

Global Equity Annual Program Review

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Portfolio Overview¹

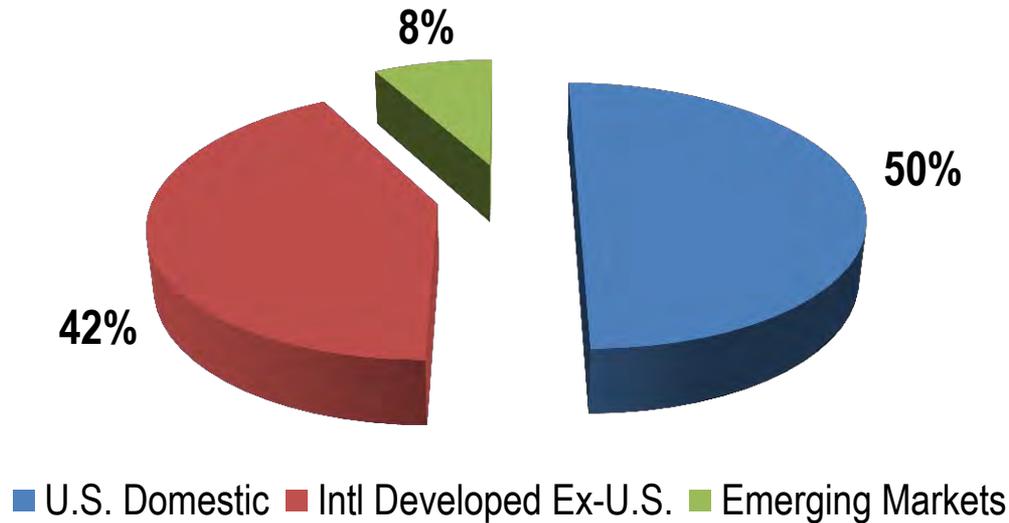
- **Allocation:** \$137 billion; 53% of Total Fund
- **Benchmark:** Custom FTSE All-World, All-Capitalization Index
- **Coverage:**
 - 47 countries; 37 currencies
 - Approximately 10,000 securities

Portfolio Overview¹ (continued)

- **78 Strategies:**
 - 5 index-oriented² (66%) and 73 active² (34%)
 - Internal: 19 total, 5 index
 - Alternative Beta
 - Active
 - External: 59 total, managed by 51 managers
 - Activist (11)
 - Emerging (33)
 - Traditional (15)

Portfolio Characteristics – Capital Allocation¹

Market Segments



- International ~ 50%
- Full market capitalization coverage
- CalPERS customization
 - Excludes tobacco, firearms and Iran/Sudan
 - Applies emerging markets principles

	U.S. Domestic	International Developed Ex-U.S.	Emerging Markets
Internal	87%	82%	62%
External	13%	18%	38%

¹All data as of August 31, 2013.

Top Exposures

Overweights

Underweights

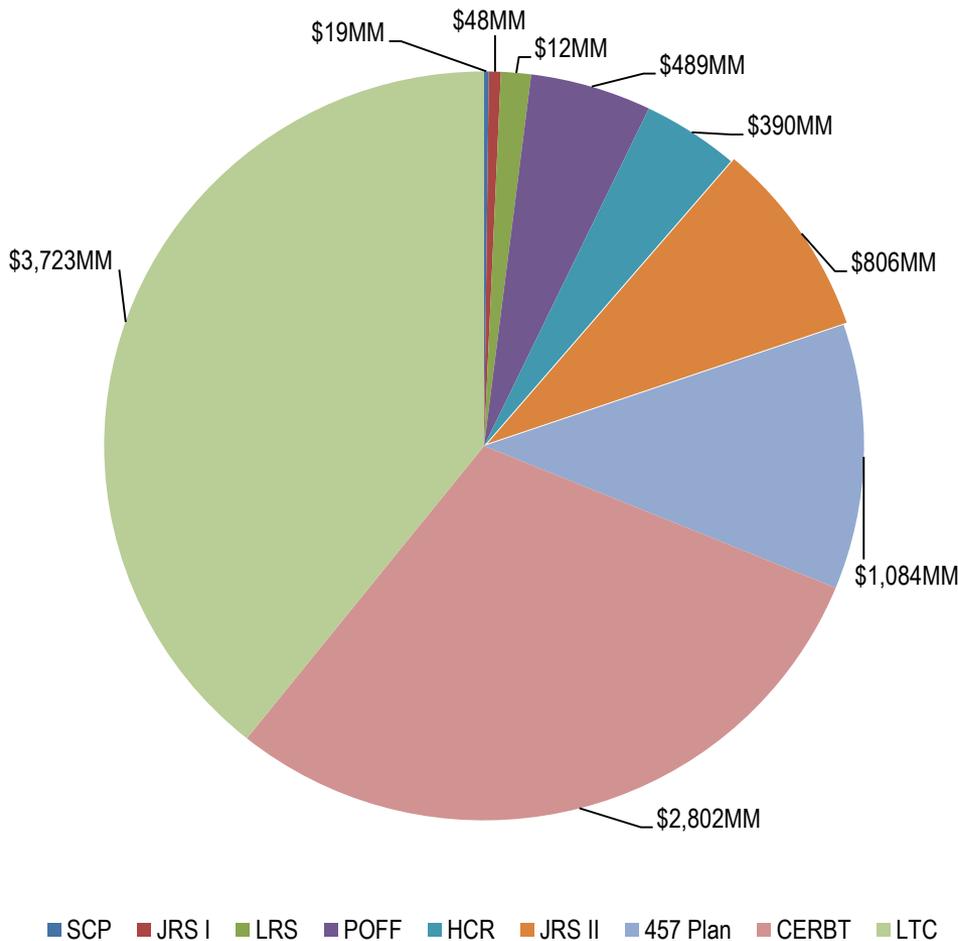
Regions	
Japan	U.S.
Developed Europe (ex-U.K.)	Asia (ex-Japan)
Sectors	
Industrials (U.S.)	Financials (Asia, Canada)
Technology (Japan)	Energy (U.S.)
Factors	
Volatility	Quality
Value	Large Cap
Small Cap	

