



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 2013

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Capital Market Overview

Global stock markets surged in the fourth quarter of 2013, capping off a year of stellar overall stock performance. Bonds, in contrast, found the going much tougher in the face of rising yields, and despite relatively strong gains in crude oil prices, commodities in general experienced losses; gold was one of this year's notable losers, closing 2013 at \$1,202.30 per troy ounce, a -28.21% drop from year-end 2012. The U.S. economy continued to show signs of increased strength; real GDP rose at an impressive annual rate of 4.1% in the third quarter, building off of the solid 2.5% growth rate in the second quarter. Consumer inflation, however, remained muted for 2013, with the Consumer Price Index—All Urban Consumers (CPI-U) rising a scant 1.50% for the year; prices actually fell in the fourth quarter (CPI-U, -0.47%), with consumers paying less for food and energy. Bond markets, however, point to somewhat higher inflation in the future; ten-year breakeven inflation (the difference between the yield on ten-year nominal Treasuries and the yield on ten-year TIPS) stood at 2.25% at year-end 2013. Job growth in the U.S. increased to a monthly pace of 204,000 new jobs in the four months through November, after expanding at a more modest 146,000 pace in the three prior months. The U.S. unemployment rate fell to 7.0% in November, its lowest level since a 6.8% reading in November 2008. In the face of these signals of a U.S. economic recovery on solid footing, on December 18 the Federal Open Market Committee announced plans to begin tapering its \$75 billion monthly bond purchasing program by \$10 billion per month, starting in January 2014. Treasury yields, unsurprisingly, jumped as a result; the bellwether 10-year U.S. Treasury leapt 19 basis points to end the year at 3.04%, its highest level since July 2011.

U.S. Equity Market

The U.S. stock market, represented by the Wilshire 5000 Total Market IndexSM, surged 10.11% in the fourth quarter to post a stellar 33.07% total return for 2013, marking its best annual return since climbing 36.45% in 1995. The index, which rode monetary stimulus to notch its fifth consecutive annual gain, closed 2013 at an all-time high and is now up 38.47% on a total return basis since the Wilshire 5000's previous high of October 9, 2007. The U.S. stock market's advance was consistent throughout the year, delivering positive returns across all four quarters of 2013 and in all but two months (June & August). Large capitalization stocks outpaced smaller shares during the quarter with the Wilshire Large-Cap IndexSM up 10.22% vs. 9.10% for the Wilshire US Small-Cap IndexSM. For the year, however, small cap stocks held on to their return advantage, gaining 39.01% vs. a more than respectable 32.33% for large caps. The Wilshire US Micro-Cap IndexSM delivered gangbuster returns for both the quarter and year, rising 10.51% and 48.90%, respectively. Growth stocks outperformed value in 2014; up 34.97% vs. 30.24% in the large-cap segment, respectively, and 45.00% vs. 33.80% for small caps. All economic sectors showed gains during the quarter, as Industrials and Information Technology led other groups higher with moves of 12.95% and 12.37%, respectively. Consumer Discretionary and Healthcare stocks joined Industrials as the best performing sectors in 2014. The interest-rate-sensitive Utilities group was a laggard for both the quarter and year, posting relatively disappointing total returns of 3.11% and 14.86%, respectively. Global public-market real estate stocks faced strong headwinds in 2013 as interest rates rose in major markets and increased borrowing costs for real estate investors. As a result, real estate stocks struggled all year, losing some ground in the fourth quarter (Wilshire US RESISM, -0.75%) and ending 2013 with meager gains (Wilshire US RESI, 2.15%).

Fixed Income Market

Bond yields drifted down in October, then reversed course and rose in November and December; as noted above, the bellwether 10-year U.S. Treasury yield ended the year at 3.04%, its highest level since July 2011 and a full 126 basis points higher than its yield at year-end 2012. The yield curve steepened over the fourth quarter, with two-year yields nudging upward 5 bps while thirty-year yields rose 27 bps. In fact, yields rose at all maturities over one year during 2013, leading long Treasuries to double-digit annual losses (Barclays U.S. Treasury Long, -3.08% fourth quarter, -12.66% year); short-term Treasuries saw principal losses offset by their coupons, leading to weak gains (Barclays U.S. Treasury 1-3 Years, 0.06% fourth quarter, 0.36% year). Investors rotated into investment-grade and high yield corporate bonds during 2013, leading to tighter spreads relative to a year ago (Barclays U.S. Corporate, -0.16% fourth quarter, -1.53% year; Barclays U.S. Corporate High Yield, 3.58% fourth quarter, 7.44% year). The prospect of higher yields in the future may bring investors back into investment-grade U.S. bonds, but the current low-yield environment proved to be a tough sell overall in 2013 (Barclays U.S. Aggregate, -0.14% fourth quarter, -2.02% year).

Non-U.S. Markets

Developed global stock markets enjoyed surprisingly strong performance in 2013, brushing aside concerns over sluggish recoveries in certain countries from the Great Global Recession and taking full advantage of the easy money made available through accommodative central bank policies (MSCI All Country World Ex U.S. net dividends, local currency terms: 5.72% fourth quarter, 20.05% year; U.S. dollar terms: 4.77% fourth quarter, 15.29% year). Japanese stocks were especially strong performers, propelled by a sharply weaker yen that made Japanese exports relatively cheap for their trading partners. Japan's strength propelled the Asia-Pacific region to excellent returns in local currency terms (MSCI Pacific net, local: 7.21% fourth quarter, 38.05% year); a stronger U.S. dollar reduced those gains for U.S.-based investors (MSCI Pacific net, USD terms: 1.56% fourth quarter, 18.27% year). Despite lingering headaches in continental Europe, that region's stocks yielded healthy gains in local currency and U.S. dollar terms (MSCI Europe net, local: 5.96% fourth quarter, 21.55% year; USD terms: 7.88% fourth quarter, 25.23% year). Emerging market stocks, on the other hand, struggled in 2013 against local economic slowdowns and political uncertainties (MSCI Emerging Markets net, local: 2.96% fourth quarter, 3.44% year; USD terms: 1.83% fourth quarter, -2.60% year). Developed market bonds as a whole were essentially flat in 2013 (Barclays Global Aggregate Ex-US, USD hedged: 0.41% fourth quarter, 1.18% year; USD unhedged, -0.72% fourth quarter, -3.08% year), while emerging market debt lost ground as investors found the asset space less attractive than in previous years (Barclays Emerging Markets Local Currency Government Universal, USD hedged: -0.81% fourth quarter, -3.37% year; USD unhedged, 0.02% fourth quarter, -3.80% year).

Summary of Index Returns

For Periods Ended December 31, 2013

	<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	10.52%	32.41%	16.18%	17.94%	7.40%
Wilshire 5000	10.11	33.07	15.96	18.58	7.97
Wilshire 4500	8.52	38.39	16.12	22.47	10.24
Wilshire Large Cap	10.22	32.33	15.88	17.96	7.70
Wilshire Small Cap	9.10	39.01	16.83	23.86	10.74
Wilshire Micro Cap	10.51	48.90	16.52	24.53	7.46
Domestic Equity					
Wilshire Large Value	9.45%	30.24%	15.67%	16.11%	7.14%
Wilshire Large Growth	11.12	34.97	16.16	19.80	8.16
Wilshire Mid Value	8.07	30.72	15.72	20.51	8.93
Wilshire Mid Growth	9.33	42.59	16.56	25.34	12.01
Wilshire Small Value	9.56	33.80	15.46	21.81	9.89
Wilshire Small Growth	8.60	45.00	18.17	25.92	11.56
International Equity					
MSCI All World ex U.S. (USD)	4.76%	15.29%	5.14%	12.81%	7.56%
MSCI All World ex U.S. (local currency)	5.60	20.62	7.87	12.25	7.06
MSCI EAFE	5.71	22.78	8.16	12.43	6.91
MSCI Europe	7.88	25.24	9.89	13.36	7.28
MSCI Pacific	1.56	18.27	5.29	10.94	6.30
MSCI Emerging Markets Index	1.83	-2.60	-2.06	14.79	11.17
Domestic Fixed Income					
Barclays Aggregate Bond	-0.14%	-2.02%	3.26%	4.44%	4.55%
Barclays Credit	0.92	-2.01	5.11	7.89	5.24
Barclays Mortgage	-0.42	-1.41	2.42	3.69	4.61
Barclays Treasury	-0.75	-2.75	2.89	2.15	4.23
Citigroup High Yield Cash Pay	3.43	7.12	9.18	17.89	8.21
Barclays US TIPS	-2.00	-8.61	3.55	5.63	4.85
91-Day Treasury Bill	0.02	0.07	0.10	0.12	1.67
International Fixed Income					
Citigroup Non-U.S. Gov. Bond	-1.24%	-4.56%	0.62%	2.27%	4.10%
Citigroup World Gov. Bond	-1.09	-4.00	1.25	2.28	4.15
Citigroup Hedged Non-U.S. Gov.	0.44	1.42	3.65	3.16	4.25
Currency*					
Euro vs. \$	1.80%	4.52%	0.90%	-0.17%	0.89%
Yen vs. \$	-6.64	-17.73	-8.28	-2.92	0.19
Pound vs. \$	2.28	1.89	1.89	2.87	-0.77
Real Estate					
Wilshire REIT Index	-0.83%	1.86%	9.37%	16.69%	8.38%
Wilshire RESI	-0.75	2.15	9.24	16.81	8.41

