



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

Fourth Quarter 2012

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Capital Market Overview

The United States' stock market struggled through the fourth quarter of 2012, as investors weighed the cross currents from the economic effects of Superstorm Sandy, the results of the U.S. elections, additional stimulus efforts by the Federal Reserve and the potential impacts from "going over the fiscal cliff". The "fiscal cliff" in question was a package of tax "hikes" (actually the scheduled expiration of a broad group of tax cuts, some popular, some contentious) and fiscal spending cuts that would take place on January 1 if Congress was unable to reach agreement on extending certain tax relief programs. While Congress and the White House wrangled over the final form of the budget package, markets traded lower; stocks rallied sharply at year-end as word emerged of an impending agreement, which was indeed approved late on January 1, 2013. The broad U.S. economy continues on a path of modest sustained growth; real Gross Domestic Product grew at an annualized 3.1% rate during the third quarter of 2012, contrasting with the meager 1.3% annual rate of the second quarter. Inflation remains muted in the U.S.; the Consumer Price Index's -0.78% change in the fourth quarter brought its 2012 rate to 1.74%, compared to a 2.96% rise in 2011. Treasury yields continued to be range-bound during the quarter, with ten-year yields closing the year at 1.78%. The Fed replaced its expiring 'Operation Twist' program with a new long-term Treasury purchase program of \$45 billion per month. In combination with its recently announced QE3 program (to purchase \$40B per month of mortgages), the Fed is now maintaining open-ended bond purchase programs of \$85 billion per month, representing over \$1 trillion in balance sheet expansion per year. Bond investors, unsurprisingly, sought out yield in riskier paper, a familiar trend with no sign of changing. Non-U.S. stocks enjoyed a strong quarter and finished out the year with healthy gains, despite the considerable turmoil in Eurozone economies; that turmoil dampened the performance of non-US bonds overall relative to offshore equities. Real assets presented a mixed picture; real estate in general performed well for the quarter and year, crude oil ended the quarter and year down partly due to global slowdowns in key consumer markets, and gold drifted down for the quarter but ended the year up 7.0%.

U.S. Equity Market

The Wilshire 5000 Total Market IndexSM posted a meager 0.10% for the fourth quarter, besting the -0.38% return of the Standard & Poor's 500 index. For the year, the Wilshire 5000 barely outperformed the S&P 500 (16.06% versus 16.00%); put in context, the U.S. stock market has marked four consecutive calendar years of gains and has risen 76.17% since the end of 2008. After trading similarly through the first three quarters of 2012, the performance of large and small capitalization stocks began to diverge during the fourth quarter. The Wilshire US Small-Cap Index outpaced the Wilshire U.S. Large-Cap 3.10% to -0.20% during the quarter, respectively, locking in an 18.76% to 15.74% edge for the year. The micro-cap segment of the Wilshire 5000 was the worst-performing broad market cap sleeve of the index for the quarter (-2.06%) but the best performer for the year (21.24%). The small value segment was the best performing style group for the quarter and year, up 4.29% and 21.52%, respectively, over these periods. Despite trailing in the fourth quarter, growth stocks led value in the large cap segment in 2012 (16.90% v. 14.56%). Turning to sector performance of the Wilshire 5000 (GICS classification), Financials was the best performing sector for the quarter and year with returns of 4.86% and 26.44%, respectively. For the year, all sectors posted positive total returns with Consumer Discretionary stocks (23.91%) following Financials for top honors, while the Energy (3.85%) and Utilities (2.17%) sectors lagged other groups. The Information Technology and Telecom Services sectors were the worst



performing segments during the quarter, down -4.87% and -5.78%, respectively. Real estate markets continue to recover from the global recession, buoyed by favorable borrowing rates and overall optimism. Real estate securities resumed their bull run in the fourth quarter, outperforming the broad stock market for the last three months of 2012 as well as for the entire year (Wilshire Real Estate Securities Index, 2.47% fourth quarter, 17.55% calendar 2012).

Fixed Income Market

Fixed income markets stayed true to the trends as driven by Federal Reserve policy: Rock-bottom Treasury yields pushing investors to seek additional basis points of yield in riskier asset space. Thanks to the year-end stock market rally, the U.S. Treasury yield curve rose very slightly over the fourth quarter of 2012; a two basis-point nudge upward for two-year Treasuries (to 0.25%) combined with a 13 bps rise for thirty-year Treasuries (to 2.95%) represented a modest steepening of the curve. However, for the year the yield on two-year Treasuries ended up where it started, with yields on thirty-year Treasuries up 6 bps; the December 31 bellwether ten-year Treasury yield of 1.78% is actually 11 bps lower than one year prior (but 13 bps higher than one quarter prior). The result of these subtle yield curve shifts, and general uncertainty as to Federal fiscal policy, was mild gains for investment-grade U.S. dollar-denominated bonds. Treasuries actually lost a bit of ground (Barclays U.S. Treasury, -0.09%); short-term paper unsurprisingly performed somewhat better than longer issuance (Barclays U.S. Treasury 1-3 Years, 0.06%; Barclays U.S. Treasury Long, -0.77%). Other non-securitized sectors realized better returns than Treasuries (Barclays U.S. Government-Related, 0.54%; Barclays U.S. Corporate Investment Grade, 1.06%). With securitized paper seeing scant losses (Barclays U.S. Securitized, -0.12%), the broad-based Barclays U.S. Aggregate Index returned 0.21% for the fourth quarter and finished the year with a less-than-spectacular 4.22% performance. High yield bonds, in contrast, found increased favor with investors and were the strongest performers for the quarter and year (Barclays U.S. High Yield, 3.29% fourth quarter, 15.81% calendar 2012).

Non-U.S. Markets

Despite the continued fiscal turmoil in continental Europe, 2012 proved to be a good year for global stocks overall. The MSCI All Country World ex-U.S. Index, including net dividends, returned 6.53% for the fourth quarter and 16.32% for the year in aggregate local-currency terms; in US dollar terms, the ACWI ex-U.S. posted a 5.85% quarterly and 16.83% annual return. Europe region stocks weathered the socio-economic storms brewing throughout 2012, with the MSCI Europe (net) returning 5.14% for the fourth quarter and 15.61% for the full year in local currency terms; European currency strength relative to the U.S. dollar increased those returns to 7.02% for the quarter and 19.12% for the year in USD terms. The euro received additional support from the European Central Bank, preventing a breakup of the Eurozone and providing a boost to the stocks of safer bourses such as Germany and France. Markets in the Asia-Pacific region enjoyed very strong performance for the quarter and year (MSCI Pacific, net, local terms: 12.64% fourth quarter, 21.72% year), despite giving up some return for US dollar-based investors (MSCI Pacific, net: USD, 5.90% fourth quarter, 14.42% year). The global economic slowdown dampened performance for emerging markets for the quarter, although gains for the year were resilient (MSCI Emerging Markets, net: local, 5.33% fourth quarter, 16.99% year; USD, 5.58% fourth quarter, 18.23% year). Performance for developed-market non-dollar bonds was in line with U.S. bonds: modest gains for the quarter and year in local currency terms (Barclays Global Aggregate ex-U.S., USD-hedged:

*CalPERS
Performance Analysis
December 31, 2012*



1.29% fourth quarter, 6.46% calendar 2012), with the strength of the U.S. dollar eroding those gains (Barclays Global Aggregate ex-U.S., USD unhedged: -1.04% fourth quarter, 4.09% year). However, emerging-market bonds saw their fair performance improved by USD weakness against these currencies (Barclays Emerging Markets Local Currency Government Universal, USD-hedged: 1.16% fourth quarter, 4.97% year; USD unhedged: 2.48% fourth quarter, 11.21% year).

Summary of Index Returns

For Periods Ended December 31, 2012

	<u>Quarter</u>	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Ten Years</u>
Domestic Equity					
Standard & Poor's 500	-0.31%	16.06%	10.89%	1.67%	7.11%
Wilshire 5000	0.10	16.06	11.15	2.03	7.85
Wilshire 4500	3.07	17.99	13.27	3.95	10.67
Wilshire Large Cap	-0.20	15.74	10.85	1.67	7.42
Wilshire Small Cap	3.10	18.76	13.94	5.47	11.52
Wilshire Micro Cap	-2.06	21.24	10.86	2.04	9.71
Domestic Equity					
Wilshire Large Value	0.29%	14.56%	11.47%	0.53%	7.16%
Wilshire Large Growth	-0.74	16.90	10.13	2.71	7.55
Wilshire Mid Value	4.68	19.58	13.29	4.86	9.28
Wilshire Mid Growth	3.25	13.44	12.33	4.83	12.08
Wilshire Small Value	4.29	21.52	13.39	5.78	10.92
Wilshire Small Growth	1.74	15.69	14.26	5.11	12.01
International Equity					
MSCI All World ex U.S. (USD)	5.85%	16.83%	3.87%	-2.89%	9.74%
MSCI All World ex U.S. (local currency)	6.79	17.53	3.90	-2.67	7.25
MSCI EAFE	6.57	17.31	3.56	-3.69	8.21
MSCI Europe	7.01	19.12	3.25	-4.34	8.37
MSCI Pacific	5.90	14.42	4.59	-2.01	7.99
MSCI EMF Index	5.58	18.22	4.66	-0.92	16.52
Domestic Fixed Income					
Barclays Aggregate Bond	0.21%	4.22%	6.19%	5.95%	5.18%
Barclays Credit	1.04	9.37	8.73	7.65	6.23
Barclays Mortgage	-0.20	2.59	4.72	5.67	5.08
Barclays Treasury	-0.09	2.00	5.85	5.40	4.75
Citigroup High Yield Cash Pay	3.06	15.07	11.55	9.85	10.27
Barclays US TIPS	0.69	6.98	8.90	7.04	6.65
91-Day Treasury Bill	0.04	0.11	0.11	0.52	1.78
International Fixed Income					
Citigroup Non-U.S. Gov. Bond	-2.36%	1.51%	3.95%	5.24%	6.38%
Citigroup World Gov. Bond	-1.71	1.65	4.37	5.27	6.04
Citigroup Hedged Non-U.S. Gov.	1.20	5.51	4.01	4.47	4.30
Currency*					
Euro vs. \$	2.48%	1.56%	-2.78%	-2.05%	2.31%
Yen vs. \$	-10.02	-11.02	2.49	5.26	3.22
Pound vs. \$	0.66	4.59	0.22	-3.97	0.10
Real Estate					
Wilshire REIT Index	2.48%	17.59%	18.21%	5.25%	11.57%
Wilshire RESI	2.47	17.55	18.11	5.08	11.65