Portfolio Characteristics

	Internal	External	Corporate Governance	Emerging Managers	Total Global Equity
Assets Under Management (AUM)	\$111 B	\$18 B	\$ 5 B	\$3 B	\$137 B
Active Risk¹	0.41	2.27	5.28	2.19	0.30
One-Year Fees Paid²	\$10 MM	\$60 MM	\$56 MM	\$16 MM	\$142 MM
Cost / AUM (bps)	1	37	125	62	10

- Continuing strategy rationalization and renegotiation of terms

Affiliate Investments¹



Plan	3-Year Relative Performance ²
Long-Term Care Program (LTC)	0.19
California Employers' Retiree Benefit Trust (CERBT)	
Strategy I	0.08
Strategy II	0.07
Strategy III	
457 Plan	N/A ³
Judges Retirement System (JRS) II	(0.01)
Judges Retirement System (JRS) I	(0.01)
Health Care Bond (HCR)	0.90
Peace Offices and Firefighters (POFF)	N/A ³
Legislators' Retirement System (LRS)	0.23
Supplemental Contributions Plan (SCP)	N/A ³

¹All data as of August 31, 2013.

²Historical performance is presented in CIO Performance report.

³Funds transitioned October 7, 2013 to SSgA.

CalPERS Investment Beliefs

- A long time investment horizon is a responsibility and an advantage
 - **Liquidity provision**
 - **Ride out volatility**
- CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries
 - **Prohibited investments**
 - **Integration of Sustainability (Global Governance)**

CalPERS Investment Beliefs (continued)

- Strategic asset allocation is the dominant determinant of portfolio risk and return
 - **Holistic portfolio (capital allocation)**
 - **Collaboration with Asset Allocation**
- Costs matter and need to be effectively managed
 - **Internal capabilities**
 - **Alignment of interest**

CalPERS Investment Beliefs (continued)

- Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error
 - **Understanding risks multi-dimensionally**
 - **Constructing Global Equity portfolio to balance risk taking with overall CalPERS utilities**
- Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives
 - **Clear vision**
 - **Staff development and infrastructure**