CalPERS
Performance Analysis
December 31, 2013



Summary Review of Plans Periods Ended 12/31/2013

	<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	\$283.5 bil	4.9%	16.2%	10.0%	10.9%	6.8%
<i>Total Fund Policy Benchmark ¹</i>		5.1%	14.8%	9.8%	12.2%	7.7%
<i>Actuarial Rate</i>		1.8%	7.5%	7.6%	7.7%	7.7%
Affiliate Fund						
Judges II	\$901.4 mil	4.6%	14.1%	10.0%	13.1%	6.9%
<i>Weighted Policy Benchmark</i>		4.4%	13.5%	9.9%	12.7%	6.8%
Long-Term Care ("LTC")	\$3,842.6 mil	0.6%	-0.1%	4.9%	10.3%	5.6%
<i>Weighted Policy Benchmark</i>		0.3%	-0.6%	4.8%	9.9%	5.4%
CERBT Strategy 1	\$2,656.3 mil	4.7%	14.2%	9.3%	13.4%	--%
<i>Weighted Policy Benchmark</i>		4.4%	13.6%	9.3%	13.3%	--%
CERBT Strategy 2	\$468.0 mil	3.3%	9.2%	--%	--%	--%
<i>Weighted Policy Benchmark</i>		3.0%	8.5%	--%	--%	--%
CERBT Strategy 3	\$68.5 mil	2.1%	4.1%	--%	--%	--%
<i>Weighted Policy Benchmark</i>		1.6%	3.3%	--%	--%	--%
Legislators' Fund						
LRS	\$124.3 mil	2.2%	4.7%	7.6%	10.8%	6.3%
<i>Weighted Policy Benchmark</i>		1.7%	3.8%	7.4%	9.8%	6.2%

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 12/31/2013

	Market Value	Five-Year Ratios							
		Qtr	1-Year	3-Year	5-Year	10-Year	VaR ¹²	Sharpe ¹³	Info ¹⁴
TOTAL FUND	\$283.5 bil	4.9%	16.2%	10.0%	10.9%	6.8%	\$37.6 bil	1.2	-0.4
<i>Total Fund Policy Benchmark</i> ²		5.1%	14.8%	9.8%	12.2%	7.7%		1.3	0.0
<i>Actuarial Rate</i>		1.8%	7.5%	7.6%	7.7%	7.7%			
GROWTH	186.8	7.1%	24.4%	11.6%	14.9%	7.9%	\$38.6 bil	1.1	-0.3
<i>Growth Policy Benchmark</i> ³		7.7%	24.8%	12.1%	16.0%	8.7%		1.1	0.0
PUBLIC EQUITY	156.1	7.6%	25.6%	10.7%	16.2%	7.3%	\$30.8 bil	0.9	0.1
<i>Public Equity Policy Benchmark</i> ⁴		7.5%	24.7%	10.3%	16.2%	7.6%		0.9	0.0
PRIVATE EQUITY	30.6	4.4%	19.1%	14.5%	11.4%	13.2%	\$9.8 bil	1.3	-0.3
<i>Private Equity Policy Benchmark</i> ⁵		8.5%	24.1%	17.4%	15.9%	14.8%		1.0	0.0
INCOME	40.5	0.3%	-4.0%	5.1%	8.7%	6.3%	\$4.6 bil	1.5	1.2
<i>Income Policy Benchmark</i> ⁶		-0.8%	-5.7%	4.4%	5.7%	5.5%		1.1	0.0
REAL ASSETS ⁷	27.8	1.2%	11.1%	11.3%	-5.6%	3.6%	\$3.1 bil	-0.4	-0.8
<i>Real Assets Policy Benchmark</i> ⁸		3.0%	11.3%	11.7%	4.3%	9.1%		0.7	0.0
INFLATION	9.3	-1.1%	-4.7%	2.7%	6.2%	-.%	\$0.5 bil	0.6	0.2
<i>Inflation Policy Benchmark</i> ⁹		-1.2%	-4.8%	2.9%	5.5%	-.%		0.7	0.0
LIQUIDITY	12.6	-0.5%	-1.5%	1.2%	0.9%	2.2%	\$0.5 bil	0.6	-0.5
<i>Liquidity Policy Benchmark</i> ¹⁰		-0.5%	-1.5%	1.5%	1.0%	2.2%		0.6	0.0
ABSOLUTE RETURN STRATEGIES ¹¹	5.4	2.9%	9.2%	3.3%	6.2%	4.9%		1.7	0.2
<i>Absolute Return Strategies Policy Benchmark</i> ¹¹		1.2%	5.3%	5.4%	5.6%	7.3%		21.3	0.0
MULTI-ASSET CLASS COMPOSITE	1.1	4.8%	8.3%	-.%	-.%	-.%		N/A	N/A
<i>Absolute 7.5%</i>		1.8%	7.5%	-.%	-.%	-.%		N/A	N/A
CURRENCY + ASSET ALLOCATION TRANSITION	0.1	-.%	-.%	-.%	-.%	-.%		N/A	N/A
TERMINATED AGENCY POOL	0.1	-2.6%	-.%	-.%	-.%	-.%		N/A	N/A
TOTAL FUND PLUS TAP	283.6	4.9%	16.2%	10.0%	10.9%	6.8%		N/A	N/A

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.

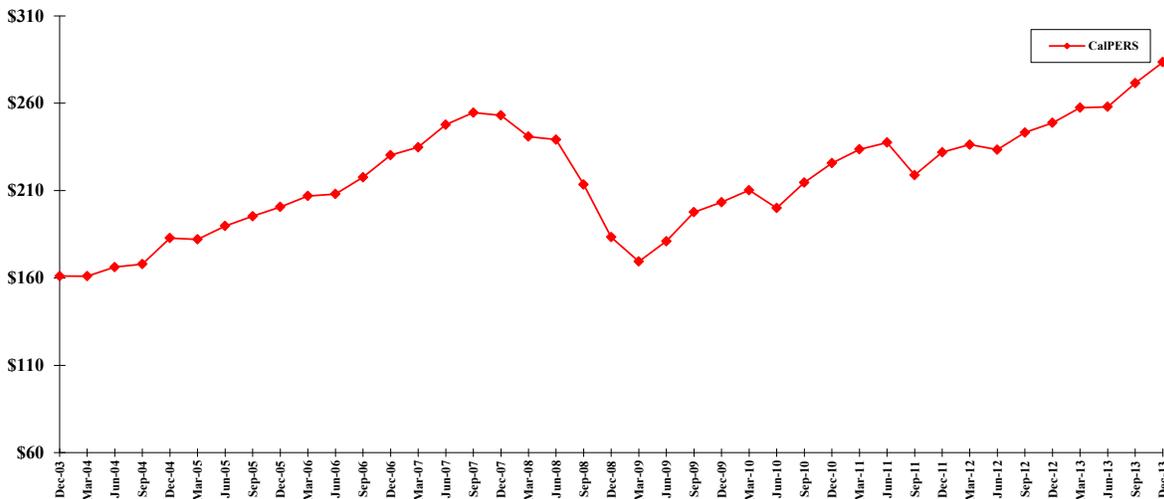
¹⁴ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.

Total Fund Review for PERF (continued) Periods Ended 12/31/2013

Total Fund Flow

	<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>2012</u>	<u>1Q13</u>	<u>2Q13</u>	<u>3Q13</u>	<u>4Q13</u>
Market Value (\$bil)	182.8	200.6	230.3	253.0	183.3	203.3	225.7	225.0	248.8	257.4	257.9	271.5	283.5

Total Fund Market Value



Asset Allocation

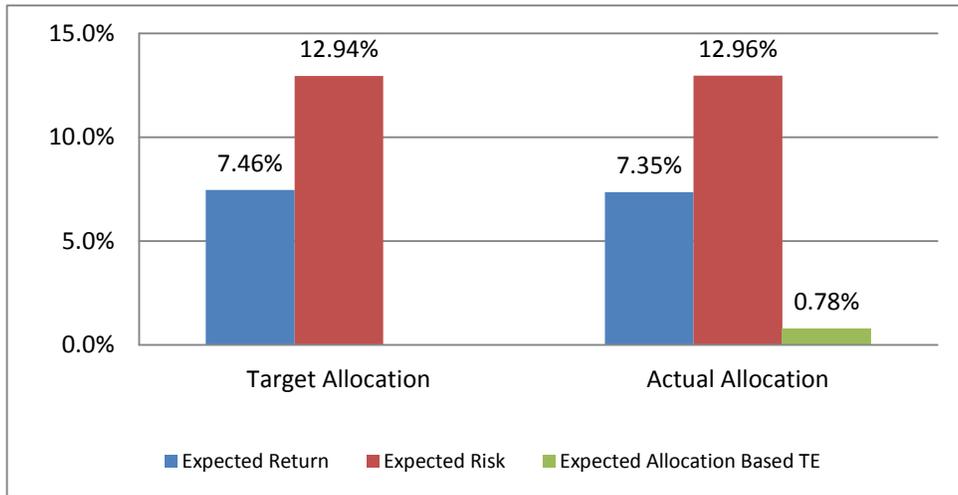
Asset Allocation: Actual versus Target Weights*

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Growth	65.9%	64.0%	1.9%
Income	14.3%	17.0%	-2.7%
Real Assets	9.8%	11.0%	-1.2%
Inflation	3.3%	4.0%	-0.7%
ARS	1.9%	0.0%	1.9%
Liquidity	4.4%	4.0%	0.4%
Multi-Asset	0.4%	0.0%	0.4%