CalPERS
Performance Analysis
December 31, 2012



Summary Review of Plans Periods Ended 12/31/2012

	<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	\$248.8 bil	2.7%	13.3%	8.8%	1.0%	7.5%
<i>Total Fund Policy Benchmark ¹</i>		2.8%	14.4%	8.9%	3.4%	8.3%
<i>Actuarial Rate</i>		1.8%	7.6%	7.7%	7.7%	7.7%
Affiliate Fund						
Judges II	\$732.4 mil	2.7%	15.4%	9.7%	3.5%	7.6%
<i>Weighted Policy Benchmark</i>		2.5%	14.9%	9.8%	3.7%	7.5%
Long-Term Care ("LTC")	\$3,779.7 mil	1.2%	12.8%	9.3%	4.2%	7.8%
<i>Weighted Policy Benchmark</i>		1.1%	12.3%	9.2%	4.2%	7.5%
CERBT Strategy 1	\$1,988.2 mil	2.4%	15.3%	9.1%	2.7%	-.%
<i>Weighted Policy Benchmark</i>		2.4%	15.3%	9.1%	2.5%	-.%
CERBT Strategy 2	\$368.7 mil	2.4%	13.9%	-.%	-.%	-.%
<i>Weighted Policy Benchmark</i>		2.3%	13.7%	-.%	-.%	-.%
CERBT Strategy 3	\$52.0 mil	1.8%	11.7%	-.%	-.%	-.%
<i>Weighted Policy Benchmark</i>		1.8%	11.8%	-.%	-.%	-.%
Legislators' Fund						
LRS	\$126.4 mil	1.8%	12.5%	10.1%	5.7%	7.5%
<i>Weighted Policy Benchmark</i>		1.6%	11.8%	9.9%	5.5%	7.4%

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 12/31/2012

	Market Value	Five-Year Ratios							
		Qtr	1-Year	3-Year	5-Year	10-Year	VaR ¹²	Sharpe ¹³	Info ¹⁴
TOTAL FUND	\$248.8 bil	2.7%	13.3%	8.8%	1.0%	7.5%	\$31.8 bil	0.0	-0.7
<i>Total Fund Policy Benchmark</i> ²		2.8%	14.4%	8.9%	3.4%	8.3%		0.2	0.0
<i>Actuarial Rate</i>		1.8%	7.6%	7.7%	7.7%	7.7%			
GROWTH	156.4	3.7%	16.1%	9.1%	0.4%	8.5%	\$31.3 bil	0.0	-0.5
<i>Growth Policy Benchmark</i> ³		4.2%	20.0%	8.8%	2.1%	9.2%		0.1	0.0
PUBLIC EQUITY	124.3	3.5%	17.2%	7.5%	-0.5%	8.0%	\$23.8 bil	0.0	-0.4
<i>Public Equity Policy Benchmark</i> ⁴		3.2%	17.1%	7.0%	0.2%	8.4%		0.0	0.0
PRIVATE EQUITY	32.1	4.4%	12.2%	15.3%	5.8%	11.5%	\$10.0 bil	0.5	-0.3
<i>Private Equity Policy Benchmark</i> ⁵		7.5%	28.5%	14.2%	11.1%	12.2%		0.7	0.0
INCOME	43.3	0.4%	7.6%	10.5%	8.8%	7.9%	\$5.6 bil	1.2	0.2
<i>Income Policy Benchmark</i> ⁶		0.1%	6.3%	9.7%	8.2%	6.9%		1.2	0.0
REAL ASSETS ⁷	24.5	1.8%	12.8%	6.0%	-11.0%	3.5%	\$2.7 bil	-0.7	-1.1
<i>Real Assets Policy Benchmark</i> ⁸		2.5%	10.3%	10.2%	3.1%	8.7%		0.5	0.0
INFLATION	7.6	0.9%	5.0%	7.9%	2.3%	-.%	\$0.5 bil	0.1	-0.1
<i>Inflation Policy Benchmark</i> ⁹		0.8%	6.4%	6.7%	2.8%	-.%		0.2	0.0
LIQUIDITY	10.4	0.0%	1.2%	1.8%	1.7%	2.5%	\$0.5 bil	N/A	N/A
<i>Liquidity Policy Benchmark</i> ¹⁰		0.0%	1.6%	2.0%	1.8%	2.5%		N/A	N/A
ABSOLUTE RETURN STRATEGIES ¹¹	5.2	0.6%	3.2%	3.0%	-0.1%	5.2%		-0.1	-1.0
<i>Absolute Return Strategies Policy Benchmark</i> ¹¹		1.3%	5.3%	5.6%	6.5%	8.6%		7.6	0.0
MULTI-ASSET CLASS COMPOSITE	0.5	-.%	-.%	-.%	-.%	-.%		N/A	N/A
<i>Absolute 7.5%</i>		-.%	-.%	-.%	-.%	-.%		N/A	N/A
CURRENCY + ASSET ALLOCATION TRANSITION	0.9	-.%	-.%	-.%	-.%	-.%			

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.

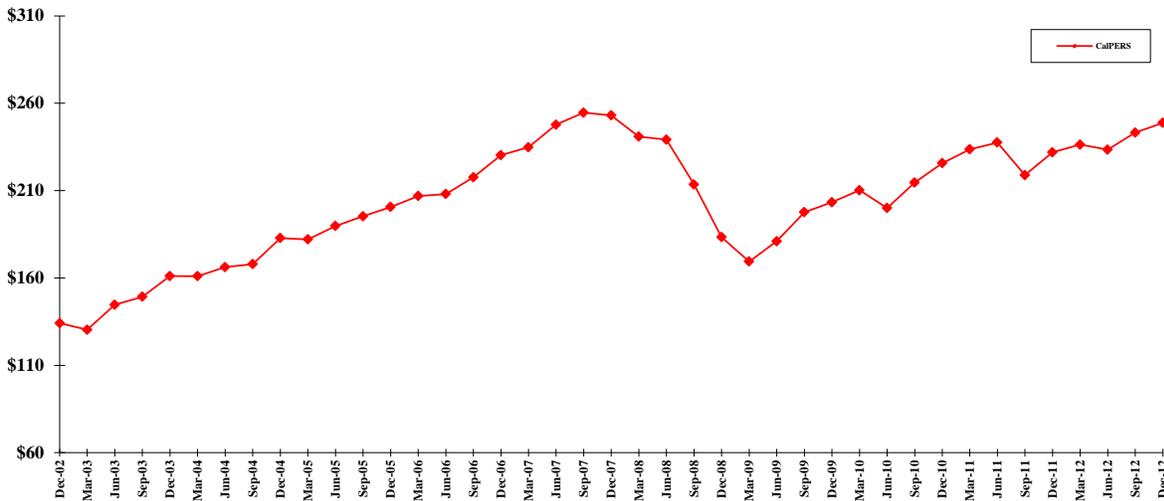
¹⁴ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.

Total Fund Review for PERF (continued) Periods Ended 12/31/2012

Total Fund Flow

	<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>	<u>4Q12</u>
Market Value (\$bil)	161.1	182.8	200.6	230.3	253.0	183.3	203.3	225.7	225.0	236.3	233.4	243.2	248.8

Total Fund Market Value



Asset Allocation

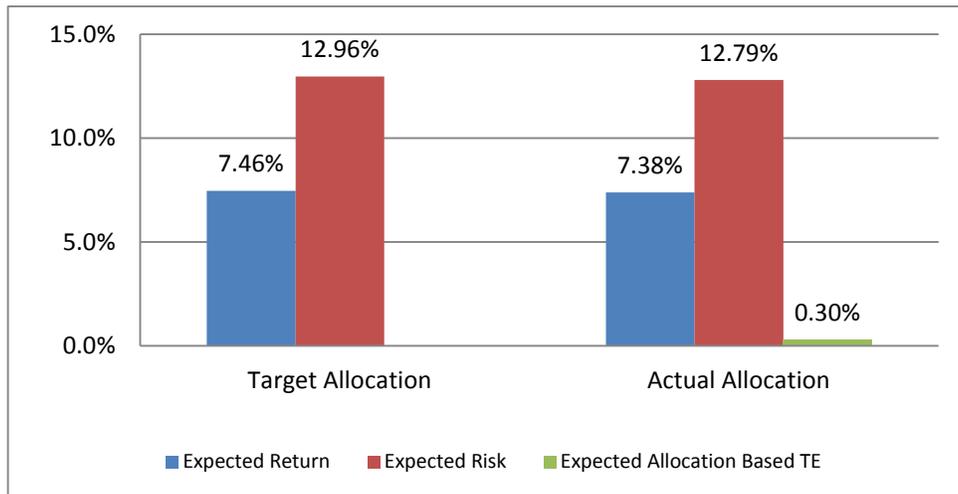
Asset Allocation: Actual versus Target Weights*

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Growth	63.2%	64.0%	-0.8%
Income	17.4%	17.0%	0.4%
Real Assets	9.9%	11.0%	-1.1%
Inflation	3.0%	4.0%	-1.0%
ARS	2.1%	0.0%	2.1%
Liquidity	4.2%	4.0%	0.2%
Multi-Asset	0.2%	0.0%	0.2%

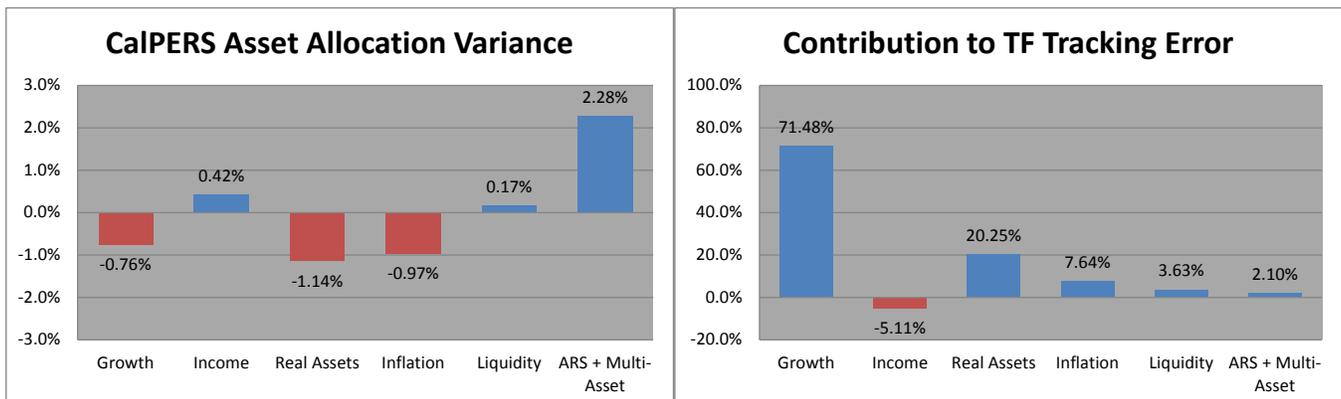
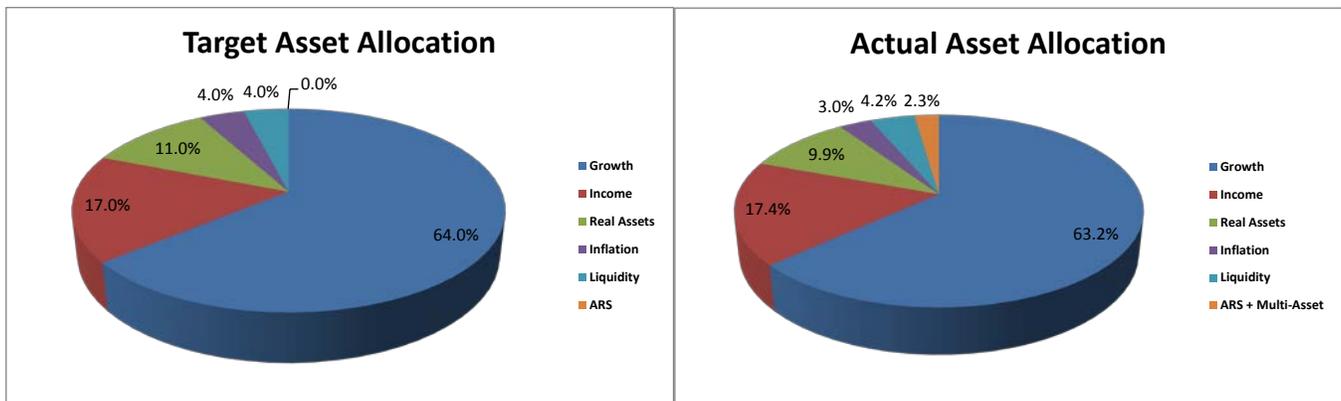
* Asset allocation targets are in the process of shifting to the new targets adopted by the Investment Committee in January 2008. Transitions accounts are included with their respective asset classes. The 12/31 cash allocation included transition assets that have been recaptured elsewhere since the adoption of a new asset allocation policy in July

