index returns weighted by asset class policy targets.

* The policy allocation targets shown for Judges II are as of 10/1/2011 and for LTC are as of 12/31/2011. The LTC fund is currently transitioning towards a different asset allocation mix. The process was initiated in September 2011 and is expected to be completed in fall of 2012.



Commentary – Total Fund

- ◆ For the quarter ended September 30, 2012, the Judges II (JRS II) reported a total return of 5.9% and finished ahead of its weighted policy benchmark. The Plan's long-term performance matched well against its policy benchmark and has outperformed over the one-, three-, and ten-year marks.
- ◆ The Long-Term Care Program (LTC) generated a third quarter return of 5.0%, also performing better than its weighted policy benchmark's return of 4.9%. The LTC's longer term record has done well, too, outpacing its policy benchmark over the three-year and ten-year periods.
- ◆ At the end of the quarter, Judges II was overweight in U.S. fixed income and commodities while underweight in global equity.
- ◆ The LTC was overweight in U.S. fixed income and commodities while underweight in U.S. equity as well as international equity.

Asset Class Performance Results – Judges II

Judges II Asset Class Performance Periods Ended September 30, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
JRS II Global Equity	\$436.9 mil	7.1%	21.6%	7.9%	-1.8%	7.9%
<i>Global Equity Benchmark</i> ⁷⁰		7.1	21.6	7.9	-1.8	7.8
JRS II US Fixed Income	\$140.8 mil	2.8	9.4	10.9	9.5	7.2
<i>Custom Benchmark</i> ⁷¹		2.3	8.6	9.8	9.2	6.4
JRS II TIPS	\$42.0 mil	2.1	9.0	--	--	--
<i>Custom Benchmark</i> ⁷²		2.1	9.1	--	--	--
JRS II REITs	\$55.7 mil	5.5	30.4	11.6	-2.5	--
<i>Custom Benchmark</i> ⁷³		5.5	30.6	11.6	-3.1	--
JRS II Commodities	\$21.3 mil	10.2	11.7	--	--	--
<i>GSCI Total Return Index</i>		11.5	12.7	--	--	--

⁷⁰ The JRS II Global Equity Benchmark is a custom global benchmark maintained by FTSE starting on 9/8/2011. Prior of that it is calculated as an asset weighted benchmark of its underlying domestic and international funds.

⁷¹ The current US Fixed Income Custom Benchmark is the Barclays Long Liability Index. Barclays Long Liability ex TIPS was used as the benchmark between June 2005 and May 2007. Prior of that the benchmark was Citigroup LPF.

⁷² The TIPS benchmark is the Barclays U.S. TIPS Index.

⁷³ The REIT Custom Benchmark is the FTSE EPRA/NAREIT Developed Index. Historically, it has been the Wilshire RESI and REIT Indices.

Commentary – Judges II

- ◆ JRS II's global equity portfolio rebounded during Q3, rising 7.1% and performed on par with its custom benchmark. Over the one-year and longer periods, the global equity portfolio continues to track very closely to its custom benchmark.
- ◆ The Judges II's U.S. fixed income portfolio generated a modest return of 2.8% that outpaced the 2.3% gain reported by its custom benchmark, the Barclays Long Liability Index. Over the long-term, the fixed income portfolio's track record has also done very well versus the benchmark.
- ◆ The TIPS portfolio saw a small appreciation of 2.1% during this quarter and matched the Barclays U.S. TIPS Index.
- ◆ The Plan's REIT portfolio followed up its second quarter gain with another solid performance, earning a return of 5.5% in Q3 and mirrored its custom benchmark, currently the FTSE EPRA/NAREIT Developed Index. The REIT portfolio also continues to do well over all measured periods shown.
- ◆ The relatively new commodities portfolio was the best performing segment in absolute terms during the third quarter, gaining 10.2%, although it failed to keep pace with the GSCI Total Return Index, which had a return of 11.5% for the quarter.