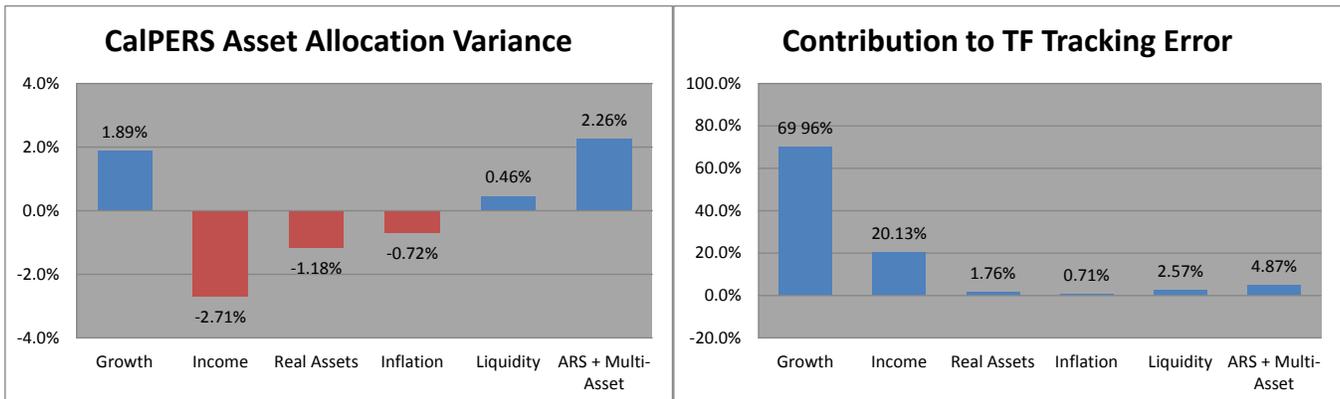
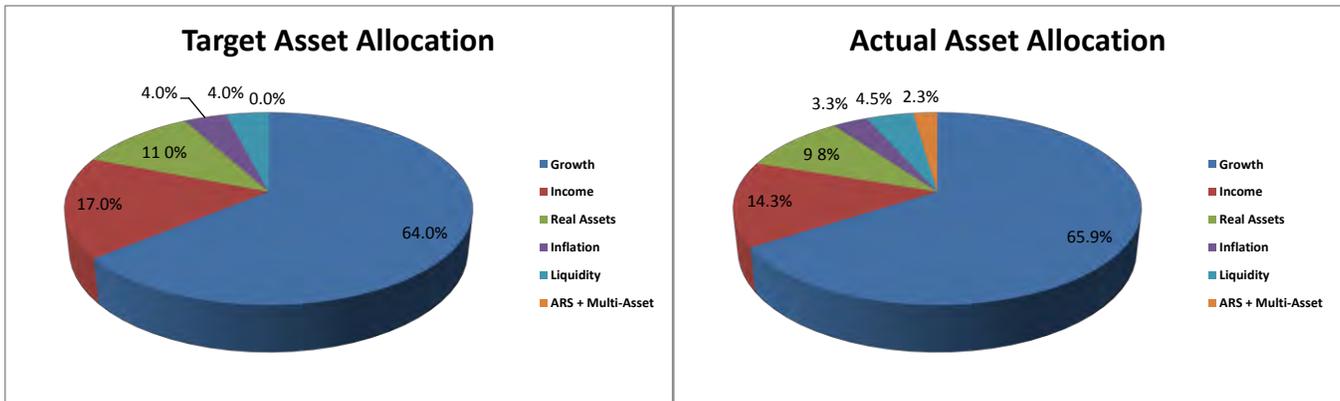
* Asset allocation targets are in the process of shifting to the new targets adopted by the Investment Committee in January 2008. Transitions accounts are included with their respective asset classes. The 12/31 cash allocation included transition assets that have been recaptured elsewhere since the adoption of a new asset allocation policy in July 2012.

Total Fund Review for PERF (continued)
Periods Ended 12/31/2013

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

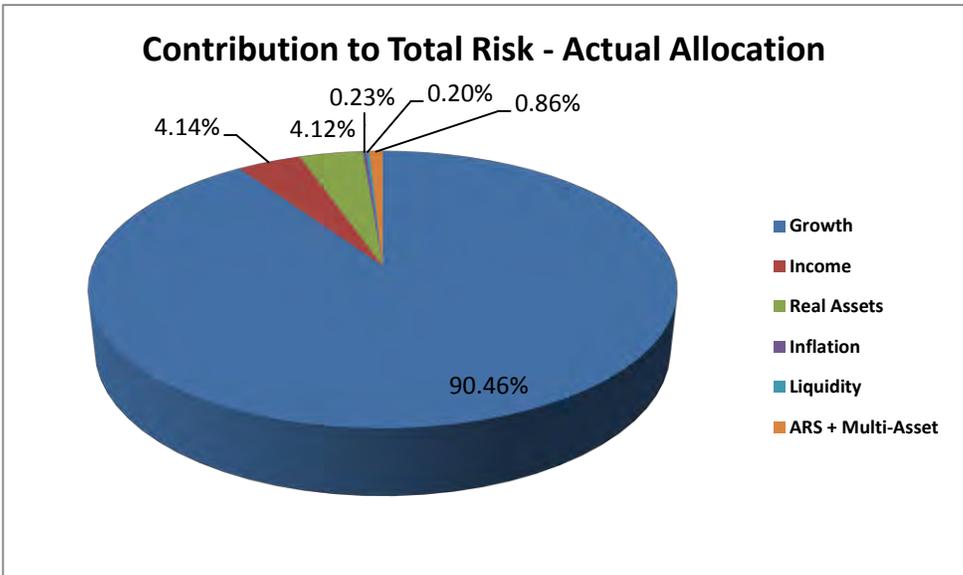
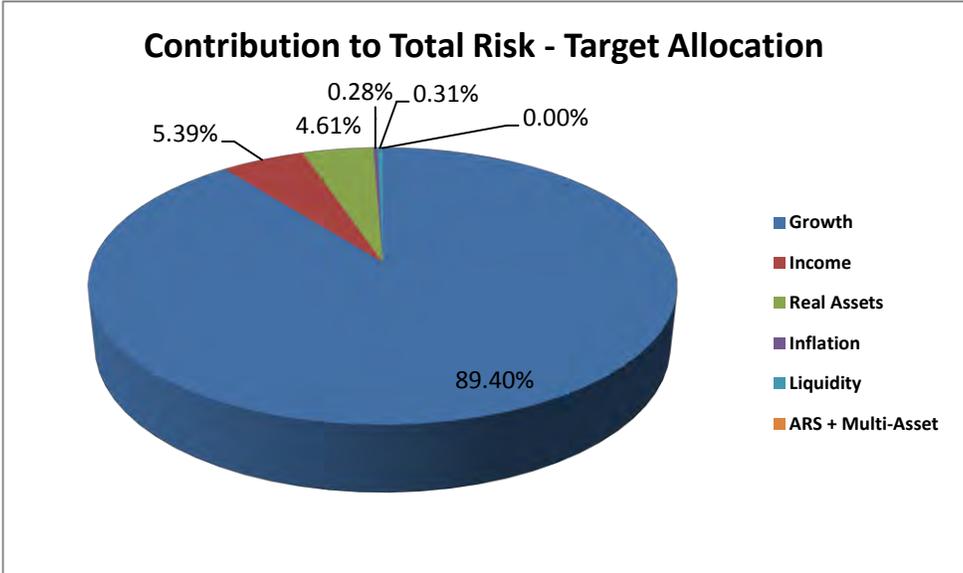


Total Fund Asset Allocation



Total Fund Review for PERF (continued)
Periods Ended 12/31/2013

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



California Public Employees' Retirement System
Total Fund Attribution - Quarter
As of 12/31/2013

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	65.66	7.05	64.00	7.74	1.66	-0.68	0.04	-0.01	-0.43	-0.40
Public Equity	54.32	7.60	50.00	7.49	4.32	0.11	0.10	0.00	0.05	0.16
Private Equity	11.35	4.42	14.00	8.49	-2.65	-4.08	-0.09	0.10	-0.58	-0.57
Income	14.90	0.30	17.00	-0.79	-2.10	1.09	0.13	-0.03	0.19	0.29
Real Assets	9.82	1.22	11.00	2.96	-1.18	-1.74	0.02	0.02	-0.20	-0.16
Inflation	3.40	-1.09	4.00	-1.16	-0.60	0.06	0.04	0.00	0.00	0.04
Absolute Return	2.19	2.87	0.00	1.24	2.19	1.63	-0.08	0.04	0.00	-0.05
Liquidity	4.04	-0.46	4.00	-0.50	0.04	0.04	-0.01	0.00	0.00	-0.01
Monthly Linked Return	100.00	4.76	100.00	5.04		-0.28	0.14	0.02	-0.44	-0.28
Trading/Hedging/Other		0.14		0.04		0.09				0.09
Total		4.90		5.08		-0.18				-0.18

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 - Calendar Year-to-Date
As of 12/31/2013