Total Fund Review for PERF (continued) Periods Ended 12/31/2012

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



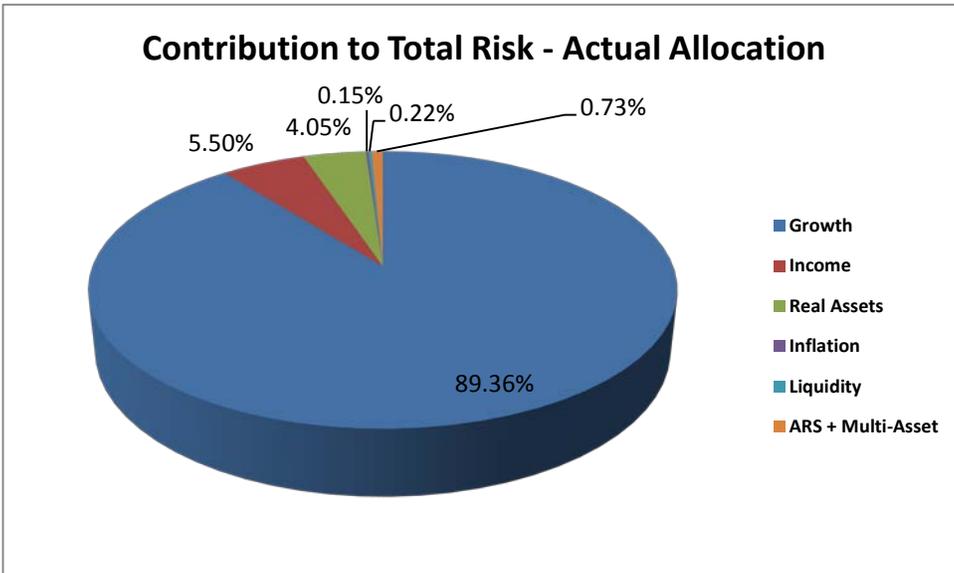
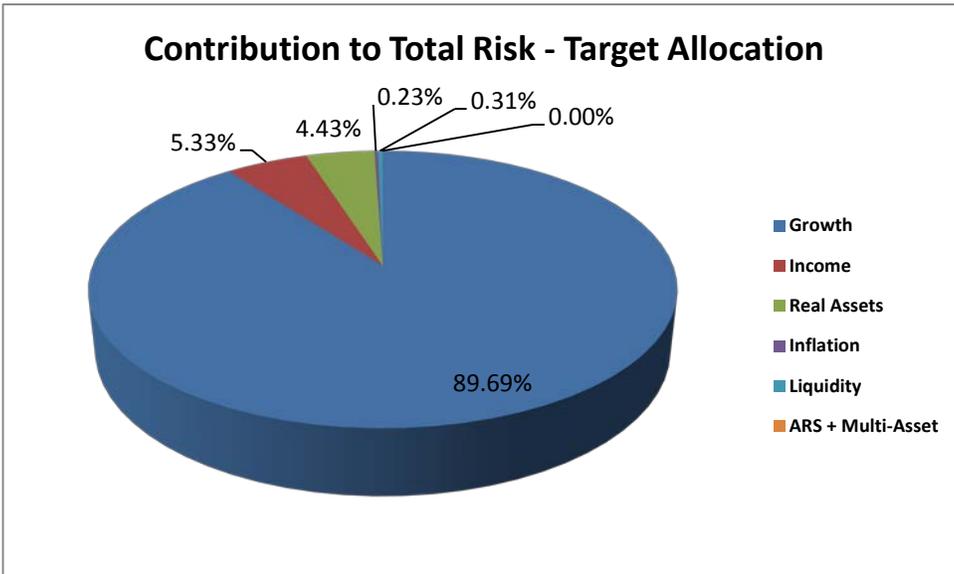
Total Fund Asset Allocation





Total Fund Review for PERF (continued)
Periods Ended 12/31/2012

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



California Public Employees' Retirement System
Total Fund Attribution - Quarter
As of 12/31/2012

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	62.19	3.68	64.00	4.17	-1.81	-0.49	-0.02	0.01	-0.31	-0.33
Public Equity	48.81	3.48	50.00	3.24	-1.19	0.24	0.00	0.00	0.12	0.12
Private Equity	13.39	4.37	14.00	7.51	-0.61	-3.13	-0.03	0.02	-0.43	-0.44
Income	18.15	0.41	17.00	0.11	1.15	0.30	-0.04	0.00	0.05	0.02
Real Assets	10.05	1.77	11.00	2.48	-0.95	-0.71	0.00	0.01	-0.08	-0.07
Inflation	3.08	0.86	4.00	0.80	-0.92	0.06	0.02	0.00	0.00	0.02
Absolute Return	2.09	0.60	0.00	1.29	2.09	-0.69	-0.04	-0.01	0.00	-0.05
Liquidity	4.44	-0.01	4.00	0.00	0.44	-0.01	-0.01	0.00	0.00	-0.01
Monthly Linked Return	100.00	2.58	100.00	2.99		-0.41	-0.08	0.00	-0.34	-0.41
Trading/Hedging		0.10		-0.16		0.27				0.27
Total		2.68		2.83		-0.14				-0.14

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 12/31/2012

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	62.97	16.13	64.00	19.96	-1.03	-3.83	-0.10	0.02	-2.38	-2.46
Public Equity	48.92	17.18	50.00	17.08	-1.08	0.10	-0.17	0.00	0.05	-0.12
Private Equity	14.05	12.25	14.00	28.45	0.05	-16.20	-0.06	-0.01	-2.28	-2.34
Income	18.02	7.64	17.00	6.29	1.02	1.35	-0.16	0.02	0.24	0.09
Real Assets	9.78	12.79	11.00	10.26	-1.22	2.53	0.03	-0.04	0.29	0.28
Inflation	3.14	5.02	4.00	6.45	-0.86	-1.43	0.07	0.01	-0.06	0.02
Absolute Return	2.17	3.23	0.00	5.25	2.17	-2.02	-0.23	-0.05	0.00	-0.28
Liquidity	3.93	1.20	4.00	1.63	-0.07	-0.43	0.01	0.00	-0.02	-0.01
Monthly Linked Return	100.00	12.94	100.00	15.29		-2.36	-0.38	-0.04	-1.93	-2.35
Trading/Hedging		0.32		-0.86		1.18				1.17
Total		13.26		14.43		-1.18				-1.18

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
As of 12/31/2012

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	62.52	9.27	64.00	9.00	-1.48	0.27	-0.03	-0.01	0.16	0.12
Public Equity	48.62	10.76	50.00	10.54	-1.38	0.22	-0.06	0.00	0.11	0.04
Private Equity	13.91	4.22	14.00	3.20	-0.09	1.01	-0.08	0.06	0.09	0.07
Income	18.21	3.39	17.00	2.51	1.21	0.88	-0.06	0.01	0.15	0.11
Real Assets	10.15	2.73	11.00	4.73	-0.85	-1.99	0.02	0.02	-0.23	-0.19
Inflation	3.09	6.80	4.00	5.76	-0.91	1.04	0.01	-0.01	0.04	0.04
Absolute Return	2.12	2.86	0.00	2.68	2.12	0.18	-0.09	0.00	0.00	-0.09
Liquidity	3.91	0.38	4.00	0.57	-0.09	-0.19	0.02	0.00	-0.01	0.01
Monthly Linked Return	100.00	6.95	100.00	6.94		0.01	-0.14	0.01	0.13	0.00
Trading/Hedging		0.14		-0.38		0.52				0.52
Total		7.09		6.56		0.53				0.53

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 12/31/2012

- ◆ The California Public Employees' Retirement System ("CalPERS, the System") generated a total fund return of 2.7%, for the quarter ended December 31, 2012. CalPERS' return can be attributed as follows:

2.83%	Strategic Policy Allocation
-0.08%	Actual/Tactical Asset Allocation
-0.34%	Active Management
0.00%	Interaction
<u>0.27%</u>	Trading/Currency Hedging
2.68%	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 finished the fourth quarter with a modest gain, returning 2.7% that narrowly missed its strategic policy benchmark's 2.8%. Per Wilshire's attribution, negative active management impact was this quarter's sole detractor in relative terms. Similar to Q3, Private Equity of the Growth asset class was the single largest driver of performance, but the difference this time was the System's Private Equity composite trailed its policy benchmark by 313 bps in Q4. This steep underperformance wiped out gains posted by the Public Equity and Income segments and weighed on Total Fund return. Asset allocation variance had a small but negative impact, as the System had greater-than-target allocation to some of the lower returning segments during the quarter (in both absolute and relative terms), including Private Equity, Income, and Absolute Return.
- ◆ The Total Fund composite's 2.7% 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 12/31/2012

Relative to the Total Fund Policy Benchmark:

- ◆ **Growth Exposure:** After enduring a fourth quarter that was filled with uncertainties and challenges, the Growth composite's performance moderated and finished the period with a positive return of 3.7%, trailing its own asset allocation policy (4.2%) but was ahead of the total fund policy benchmark (2.8%). Public equities, the main component of the Growth composite, fared relatively well during the quarter with a return of 3.5%, as global stock markets staged a late-quarter rally on improving business confidence and economic data coming out of the U.S., Europe (mainly Germany), and China. Private equity, which is reported on a 1-quarter lagged basis, also contributed to the Growth composite's return in absolute terms as it generated a net gain of 4.4%.
- ◆ **Income Exposure:** With a backdrop of rock-bottom Treasury yields pushing investors to seek additional basis points of yield in riskier asset space, CalPERS' overall Income composite returns have dropped precipitously over the past few quarters: it recorded a minimalist gain of 0.4% in Q4, compared to its 3.0% return from Q3 and 4.0% from Q2. While this performance was better than its own policy benchmark (0.1%), it was behind the total fund policy benchmark (2.8%). The U.S. fixed income composite finished the quarter with a return of 0.7%; this was achieved with better performance from the smaller corporate debt and high yield portfolios helping offset some of the weaknesses from the System's larger Treasury and mortgage portfolios. The Income composite's performance this quarter was also held back by the international fixed income composite, which gave back some of its prior gains and reported a loss of -2.4%
- ◆ **Real Assets Exposure:** The System's Real Assets segment return of 1.8% underperformed relative to the total fund policy benchmark (2.8%) in the fourth quarter. Most of this performance was driven by the real estate component, whose portfolio assets represented 84% of the Real Assets composite and finished the quarter with a 1.9% return.
- ◆ **Inflation Exposure:** The CalPERS Inflation composite finished below the total fund policy benchmark in the fourth quarter with a return of 0.9%. This performance was mostly driven by the volatile commodities exposure, which was down -2.8% this quarter and offset most of the small steady gains generated by inflation linked bonds portfolio.
- ◆ **Liquidity:** CalPERS' Liquidity/short-term asset class was essentially flat in the fourth quarter as it reported a return of 0.0%, matching its custom policy benchmark but trailed when comparing to the total fund policy benchmark.
- ◆ **Absolute Return Strategy:** Similar to last quarter, the Absolute Return Strategy (ARS) program generated a small but positive gain of 0.6% during the fourth quarter. This performance trailed both the total fund policy benchmark as well as ARS' own custom policy benchmark (1.3%).



Growth Review for PERF Periods Ended 12/31/2012

Growth Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Growth	63.2%	64.0%	-1.4%
Public Equity	50.3%	50.0%	+0.3%
Private Equity	12.9%	14.0%	-1.1%

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		0.0	-0.5
GROWTH	156.4	3.7%	16.1%	9.1%	0.4%	8.5%	\$31.3 bil	0.0	-0.5
<i>Growth Policy Benchmark</i>		4.2%	20.0%	8.8%	2.1%	9.2%		0.1	0.0
<i>Value Added</i>		-0.5%	-3.9%	0.3%	-1.7%	-0.7%			
PUBLIC EQUITY¹⁵	124.3	3.5%	17.2%	7.5%	-0.5%	8.0%	\$23.8 bil	0.0	-0.4
<i>Public Equity Policy Benchmark¹⁶</i>		3.2%	17.1%	7.0%	0.2%	8.4%		0.0	0.0
<i>Value Added</i>		0.3%	0.1%	0.5%	-0.7%	-0.4%			
US Equity Composite (ex ARS)	56.5	0.5%	16.3%	11.1%	1.9%	7.6%		0.1	0.1
<i>Custom US Equity Benchmark¹⁷</i>		0.3%	16.3%	11.0%	1.8%	7.6%		0.1	0.0
<i>Value Added</i>		0.2%	0.0%	0.1%	0.1%	0.0%			
Total Int'l Equity (ex ARS)	66.2	6.2%	18.0%	4.7%	-2.3%	9.9%		-0.1	0.4
<i>Custom Int'l Equity Benchmark¹⁸</i>		6.3%	17.5%	4.0%	-2.8%	9.6%		-0.1	0.0
<i>Value Added</i>		-0.1%	0.5%	0.7%	0.5%	0.3%			
Global Equity Equitization	1.1	4.3%	18.2%	7.7%	-.-%	-.-%			
<i>Custom Benchmark¹⁹</i>		3.2%	17.1%	7.0%	-.-%	-.-%			
<i>Value Added</i>		1.1%	1.1%	0.7%	-.-%	-.-%			
PRIVATE EQUITY (AIM)²⁰	32.1	4.4%	12.2%	15.3%	5.8%	11.5%	\$10.0 bil	0.5	-0.3
<i>AIM Policy Benchmark²¹</i>		7.5%	28.5%	14.2%	11.1%	12.2%		0.7	0.0
<i>Value Added</i>		-3.1%	-16.3%	1.1%	-5.3%	-0.7%			
Private Equity Partnership Investments	32.0	4.4%	12.5%	15.4%	6.0%	11.6%			
Private Equity Distribution Stock	0.1	-13.5%	-52.9%	-15.8%	-5.3%	3.8%			

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:

- ◆ **International Equity Exposure:** The System's international equity portfolios continued to perform well in the fourth quarter and were the highest returning Growth programs: the internally managed international equity composite reported a gain of 6.2%, followed by the external international equity composite's 6.1%. Both measures beat the Growth asset class policy benchmark's 4.2% return by a good margin.
- ◆ **Corporate Governance:** The Corporate Governance Program turned in a solid quarter by finishing up 4.7%; this performance compared favorably to the Growth policy benchmark's 4.2% return.

Impeded Performance:

- ◆ **U.S. Equity Exposure:** CalPERS' internal and external U.S. equity composite generated 4Q returns of 0.5% and 1.0%, respectively, and both underperformed the 4.2% return of the Growth policy benchmark.
- ◆ **MDP:** The Manager Development Program was nearly flat for the quarter; its 0.7% return for the quarter underperformed relative to the Growth policy benchmark.
- ◆ **FoF:** Similar to other domestic equity portfolios, which the Total Fund of Funds composite is mostly comprised of, fourth quarter performance was very modest. The FoF composite saw an overall gain of 2.1%, trailing its own custom benchmark (2.7%) as well as the Growth Policy benchmark.
- ◆ **Private Equity Exposure:** The private equity composite, represented by the AIM investments, reported a 4.4% gain in the fourth quarter, erasing its losses from the prior quarter and then some. However, on relative terms the AIM investments performed poorly given that it trailed its own policy benchmark by a notable margin of 314 bps. Therefore even though the private equity composite's performance finished slightly above the Growth policy benchmark, overall speaking it was a net performance 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)	56.5	0.5%	16.3%	11.1%	1.9%	7.6%	12/79
<i>Custom US Equity Benchmark</i> ²⁵		0.3%	16.3%	11.0%	1.8%	7.6%	
<i>Value Added</i>		0.2%	0.0%	0.1%	0.1%	0.0%	
Total Internal US Equity	49.0	0.5%	16.6%	11.4%	2.2%	7.8%	6/88
<i>Custom Internal US Equity Benchmark</i> ²⁶		0.3%	16.3%	11.0%	1.8%	7.6%	
<i>Value Added</i>		0.2%	0.3%	0.4%	0.4%	0.2%	
Total External US Equity	7.3	1.0%	14.5%	9.2%	0.6%	6.9%	12/98
<i>Custom External US Equity Benchmark</i> ²⁷		0.5%	16.2%	10.9%	2.1%	8.1%	
<i>Value Added</i>		0.5%	-1.7%	-1.7%	-1.5%	-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)	66.2	6.2%	18.0%	4.7%	-2.3%	9.9%	12/02
<i>Custom Int'l Equity Benchmark</i> ²⁸		6.3%	17.5%	4.0%	-2.8%	9.6%	
<i>Value Added</i>		-0.1%	0.5%	0.7%	0.5%	0.3%	
Total Internal Int'l Equity	52.2	6.2%	17.8%	4.4%	-2.3%	-.%	3/05
<i>Custom Internal Int'l Equity Benchmark</i> ²⁹		6.3%	17.7%	4.1%	-3.0%	-.%	
<i>Value Added</i>		-0.1%	0.1%	0.3%	0.7%	-.%	
Total External Int'l Equity	13.9	6.1%	19.0%	5.6%	-1.7%	11.0%	6/89
<i>Custom External Int'l Equity Benchmark</i> ³⁰		6.2%	17.0%	3.8%	-2.5%	10.8%	
<i>Value Added</i>		-0.1%	2.0%	1.8%	0.8%	0.2%	

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	4.3	4.7%	12.0%	5.7%	-1.8%	7.1%	12/98
<i>Policy Benchmark</i>		5.4%	16.1%	6.1%	-1.5%	7.1%	
<i>Value Added</i>		-0.7%	-4.1%	-0.4%	-0.3%	0.0%	
Total MDP	1.4	0.7%	16.1%	8.3%	0.3%	7.2%	6/00
<i>Policy Benchmark</i>		2.7%	17.8%	8.6%	1.8%	8.7%	
<i>Value Added</i>		-2.0%	-1.7%	-0.3%	-1.5%	-1.5%	
Total FoF	0.9	2.1%	16.4%	10.3%	-.%	-.%	3/08
<i>Policy Benchmark</i>		2.7%	17.4%	9.9%	-.%	-.%	
<i>Value Added</i>		-0.6%	-1.0%	0.4%	-.%	-.%	

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 12/31/2012

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	5.2	0.6%	3.2%	3.0%	-0.1%	5.2%	-1.0	0.0	-0.1	-0.1
ARS Policy Benchmark ³¹		1.3%	5.3%	5.6%	6.5%	8.6%				
Value Added		-0.7%	-2.1%	-2.6%	-6.6%	-3.4%				
Total Direct Investments	3.6	0.3%	3.4%	4.0%	0.5%	5.7%				
Total Funds of Funds	1.5	1.3%	2.8%	0.3%	-0.9%					
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.

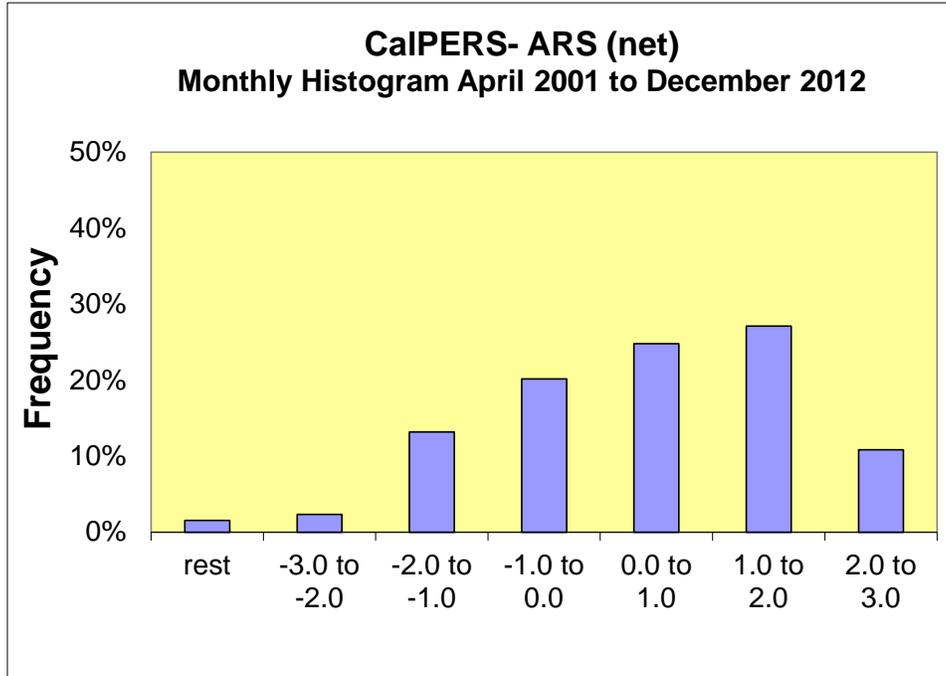
³¹ The ARS Policy Benchmark consists of the Merrill Lynch 1-Year Treasury Note + 5% and is linked historically to its prior benchmark.