Asset Class Performance Results – Long-Term Care

Long-Term Care Asset Class Performance Periods Ended September 30, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
LTC US Equity	\$922.0 mil	6.5%	30.0%	13.0%	0.8%	7.8%
<i>Custom Benchmark ⁷⁴</i>		6.5	30.0	13.0	0.8	7.8
LTC Int'l Equity	\$698.2 mil	7.7	14.8	3.0	-4.4	8.9
<i>Custom Benchmark ⁷⁵</i>		7.7	14.6	2.9	-4.4	8.8
LTC US Fixed Income	\$1,122.4mil	2.8	9.4	10.9	9.5	7.4
<i>Custom Benchmark ⁷⁶</i>		2.3	8.6	9.8	9.2	6.4
LTC TIPS	\$557.4 mil	2.1	9.0	9.2	8.1	--
<i>Barclays U.S. TIPS Index</i>		2.1	9.1	9.3	7.9	--
LTC REITs	\$297.4 mil	5.5	30.4	11.6	-2.9	--
<i>Custom Benchmark ⁷⁷</i>		5.5	30.6	11.6	-3.1	--
LTC Commodities	\$113.8 mil	10.2	--	--	--	--
<i>GSCI Total Return Index</i>		11.5	--	--	--	--

Commentary – Long-Term Care

- ◆ The LTC U.S. Equity fund, which is invested in the Custom S&P 500 ex-Tobacco Index Fund, had a positive quarter with a return of 6.5% that matched its custom benchmark. The US equity fund has continued to track very closely to the S&P 500 ex-Tobacco Index over longer-term periods.
- ◆ The LTC international equity fund also turned positive for the quarter, with a return of 7.7% that mirrored its custom benchmark, the FTSE Developed World ex-US & Tobacco Index. Over the long term, the fund continues to track closely to the benchmark.

⁷⁴ The LTC US Equity Custom Benchmark is a custom tobacco-free S&P 500 since February 2001 performance. Prior of that the benchmark was the S&P 500 Index.

⁷⁵ Effective October 1, 2006, the LTC Int'l Custom Benchmark is the FTSE Developed World ex-U.S. & Tobacco Index. Prior of that the benchmark was the MSCI EAFE Index (Net).

⁷⁶ The LTC US Fixed Income Custom Benchmark is the Barclays Long Liability Index. Barclays Long Liability ex TIPS ex High Yield was the benchmark between June 2007 and July 2005. Prior of that the benchmark was the Barclays Aggregate Bond Index.

⁷⁷ The REIT Custom Benchmark is the FTSE EPRA/NAREIT Developed Index. Historically, it has been the Wilshire RESI and REIT Indices.

Commentary – Long-Term Care

- ◆ The LTC U.S. fixed income portfolio continues to produce moderate gains as it was up 2.8% during 3Q, and outpaced its custom benchmark, the Barclays Long Liability Index by 58 bps. Over the long-term, the fixed income portfolio's track record has also done very well relative to its benchmark.
- ◆ The LTC TIPS portfolio again matched its custom benchmark, currently the Barclays U.S. TIPS Index, for the quarter with a small gain of 2.1%. Since its inception, the TIPS portfolio has performed in line with expectations and has added value over the five-year period.
- ◆ The REIT portfolio reported another round of solid performance, finishing the third quarter up 5.5% and matched its custom benchmark, currently the FTSE EPRA/NAREIT Developed Index. The REIT portfolio's longer-term track record also remains strong and continues to track relatively close to its benchmark.
- ◆ The relatively new commodities portfolio rebounded from Q2's steep drop by finishing the third quarter with a 10.2% gain, although it didn't quite keep up with the GSCI Total Return Index's return of 11.5%.

