MEMORANDUM

To: Members of the Investment Committee, California Public Employees' Retirement System

Date: November 12, 2012

From: Stephen McCourt, David Altshuler, Meketa Investment Group

Re: Infrastructure Program Quarterly Review for the period ending June 30, 2012

This Memorandum provides a review of CalPERS Infrastructure Program for the quarter ending June 30, 2012.

BACKGROUND

CalPERS created its Infrastructure allocation in 2007 as part of the Inflation Linked Asset Class Program. In 2011, Infrastructure was transferred to the Real Assets asset class. The Program has a target allocation of two percent of the total plan, which was equal to approximately $4.6 billion at the end of the second quarter[1].

Aggregate Portfolio (6/30/2012)	
Number of Investments	6
Committed Capital	$1.097 billion
Called Capital	$838 million
Distributions	$165 million
Reported Value	$1.035 billion
IRR[2]	16.6%

Compliance with Policy Parameters

Per the Infrastructure Policy approved by the Investment Committee in August 2011, key Policy parameters related to diversification are applicable only when the Program NAV exceeds $3 billion. As of June 30, 2012, the Program NAV was $1.035 billion. While the Policy guidelines are not yet applicable, a dollar cap by allocation applies at all times[3]. The Program was in compliance with these caps as of June 30, 2012.

[1] As of 6/30/2012, the market value of the total plan was approximately $233 billion.
[2] IRR is net of fees, since inception.
[3] According to Policy, Risk and Geographic allocations are not to exceed, on a dollar basis, the upper end of a range multiplied by the Program Allocation Target.

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Below, we provide a comparison of Program investment activity with Policy guidelines, based on data prepared by Staff:

- **Risk:** The Infrastructure Program utilizes a three-part risk classification system comprised of Defensive, Defensive Plus, and Extended categories, and has assigned long-term strategic ranges and limits for each. At quarter-end, 20% of investments were classified as "Defensive," (compared to a Policy range of 25-75%); 51% of investments were classified as "Defensive Plus" (compared to a Policy range of 25-65%) and 29% of investments were classified as "Extended" (compared to a Policy limit of range of 0-10%).
- **Region:** The Infrastructure Program targets investments in the U.S., OECD countries ex U.S., and Less Developed regions. At quarter-end, 47% of program assets were invested in the U.S. (compared to a Policy range of 40-80%) and 53% of Program assets were invested in OECD countries ex U.S. Over time, we expect increased investment activity in the U.S., both through the Direct Investments allocation, and CalPERS California Infrastructure outreach initiative.
- **Leverage:** The combined leverage ratio on the Program's investments was 48% at year end (compared to a limit of 65% leverage on the overall Program portfolio). The leverage level is prudent and consistent with the Program objective of targeting low-risk investments with efficient levels of leverage.
- **Concentration:** Program commitments are all within the long-term concentration ranges, including private and public equities, debt, commitments to single funds, direct investments, and single fund investments[1].

Performance

The Infrastructure Program is focused on achieving stable performance over the long-term through commitments to a combination of illiquid private market partnerships and direct investments. The Program is still in an early stage, with less than one-quarter of the target allocation invested as of June 30, 2012. And, as a new program, performance of the majority of investments is unrealized.

[1] One commingled fund acquired prior to the Program's inception exceeds the ownership limit of 25% for a commingled fund.

Performance vs. Policy Benchmark[1]

	2Q 2012 (%)	1-Year (%)	3-Year (%)	Since Inception (%)
Infrastructure Program	-0.9	3.7	28.1	8.0
Program Benchmark	1.0	5.7	6.8	6.9
Value-Added	**-1.9**	**-2.1**	**21.3**	**1.0**

The Infrastructure Program benchmark is CPI +4%. As of June 30, 2012, the benchmark was equal to a nominal return of 1.0%. Infrastructure investments underperformed the Program benchmark during quarter by -1.9%, comprised of a -2.2% return by Commingled Funds (62% of the portfolio), and 1.3% return by Direct Investments (38% of the portfolio). No new investments were made during the second quarter.

Please do not hesitate to contact us, should you have questions or require additional information.

Sincerely,

David Altshuler
Senior Vice President

Stephen P. McCourt, CFA
Managing Principal

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[1] All returns are time weighted. The Program benchmark is CPI + 4%.