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	64.47	24.38	64.00	24.78	0.47	-0.40	0.03	-0.02	-0.23	-0.22
Public Equity	52.42	25.61	50.00	24.74	2.42	0.88	0.17	0.02	0.41	0.60
Private Equity	12.05	19.09	14.00	24.14	-1.95	-5.05	-0.21	0.11	-0.72	-0.81
Income	16.06	-4.00	17.00	-5.70	-0.94	1.70	0.19	-0.03	0.35	0.50
Real Assets	9.70	11.08	11.00	11.29	-1.30	-0.21	0.01	-0.02	0.01	0.00
Inflation	3.56	-4.75	4.00	-4.84	-0.44	0.09	0.09	0.00	0.00	0.09
Absolute Return	2.21	9.22	0.00	5.27	2.21	3.95	-0.23	0.09	0.00	-0.13
Liquidity	4.00	-1.50	4.00	-1.47	0.00	-0.03	-0.01	0.00	0.00	-0.01
Monthly Linked Return	100.00	15.48	100.00	15.26		0.23	0.08	0.02	0.12	0.23
Trading/Hedging/Other		0.71		-0.44		1.14				1.14
Total		16.19		14.82		1.37				1.37

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 12/31/2013

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	65.07	15.48	64.00	15.27	1.07	0.21	0.05	0.00	0.13	0.17
Public Equity	53.39	16.89	50.00	16.56	3.39	0.33	0.18	0.01	0.16	0.35
Private Equity	11.68	9.26	14.00	10.41	-2.32	-1.15	-0.04	0.04	-0.18	-0.18
Income	15.37	0.90	17.00	-0.25	-1.63	1.15	0.19	-0.03	0.21	0.37
Real Assets	9.85	2.67	11.00	6.20	-1.15	-3.53	0.04	0.04	-0.41	-0.33
Inflation	3.48	1.53	4.00	1.60	-0.52	-0.07	0.05	0.00	0.00	0.05
Absolute Return	2.19	4.65	0.00	2.62	2.19	2.03	-0.17	0.05	0.00	-0.12
Liquidity	4.04	-0.34	4.00	-0.13	0.04	-0.21	-0.01	0.00	-0.01	-0.02
Monthly Linked Return	100.00	10.44	100.00	10.33		0.11	0.14	0.06	-0.08	0.11
Trading/Hedging		0.13		-0.16		0.29				0.29
Total		10.57		10.16		0.40				0.40

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 12/31/2013

- ◆ The California Public Employees' Retirement System ("CalPERS, the System") generated a total fund return of 4.9%, for the quarter ended December 31, 2013. CalPERS' return can be attributed as follows:

5.08%	Strategic Policy Allocation
0.14%	Actual/Tactical Asset Allocation
-0.44%	Active Management
0.02%	Interaction
<u>0.09%</u>	Trading/Currency Hedging
4.90%	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 investments followed up its solid return from the third quarter (where it was up 5.4%) with another round of good overall gains, as it closed out the fourth quarter with a total return of 4.9%. This performance trailed its strategic policy benchmark by a small margin of 18 bps, which can be faulted on negative active management impact. The System's asset allocation variances were a net small positive during the fourth quarter, driven largely by its notable underweight in Income, one of the weakest asset classes in Q4. Unfortunately this was not enough to offset the unfavorable investment performance outcome, as Private Equity from the Growth segment and the Real Assets segment significantly lagged their respective policy benchmarks (by 408 bps and 174 bps). These large underperformance ultimately weighed on the Total Fund's relative results.
- ◆ The Total Fund composite's 4.9% return was easily ahead of its actuarial rate this quarter; its one-year return of 16.2%, three-year return of 10.0%, and five-year return of 10.9% are all sitting comfortably above the actuarial rate return for those respective periods as well. Only the ten-year track record, which is at the mid-single digit level, currently trails by a modest amount.

Total Fund Review for PERF (continued) Periods Ended 12/31/2013

Relative to the Total Fund Policy Benchmark:

- ◆ **Growth Exposure:** The Growth composite was once again the highest returning CalPERS major asset class in the fourth quarter. Following a 7.9% gain in Q3, the Growth composite surged another 7.1% during Q4 and easily outperformed the total fund policy benchmark by 266 bps. Public equity, the Growth composite's main component, underpinned the favorable result this quarter with a 7.6% return as world stocks rode on subsiding macro risks and stimulus-driven economic improvements to reach new heights. PERS' private equity investments, which are reported on a 1-quarter lagged basis, paled relative to public equity's strong pace but did still experience solid appreciation by rising 4.4%.
- ◆ **Income Exposure:** Riding improving employment reports and economic growth data, the Federal Reserve finally announced its long-anticipated decision to begin tapering its bond buying program in December. Matching the Fed announcement, the bellwether ten-year Treasury yield extended its gradual but continued rise by reaching 3.04% at the end of the year. Despite the rate rise, which weighs on the fixed income market in general, CalPERS' Income composite actually did well and fared better than its asset class benchmark, 0.3% vs. -0.8% (although it nonetheless came in behind total fund policy benchmark's 5.1% pace). The composite's result was largely driven by the larger U.S. fixed income component, which rose 0.4% during Q4 thanks to its better performing investment credit and high yield portfolios.
- ◆ **Real Assets Exposure:** Real Assets' performance remained muted during the fourth quarter. The asset class as a whole reported a gain of 1.2% that was well below the 5.1% of the total fund policy benchmark. Most of the weaknesses here were seen coming from the real estate portfolio, which continued to report tepid appreciation in the current rising-interest rate environment.
- ◆ **Inflation Exposure:** the CalPERS Inflation composite was the lowest returning major asset class this quarter, logging a net loss of -1.1%. Neither of the composite's two main components did well in Q4 and contributed to this unfavorable performance: TIPS faced dual headwinds in the form of continued rise in interest rates and subdued inflation, while both energy and non-energy commodities market saw weak demand, too.
- ◆ **Liquidity:** The Liquidity composite also finished the fourth quarter in red with a return of -0.5%. Given that 50% of the composite's assets are invested in Treasuries, performance was challenged as government bonds saw continued pressures from stronger U.S. economic growth and the expected start of Fed tapering, driving investors to rotate into other higher yielding assets.
- ◆ **Absolute Return Strategy:** Similar to most of CalPERS' major asset classes, the Absolute Return Strategy (ARS) program generated a modest fourth quarter return (2.9%) that trailed the total fund policy benchmark.

Growth Review for PERF Periods Ended 12/31/2013

Growth Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Growth	65.9%	64.0%	+1.9%
Public Equity	55.1%	50.0%	+5.1%
Private Equity	10.8%	14.0%	-3.2%

Growth Segment Performance

	Market Value						5-year	5-year	
		Qtr	1-Year	3-Year	5-Year	10-Year	VaR ²²	Sharpe Ratio ²³	Info Ratio ²⁴
GROWTH	186.8	7.1%	24.4%	11.6%	14.9%	7.9%	\$38.6 bil	1.1	-0.3
<i>Growth Policy Benchmark</i>		7.7%	24.8%	12.1%	16.0%	8.7%		1.1	0.0
<i>Value Added</i>		-0.6%	-0.4%	-0.5%	-1.1%	-0.8%			
PUBLIC EQUITY¹⁵	156.1	7.6%	25.6%	10.7%	16.2%	7.3%	\$30.8 bil	0.9	0.1
<i>Public Equity Policy Benchmark¹⁶</i>		7.5%	24.7%	10.3%	16.2%	7.6%		0.9	0.0
<i>Value Added</i>		0.1%	0.9%	0.4%	0.0%	-0.3%			
US Equity Composite	75.7	10.4%	35.4%	16.4%	19.1%	7.9%		1.2	0.7
<i>Custom US Equity Benchmark¹⁷</i>		10.1%	34.2%	16.1%	18.6%	7.9%		1.1	0.0
<i>Value Added</i>		0.3%	1.2%	0.3%	0.5%	0.0%			
Total Int'l Equity	77.0	4.9%	17.2%	5.8%	13.8%	8.0%		0.7	0.6
<i>Custom Int'l Equity Benchmark¹⁸</i>		5.1%	18.5%	6.5%	13.0%	7.8%		0.7	0.0
<i>Value Added</i>		-0.2%	-1.3%	-0.7%	0.8%	0.2%			
Global Equity Equitization	2.7	7.6%	23.2%	11.5%	-.-%	-.-%			
<i>Custom Benchmark¹⁹</i>		7.5%	24.7%	10.3%	-.-%	-.-%			
<i>Value Added</i>		0.1%	-1.5%	1.2%	-.-%	-.-%			
PRIVATE EQUITY²⁰	30.6	4.4%	19.1%	14.5%	11.4%	13.2%	\$9.8 bil	1.3	-0.3
<i>PE Policy Benchmark²¹</i>		8.5%	24.1%	17.4%	15.9%	14.8%		1.0	0.0
<i>Value Added</i>		-4.1%	-5.0%	-2.9%	-4.5%	-1.6%			
Private Equity Partnership Investments	30.6	4.4%	19.1%	14.7%	11.4%	13.4%			
Private Equity Distribution Stock	0.0	-1.1%	17.1%	-21.3%	-1.4%	2.4%			

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:

- ◆ **U.S. Equity Exposure:** With investors cheering on multiple positive macro developments, CalPERS' total U.S. equity composite finished the fourth quarter on a very strong note, rising 10.4% and easily beat the Growth Policy benchmark's 7.7% pace. With signs of continued improving labor market and better-than-expected third quarter GDP announcement led the Federal Reserve to deem the accelerating economic activity as sustainable, domestic equity market roared into new heights during Q4. Both the System's internal and external U.S. equity composites did very well, with the latter modestly outpacing the former, 11.1% to 10.3%.
- ◆ **MDP:** The Manager Development Program did very well in Q4; it earned a total of 8.9% that was comfortably ahead of the Growth policy benchmark as well as its own benchmark (8.5%).
- ◆ **FoF:** Similar to other equity programs, the Total Fund of Funds composite finished the fourth quarter strong with a return of 7.9%, beating its own and the asset class' policy measures.

Impeded Performance:

- ◆ **International Equity Exposure:** International equity markets were able to close out the last quarter of 2013 on solid footing, largely thanks to accommodative ECB policies and aggressive easing in Japan from the developed world. PERS' international equity portfolios turned in very respectable results, with the internally managed international equity composite returning 5.2% and the externally managed composite returning 4.0%, although they did not match the pace of their domestic equity counterpart. Relative to the 7.7% Growth policy benchmark return, the international equity portfolios also trailed and were among the several components contributing to the overall asset class' modest underperformance this quarter.
- ◆ **Private Equity Exposure:** CalPERS' private equity investments were able to continue churning out steady gains; the portfolio reported a fourth quarter return of 4.4%, which was similar to the 4.6% it earned last quarter and the 4.8% from Q2. However, the program simply could not keep up with the torrid pace enjoyed by public equities over the past two quarters, which is what the Growth policy benchmark and the private equity policy benchmark are based on, and as a result the PERS private equity investments notably underperformed both measures in Q4.
- ◆ **Corporate Governance:** CalPERS' Corporate Governance portfolio posted a solid gain of 5.7% this quarter, but trailed when compared to the 7.7% of the Growth policy benchmark and its own policy benchmark (7.3%).

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)	75.7	10.4%	35.4%	16.4%	19.1%	7.9%	12/79
<i>Custom US Equity Benchmark</i> ²⁵		10.1%	34.2%	16.1%	18.6%	7.9%	
<i>Value Added</i>		0.3%	1.2%	0.3%	0.5%	0.0%	
Total Internal US Equity	65.9	10.3%	34.8%	16.6%	19.2%	8.2%	6/88
<i>Custom Internal US Equity Benchmark</i> ²⁶		10.1%	34.2%	16.1%	18.6%	7.9%	
<i>Value Added</i>		0.2%	0.6%	0.5%	0.6%	0.3%	
Total External US Equity	9.6	11.1%	38.9%	15.5%	18.4%	7.3%	12/98
<i>Custom External US Equity Benchmark</i> ²⁷		9.6%	32.7%	15.9%	18.1%	8.1%	
<i>Value Added</i>		1.5%	6.2%	-0.4%	0.3%	-0.8%	

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)	77.0	4.9%	17.2%	5.8%	13.8%	8.0%	12/02
<i>Custom Int'l Equity Benchmark</i> ²⁸		5.1%	18.5%	6.5%	13.0%	7.8%	
<i>Value Added</i>		-0.2%	-1.3%	-0.7%	0.8%	0.2%	
Total Internal Int'l Equity	61.5	5.2%	18.1%	6.2%	13.3%	-.%	3/05
<i>Custom Internal Int'l Equity Benchmark</i> ²⁹		5.5%	20.6%	7.5%	13.0%	-.%	
<i>Value Added</i>		-0.3%	-2.5%	-1.3%	0.3%	-.%	
Total External Int'l Equity	15.5	4.0%	13.6%	4.6%	14.9%	8.9%	6/89
<i>Custom External Int'l Equity Benchmark</i> ³⁰		4.2%	12.1%	3.6%	13.4%	8.4%	
<i>Value Added</i>		-0.2%	1.5%	1.0%	1.5%	0.5%	

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	5.7%	30.6%	9.3%	14.5%	6.5%	12/98
<i>Policy Benchmark</i>		7.3%	27.9%	11.7%	13.6%	6.7%	
<i>Value Added</i>		-1.6%	2.7%	-2.4%	0.9%	-0.2%	
Total MDP	1.8	8.9%	29.4%	12.8%	15.4%	7.3%	6/00
<i>Policy Benchmark</i>		8.5%	26.9%	12.7%	15.8%	8.1%	
<i>Value Added</i>		0.4%	2.5%	0.1%	-0.4%	-0.8%	
Total FoF	1.2	7.9%	29.8%	12.4%	18.8%	-.%	3/08
<i>Policy Benchmark</i>		7.4%	26.2%	11.4%	17.9%	-.%	
<i>Value Added</i>		0.5%	3.6%	1.0%	0.9%	-.%	

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 12/31/2013

ARS Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
ARS	1.9%	0.0%	+1.9%

ARS 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>5-Year Info Ratio³²</u>	<u>5-Year Up Capture Ratio</u>	<u>5-Year Sharpe Ratio³³</u>	<u>5-Year Sortino Ratio³⁴</u>
Absolute Return Strategies	5.4	2.9%	9.2%	3.3%	6.2%	4.9%	0.2	1.1	1.7	2.3
ARS Policy Benchmark ³¹		1.2%	5.3%	5.4%	5.6%	7.3%				
Value Added		1.7%	3.9%	-2.1%	0.6%	-2.4%				
Total Direct Investments	4.1	2.8%	9.1%	3.7%	7.4%	5.3%				
Total Funds of Funds	1.2	3.0%	9.6%	2.3%	2.8%					
HFRI Fund of Funds Index		3.5%	8.7%	2.4%	4.8%	3.4%				

ARS Characteristics

Percentage of positive <u>Months</u>	<u>Beta vs. S&P 500</u>	<u>Rolling Correlations vs. Index</u>			
		<u>W5000</u>	<u>PERS 2500</u>	<u>Domestic Fixed Index</u>	<u>MSCI AW X US</u>
		65%	0.1	0.4	0.4

- ◆ **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 0.1 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.

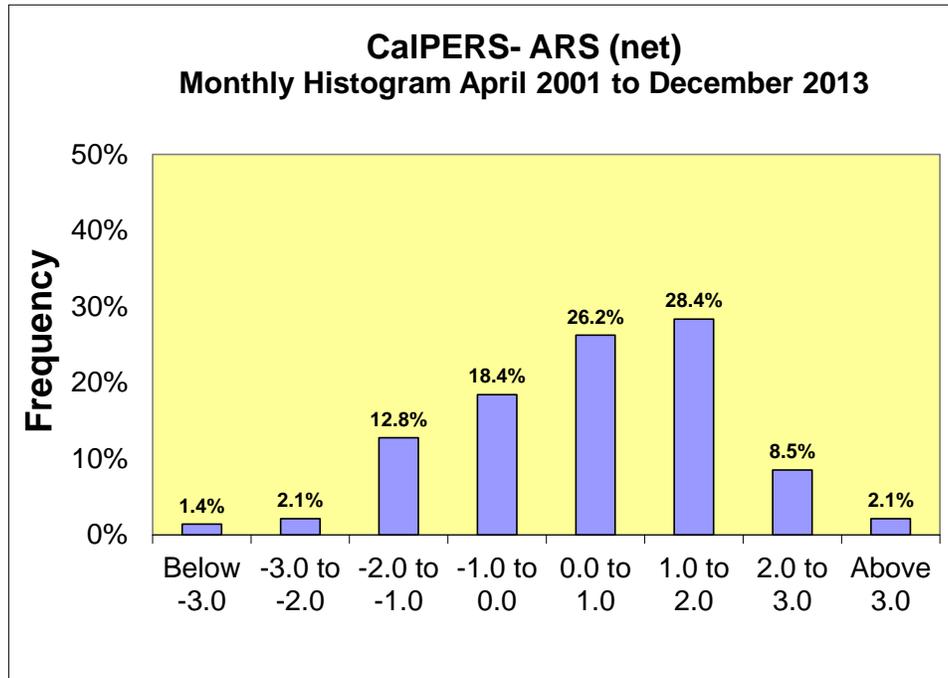
³¹ The ARS Policy Benchmark consists of the Merrill Lynch 1-Year Treasury Note + 5% and is linked historically to its prior benchmark.

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 12/31/2013



- ◆ 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 12/31/2013

Income Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Income	14.3%	17.0%	-2.7%

Income Segment Performance

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	VaR ³⁸	5-year Sharpe Ratio ³⁹	5-year Info Ratio ⁴⁰
INCOME	40.5	0.3%	-4.0%	5.1%	8.7%	6.3%	\$4.6 bil	1.5	1.2
<i>Income Policy Benchmark³⁵</i>		-0.8%	-5.7%	4.4%	5.7%	5.5%		1.1	0.0
<i>Value Added</i>		1.1%	1.7%	0.7%	3.0%	0.8%			
U.S. Income	36.5	0.4%	-3.9%	5.5%	9.2%	6.5%		1.6	1.2
<i>U.S. Income Policy Benchmark³⁶</i>		-0.8%	-5.8%	4.8%	6.1%	5.7%		1.1	0.0
<i>Value Added</i>		1.2%	1.9%	0.7%	3.1%	0.8%			
Non-U.S. Income	4.0	-0.7%	-5.2%	1.5%	4.6%	4.8%		0.5	1.5
<i>Non-US Income Policy Benchmark³⁷</i>		-0.9%	-4.8%	0.6%	2.4%	4.1%		0.3	0.0
<i>Value Added</i>		0.2%	-0.4%	0.9%	2.2%	0.7%			

Comments Regarding Income Segment Performance

Helped Performance:

- ◆ **Mortgage Bonds:** The mortgage bond market was down in the fourth quarter, following the anticipation and the actual Fed announcement of a \$10 billion cut in its \$85 billion monthly bond purchases (split equally between Treasury bonds and mortgage-backed securities). In this environment, the Barclays Capital Custom Mortgage index was down -0.4% for the quarter, but CalPERS' internal mortgages portfolio actually did very well by earning a gain of 1.4%. This was notably better than the Income policy benchmark's -0.8% return.

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:** High yield securities enjoyed another great quarter, as investor appetite remained strong amid strengthening U.S. economic recovery and stable business fundamentals. With this backdrop this segment was once again among the Income asset class' best performers in the fourth quarter. Both the internal and external high yield portfolios significantly outperformed the Income policy index by posting gains of 4.3% and 4.0%, respectively.
- ◆ **Corporate Bonds:** Similar to high yield, investment grade credits attracted more capital during the fourth quarter as investors continued their shift out of Treasuries. CalPERS' internal corporate bond portfolio was up a solid 2.1%, while the smaller sized long duration corporate portfolio gained 2.6%; both beat the Income policy benchmark.
- ◆ **Sovereign Bonds:** CalPERS' sovereign bonds portfolio reported a small loss of -0.4% in Q4, but this performance was better when compared to the Income policy benchmark's -0.8% return.
- ◆ **International Fixed Income:** Besides Japanese yen, which sharply depreciated against the Dollar during the fourth quarter (-6.6%) due to record stimulus, most major currencies marked small gains against the USD. With this movement in the currency market, the CalPERS international fixed income portfolio closed out the quarter with a decline at -0.7%. Despite the small loss, this performance fared slightly better against the Income policy benchmark.

Impeded Performance:

- ◆ **Treasury Bonds:** With yields resumed climbing in November and December and the Fed officially set on starting its QE tapering, Treasuries continued its slide during the fourth quarter. Coupled with investors' rotation into other more attractive risk assets, the PERS government portfolio was the worst performing Income component in Q4, losing -1.9% and underperformed the Income policy benchmark's -0.8%.

Income Review for PERF (Continued)

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	Date
INCOME	40.5	0.3%	-4.0%	5.1%	8.7%	6.3%	6/88
<i>Income Policy Benchmark</i> ⁴¹		-0.8%	-5.7%	4.4%	5.7%	5.5%	
<i>Value Added</i>		1.1%	1.7%	0.7%	3.0%	0.8%	
Internal US Income + Opportunistic	36.5	0.4%	-3.9%	5.5%	9.2%	6.5%	12/95
Mortgage Bonds*	7.7	1.4%	0.5%	3.6%	6.9%	5.1%	12/82
Long Duration Mortgages*	2.6	-1.1%	-4.6%	4.6%	10.9%	-.%	6/05
Corporate Bonds*	9.3	2.1%	-2.2%	8.2%	11.8%	7.3%	3/02
U.S. Government*	12.9	-1.9%	-10.0%	4.9%	2.0%	5.0%	12/99
Sovereign Bonds* ⁴²	1.6	-0.4%	-10.5%	5.2%	7.0%	6.2%	6/96
Long Duration Corporates*	1.0	2.6%	4.7%	13.0%	16.2%	-.%	9/05
<i>Custom Benchmark</i> ⁴³		-0.8%	-5.8%	4.8%	6.1%	5.7%	
Opportunistic ⁴⁴	2.3	4.4%	10.0%	5.5%	25.4%	8.8%	6/00
Internal High Yield Bonds*	0.6	4.3%	5.3%	4.7%	15.6%	12.9%	9/99
External High Yield*	1.2	4.0%	10.9%	10.6%	16.6%	7.3%	3/02
High Yield Mortgage*	0.2	9.2%	16.8%	20.8%	12.8%	-.%	3/08
<i>Citigroup High Yield Cash Pay</i>		3.5%	7.5%	9.1%	18.3%	8.2%	
Special Investments	0.0	2.0%	11.8%	5.2%	6.5%	6.1%	3/91
Total International Fixed Income	4.0	-0.7%	-5.2%	1.5%	4.6%	4.8%	3/89
<i>Custom Benchmark</i> ⁴⁵		-0.9%	-4.8%	0.6%	2.4%	4.1%	
<i>Value Added</i>		0.2%	-0.4%	0.9%	2.2%	0.7%	
Currency overlay ⁴⁶							
Active Currency Overlay - Internally Managed	0.0	-0.1%	-0.2%	-0.4%	-0.3%	0.0%	6/92
<i>Custom Benchmark</i>		-0.1%	-0.2%	-0.4%	-0.3%	0.2%	
<i>Value Added</i>		0.0%	0.0%	0.0%	0.0%	-0.2%	

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 Value</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*	11.0	0.2%	1.0%	1.3%	2.6%	2.0%	8/00
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	0.1%	1.7%	
<i>Value Added</i>		0.2%	0.9%	1.2%	2.5%	0.3%	
Internal Active Short Term**	2.7	0.1%	0.2%	--%	--%	--%	3/11
<i>Custom Benchmark</i>		0.0%	0.0%	--%	--%	--%	
<i>Value Added</i>		0.1%	0.2%	--%	--%	--%	
CalPERS ESEC Cash Collateral**	8.2	0.0%	0.1%	0.2%	--%	--%	6/10
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	--%	--%	
<i>Value Added</i>		0.0%	0.0%	0.1%	--%	--%	
External Collateral Portfolio***	0.2	8.2%	62.1%	--%	--%	--%	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 12/31/2013

Inflation Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Inflation	3.3%	4.0%	-0.7%

Inflation Performance

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	VaR ⁴⁹	5-year	5-year
								Sharpe Ratio ⁵⁰	Info Ratio ⁵¹
INFLATION	9.3	-1.1%	-4.7%	2.7%	6.2%	--%	\$0.5 bil	0.6	0.2
<i>Inflation Policy Benchmark</i> ⁴⁷		-1.2%	-4.8%	2.9%	5.5%	--%		0.7	0.0
<i>Value Added</i>		0.1%	0.1%	-0.2%	0.7%	--%			
Internal Commodities ⁴⁸	1.2	-0.6%	-2.5%	-1.1%	3.9%	--%			
<i>GSCI Total Return Index</i>		-0.3%	-1.2%	-0.8%	3.8%	--%			
<i>Value Added</i>		-0.3%	-1.3%	-0.3%	0.1%	--%			
Core Inflation Linked Bonds	5.8	-1.3%	-5.6%	4.8%	6.3%	--%			
<i>Custom Benchmark</i>		-1.3%	-5.9%	4.4%	6.0%	--%			
<i>Value Added</i>		0.0%	0.3%	0.4%	0.3%	--%			
Tactical Commodities	1.2	-0.3%	--%	--%	--%	--%			
<i>GSCI Total Return Index</i>		-0.3%	--%	--%	--%	--%			
<i>Value Added</i>		0.0%	--%	--%	--%	--%			
Tactical TIPS	1.1	-1.6%	--%	--%	--%	--%			
<i>CalPERS TIPS</i>		-2.0%	--%	--%	--%	--%			
<i>Value Added</i>		0.4%	--%	--%	--%	--%			

- ◆ The Inflation asset class gave back some of its prior quarter gains; with both inflation linked bonds (TIPS) and commodities markets experiencing softness through most of the fourth quarter, the Inflation composite reported a small drop of -1.1% that was essentially on par with its policy benchmark. The two TIPS portfolios, which represent nearly 75% of the Inflation assets, led the decline (Core Inflation Linked Bonds, -1.3%, Tactical TIPS, -1.6%) as inflation protected bonds got squeezed by rising yields and stagnating inflation during the fourth quarter. Commodities in general also saw weaknesses in Q4 with inflation staying tame, resulting in small losses for CalPERS' portfolios here. Despite this quarter's decline, which dropped Inflation's 2013 total return to -4.7%, the asset class has done well since its inception, earning an average annualized 6.2% in the past five years and posting relative outperformance over the one-year and five-year periods.

⁴⁷ The Inflation Policy Benchmark equals the benchmark returns of commodities and TIPS weighted at policy allocation target percentages.

⁴⁸ The internal 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 12/31/2013

Real Assets Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Real Assets	9.8%	11.0%	-1.2%

Real Assets Segment Performance

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	VaR ⁵⁶	5-year	5-year
								Sharpe Ratio ⁵⁷	Info Ratio ⁵⁸
REAL ASSETS	27.8	1.2%	11.1%	11.3%	-5.6%	3.6%	\$3.1 bil	-0.4	-0.8
<i>Real Assets Policy Benchmark</i> ⁵²		3.0%	11.3%	11.7%	4.3%	9.1%		0.7	0.0
<i>Value Added</i>		-1.8%	-0.2%	-0.4%	-9.9%	-5.5%			
Real Estate ⁵³	24.2	1.3%	11.7%	12.8%	-6.5%	2.9%	\$3.3 bil	-0.4	-0.8
<i>Real Estate Policy Benchmark</i> ⁵⁴		3.3%	12.1%	13.2%	6.0%	9.7%		0.8	0.0
<i>Value Added</i>		-2.0%	-0.4%	-0.4%	-12.5%	-6.8%			
Forestland ⁵⁵	2.2	-0.9%	4.9%	-3.3%	-1.5%	-.%			
<i>NCREIF Timberland Index</i>		1.0%	9.7%	4.0%	2.1%	-.%			
<i>Value Added</i>		-1.9%	-4.8%	-7.3%	-3.6%	-.%			
Infrastructure ⁵⁵	1.4	4.4%	11.2%	20.6%	16.2%	-.%			
<i>CPI + 400 BPS 1Qtr Lag</i>		1.3%	5.2%	6.9%	6.8%	-.%			
<i>Value Added</i>		3.1%	6.0%	13.7%	9.4%	-.%			

- ◆ CalPERS' Real Assets asset class once again churned out small but positive return in the last quarter of 2014, generating a gain of 1.2%. Compared to its policy benchmark, this represented a net underperformance of 174 bps. The asset class's performance has been largely driven by its biggest component, the real estate portfolio (at over 87% of RA's total assets), and this quarter was no exception. The real estate portfolio's appreciation in Q4 was positive, but notably lagged that of its benchmark to the tune of 209 bps; this sizable relative underperformance overshadowed the Infrastructure portfolio's solid 4.4% gain, and served as the main detractor to Real Assets' overall return. Over the near- and mid-term time periods, the Real Assets composite's performance has

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.

remained solid, although its longer-term track record continues to trail relative to its policy benchmark.