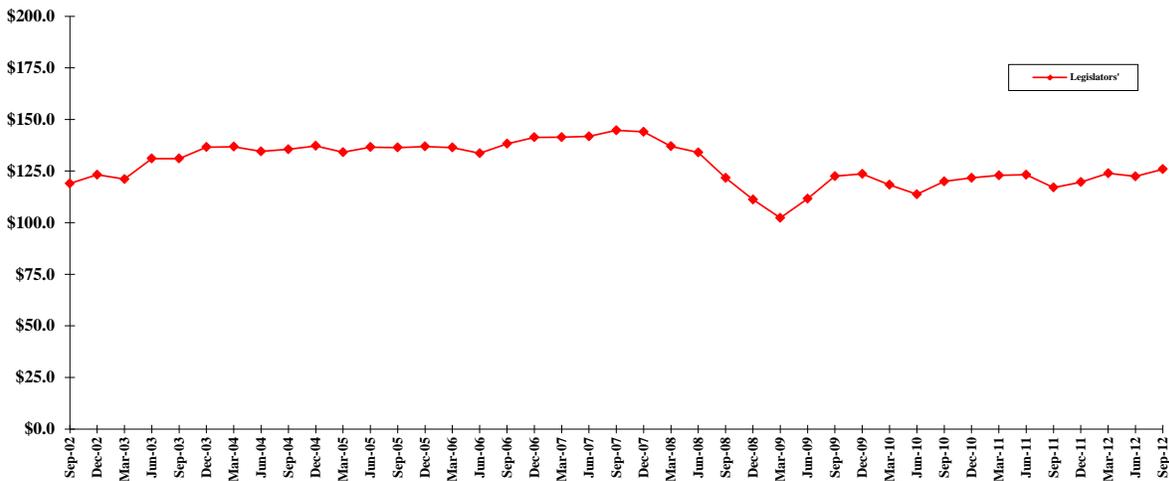
*CalPERS
Performance Analysis
September 30, 2012*



Legislators' Information

California Legislators' Retirement System

Growth in Assets



Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2012

	Market Value	Q tr	One Year	Three Y ear	Five Ye ar	Ten Yea r
LRS	\$125.9 mil	4.5%	15.2%	10.3%	5.5%	7.9%
Weighted Policy Benchmark ⁷⁸		4.3	15.0	10.0	5.4	7.6

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	31.7%	32.0%	-0.3%
US Fixed Income	42.3	42.0	+0.3
TIPS	15.0	15.0	0.0
REITs	8.0	8.0	0.0
Commodities	3.0	3.0	0.0
	100.0	100.0	0.0

⁷⁸ The weighted policy benchmark returns are calculated based on asset class index returns weighted by asset class policy targets.



Commentary

- ◆ The California Legislators' Retirement System ("LRS, the System") performed well in the third quarter, earning an overall gain of 4.6% that beat the 4.3% return of its weighted policy benchmark. The System's longer-term track record also remains well, having outperformed its policy benchmark over all measured periods shown.
- ◆ As of September 30, the System was slightly overweight in U.S. fixed income while underweight in global equity.

Asset Classes Performance Results

Asset Class Performance Periods Ended September 30, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
LRS Global Equity	\$39.9 mil	7.1%	21.6%	8.5%	-1.5%	7.6%
<i>Global Equity Benchmark</i> ⁷⁹		7.1	21.6	8.5	-1.5	7.6
LRS US Fixed Income	\$53.2 mil	2.8	9.4	10.9	9.5	7.3
<i>Custom Benchmark</i> ⁸⁰		2.3	8.6	9.8	9.2	7.0
LRS TIPS	\$18.9 mil	2.1	9.0	9.2	8.1	--
<i>Custom Benchmark</i> ⁸¹		2.1	9.1	9.3	7.9	--
LRS REITs	\$10.1 mil	5.5	30.4	--	--	--
<i>Custom Benchmark</i> ⁸²		5.5	30.6	--	--	--
LRS Commodities	\$3.8 mil	10.2	11.7	--	--	--
<i>GSCI Total Return Index</i>		11.5	12.7	--	--	--

⁷⁹ The LRS Global Equity Benchmark is a custom global benchmark maintained by FTSE starting on 9/8/2011. Prior of that it is calculated as an asset weighted benchmark of its underlying domestic and international funds.

⁸⁰ The current benchmark is the Barclays Long Liability Index. Barclays Long Liability ex TIPS was used as the benchmark between June 2005 and May 2007. Prior of that the benchmark was Citigroup LPF.

⁸¹ The current benchmark is the Barclays U.S. TIPS Index. Prior of July 2007 the benchmark was the Barclays Long Liability TIPS Index.

⁸² The REIT Custom Benchmark is the FTSE EPRA/NAREIT Developed Index.