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 12/31/2012



- ◆ 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 12/31/2012

Income Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Income	17.4%	17.0%	+0.4%

Income Segment Performance

	Market Value						VaR ³⁸	5-year Sharpe Ratio ³⁹	5-year Info Ratio ⁴⁰
		Qtr	1-Year	3-Year	5-Year	10-Year			
INCOME	43.3	0.4%	7.6%	10.5%	8.8%	7.9%	\$5.6 bil	1.2	0.2
<i>Income Policy Benchmark</i> ³⁵		0.1%	6.3%	9.7%	8.2%	6.9%		1.2	0.0
<i>Value Added</i>		0.3%	1.3%	0.8%	0.6%	1.0%			
U.S. Income	39.8	0.7%	8.1%	11.0%	9.0%	7.8%		1.2	0.1
<i>U.S. Income Policy Benchmark</i> ³⁶		0.3%	6.7%	10.1%	8.5%	6.8%		1.2	0.0
<i>Value Added</i>		0.4%	1.4%	0.9%	0.5%	1.0%			
Non-U.S. Income	3.5	-2.4%	2.8%	6.2%	6.9%	7.3%		0.6	0.9
<i>Non-US Income Policy Benchmark</i> ³⁷		-2.5%	1.5%	4.3%	5.3%	6.4%		0.5	0.0
<i>Value Added</i>		0.1%	1.3%	1.9%	1.6%	0.9%			

Comments Regarding Income Segment Performance

Helped Performance:

- ◆ **Corporate Bonds:** Corporate bonds again were among the best performing fixed income portfolios during the fourth quarter, as investors continue to favor higher yielding, high quality credits after the Fed announced its commitment to keep short-term interest rates at “exceptionally low levels” until 2015. CalPERS’ corporate bonds portfolio reported a fourth quarter gain of 2.4%, easily outperforming the Income policy benchmark’s 0.1% return.
- ◆ **Sovereign Bonds:** The sovereign bonds portfolio also continued to do well; it followed up its 4.6% return from last quarter by gaining another 1.9% during Q4, 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, demand for high yield securities remain strong as investors continue to relax risk tolerance in the face of ever abundant liquidity, bolstered by the Fed's QE3 announced this past September. Both CalPERS' internal and external high yield portfolios did well, rising 2.4% and 3.0%, respectively, and outperformed the Income policy benchmark for the quarter.

Impeded Performance:

- ◆ **Treasury Bonds:** With the Fed confirming its intention in keeping interest rates low for an extended period of time, treasuries remain investors' least favorite and again lagged other higher yielding securities in the fourth quarter. The CalPERS treasuries portfolio lost -0.3% this quarter and was a detractor to the Income composite.
- ◆ **Mortgage Bonds:** CalPERS' mortgage portfolio reported a small decline of -0.1% that underperformed the overall Income policy benchmark for the quarter.
- ◆ **International Fixed Income:** The international fixed income portfolio lost steam during the fourth quarter and gave back some of its prior gains, dropping -2.4%, and weighed on the Income composite's overall performance.



Income Review for PERF (Continued)

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	Date
INCOME	43.3	0.4%	7.6%	10.5%	8.8%	7.9%	6/88
Income Policy Benchmark ⁴¹		0.1%	6.3%	9.7%	8.2%	6.9%	
Value Added		0.3%	1.3%	0.8%	0.6%	1.0%	
Internal US Income + Opportunistic	39.8	0.7%	8.1%	11.0%	9.0%	7.8%	12/95
Mortgage Bonds*	9.6	-0.1%	3.8%	6.9%	6.1%	5.4%	12/82
Long Duration Mortgages*	3.6	0.0%	8.7%	12.8%	9.7%	-.%	6/05
Corporate Bonds*	9.4	2.4%	15.9%	13.0%	10.4%	8.9%	3/02
U.S. Government*	14.1	-0.3%	5.2%	11.4%	8.3%	6.4%	12/99
Sovereign Bonds* ⁴²	1.4	1.9%	13.8%	13.2%	9.4%	8.2%	6/96
Long Duration Corporates*	0.4	3.6%	22.0%	18.0%	13.0%	-.%	9/05
Custom Benchmark ⁴³		0.3%	6.7%	10.1%	8.5%	6.8%	
Opportunistic ⁴⁴	2.2	2.4%	9.8%	10.4%	0.9%	11.6%	6/00
Internal High Yield Bonds*	0.6	2.4%	14.3%	8.4%	12.6%	17.0%	9/99
External High Yield*	1.1	3.0%	15.3%	12.4%	5.1%	8.4%	3/02
High Yield Mortgage*	0.3	8.9%	25.4%	14.8%	-.%	-.%	3/08
Citigroup High Yield Cash Pay		3.0%	14.6%	11.4%	9.7%	10.2%	
Special Investments	0.0	1.8%	8.9%	4.5%	5.5%	5.4%	3/91
Total International Fixed Income	3.5	-2.4%	2.8%	6.2%	6.9%	7.3%	3/89
Custom Benchmark ⁴⁵		-2.5%	1.5%	4.3%	5.3%	6.4%	
Value Added		0.1%	1.3%	1.9%	1.6%	0.9%	
Currency overlay ⁴⁶							
SSgA	0.0	-0.1%	-0.3%	0.2%	0.0%	0.4%	12/96
Custom Benchmark		0.0%	-0.3%	-0.4%	-0.3%	0.1%	
Value Added		-0.1%	0.0%	0.6%	0.3%	0.3%	

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*	10.5	0.3%	0.9%	1.5%	0.8%	2.0%	8/00
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	0.5%	1.8%	
<i>Value Added</i>		0.3%	0.8%	1.4%	0.3%	0.2%	
High Quality LIBOR**	0.6	0.3%	1.0%	0.8%	0.4%	1.8%	9/00
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	0.5%	1.8%	
<i>Value Added</i>		0.3%	0.9%	0.7%	-0.1%	0.0%	
Short Duration LIBOR**	0.4	1.2%	3.5%	4.1%	2.3%	-.-%	9/02
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	0.5%	-.-%	
<i>Value Added</i>		1.2%	3.4%	4.0%	1.8%	-.-%	
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**	1.5	0.1%	0.3%	-.-%	-.-%	-.-%	3/11
<i>Custom Benchmark</i>		0.0%	0.0%	-.-%	-.-%	-.-%	
<i>Value Added</i>		0.1%	0.3%	-.-%	-.-%	-.-%	
CalPERS ESEC Cash Collateral**	7.7	0.1%	0.2%	-.-%	-.-%	-.-%	6/10
<i>Custom Benchmark</i>		0.0%	0.1%	-.-%	-.-%	-.-%	
<i>Value Added</i>		0.1%	0.1%	-.-%	-.-%	-.-%	
External Collateral Portfolio***	0.2	12.7%	20.1%	-.-%	-.-%	-.-%	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 12/31/2012

Inflation Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Inflation	3.0%	4.0%	-1.0%

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	7.6	0.9%	5.0%	7.9%	2.3%	-.%	\$0.5 bil	0.1	-0.1
<i>Inflation Policy Benchmark</i> ⁴⁷		0.8%	6.4%	6.7%	2.8%	-.%		0.2	0.0
<i>Value Added</i>		0.1%	-1.4%	1.2%	-0.5%	-.%			
Commodities ⁴⁸	1.6	-2.8%	-0.3%	3.0%	-8.2%	-.%			
<i>GSCI Total Return Index</i>		-3.3%	0.1%	2.5%	-8.2%	-.%			
<i>Value Added</i>		0.5%	-0.4%	0.5%	0.0%	-.%			
Inflation Linked Bonds	6.0	2.5%	8.1%	8.5%	-.%	-.%			
<i>Custom Benchmark</i>		2.2%	8.2%	8.2%	-.%	-.%			
<i>Value Added</i>		0.3%	-0.1%	0.3%	-.%	-.%			

- ◆ The CalPERS Inflation asset class eked out a small gain of 0.9% in the fourth quarter, slightly edging the 0.8% return of its policy benchmark. Performance of the Inflation program's inflation linked fixed income portfolio remained steady, as it replicated last quarter's results by returning 2.5% in Q4 and slightly beat out its custom benchmark. On the other hand, the commodities portfolio gave back some of its gains from Q3 primarily as most metals and crude prices slumped in October and December. The portfolio finished the fourth quarter down -2.8%, faring better than the -3.3% drop of the GSCI Total Return Index, but was nonetheless the main performance drag of the Inflation composite for the quarter. The Inflation asset class continues to produce good performance over the long-term; its three-year return of 7.9% remains ahead of the policy benchmark while the five-year return of 2.3% trailed by a modest margin.

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 12/31/2012

Real Assets Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Real Assets	9.9%	11.0%	-1.1%

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	24.5	1.8%	12.8%	6.0%	-11.0%	3.5%	\$2.7 bil	-0.7	-1.1
<i>Real Assets Policy Benchmark</i> ⁵²		2.5%	10.3%	10.2%	3.1%	8.7%		0.5	0.0
<i>Value Added</i>		-0.7%	2.5%	-4.2%	-14.1%	-5.2%			
Real Estate ⁵³	21.3	1.9%	15.5%	6.9%	-12.2%	2.8%	\$2.9 bil	-0.7	-1.1
<i>Real Estate Policy Benchmark</i> ⁵⁴		2.7%	11.6%	12.2%	4.0%	9.2%		0.5	0.0
<i>Value Added</i>		-0.8%	3.9%	-5.3%	-16.2%	-6.4%			
Forestland ⁵⁵	2.1	0.4%	-7.1%	-3.8%	-0.6%	-.-%			
<i>NCREIF Timberland Index</i>		0.7%	2.2%	-0.5%	3.3%	-.-%			
<i>Value Added</i>		-0.3%	-9.3%	-3.3%	-3.9%	-.-%			
Infrastructure ⁵⁵	1.1	2.7%	6.9%	18.7%	12.3%	-.-%			
<i>CPI + 400 BPS 1Qtr Lag</i>		1.8%	6.1%	7.3%	7.0%	-.-%			
<i>Value Added</i>		0.9%	0.8%	11.4%	5.3%	-.-%			

- ◆ CalPERS' Real Assets composite's performance continue to generate small, but steady positive returns; it earned an overall gain of 1.8% for the fourth quarter, compared to the 2.5% of its policy benchmark. For the full-year, the Real Assets composite did finish strong with a return of 12.8% and comfortably outperformed the benchmark by a margin of 253 bps. The System's real estate portfolios, which mostly consist of private real estate investments and currently represent 84% of the Real Assets composite, underperformed its policy benchmark for the quarter (1.9% vs. 2.7%) but did report a strong year, earning 15.5%. Real Assets two remaining components reported mixed results in Q4, with forestland's 0.4% return lightly trailed the NCREIF Timberland Index while the infrastructure portfolio's gain of 2.7% outpaced its performance objective.