Global Equity Structure & Responsibilities

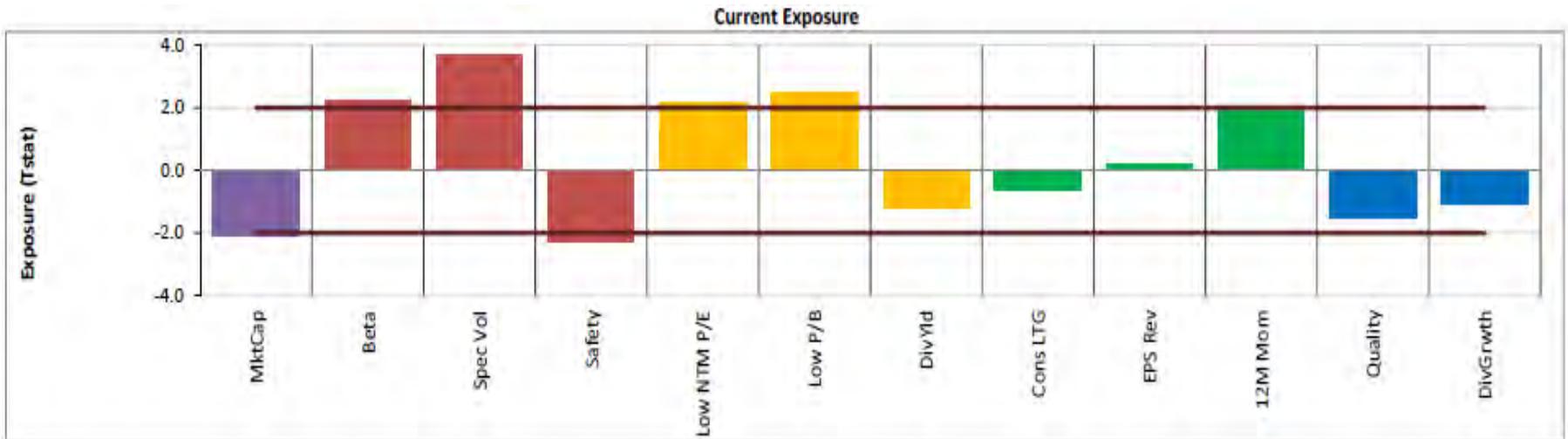
- **Capital Allocation and Quantitative Research**
 - Total Global Equity strategy assessment and fit
- **Affiliated Investment Programs**
 - Manage Affiliate Funds (cross asset class)
 - Manage unit-level activity
- **Portfolio Construction**
 - Internal strategy management and implementation
- **Trading**
 - Trade execution and broker evaluations

Global Equity Structure & Responsibilities (continued)

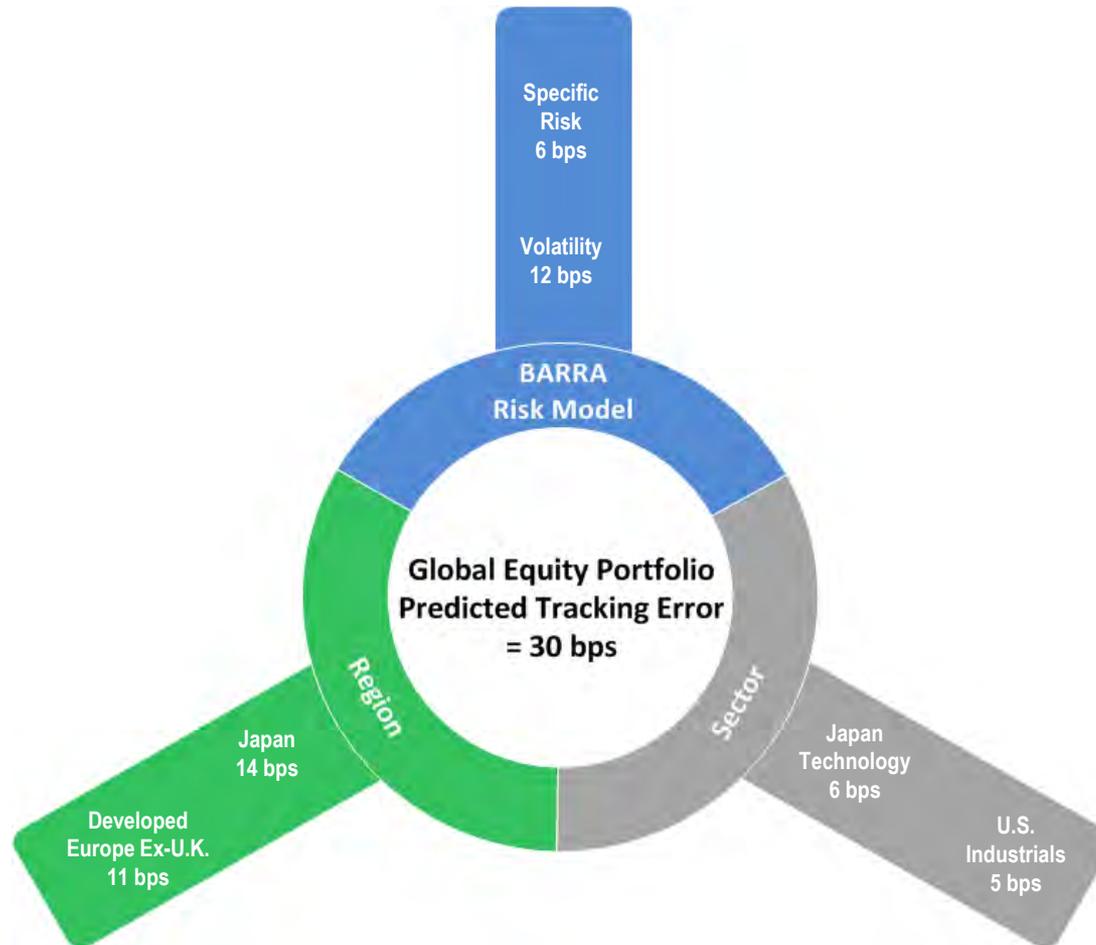
- **Risk Oversight**
 - Measure risk exposures and analyze performance
- **Market Intelligence and Research**
 - Gather market research and investment signals to identify potential holistic exposures
- **Investment Management**
 - Oversee Global Equity strategies
- **Alignment of Interest**
 - Ensure contracts and fees fit investment beliefs and serve CalPERS best interest