Commentary

- ◆ The System's global equity portfolio recovered from second quarter's -5.6% decline by posting a gain of 7.1% during the third quarter, matching the performance of its custom benchmark. The portfolio is also performing in line with expectations over the long-term.
- ◆ LRS' U.S. fixed income portfolio returned 2.8% for the quarter and beat its custom benchmark, the Barclays Long Liability Index, which had a return of 2.3%. Over the long-term, the portfolio's track record has done well relative to the benchmark.
- ◆ The LRS TIPS portfolio's 3Q return of 2.1% matched its custom benchmark, currently the Barclays U.S. TIPS Index. The TIPS portfolio's long term performance continues to fare well relative to the benchmark, and has outperformed over the five-year period.
- ◆ The LRS REIT portfolio, funded a year ago, finished the third quarter of 2012 with a solid gain of 5.5%, mirroring its custom benchmark.
- ◆ The LRS commodities portfolio, funded together with the REIT allocation, was the highest returning segment for the quarter with a return of 10.2%. This performance, however, modestly trailed the GSCI Total Return Index's gain of 11.5%

*CalPERS
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California Employers' Retiree Benefit Trust



California Employers' Retiree Benefit Trust Strategy 1

Asset Allocation

Asset Class	Actual	Policy*	Difference
US Equity	34.9%	35.0%	-0.1%
International Equity	30.7	31.0	-0.3
US Bonds	18.2	18.0	+0.2
High Yield	0.0	0.0	0.0
TIPS	5.0	5.0	0.0
REITS	8.0	8.0	0.0
Commodities	3.1	3.0	+0.1
Cash Equivalents	<u>0.1</u>	<u>0.0</u>	<u>+0.1</u>
	100.0	100.0	0.0

Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2012

	Market Val <u>ue</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Total Fund	\$1,876.1 mil	6.0%	20.0%	9.4%	1.8%	--%
<i>Benchmark</i>		5.9	20.2	9.4	1.5	--
Domestic Equity	654.1 mil	6.5	30.0	13.0	0.8	--
<i>Benchmark</i>		6.5	30.0	13.0	0.8	--
International Equity	576.7 mil	7.7	14.8	3.0	-4.4	--
<i>Benchmark</i>		7.7	14.6	2.8	-4.4	--
Fixed Income	341.9 mil	2.8	9.4	10.9	9.5	--
<i>Benchmark</i>		2.3	8.6	9.8	9.1	--
High Yield	0.03 mil	3.3	7.3	9.8	6.6	--
<i>Benchmark</i>		4.3	18.5	12.4	8.8	--
REITs	149.8 mil	5.5	30.4	11.6	-2.5	--
<i>Benchmark</i>		5.5	30.6	11.6	-3.1	--
TIPS	94.1 mil	2.1	9.0	--	--	--
<i>Benchmark</i>		2.1	9.1	--	--	--
Commodities	57.5 mil	10.2	--	--	--	--
<i>Benchmark</i>		11.5	--	--	--	--
Cash	2.0 mil	0.0	0.0	0.2	0.9	--

* The policy asset allocation targets shown are interim targets as of 1/1/2012. The CERBT Strategy 1 is currently transitioning towards a different asset allocation mix. The process was initiated in September 2011 and is expected to be completed in fall of 2012.



California Employers' Retiree Benefit Trust Strategy 2

Asset Allocation

Asset Class	Actual	Policy*	Difference
US Equity	19.9%	20.0%	-0.1%
International Equity	29.7	30.0	-0.3
US Bonds	24.3	24.0	+0.3
TIPS	15.1	15.0	+0.1
REITS	8.0	8.0	0.0
Commodities	3.0	3.0	0.0
Cash Equivalents	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
	100.0	100.0	0.0

Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2012

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total Fund	\$359.5 mil	5.3%	16.7%	--%	--%	--%
<i>Benchmark</i>		5.2	16.9	--	--	--
Domestic Equity	71.4 mil	6.5	30.0	--	--	--
<i>Benchmark</i>		6.5	30.0	--	--	--
International Equity	106.8 mil	7.7	14.8	--	--	--
<i>Benchmark</i>		7.7	14.6	--	--	--
Fixed Income	87.3 mil	2.8	9.4	--	--	--
<i>Benchmark</i>		2.3	8.6	--	--	--
TIPS	54.2 mil	2.1	9.0	--	--	--
<i>Benchmark</i>		2.1	9.1	--	--	--
REITs	28.8 mil	5.5	30.4	--	--	--
<i>Benchmark</i>		5.5	30.6	--	--	--
Commodities	11.0 mil	10.2	11.7	--	--	--
<i>Benchmark</i>		11.5	12.7	--	--	--
Cash	0.01 mil	0.0	0.0	--	--	--

* The policy asset allocation targets shown are interim targets as of 10/1/2011. The CERBT Strategy 2 is currently transitioning towards a different asset allocation mix. The process was initiated in September 2011 and is expected to be completed in fall of 2012.



California Employers' Retiree Benefit Trust Strategy 3

Asset Allocation

Asset Class	Actual	Policy*	Difference
US Equity	12.6%	12.8%	-0.2%
International Equity	18.9	19.2	-0.3
US Bonds	42.2	42.0	+0.2
TIPS	15.0	15.0	0.0
REITS	8.0	8.0	0.0
Commodities	3.0	3.0	0.0
Cash Equivalents	<u>0.3</u>	<u>0.0</u>	<u>+0.3</u>
	100.0	100.0	0.0

Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2012

	Market Val ue	Qtr	One Year	Three Year	Five Year	Ten Year
Total Fund	\$30.9 mil	4.6%	--%	--%	--%	--%
<i>Benchmark</i>		4.4	--	--	--	--
Domestic Equity	3.9 mil	6.5	--	--	--	--
<i>Benchmark</i>		6.5	--	--	--	--
International Equity	5.9 mil	7.7	--	--	--	--
<i>Benchmark</i>		7.7	--	--	--	--
Fixed Income	13.0 mil	2.8	--	--	--	--
<i>Benchmark</i>		2.3	--	--	--	--
TIPS	4.6 mil	2.1	--	--	--	--
<i>Benchmark</i>		2.1	--	--	--	--
REITs	2.5 mil	5.5	--	--	--	--
<i>Benchmark</i>		5.5	--	--	--	--
Commodities	0.9 mil	10.2	--	--	--	--
<i>Benchmark</i>		11.5	--	--	--	--
Cash	0.1 mil	0.0	--	--	--	--

* The policy asset allocation targets shown are interim targets as of 10/1/2011. The CERBT Strategy 3 is currently transitioning towards a different asset allocation mix. The process is expected to be completed in fall of 2012.



Health Care Bond Fund

Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Health Care Bond Fund	\$396.6 mil	2.2%	6.7%	6.9%	6.5%	--%
<i>Benchmark</i>		1.6	5.2	6.2	6.5	--

