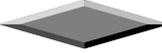



**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
INVESTMENT COMMITTEE**

**MINUTES OF MEETING
OPEN SESSION**

December 10, 2012



The Investment Committee met on Monday, December 10, 2012 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:35 a.m. and the following members were present:

Henry Jones, Chair
George Diehr, Vice-Chair
Michael Bilbrey
Julie Chapman, represented by Darlene Schell
John Chiang, represented by Terrence McGuire
Richard Costigan
Dan Dunmoyer
Rob Feckner
JJ Jelincic
Bill Lockyer
Priya Mathur
Bill Slaton

Bill Lockyer was also represented by Pam Milliron.

The Chair opened the meeting by acknowledging the success of the Emerging Manager Workshop held December 3, 2012, at the Sacramento Convention Center.

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

Joseph Dear, Chief Investment Officer, provided the CIO Briefing. Mr. Dear highlighted key changes in the current state and outlook of the economy since the last report, including areas of improvement and decline in the markets. Mr. Dear also provided his observations regarding the impending U.S. fiscal cliff.

AGENDA ITEM 3 – CONSENT ITEMS

On **MOTION** by Mr. Costigan, **SECONDED** and **CARRIED**, that the following action consent items be approved as presented. The motion passed.

- a. Approval of the November 13, 2012 Open Session Meeting Minutes
- b. Annual Report to the Legislature – Iran and Sudan Divestment
- c. Revision of the Total Fund Benchmarks Policy to Include the Multi-Asset Class Partners Program

AGENDA ITEM 4 – CONSENT ITEMS

The Committee accepted the following information consent items:

- a. Annual Calendar Review
- b. Draft Agenda for the February 19, 2013 Committee Meeting
- c. Activity Reports
 1. Total Fund Monthly Update
 2. Special Review Implementation Plan – Investment Office

The Chair directed staff to follow up with Mr. Jelincic regarding a question he had on item 4c(1), the Total Fund Monthly Update.

AGENDA ITEM 5a – ASSET ALLOCATION, PERFORMANCE & RISK, Adoption of the Terminated Agency Pool Investment Strategy and Related Policy

Ben Meng, Senior Portfolio Manager, and Alan Milligan, Chief Actuary, presented the item. Michael Schlachter with Wilshire Associates, the Board's Primary Pension Consultant, and Peter Mixon, CalPERS General Counsel, were available to answer questions from the Committee. The presentation included an asset allocation recommendation and revised statement of investment policy for the Terminated Agency Pool (TAP).

On **MOTION** by Mr. McGuire, **SECONDED** and **CARRIED**, to approve the adoption of the Terminated Agency Pool investment strategy and revised statement of investment policy as presented by staff. The motion passed.

AGENDA ITEM 6a – POLICY & DELGATION, Adoption of the Global Equity Program Policy and Repeal of Legacy Policies

Eric Baggesen, Senior Investment Officer, presented the item. It was noted that some components of the Policy, especially those related to risk and tracking error, will be reviewed through the 2013 Strategic Asset Allocation Decision process.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED**, to approve the adoption of the Global Equity Program Policy and the repeal of nine legacy policies. The motion passed. Mr. Jelincic voted no.

AGENDA ITEM 7a – ASSET ALLOCATION, PERFORMANCE & RISK, Quarterly Risk Management Update

Eric Baggesen, acting Senior Investment Officer for Risk Management and Asset Allocation, presented the item. The presentation included an update on the current risk for the Total Fund, regional and currency exposures, and forecasted risk as of September 30, 2012. It was noted that the Total Fund forecasted risk level has decreased from the previous quarter (14.9% to 14.0%); however, it remains higher than the 11.9% estimated at the 2010 Asset Liability Management Workshop.

AGENDA ITEM 8 – Revision of Global Fixed Income Program Policy

Curtis Ishii, Senior Investment Officer, presented the first reading of the revised Global Fixed Income Program Policy. It was noted that the revised Policy would allow a maximum of 10% in notional leverage. Andrew Junkin, with Wilshire Associates, was available to answer questions from the Committee.

The Chair requested that staff present opinion letters from the Board's Investment Consultants on future first reading policy items.

AGENDA ITEM 9a – BUSINESS PLAN/ ROADMAP, Investment Office Roadmap Update

Joseph Dear, Chief Investment Officer, presented an update on the Investment Office Roadmap. The presentation included an overview of the six strategic priorities with key objectives and initiatives necessary to advance the Investment Office's strategic priorities in the coming years.

AGENDA ITEM 10a – ORGANIZATIONAL SYSTEMS & CONTROL, 2013 Investment Committee Calendar

Janine Guillot, Chief Operating Investment Officer, presented the item. The presentation included an overview of proposed enhancements for the 2013 Investment Committee calendar. It was noted that the key focus for 2013 includes the strategic asset allocation decision process and investment beliefs.

The Committee recessed from 12:41 p.m. to 1:20 p.m.

AGENDA ITEM 11a – PROGRAM REVIEWS, Absolute Return Strategies Program Review – Discussion of the Role of the Absolute Return Strategies Program

Joseph Dear, Chief Investment Officer, and Ed Robertiello, Senior Portfolio Manager presented the item. Michael Schlachter with Wilshire Associates Consulting, was available to answer questions from the Committee. The presentation included an overview of the performance and key initiatives of the Absolute Returns Strategies Program and the role of the Program within the Total Fund. It was noted that staff would return with an additional item in early 2013 regarding the strategic plan for the Program.

AGENDA ITEM 11b – PROGRAM REVIEWS, Targeted Investment Programs Update

Laurie Weir, Senior Portfolio Manager, presented the item. The presentation included an overview of CalPERS emerging manager, diversity and inclusion, California investments, and sustainability initiatives from July 1, 2012 through December 10, 2012.

AGENDA ITEM 11c – PROGRAM REVIEWS, Responsible Contractor Policy Annual Report

Laurie Weir, Senior Portfolio Manager, presented the item and noted that compliance for the Responsible Contractor Program (RCP) Policy exceeded 99% for the 2011-12 Fiscal Year.

Public comment was received from Courtney Alexander and workers with UNITE HERE Local 11, regarding a labor dispute in Los Angeles. Public comment was also received from Dennak Murphy with Service Employees International Union in support of CalPERS RCP Policy.

AGENDA ITEM 11d(1) – PROGRAM REVIEWS, Real Assets – Real Estate Program Update

Jim Hurley, Senior Portfolio Manager, presented the item. The presentation included an overview of portfolio characteristics and performance, market conditions, portfolio risk and investment activity. It was noted that construction of the base portfolio is nearing completion; however, Real Estate staff will return in early 2013 with a request for an extension of interim policy targets.

David Glickman with Pension Consulting Alliance (PCA), the Board's Real Estate Consultant, presented on PCA's quarterly report of the Real Estate portfolio.

AGENDA ITEM 11d(2) – PROGRAM REVIEWS, Real Assets – Infrastructure and Forestland Program Update

Randall Mullan, Senior Portfolio Manager, presented the item. The presentation included the continued development of the Infrastructure and Forestland Program, the role of the Program within the Total Fund, portfolio characteristics and performance, and an update on key initiatives. David Altshuler with Meketa Investment Group Inc., the Board's Infrastructure Consultant, and Andrew Junkin with Wilshire Associates, the Board's Forestland Consultant, were available to answer questions from the Committee.

AGENDA ITEM 12 – PUBLIC COMMENT

No additional public comments were provided at the meeting.

The meeting was adjourned at 3:33 p.m.

The next Investment Committee meeting is scheduled for February 19, 2013 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer