



MEMORANDUM

Attention: Henry Jones
Chair, Investment Committee
California Public Employees Retirement System

From: *Pacific Community Ventures*

Date: November 5, 2013

Subject: **Amendments to *CalPERS for California* Research and Report: Public Markets Jobs Supported and Economic Impact Recommendations**

Introduction

This memorandum responds to feedback from the August 19, 2013 Investment Committee meeting featuring the release and presentation of the 2012 *CalPERS for California* report.

Specifically, the memorandum recommends an amended approach to describing the economic impacts of CalPERS investments in California, providing additional clarity on the question of attribution. It also discusses the use of an economic multiplier model to estimate the total economic impact of CalPERS investments in California.

Examination of Alternative Methods for Reporting Jobs Supported in Public Markets

As currently presented, *CalPERS for California* provides a careful estimate of all California-based jobs supported by the California-headquartered public companies and corporate bond issuers in which CalPERS invests. This figure is intended to be illustrative of the presence and prominence of these public companies in California's economy and of their relative importance as investments in California by CalPERS.

Alongside the jobs supported estimate, *CalPERS for California* includes a discussion of CalPERS relatively small ownership interest in public companies headquartered in California (around 0.3 percent) and its limited role, together with other investors, in sustaining the activities of these enterprises. In sum, while the jobs supported in California by the California-headquartered public companies in which CalPERS invests



are not directly attributable to CalPERS, the manner in which this has been communicated in *CalPERS for California* can be enhanced.

In an effort to provide additional clarity and best articulate the impact resulting from CalPERS public markets investments in *CalPERS for California*, PCV has investigated a number of alternative methods for researching and communicating the benefits of CalPERS public markets investments in the forthcoming 2013 *CalPERS for California* report. The following table lists the advantages and disadvantages of these alternative methods versus what is currently being employed in the *CalPERS for California* report (the status quo).

	Method	Advantages	Disadvantages
2012 CalPERS for California Report (status quo)	<ul style="list-style-type: none"> • Customized method for calculating jobs supported in each asset class, leveraging primary data where available • Emphasizes the breadth of CalPERS impact, not causality • Methods fully disclosed in footnotes • Includes case studies examining particular aspects of the companies and projects CalPERS invests in 	<ul style="list-style-type: none"> • <u>Proportionality</u>: total jobs supported is broadly reflective of the number of companies and size of CalPERS investments in California across asset classes 	<ul style="list-style-type: none"> • <u>Confusion</u>: The consolidated total jobs figure implies attribution – a problem compounded by nuanced language discussing jobs supported in public markets vs. private markets
Alternative No. 1	<ul style="list-style-type: none"> • Eliminate jobs supported figure from public equities and fixed income • Eliminate case studies for public equities and fixed income • Clearly separate public and private markets sections of report 	<ul style="list-style-type: none"> • <u>Clarity</u>: Reduces confusion by attributing all jobs supported figures in report more directly to CalPERS investments (available only in private markets). Other attribution issues associated with case studies are avoided 	<ul style="list-style-type: none"> • <u>Understatement</u>: Assumes no impact from CalPERS investments in public markets, understating the significance of CalPERS public markets investments in California
Alternative No. 2	<ul style="list-style-type: none"> • Retains public markets jobs supported figures • Eliminate case studies for public equities and fixed income • Never aggregates public and private markets jobs supported figures and uses stronger and clearer language/design elements to distinguish them 	<ul style="list-style-type: none"> • <u>Proportionality</u>: jobs supported figure for each asset class remains • <u>Clarity</u>: Discusses and addresses attribution more explicitly. Other attribution issues associated with case studies are avoided 	<ul style="list-style-type: none"> • <u>Misinterpretation</u>: Diminished potential for jobs supported in public markets to be viewed as resulting directly from CalPERS investment. This potential can be easily mitigated through clearer language/design elements described in the methods for Alternative No. 2

PCV recommends that the 2013 *CalPERS for California* report incorporate **Alternative No. 2** for reporting jobs supported figures in public markets. This method provides an appropriate solution that more clearly delineates between jobs supported in the public markets versus the private markets. And we are confident that, under Alternative No. 2,



the 2013 *CalPERS for California* report can be presented in such a way as to mitigate the potential for misinterpretation and ensure that jobs supported figures in public markets are clearly understood as illustrative, not definitive.

Use of an Economic Multiplier Model

The *CalPERS for California* report already utilizes the IMPLAN Version 3.0 economic multiplier model software package for determining a jobs supported figure for the real estate and infrastructure asset classes, where we do not have access to primary data allowing for more accurate estimates.

We believe the IMPLAN economic multiplier model can be extended further for the purpose of calculating the total economic impact resulting from CalPERS private market investments in California (private equity, real estate, and infrastructure). However, the model cannot be applied to CalPERS public markets investments in California, for the following reasons:

1. Attribution: CalPERS cannot directly tie its provision of capital to the operations and economic activity occurring at California headquartered public companies given it is one of many investors in these businesses.
2. Overestimation: Applying the IMPLAN economic multiplier model to CalPERS public markets investments in California would overstate CalPERS total economic impact.
3. Area of Study Limitations: IMPLAN is an input-output economic multiplier model that requires a set geographic area of study. As California headquartered public companies have a significant number of facilities and operations in and outside of California it is difficult to specify what proportion of CalPERS investment in these companies is injected directly into California's economy, limiting the accuracy of the resulting total economic impact figure.

PCV recommends applying the IMPLAN economic multiplier model to CalPERS California investments in private equity, real estate, and infrastructure, documenting an overall economic impact for the System in California through these asset classes in the 2013 *CalPERS for California* report.