Real Assets Review for PERF (Continued) Period Ended 12/31/2013

Real Estate Segment Performance

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	VaR ⁶¹	5-year Sharpe Ratio ⁶²	5-year Info Ratio ⁶³
Real Estate ⁵⁹	24.2	1.3%	11.7%	12.8%	-6.5%	2.9%	\$3.3 bil	-0.4	-0.8
<i>Real Estate Policy Benchmark</i> ⁶⁰		3.3%	12.1%	13.2%	6.0%	9.7%		0.8	0.0
<i>Value Added</i>		-2.0%	-0.4%	-0.4%	-12.5%	-6.8%			
Strategic Real Estate	17.6	1.0%	14.9%	17.6%	3.2%	15.4%			
<i>Wt. NCREIF ODCE+FTSE EPRA NAREIT</i>		3.3%	12.1%	13.2%	6.0%	9.7%			
<i>Value Added</i>		-2.3%	2.8%	4.4%	-2.8%	5.7%			
Legacy Real Estate ex Public	6.7	2.0%	4.3%	7.2%	-13.0%	-1.6%			
<i>Wt. NCREIF ODCE+FTSE EPRA NAREIT</i>		3.3%	12.1%	13.2%	6.0%	9.7%			
<i>Value Added</i>		-1.3%	-7.8%	-6.0%	-19.0%	-11.3%			

⁵⁹ 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.

⁶⁰ 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.

⁶¹ 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.

⁶² 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.

⁶³ 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.

Liquidity Review for PERF Period Ended 12/31/2013

Liquidity Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Liquidity	4.4%	4.0%	+0.4%

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	12.6	-0.5%	-1.5%	1.2%	0.9%	2.2%	\$0.5 bil	N/A	N/A
<i>Liquidity Policy Benchmark</i> ⁶⁴		-0.5%	-1.5%	1.5%	1.0%	2.2%			
<i>Value Added</i>		0.0%	0.0%	-0.3%	-0.1%	0.0%			
US 2-10 Year	6.3	-0.8%	-2.2%	-.%	-.%	-.%			
<i>Barclays Gov Liquidity 2-10 Yr Idx</i>		-0.7%	-2.0%	-.%	-.%	-.%			
<i>Value Added</i>		-0.1%	-0.2%	-.%	-.%	-.%			
Cash Composite	6.3	0.0%	0.1%	0.1%	0.2%	1.9%			
<i>Csutom STIF</i> ⁶⁵		0.0%	-0.1%	0.0%	0.2%	1.8%			
<i>Value Added</i>		0.0%	0.2%	0.1%	0.0%	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.

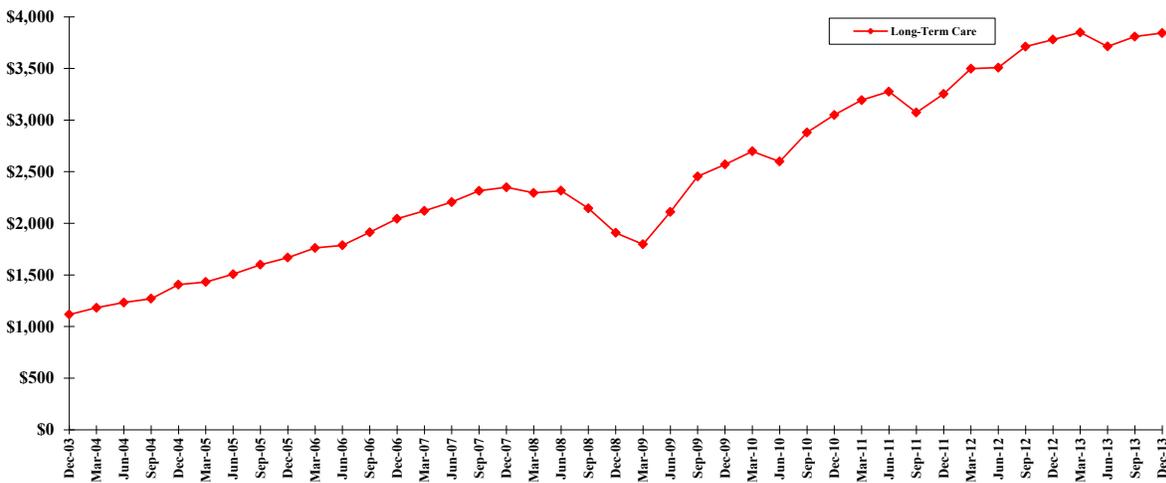
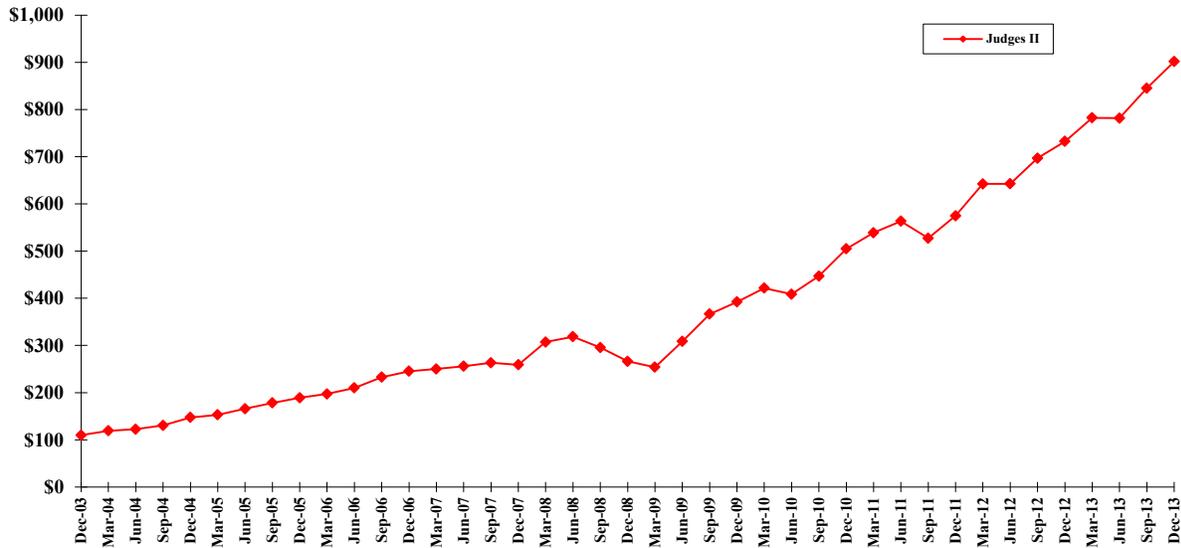


Affiliate Fund Information



Affiliate Fund Performance Period Ended December 31, 2013

Growth in Assets (in \$Millions)



Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2013

	<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 <i>Weighted Policy Benchmark</i> ⁶⁹	\$901.4 mil	4.6%	14.1%	10.0%	13.1%	6.9%
		4.4	13.5	9.9	12.7	6.8
Long-Term Care ("LTC") <i>Weighted Policy Benchmark</i> ⁶⁹	\$3,842.6 mil	0.6	-0.1	4.9	10.3	5.6
		0.3	-0.6	4.8	9.9	5.4

Total Fund Asset Allocation

Judges II Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation (%)	Target Asset Allocation (%)	Difference
Global Equity	63.5	63.0	0.5
US Fixed Income	19.8	20.0	-0.2
TIPS	5.9	6.0	-0.1
REITs	7.9	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	17.4	15.0	2.4
US Fixed Income	59.1	61.0	-1.9
TIPS	5.6	6.0	-0.4
REITs	12.0	12.0	0.0
Commodities	6.0	6.0	0.0
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.

Commentary – Total Fund

- ◆ For the quarter ended December 31, 2013, the Judges II (JRS II) once again benefited from global equities' strong performance and finished with an overall gain of 4.6% that comfortably topped the weighted policy benchmark's 4.4% pace. For longer-term periods one-year and beyond, JRS II's track record has matched well against its policy benchmark.
- ◆ Thanks to a larger-than-policy exposure to global equities, the Long-Term Care Program (LTC) outperformed its weighted policy benchmark in the fourth quarter, too. However, its performance was much more muted (0.6% vs. 0.3% policy) given that more than half of the plan assets are invested in stable-but-lower-yielding fixed income. Similar to JRS II, LTC's long-term track record has stayed ahead of the policy benchmark in all measured time periods shown.
- ◆ At the end of the quarter, Judges II was slightly overweight in global equity while underweight in domestic fixed income, TIPS and REITs.
- ◆ The LTC was overweight in global equity while underweight in fixed income and TIPS.

