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Managing Director & Principal

November 20, 2012

Mr. Henry Jones
Chair of the Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Forestland Portfolio Review

Dear Mr. Jones:

You requested Wilshire's opinion with respect to the Forestland Portfolio Program Update. In addition to our duties as the General Pension Consultant to the Investment Committee, Wilshire acts as the Board's Forestland Consultant. Additionally, we are providing various observations about the current timberland markets and the drivers of supply and demand as an overall market update.

Overview and Opinion

As we have noted in prior reviews, Wilshire believes that the Forestland portfolio will help CalPERS meet its long term return goals and will provide diversification and some protection against inflation. The portfolio continues to deviate significantly from the NCREIF Timberland Index with respect to leverage and geographic exposure, which has caused performance to lag over the past several years.

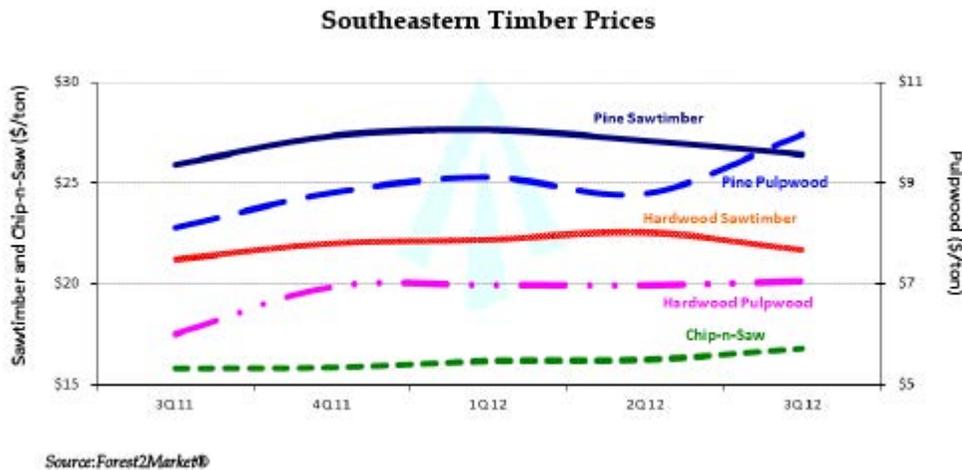
Even though performance continues to be challenged with respect to the long term goals of the program and the NCREIF benchmark, we believe that the internationally diversified portfolio is appropriate. Again, we note the relative lack of diversification within the domestic markets and continue to believe that, over time, the U.S. portfolio should be managed to include exposure to other regions, including the Pacific Northwest and Northeast timber markets.

Background

The Forestland Portfolio consists of only two assets. However, because the assets hold multiple parcels of forestland, the total portfolio is diversified across the U.S., Latin America, and Asia Pacific markets. Within the U.S., the portfolio is entirely

concentrated in the Southern markets with no exposure to the Northeast or Pacific Northwest. While we have no evidence to believe that any one geographic region or type of wood should outperform the others, increasing diversification as the program grows will help to reduce the risk that results from an overconcentration to any particular area or end product.

Southern U.S. timber prices have been fairly stable over the past year, although sawtimber prices have fallen slightly in the last several months¹. Given the portfolio's exposure to sawtimber, which is used in housing construction, this exposure was a contributing factor the portfolio's performance of late



Housing starts continue to improve, but remain at depressed levels compared to several years ago. Housing starts, which reached 1.35 million in 2007 and hit a low of 554,000 in 2009 are now showing seasonally adjusted annual rates approaching 894,000, according to the National Associate of Home Builders. Continued improvement in the housing markets, supported by low mortgage rates, should bode well for timber markets.

Domestic transaction volume remains low and tends to be focused in the Southern markets – Virginia, Arkansas, South Carolina, etc. Properties currently for sale and completed transactions over the last three months range in size from 8,700 acres to 81,000 acres.

Wilshire has reviewed the Policy for the Forestland Program and believe that the program is in compliance with its Policy. Wilshire notes that the Policy calls for diversification by Revenue Source, which we believe can and should be enhanced since

¹ Source: Forest Investment Associates

92% of the portfolio is sawtimber. However, Staff has engaged Meketa Investment Group to assist with the development of the Forestland Strategic Plan and we believe that no significant restructuring of the existing portfolio should occur prior to the completion of that project. In addition, the Investment Committee is scheduled to complete an asset allocation study in 2013, which could impact the size of the Forestland portfolio. Therefore, unless a meaningful opportunity to purchase additional properties at a significant discount or to sell at an outsized gain arises, we would expect no transactions to occur in the program in the next 6-12 months.

Conclusion

The returns of the Forestland Program have not met its benchmark over recent periods. However, as we have noted before, we believe the strategic role of timberland is important to the CalPERS portfolio and that the diversified nature of the Portfolio will benefit CalPERS going forward. Additional regional diversification within the U.S. would be advantageous for diversification and risk reduction as the program evolves over time. However, Wilshire recognizes that the timber market is fragmented and significant parcels are sought after by many investors. Thus, pricing cannot be ignored in the continued management of this portfolio and this may cause the portfolio to evolve rather slowly.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read 'Alan J. ...'.