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 12/31/2012

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	21.3	1.9%	15.5%	6.9%	-12.2%	2.8%	\$2.9 bil	-0.7	-1.1
<i>Real Estate Policy Benchmark⁶⁰</i>		2.7%	11.6%	12.2%	4.0%	9.2%		0.5	0.0
<i>Value Added</i>		-0.8%	3.9%	-5.3%	-16.2%	-6.4%			
Strategic Real Estate	13.6	1.4%	17.3%	13.4%	5.1%	14.5%			
<i>Wt. NCREIF ODCE+FTSE EPRA NAREIT</i>		2.7%	11.6%	12.2%	4.0%	9.2%			
<i>Value Added</i>		-1.3%	5.7%	1.2%	1.1%	5.3%			
Legacy Real Estate ex Public	7.0	2.3%	10.5%	1.9%	-18.2%	-1.2%			
<i>Wt. NCREIF ODCE+FTSE EPRA NAREIT</i>		2.7%	11.6%	12.2%	4.0%	9.2%			
<i>Value Added</i>		-0.4%	-1.1%	-10.3%	-22.2%	-10.4%			
Public REITs	0.7	5.8%	28.5%	12.9%	0.2%	11.0%			
<i>FTSE EPRA/NAREIT DE Index</i>		5.8%	28.7%	13.4%	1.1%	12.1%			
<i>Value Added</i>		0.0%	-0.2%	-0.5%	-0.9%	-1.1%			

⁵⁹The 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.

⁶⁰The 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.

⁶¹VaR (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.

⁶²The 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.

⁶³The "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 12/31/2012

Liquidity Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Liquidity	4.2%	4.0%	+0.2%

Liquidity Segment Performance

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	VaR ⁶⁶	5-year	5-year
								Sharpe Ratio ⁶⁷	Info Ratio ⁶⁸
LIQUIDITY	10.4	0.0%	1.2%	1.8%	1.7%	2.5%	\$0.5 bil	N/A	N/A
<i>Liquidity Policy Benchmark</i> ⁶⁴		0.0%	1.6%	2.0%	1.8%	2.5%			
<i>Value Added</i>		0.0%	-0.4%	-0.2%	-0.1%	0.0%			
US 2-10 Year	5.2	0.0%	2.0%	--%	--%	--%			
<i>Barclays Gov Liquidity 2-10 Yr Idx</i>		0.0%	2.2%	--%	--%	--%			
<i>Value Added</i>		0.0%	-0.2%	--%	--%	--%			
Cash Composite	5.1	0.0%	0.1%	0.2%	0.8%	2.0%			
<i>Csutom STIF</i> ⁶⁵		0.0%	0.0%	0.1%	0.7%	1.9%			
<i>Value Added</i>		0.0%	0.1%	0.1%	0.1%	0.1%			

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
December 31, 2012*

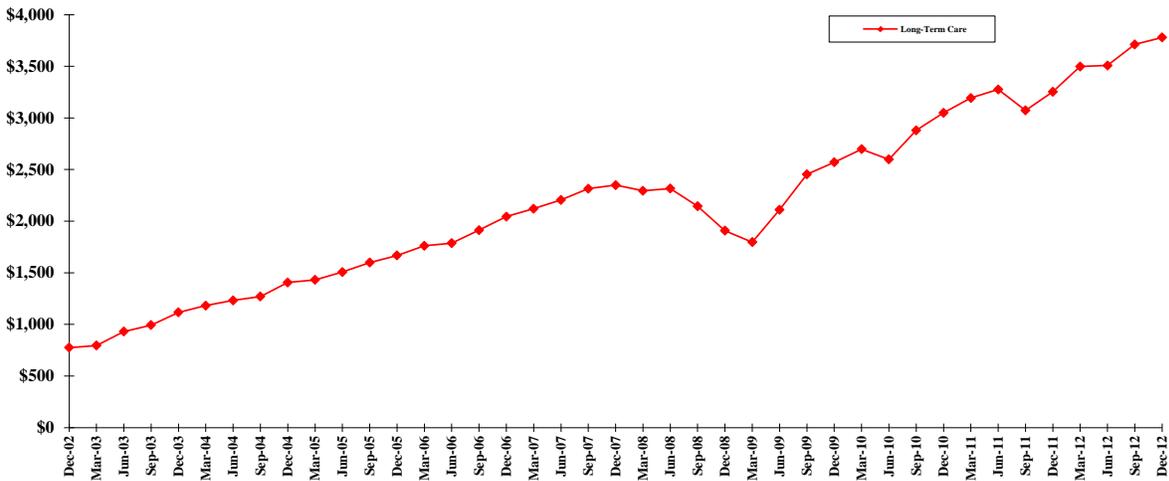
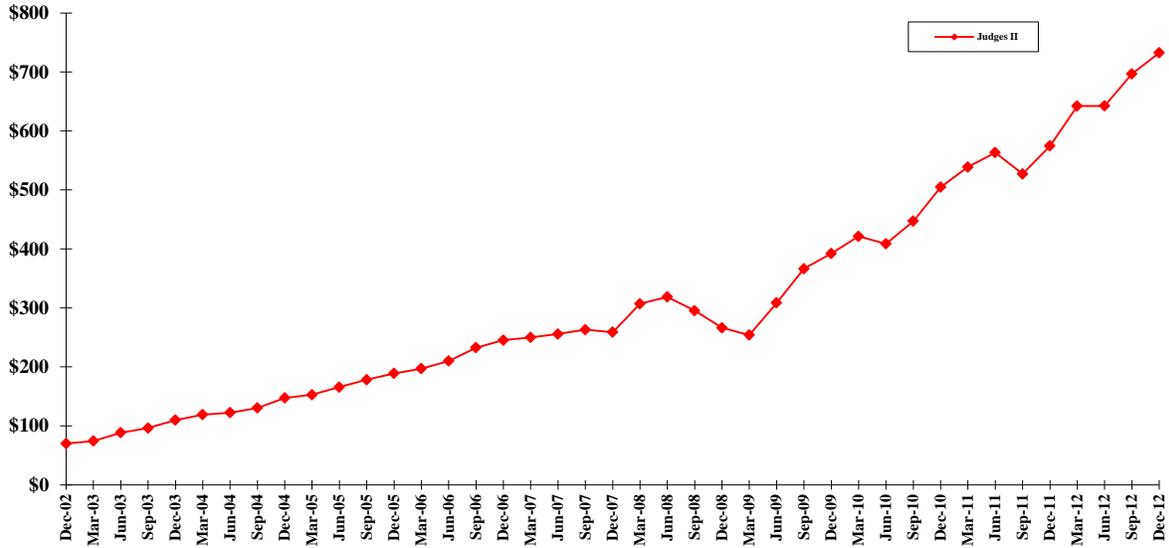


Affiliate Fund Information



Affiliate Fund Performance Period Ended December 31, 2012

Growth in Assets (in \$Millions)





Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Judges II	\$732.4 mil	2.7%	15.4%	9.7%	3.5%	7.6%
<i>Weighted Policy Benchmark</i> ⁶⁹		2.5	14.9	9.8	3.7	7.5
Long-Term Care ("LTC")	\$3,779.7 mil	1.2	12.8	9.3	4.2	7.8
<i>Weighted Policy Benchmark</i> ⁶⁹		1.1	12.3	9.2	4.2	7.5

Total Fund Asset Allocation

Judges II Asset Allocation: Actual versus Target Weights*

Asset Class	Actual Asset Allocation (%)	Target Asset Allocation (%)	Difference
Global Equity	62.9	63.0	-0.1
US Fixed Income	20.1	20.0	0.1
TIPS	6.0	6.0	0.0
REITs	8.1	8.0	0.1
Commodities	3.0	3.0	0.0
Total	100.0	100.0	0.0

LTC Asset Allocation: Actual versus Target Weights*

Asset Class	Actual Asset Allocation (%)	Target Asset Allocation (%)	Difference
Global Equity	15.5	15.0	0.5
US Fixed Income	60.1	61.0	-0.9
TIPS	5.9	6.0	-0.1
REITs	12.4	12.0	0.4
Commodities	6.1	6.0	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 1/1/2013. The LTC fund was transitioning towards a global equity asset allocation mix. The process started in September 2011 and was completed in December 2012.



Commentary – Total Fund

- ◆ For the quarter ended December 31, 2012, the Judges II (JRS II) netted an overall return of 2.7% 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- and ten-year marks.
- ◆ The Long-Term Care Program (LTC) generated a smaller total return of 1.2% for the fourth quarter, but also outpaced its weighted policy benchmark's return of 1.1%. The LTC's longer term record has done well, too, beating its policy benchmark over the one-year, three-year and ten-year periods.
- ◆ At the end of the quarter, Judges II was overweight in U.S. fixed income and REITs while underweight in global equity.
- ◆ The LTC was overweight in global equity, REITs and commodities while underweight in U.S. fixed income as well as TIPS.

Asset Class Performance Results – Judges II

Judges II Asset Class Performance Periods Ended December 31, 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	\$460.5 mil	3.3%	17.2%	7.4%	-0.6%	7.4%
<i>Global Equity Benchmark</i> ⁷⁰		3.2	17.1	7.4	-0.6	7.4
JRS II US Fixed Income	\$147.0 mil	0.7	8.1	10.9	8.9	7.0
<i>Custom Benchmark</i> ⁷¹		0.3	6.7	10.1	8.5	6.3
JRS II TIPS	\$43.7 mil	0.8	7.1	--	--	--
<i>Custom Benchmark</i> ⁷²		0.7	7.0	--	--	--
JRS II REITs	\$59.4 mil	5.8	28.5	13.3	1.6	--
<i>Custom Benchmark</i> ⁷³		5.8	28.7	13.4	0.9	--
JRS II Commodities	\$21.8 mil	-2.8	-0.3	--	--	--
<i>GSCI Total Return Index</i>		-3.3	0.1	--	--	--

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 did not duplicate prior quarter's success when it rose 7.1%, but still turned in a favorable performance in Q4 by rising 3.3% and topped its custom benchmark's 3.2% return. For the full-year, the global equity portfolio gained 17.2%, again edging out the 17.1% of the benchmark; the portfolio also continues to track very closely to its custom benchmark over the long-term.
- ◆ The Judges II's U.S. fixed income portfolio eked out a small return of 0.7% that outpaced the 0.3% 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 0.8% during this quarter and was marginally ahead of the Barclays U.S. TIPS Index (0.7%).
- ◆ The Plan's REIT portfolio was the highest returning asset class during the fourth quarter, producing a gain of 5.8% that matched its custom benchmark, currently the FTSE EPRA/NAREIT Developed Index. The portfolio has enjoyed a strong year as it finished 2012 up 28.5%, mirroring the benchmark return, and continues to do well over all measured periods shown.
- ◆ The relatively young commodities portfolio fell -2.8% in the fourth quarter and was the only JRS II asset class to report a decline, although the portfolio did fare better than the GSCI Total Return Index's -3.3% drop. The commodities portfolio has a one-year return of -0.3% that compares to the benchmark's 0.1% return for the same period.