Risk Exposure & Decomposition (Dashboard Excerpt)

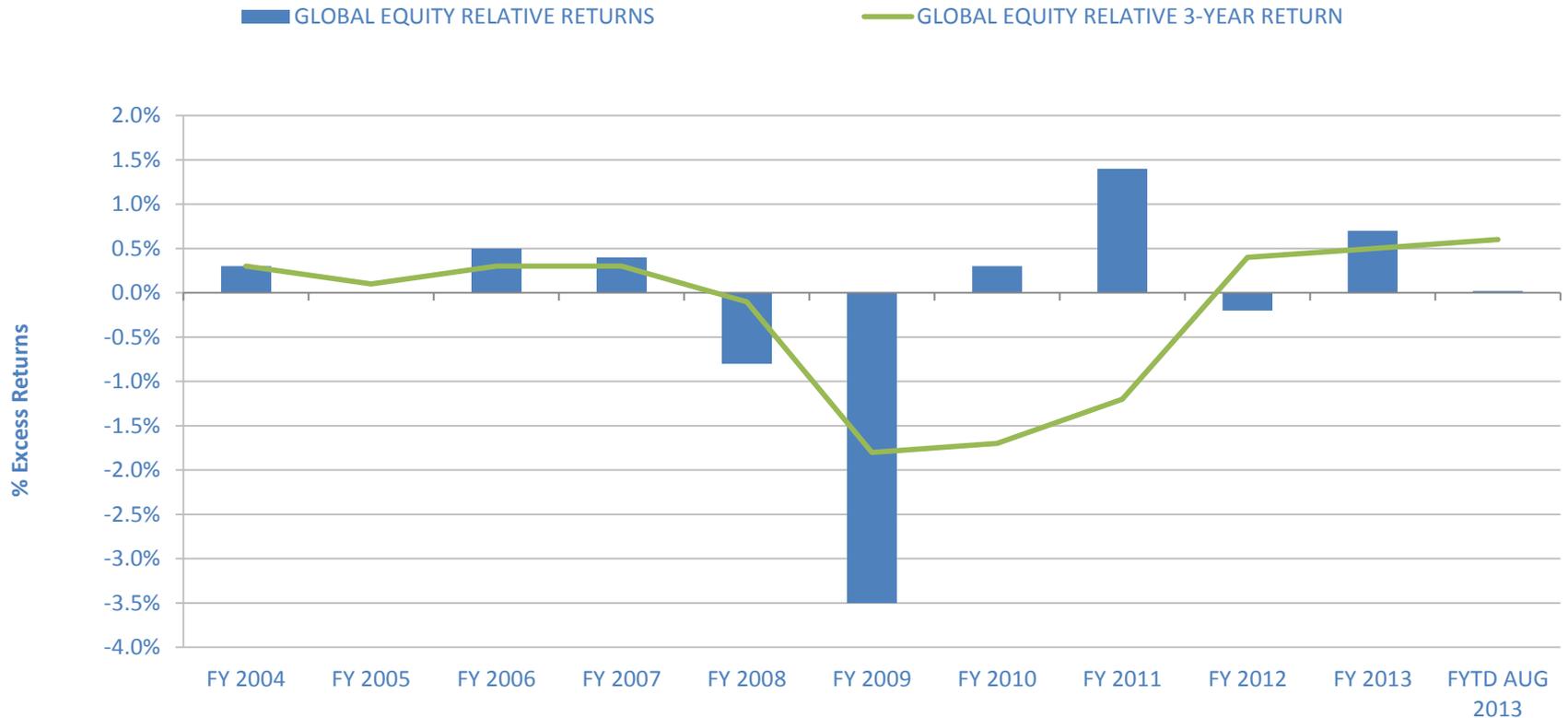
Active Weight									% Active Risk								
	Asia x			Eur x			Total		Asia x			Eur x			Total		
	Canada	JP	UK	EM	JP	UK			US	Canada	JP	UK	EM	JP		UK	US
Total	-0.5	-0.5	0.4	0.0	1.0	-0.1	-0.3	--	Total	-7.2	-11.7	37.3	10.9	46.5	3.7	19.9	100.0
Cons Disc	0.0	0.0	0.1	0.0	0.2	0.0	0.0	0.2	Cons Disc	-0.2	-1.0	8.1	-0.6	7.3	2.2	3.1	18.8
Financials	-0.2	-0.3	0.2	0.0	0.0	-0.1	-0.1	-0.5	Financials	-3.0	-6.6	11.3	4.5	1.7	-3.4	4.8	9.2
Industrials	0.0	0.0	0.1	0.0	0.1	0.1	0.4	0.5	Industrials	-0.4	-1.0	5.8	0.3	5.2	2.1	15.6	27.8
Info Tech	0.0	0.0	0.0	0.0	0.4	0.0	-0.2	0.3	Info Tech	0.5	0.4	2.9	1.6	21.6	1.3	0.4	28.8
Energy	-0.1	0.0	0.0	0.1	0.0	-0.1	-0.3	-0.4	Energy	-2.3	-0.7	0.4	4.0	0.9	-0.5	-4.9	-2.7
Materials	-0.1	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.3	Materials	-1.0	-3.1	-0.7	-0.2	1.1	2.1	-1.7	-3.4
Cons Stap	0.0	0.0	-0.1	-0.1	0.1	0.0	0.1	0.0	Cons Stap	-0.2	0.1	0.4	-0.1	1.1	0.2	4.0	5.4
Health Care	0.0	0.0	-0.2	0.0	0.2	0.0	-0.2	-0.2	Health Care	-0.2	0.2	-1.7	-0.5	4.4	0.2	-1.7	0.6
Telecom Svcs	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.3	Telecom Svcs	-0.1	0.1	6.4	2.3	-0.6	-0.1	0.2	8.3
Utilities	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.1	Utilities	-0.2	-0.2	4.3	-0.5	3.3	-0.3	0.2	6.8



Risk Exposure & Decomposition (continued)



Global Equity Performance Summary



Statements of Investment Policy Review

Global Equity has reviewed its Statements of Investment Policy:

- Global Equity Policy
 - Staff identified clarifying amendments and are bringing to the Investment Committee (IC) for initial review (October 2013)
 - Policy will be brought back in November for action on revisions

Statements of Investment Policy Review (continued)

- Emerging Equity Markets Principles and Corporate Governance Program Policies
 - Staff are reviewing these two policies and expects to bring them to the IC with any material amendments within the next three to six months
- Affiliate Investment Programs
 - All eight policies are current with no required changes

Emerging Managers

- Summary of Changes
 - Transition away from Fund-of-Funds investments and equity ownership to more direct relationships through Global Equity advisors
 - Identify and invest in targeted mandates accretive to the whole Global Equity Program (about \$2.75 billion total)
 - Align interests of CalPERS, advisors and managers

Emerging Managers (continued)

- Success criteria for emerging manager advisors based on:
 - Due diligence expertise
 - Capital allocation inputs (impacts on total Global Equity portfolio)
 - Contributions to identification of emerging manager trends
- Incorporate independent and objective evaluation (Wilshire Associates)
- Create direct relationships with emerging managers that fit with the overall Global Equity portfolio

Global Equity FY 2012-13 Roadmap Accomplishments

- Achieved 73 basis point excess return target as a result of strategy evolution and capital allocation decisions
- Incorporated several organization and infrastructure changes
 - PM2 (Phases I and II)
 - Affiliate Investment Programs (AIP) integration
 - Hiring of staff

Conclusion: Global Equity Mission and Roadmap

- Mission
 - Manage the holistic portfolios (Global Equity and AIP)
 - Delivery of beta (as planned)
 - Delivery of alpha (aspirational)
 - Risk aware
 - Manage the business
 - Technology and infrastructure
 - Policies and procedures
 - Personnel

Conclusion: Global Equity Mission and Roadmap (continued)

- Priorities
 - Sophisticated risk analysis
 - Intentional positioning
 - Strategy rationalization
 - Focus on total portfolio
 - Reduce number of strategies
 - Renegotiate to enhance alignment
 - Focus on plan level utilities
 - Create sustainable process to leverage strategic relationships and other CalPERS asset classes
 - Execution