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Supplemental Income Plans



Supplemental Income Plan Performance

Net Fund Performance Results – Supplemental Contribution Plan

Periods Ended September 30, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
CalPERS International Index	\$146.8 thous	7.7	14.7	2.9	--
<i>FTSE Dev. World Index Ex-US</i>		7.7	14.6	3.0	--
CalPERS Small/Mid Equity Index	\$496.4 thous	5.6	31.5	14.3	--
<i>Russell 2500</i>		5.6	30.9	14.1	--
CalPERS Target 2010	\$107.4 thous	3.8	14.5	7.4	--
<i>SIP 2010 Index</i>		3.9	15.0	8.7	--
CalPERS Target 2015	\$46.9 thous	4.2	15.9	7.7	--
<i>SIP 2015 Index</i>		4.4	16.6	9.0	--
CalPERS Target 2020	\$86.5 thous	4.6	17.1	7.8	--
<i>SIP 2020 Index</i>		4.8	17.9	9.1	--
CalPERS Target 2025	\$65.8 thous	5.2	19.0	--	--
<i>SIP 2020 Index</i>		5.5	19.9	--	--
CalPERS Target 2030	\$0.5 thous	5.5	20.5	8.3	--
<i>SIP 2030 Index</i>		6.0	21.7	9.7	--
CalPERS Target 2035	\$8.8 thous	5.9	22.2	--	--
<i>SIP 2035 Index</i>		6.4	23.5	--	--
CalPERS Target 2040	\$99.2 thous	6.1	22.7	8.7	--
<i>SIP 2040 Index</i>		6.6	23.9	10.1	--
CalPERS Target 2045	\$41.5 thous	6.1	22.7	--	--
<i>SIP 2045 Policy</i>		6.6	23.9	--	--
CalPERS Total Return Bond Fund	\$520.3 thous	2.1	6.4	6.6	--
<i>Barclays Aggregate Bond Index</i>		1.6	5.2	6.2	--
CalPERS Target Income	\$162.8 thous	3.1	11.3	6.6	--
<i>SIP Income Policy</i>		3.0	11.3	7.8	--
CalPERS TIPS Securities	\$521.6 thous	2.0	8.7	8.9	--
<i>Barclays U.S. TIP Index</i>		2.1	9.1	9.3	--
PIMCO Short Term Bond Fund	\$30.0 thous	0.7	2.0	--	--
<i>CalPERS ML 6-month T-Bill</i>		0.1	0.2	--	--

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	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
CalPERS Aggressive Asset Allocation Fund <i>SIP Aggressive Policy</i>	\$22.1 thous	6.1 6.6	22.7 23.9	8.7 10.1	-- --
CalPERS Moderate Asset Allocation Fund <i>SIP Moderate Policy</i>	\$14.9 mil	4.8 5.0	17.7 18.4	7.9 9.2	-- --
CalPERS Conservative Asset Allocation <i>SIP Conservative Policy</i>	\$281.9 thous	3.1 3.0	11.3 11.3	6.6 7.8	-- --
CalPERS S&P 500 Equity Index <i>S&P 500 Index</i>	\$790.4 thous	6.4 6.4	30.2 30.2	13.2 13.2	-- --
AllianceBernstein Large Cap Value <i>Russell 1000 Value</i>	\$8.7 thous	4.3 6.5	21.0 30.9	5.7 11.8	-- --
Pyramis Select International <i>CalPERS FTSE Dev World x-US</i>	\$20.2 thous	7.7 7.6	17.1 14.8	3.6 2.8	-- --
Turner Large Cap Growth <i>Russell 1000 Growth</i>	\$17.2 thous	5.5 6.1	22.3 29.2	9.0 14.7	-- --
The Boston Company SMID Growth <i>Russell 2500 Growth</i>	\$15.8 thous	5.0 5.2	32.7 29.5	-- --	-- --
The Boston Company SMID Value <i>Russell 2500 Value</i>	\$4.8 thous	4.7 5.9	29.4 32.2	-- --	-- --
SSgA STIF <i>BofAML 3-month US T-Bill</i>	\$753.1 thous	0.0 0.0	-0.2 0.1	-- --	-- --

Net Fund Performance Results – State Peace Officers’ & Firefighters’ (POFF) Defined Contribution Plan

Periods Ended September 30, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
State Peace Officers’ & Firefighters Plan (POFF) <i>SIP Moderate Policy</i>	\$483.0 mil	4.8% 5.0	17.7% 18.4	7.9% 9.2	1.5% 2.6	6.3% 7.2