Asset Class Performance Results – Long-Term Care

Long-Term Care Asset Class Performance Periods Ended December 31, 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 Global Equity	\$587.5 mil	2.7%	17.2%	8.2%	-0.2%	7.7%
<i>Custom Benchmark ⁷⁴</i>		3.0	17.5	8.2	-0.2	7.7
LTC US Fixed Income	\$2,272.7mil	0.5	8.0	10.8	8.8	7.1
<i>Custom Benchmark ⁷⁵</i>		0.3	6.7	10.1	8.5	6.3
LTC TIPS	\$221.2 mil	0.6	7.0	8.8	7.3	--
<i>Barclays U.S. TIPS Index</i>		0.7	7.0	8.9	7.0	--
LTC REITs	\$467.1 mil	5.7	28.4	13.3	1.1	--
<i>Custom Benchmark ⁷⁶</i>		5.7	28.6	13.4	0.9	--
LTC Commodities	\$231.2 mil	-1.4	1.2	--	--	--
<i>GSCI Total Return Index</i>		-3.3	0.1	--	--	--

Commentary – Long-Term Care

- ◆ The LTC U.S. fixed income portfolio continues to produce moderate gains as it was up 0.5% during Q4, and outpaced its custom benchmark, the Barclays Long Liability Index by 19 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 mirrored its custom benchmark, currently the Barclays U.S. TIPS Index, for the quarter with a marginal gain of 0.6%. Since its inception, the TIPS portfolio has performed in line with expectations and has added value over time.

⁷⁴ Effective 12/12/2012 the domestic and international equity asset classes were aggregated into a single global equity asset class, benchmarked against the MSCI ACWI IMI (net).

⁷⁵ 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.

⁷⁶ Effective 12/12/2012, the REIT Custom Benchmark changed to the FTSE EPRA/NAREIT Developed Liquid (net) Index.

Commentary – Long-Term Care

- ◆ The REIT portfolio was LTC's top performing portfolio during Q4 with a return of 5.7% that matched its custom benchmark, currently the FTSE EPRA/NAREIT Developed Liquid (net). The portfolio's one-year and three-year track record remain strong and continue to track relatively close to the custom benchmark.
- ◆ The commodities portfolio was the only LTC asset class to finish this quarter in the negative territory, where it fell -1.4%. But this performance was better than the GSCI Total Return Index's -3.3% drop, and the portfolio's full-year return of 1.2% was also higher than the benchmark's 0.1% gain.

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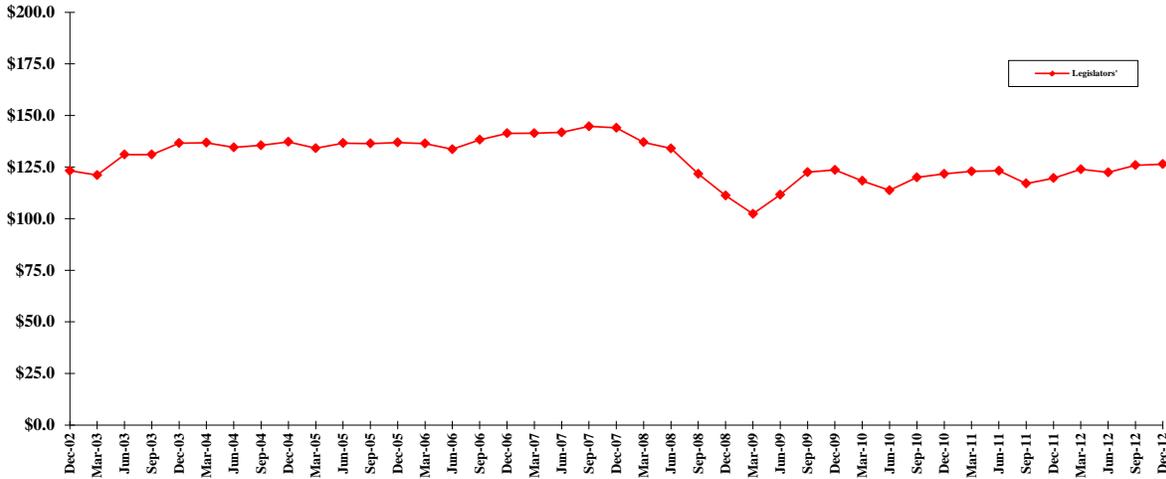


Legislators' Information



California Legislators' Retirement System

Growth in Assets



Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2012

	<u>Market Value</u>	<u>Q tr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
LRS	\$126.4 mil	1.8%	12.5%	10.1%	5.7%	7.5%
<i>Weighted Policy Benchmark ⁷⁷</i>		1.6	11.8	9.9	5.5	7.4

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	32.2%	32.0%	+0.2%
US Fixed Income	41.8	42.0	-0.2
TIPS	14.9	15.0	-0.1
REITs	8.1	8.0	+0.1
Commodities	<u>3.0</u>	<u>3.0</u>	<u>0.0</u>
	100.0	100.0	0.0

⁷⁷ 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") finished the fourth quarter with a modest gain of 1.8% that beat the 1.6% return of its weighted policy benchmark. The System's longer-term track record also remains solid, having outperformed its policy benchmark over all measured periods shown.
- ◆ As of December 31, the System was slightly overweight in global equity and REITs while underweight in U.S. fixed income and TIPS.

Asset Classes Performance Results

Asset Class Performance Periods Ended December 31, 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	\$40.7 mil	3.3%	17.2%	7.9%	-0.3%	7.2%
<i>Global Equity Benchmark ⁷⁸</i>		3.2	17.1	7.9	-0.3	7.1
LRS US Fixed Income	\$52.9 mil	0.7	8.1	10.9	8.9	7.0
<i>Custom Benchmark ⁷⁹</i>		0.3	6.7	10.1	8.5	6.9
LRS TIPS	\$18.8 mil	0.8	7.1	8.9	7.3	-.
<i>Custom Benchmark ⁸⁰</i>		0.7	7.0	8.9	7.0	-.
LRS REITs	\$10.3 mil	5.8	28.5	-.	-.	-.
<i>Custom Benchmark ⁸¹</i>		5.8	28.7	-.	-.	-.
LRS Commodities	\$3.8 mil	-2.8	-0.3	-.	-.	-.
<i>GSCI Total Return Index</i>		-3.3	0.1	-.	-.	-.

⁷⁸ 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.

⁷⁹ 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.

⁸⁰ The current benchmark is the Barclays U.S. TIPS Index. Prior of July 2007 the benchmark was the Barclays Long Liability TIPS Index.

⁸¹ The REIT Custom Benchmark is the FTSE EPRA/NAREIT Developed Index.

Commentary

- ◆ The System's global equity portfolio generated a Q4 gain of 3.3% and compared favorably to its custom benchmark's 3.2% return. The portfolio is also performing in line with expectations over the long-term.
- ◆ LRS' U.S. fixed income portfolio nudged a small return of 0.7% this quarter that topped its custom benchmark, the Barclays Long Liability Index, which had a return of 0.3%. Over the long-term, the portfolio's record has done well relative to the benchmark.
- ◆ The LRS TIPS portfolio's 4Q return of 0.8% was marginally ahead of the Barclays U.S. TIPS Index's 0.7%. The TIPS portfolio's long-term performance continues to fare well relative to the benchmark, and has outperformed over the one-year and five-year periods.
- ◆ The LRS REIT portfolio, now entering its second year, was the highest returning segment during the fourth quarter as it finished up 5.8%, matching its custom benchmark, the FTSE EPRA/NAREIT Developed Index. The REIT portfolio's one-year return also currently mirrors its custom benchmark.
- ◆ The LRS commodities portfolio, funded together with the REIT allocation, fell -2.8% in the fourth quarter and was the only LRS asset class to close the quarter on a negative note, although the portfolio did finish higher relative to the GSCI Total Return Index's -3.3% drop.

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California Employers' Retiree Benefit Trust



California Employers' Retiree Benefit Trust Strategy 1

Asset Allocation

Asset Class	Actual	Policy*	Difference
Global Equity	65.8%	66.0%	-0.2%
US Bonds	17.8	18.0	-0.2
TIPS	4.9	5.0	-0.1
REITS	8.1	8.0	+0.1
Commodities	2.9	3.0	-0.1
Cash Equivalents	<u>0.5</u>	<u>0.0</u>	<u>+0.5</u>
	100.0	100.0	0.0

Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2012

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total Fund	\$1,988.2 mil	2.4%	15.3%	9.1%	2.7%	--%
<i>Benchmark</i>		2.4	15.3	9.1	2.5	--
Global Equity	1,307.8 mil	2.8	17.1	7.8	-0.5	--
<i>Benchmark</i>		2.3	17.2	8.6	0.1	--
Fixed Income	354.4 mil	0.7	8.1	10.9	8.8	--
<i>Benchmark</i>		0.3	6.7	10.1	8.5	--
REITs	161.1 mil	5.6	28.4	13.3	1.6	--
<i>Benchmark</i>		5.7	28.6	13.4	0.9	--
TIPS	97.8 mil	0.8	7.1	--	--	--
<i>Benchmark</i>		0.7	7.0	--	--	--
Commodities	57.9 mil	-2.8	-0.3	--	--	--
<i>Benchmark</i>		-3.3	0.1	--	--	--
Cash[±]	9.2 mil	0.0	0.0	0.1	0.7	--

* The policy asset allocation targets shown are final targets as of 1/1/2013. The CERBT Strategy 1 was transitioning towards a global asset allocation mix. The process started in September 2011 and was completed in December 2012.

[±] The cash component reflects a large contribution received at quarter end that was subsequently invested with asset class target allocations.



California Employers' Retiree Benefit Trust Strategy 2

Asset Allocation

Asset Class	Actual	Policy*	Difference
Global Equity	50.0%	50.0%	0.0%
US Bonds	23.8	24.0	-0.2
TIPS	14.9	15.0	-0.1
REITS	8.1	8.0	+0.1
Commodities	2.9	3.0	-0.1
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 December 31, 2012

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total Fund	\$368.7 mil	2.4%	13.9%	--%	--%	--%
<i>Benchmark</i>		2.3	13.7	--	--	--
Global Equity	184.3 mil	3.5	17.1	--	--	--
<i>Benchmark</i>		3.7	17.2	--	--	--
Fixed Income	87.8 mil	0.7	8.1	--	--	--
<i>Benchmark</i>		0.3	6.7	--	--	--
TIPS	54.8 mil	0.8	7.1	--	--	--
<i>Benchmark</i>		0.7	7.0	--	--	--
REITs	30.0 mil	5.6	28.3	--	--	--
<i>Benchmark</i>		5.7	28.6	--	--	--
Commodities	10.7 mil	-2.8	-0.3	--	--	--
<i>Benchmark</i>		-3.3	0.1	--	--	--
Cash[±]	1.1 mil	0.0	0.0	--	--	--

* The policy asset allocation targets shown are final targets as of 1/1/2013. The CERBT Strategy 2 was transitioning towards a global asset allocation mix. The process started in September 2011 and was completed in December 2012.