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CalPERS 457 Program Net Funds Periods Ended September 30, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
CalPERS S&P 500 Equity Index	\$161.0 mil	6.3	29.8	12.9	0.9	7.8
<i>S&P 500 Index</i>		6.4	30.2	13.2	1.1	8.0
AllianceBernstein Large Cap Value	\$4.5 mil	4.2	20.7	5.5	-3.8	--
<i>Russell 1000 Value</i>		6.5	30.9	11.8	-0.9	--
Turner Large Cap Growth	\$45.6 mil	5.4	22.0	8.8	-2.1	--
<i>Russell 1000 Growth</i>		6.1	29.2	14.7	3.2	--
CalPERS Small/Mid Equity Index	\$124.6 mil	5.5	31.1	13.9	2.6	--
<i>Russell 2500 Index</i>		5.6	30.9	14.1	2.8	--
CalPERS Total Return Bond Fund	\$66.2 mil	2.0	6.2	6.4	6.0	--
<i>Barclays Aggregate</i>		1.6	5.2	6.2	6.5	--
CalPERS TIPS Securities	\$44.4 mil	1.9	8.4	8.7	7.5	--
<i>Barclays U.S. TIPS Index</i>		2.1	9.1	9.3	7.9	--
CalPERS International Index	\$15.6 mil	7.6	14.4	2.6	-4.7	--
<i>FTSE Dev. World Index Ex-US</i>		7.7	14.6	3.0	-4.2	--
Boston Company SMID Growth	\$5.7 mil	5.0	32.7	16.0	--	--
<i>Russell 2500 Growth Index</i>		5.2	29.5	15.2	--	--
Boston Company SMID Value	\$2.3 mil	4.7	29.4	9.3	--	--
<i>Russell 2500 Value Index</i>		5.9	32.2	13.1	--	--
Pyramis Select International	\$31.8 mil	7.6	16.8	3.5	--	--
<i>CalPERS FTSE Dev World x-US</i>		7.6	14.8	2.8	--	--
CalPERS Conservative Asset Allocation	\$37.4 mil	3.1	11.2	6.5	--	--
<i>SIP Conservative Index</i>		3.0	11.3	7.8	--	--
CalPERS Moderate Asset Allocation Fund	\$111.4 mil	4.8	17.6	7.9	--	--
<i>SIP Moderate Policy</i>		5.0	18.4	9.2	--	--
CalPERS Aggressive Asset Allocation	\$53.2 mil	6.0	22.6	8.6	--	--
<i>SIP Aggressive Policy</i>		6.6	23.9	10.1	--	--
CalPERS Target Income Fund	\$12.8 mil	3.1	11.2	6.5	--	--
<i>SIP Income Policy</i>		3.0	11.3	7.8	--	--

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CalPERS 457 Program Net Funds Periods Ended September 30, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
CalPERS Target 2005 Fund	\$2.2 mil	3.4	12.5	6.8	--	--
<i>SIP 2005 Policy</i>		3.4	12.8	8.2	--	--
CalPERS Target 2010 Fund	\$16.2 mil	3.8	14.4	7.3	--	--
<i>SIP 2010 Policy</i>		3.9	15.0	8.7	--	--
CalPERS Target 2015 Fund	\$24.6 mil	4.2	15.8	7.6	--	--
<i>SIP 2015 Policy</i>		4.4	16.6	9.0	--	--
CalPERS Target 2020 Fund	\$32.8 mil	4.6	17.0	7.7	--	--
<i>SIP 2020 Policy</i>		4.8	17.9	9.1	--	--
CalPERS Target 2025 Fund	\$12.9 mil	5.1	18.9	8.0	--	--
<i>SIP 2025 Policy</i>		5.5	19.9	9.4	--	--
CalPERS Target 2030 Fund	\$18.4 mil	5.5	20.7	8.3	--	--
<i>SIP 2030 Policy</i>		6.0	21.7	9.7	--	--
CalPERS Target 2035 Fund	\$5.4 mil	5.9	22.1	8.6	--	--
<i>SIP 2035 Policy</i>		6.4	23.5	10.1	--	--
CalPERS Target 2040 Fund	\$10.5 mil	6.0	22.6	8.6	--	--
<i>SIP 2040 Policy</i>		6.6	23.9	10.1	--	--
CalPERS Target 2045 Fund	\$1.3 mil	6.0	22.6	8.6	--	--
<i>SIP 2045 Policy</i>		6.6	23.9	10.1	--	--
CalPERS Target 2050 Fund	\$0.7 mil	6.0	22.6	8.6	--	--
<i>SIP 2050 Policy</i>		6.6	23.9	10.1	--	--
SSgA STIF	\$142.4 mil	-0.1	-0.4	--	--	--
<i>BofAML 3-month US T-Bill</i>		0.0	0.1	--	--	--
PIMCO Short-Term Bond Fund	\$10.0 mil	0.6	1.8	--	--	--
<i>ML 6-month T-Bill</i>		0.1	0.2	--	--	--