[±] The cash component reflects a large contribution received at quarter end that was subsequently invested with asset class target allocations.



California Employers' Retiree Benefit Trust Strategy 3

Asset Allocation

Asset Class	Actual	Policy*	Difference
Global Equity	20.8%	32.0%	-11.2%
US Bonds	27.2	42.0	-14.8
TIPS	9.7	15.0	-5.3
REITS	5.2	8.0	-2.8
Commodities	1.9	3.0	-1.1
Cash Equivalents	<u>35.2</u>	<u>0.0</u>	<u>+35.2</u>
	100.0	100.0	0.0

Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2012

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total Fund	\$52.0 mil	1.8%	11.7%	--%	--%	--%
<i>Benchmark</i>		1.8	11.8	--	--	--
Global Equity	10.8 mil	3.5	17.1	--	--	--
<i>Benchmark</i>		3.7	17.2	--	--	--
Fixed Income	14.1 mil	0.7	8.1	--	--	--
<i>Benchmark</i>		0.3	6.7	--	--	--
TIPS	5.0 mil	0.8	7.1	--	--	--
<i>Benchmark</i>		0.7	7.0	--	--	--
REITs	2.7 mil	5.6	28.3	--	--	--
<i>Benchmark</i>		5.7	28.6	--	--	--
Commodities	1.0 mil	-2.8	-0.3	--	--	--
<i>Benchmark</i>		-3.3	0.1	--	--	--
Cash[±]	18.3 mil	0.0	0.0	--	--	--

* The policy asset allocation targets shown are final targets as of 1/1/2013. The CERBT Strategy 3 was transitioning towards a global asset allocation mix. The process started in September 2011 and was completed in December 2012.

[±] The cash component reflects a large contribution received at quarter end that was subsequently invested with asset class target allocations.

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Health Care Bond Fund

Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 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	\$398.7 mil	0.5%	5.8%	6.8%	6.1%	--%
<i>Benchmark</i>		0.2	4.2	6.2	6.0	--

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Supplemental Income Plans



Supplemental Income Plan Performance

Net Fund Performance Results – Supplemental Contribution Plan

Periods Ended December 31, 2012

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
CalPERS International Index <i>FTSE Dev. World Index Ex-US</i>	\$156.4 thous	6.3	17.8	4.1	-3.0
		6.3	17.7	4.2	-2.8
CalPERS Small/Mid Equity Index <i>Russell 2500</i>	\$532.6 thous	3.1	18.3	13.5	4.4
		3.1	17.9	13.3	4.3
CalPERS Target 2010 <i>SIP 2010 Index</i>	\$109.2 thous	0.7	9.6	6.7	--
		0.9	10.0	8.0	--
CalPERS Target 2015 <i>SIP 2015 Index</i>	\$48.2 thous	0.9	10.5	6.9	--
		1.0	11.0	8.2	--
CalPERS Target 2020 <i>SIP 2020 Index</i>	\$88.1 thous	0.9	11.1	7.0	--
		1.1	11.7	8.2	--
CalPERS Target 2025 <i>SIP 2020 Index</i>	\$66.7 thous	1.2	12.3	--	--
		1.4	13.2	--	--
CalPERS Target 2030 <i>SIP 2030 Index</i>	\$0.6 thous	1.3	13.0	7.3	--
		1.6	14.4	8.6	--
CalPERS Target 2035 <i>SIP 2035 Index</i>	\$8.9 thous	1.5	14.1	--	--
		1.8	15.6	--	--
CalPERS Target 2040 <i>SIP 2040 Index</i>	\$108.2 thous	1.6	14.5	7.6	--
		1.9	16.0	8.9	--
CalPERS Target 2045 <i>SIP 2045 Policy</i>	\$42.2 thous	1.6	14.5	--	--
		1.9	16.0	--	--
CalPERS Total Return Bond Fund <i>Barclays Aggregate Bond Index</i>	\$523.2 thous	0.5	5.5	6.5	5.7
		0.2	4.2	6.2	6.0
CalPERS Target Income <i>SIP Income Policy</i>	\$162.0 thous	0.5	7.6	6.1	--
		0.6	7.5	7.2	--
CalPERS TIPS Securities <i>Barclays U.S. TIP Index</i>	\$524.6 thous	0.7	6.8	8.5	7.0
		0.7	7.0	8.9	7.0
PIMCO Short Term Bond Fund <i>CalPERS ML 6-month T-Bill</i>	\$32.9 thous	0.3	2.2	--	--
		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>	\$22.6 thous	1.6 1.9	14.5 16.0	7.6 8.9	-- --
CalPERS Moderate Asset Allocation Fund <i>SIP Moderate Policy</i>	\$14.7 mil	1.1 1.3	11.6 12.2	7.1 8.4	-- --
CalPERS Conservative Asset Allocation <i>SIP Conservative Policy</i>	\$284.1 thous	0.5 0.6	7.7 7.5	6.1 7.2	-- --
CalPERS S&P 500 Equity Index <i>S&P 500 Index</i>	\$979.6 thous	-0.4 -0.4	16.0 16.0	10.9 10.9	1.7 1.7
Pyramis Select International <i>CalPERS FTSE Dev World x-US</i>	\$21.4 thous	5.9 6.2	19.2 17.6	5.0 4.2	-- --
The Boston Company SMID Growth <i>Russell 2500 Growth</i>	\$17.9 thous	-1.9 1.8	14.3 16.1	-- --	-- --
The Boston Company SMID Value <i>Russell 2500 Value</i>	\$5.0 thous	2.5 4.1	12.6 19.2	-- --	-- --
SSgA STIF <i>BofAML 3-month US T-Bill</i>	\$559.7 thous	0.0 0.0	-0.1 0.1	-- --	-- --

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

Periods Ended December 31, 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>	\$481.6 mil	1.1% 1.3	11.6% 12.2	7.1% 8.4	1.9% 2.9	5.9% 6.8

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CalPERS 457 Program Net Funds
Periods Ended December 31, 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	\$209.5 mil	-0.5	15.7	10.6	1.5	6.8
<i>S&P 500 Index</i>		-0.4	16.0	10.9	1.7	7.1
CalPERS Small/Mid Equity Index	\$128.8 mil	3.0	18.0	13.2	4.1	--
<i>Russell 2500 Index</i>		3.1	17.9	13.3	4.3	--
CalPERS Total Return Bond Fund	\$67.2 mil	0.4	5.3	6.3	5.5	--
<i>Barclays Aggregate</i>		0.2	4.2	6.2	6.0	--
CalPERS TIPS Securities	\$46.5 mil	0.7	6.6	8.3	6.7	--
<i>Barclays U.S. TIPS Index</i>		0.7	7.0	8.9	7.0	--
CalPERS International Index	\$17.0 mil	6.2	17.5	3.9	-3.3	--
<i>FTSE Dev. World Index Ex-US</i>		6.3	17.7	4.2	-2.8	--
Boston Company SMID Growth	\$5.7 mil	-1.9	14.3	13.9	--	--
<i>Russell 2500 Growth Index</i>		1.8	16.1	13.8	--	--
Boston Company SMID Value	\$2.5 mil	2.5	12.6	8.5	--	--
<i>Russell 2500 Value Index</i>		4.1	19.2	12.9	--	--
Pyramis Select International	\$34.1 mil	5.9	19.0	4.8	--	--
<i>CalPERS FTSE Dev World x-US</i>		6.2	17.6	4.2	--	--
CalPERS Conservative Asset Allocation	\$37.7 mil	0.5	7.6	6.0	--	--
<i>SIP Conservative Index</i>		0.6	7.5	7.2	--	--
CalPERS Moderate Asset Allocation Fund	\$112.3 mil	1.0	11.5	7.1	--	--
<i>SIP Moderate Policy</i>		1.3	12.2	8.4	--	--
CalPERS Aggressive Asset Allocation	\$54.8 mil	1.6	14.4	7.5	--	--
<i>SIP Aggressive Policy</i>		1.9	16.0	8.9	--	--
CalPERS Target Income Fund	\$13.4 mil	0.4	7.6	6.0	--	--
<i>SIP Income Policy</i>		0.6	7.5	7.2	--	--

CalPERS
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CalPERS 457 Program Net Funds Periods Ended December 31, 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	\$2.1 mil	0.5	8.3	6.2	--	--
<i>SIP 2005 Policy</i>		0.7	8.5	7.5	--	--
CalPERS Target 2010 Fund	\$16.6 mil	0.7	9.6	6.6	--	--
<i>SIP 2010 Policy</i>		0.9	10.0	8.0	--	--
CalPERS Target 2015 Fund	\$25.8 mil	0.8	10.4	6.8	--	--
<i>SIP 2015 Policy</i>		1.0	11.0	8.2	--	--
CalPERS Target 2020 Fund	\$34.6 mil	0.9	11.0	6.9	--	--
<i>SIP 2020 Policy</i>		1.1	11.7	8.2	--	--
CalPERS Target 2025 Fund	\$14.3 mil	1.2	12.2	7.1	--	--
<i>SIP 2025 Policy</i>		1.4	13.2	8.4	--	--
CalPERS Target 2030 Fund	\$19.7 mil	1.3	13.2	7.3	--	--
<i>SIP 2030 Policy</i>		1.6	14.4	8.6	--	--
CalPERS Target 2035 Fund	\$5.8 mil	1.5	14.0	7.5	--	--
<i>SIP 2035 Policy</i>		1.8	15.6	8.9	--	--
CalPERS Target 2040 Fund	\$11.2 mil	1.6	14.4	7.5	--	--
<i>SIP 2040 Policy</i>		1.9	16.0	8.9	--	--
CalPERS Target 2045 Fund	\$1.5 mil	1.6	14.4	7.5	--	--
<i>SIP 2045 Policy</i>		1.9	16.0	8.9	--	--
CalPERS Target 2050 Fund	\$0.7 mil	1.6	14.4	7.5	--	--
<i>SIP 2050 Policy</i>		1.9	16.0	8.9	--	--
SSgA STIF	\$137.7 mil	-0.1	-0.4	--	--	--
<i>BofAML 3-month US T-Bill</i>		0.0	0.1	--	--	--
PIMCO Short-Term Bond Fund	\$10.4 mil	0.2	2.0	--	--	--
<i>ML 6-month T-Bill</i>		0.1	0.2	--	--	--