Asset Class Performance Results – Judges II

Judges II Asset Class Performance Periods Ended December 31, 2013

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
JRS II Global Equity	\$572.1 mil	7.6%	25.0%	11.1%	15.0%	6.8%
<i>Global Equity Benchmark</i> ⁷⁰		7.5	24.7	11.0	14.9	6.8
JRS II US Fixed Income	\$178.1 mil	0.4	-3.9	5.6	8.3	5.7
<i>Custom Benchmark</i> ⁷¹		-0.8	-5.8	4.8	6.1	5.2
JRS II TIPS	\$53.0 mil	-2.0	-8.5	--	--	--
<i>Custom Benchmark</i> ⁷²		-2.0	-8.6	--	--	--
JRS II REITs	\$71.5 mil	-0.4	4.4	8.1	12.3	--
<i>Custom Benchmark</i> ⁷³		-0.5	4.4	8.1	12.7	--
JRS II Commodities	\$26.8 mil	-0.6	-2.5	--	--	--
<i>GSCI Total Return Index</i>		-0.3	-1.2	--	--	--

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

- ◆ Global equity was once again the highest returning JRS II portfolio as it followed up prior quarter's gain of 8.5% with a 7.6% return in Q4. Both U.S. and international equity markets carried forward their positive momentum into the fourth quarter on continued improvement in economic data points and investor sentiment. Overall speaking, it was a great quarter for equities and the portfolio beat the 7.5% return of its custom benchmark, while continuing to do well over longer-term periods.
- ◆ With bond yields drifting higher in November and December (the 10-year U.S. Treasury yield rose 40 bps and ended the quarter at 3.04%), the fixed income market in general finished the fourth quarter on a down note. With this backdrop, the Judges II's domestic fixed income portfolio actually did very well for it generated a small but positive total return of 0.4% that handily outperformed the Barclays Long Liability Index's -0.8% return. This added to the fixed income portfolio's already strong relative performance, allowing its track record to further distance itself from the benchmark over the long-term.
- ◆ TIPS continued to face similar pressures that it encountered during the last quarter, as real yields ticked up amid low and stable inflation readings. This unfavorable combination weighed on TIPS performance, causing both the portfolio and the Barclays U.S. TIPS Index to report a loss of -2.0% in Q4, and making the portfolio the worst performer of JRS II.
- ◆ The steady rising yields created notable headwinds for REITs in the fourth quarter and acted as drag on REIT performance. As a result, the Plan's REIT portfolio recorded a small loss in Q4 that was just marginally better when compared to its custom benchmark, the FTSE EPRA/NAREIT Developed Index (-0.4% vs. -0.5%, respectively). Through the past five years, though, Judges II's REIT portfolio has recorded annualized gains similar to public equities while tracking closely with its custom benchmark.
- ◆ Contributing to tamed inflation during the fourth quarter was stagnated commodity prices, as prices for both energy and non-energy commodities were soft. The JRS II commodities portfolio was not immune to this macro trend and gave back a small amount of gains it earned in prior quarter. The portfolio was down -0.6% and fared slightly worse than its benchmark, the GSCI Total Return Index, which had a return of -0.3%. The commodities portfolio's one-year track record of -2.5% currently also sits behind its benchmark by 30 bps.

Long-Term Care Asset Class Performance
Periods Ended December 31, 2013

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
LTC Global Equity	\$668.3 mil	7.3%	23.9%	11.6%	15.3%	7.0%
<i>Custom Benchmark ⁷⁴</i>		7.2	23.6	11.5	15.3	7.0
LTC US Fixed Income	\$2,270.1mil	-0.8	-5.7	4.9	7.9	5.6
<i>Custom Benchmark ⁷⁵</i>		-0.8	-5.8	4.8	6.1	5.2
LTC TIPS	\$213.5 mil	-2.0	-8.6	3.5	5.4	--
<i>Barclays U.S. TIPS Index</i>		-2.0	-8.6	3.5	5.6	--
LTC REITs	\$460.0 mil	-0.8	3.1	7.6	11.8	--
<i>Custom Benchmark ⁷⁶</i>		-1.0	2.5	7.5	12.3	--
LTC Commodities	\$229.5 mil	-0.4	-1.5	--	--	--
<i>GSCI Total Return Index</i>		-0.3	-1.2	--	--	--

Commentary – Long-Term Care

- ◆ The LTC global equity fund enjoyed another strong quarter, generating a return of 7.3% that was once again the highest among LTC portfolios while also beating its own custom benchmark. The fund has a long track record and has tracked its custom benchmark closely over all measured periods shown.
- ◆ The LTC domestic fixed income portfolio mirrored its custom benchmark in Q4 as it registered a small loss of -0.8%. Over the long-term, the fixed income portfolio's track record represents very respectable gains while also doing very well relative to its benchmark.
- ◆ Same as the JRS II's TIPS investment, the LTC TIPS portfolio was the worst performer in the fourth quarter as the combination of low inflation and rising yields worked against TIPS' favor. The portfolio was down -2.0% for the quarter, matching the pace of its custom benchmark, the Barclays U.S. TIPS Index. This quarter's drop brought the TIPS portfolio's full year loss to -8.6%, although over the last five years the portfolio has still averaged a solid annualized gain of 5.4%.

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

- ◆ REITs in general finished the fourth quarter in the negative territory as the investment instrument faced the headwinds of rising interest rates. LTC's REIT portfolio followed the market and ended Q4 down -0.8%, but did fare slightly better than its custom benchmark, the FTSE EPRA/NAREIT Developed Liquid Index (net). The portfolio's longer-term track record remains very strong and it continues to add value over the three- and five-year periods.
- ◆ The commodities portfolio incurred a small loss in the fourth quarter, giving back some of the gains it earned back in Q3. Its -0.4% return was 4 bps off the pace of the GSCI Total Return Index.

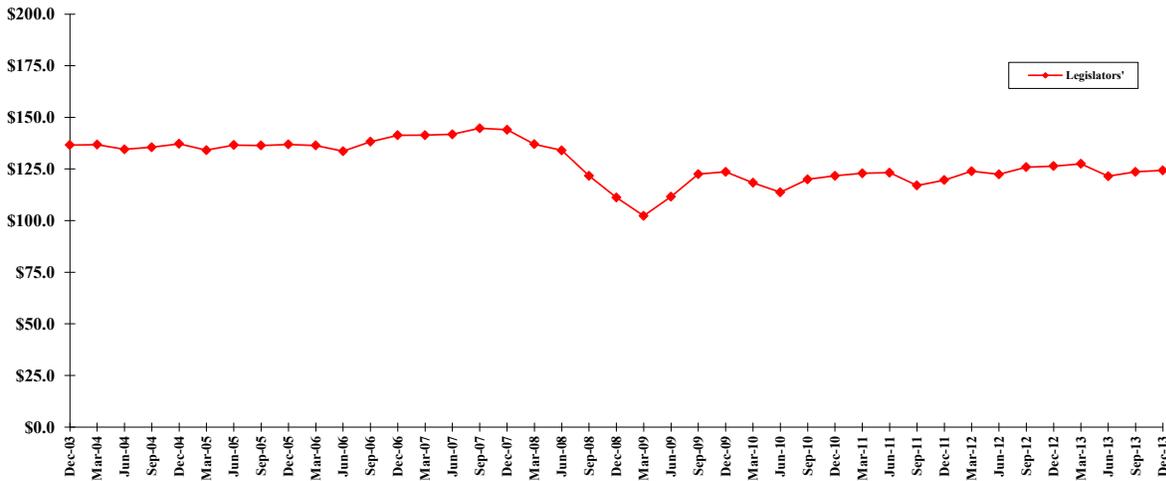


Legislators' Information



California Legislators' Retirement System

Growth in Assets



Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2013

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
LRS	\$124.3 mil	2.2%	4.7%	7.6%	10.8%	6.3%
<i>Weighted Policy Benchmark</i> ⁷⁷		1.7	3.8	7.4	9.8	6.2

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	32.4%	32.0%	+0.4%
US Fixed Income	41.8	42.0	-0.2
TIPS	14.8	15.0	-0.2
REITs	8.0	8.0	0.0
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"), with 57% of its assets invested in fixed income, closed out the last quarter of 2013 with a very modest gain of 2.2%. But this performance compared favorably to its weighted policy benchmark, which was up 1.7%, and helped lift its full-year result to 4.7%, 93 bps above the policy benchmark. The System's longer-term track record also remains solid, having outperformed in all measured periods shown.
- ◆ As of December 31, the System was marginally overweight in global equity while underweight in domestic fixed income and TIPS.

Asset Classes Performance Results

Asset Class Performance Periods Ended December 31, 2013

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
LRS Global Equity	\$40.3 mil	7.6%	25.0%	11.4%	15.1%	6.6%
<i>Global Equity Benchmark⁷⁸</i>		7.5	24.7	11.3	15.0	6.6
LRS US Fixed Income	\$52.0 mil	0.4	-3.9	5.6	8.3	5.7
<i>Custom Benchmark⁷⁹</i>		-0.8	-5.8	4.8	6.1	5.7
LRS TIPS	\$18.4 mil	-2.0	-8.5	3.6	5.5	--
<i>Custom Benchmark⁸⁰</i>		-2.0	-8.6	3.5	5.6	--
LRS REITs	\$9.9 mil	-0.4	4.4	--	--	--
<i>Custom Benchmark⁸¹</i>		-0.5	4.4	--	--	--
LRS Commodities	\$3.7 mil	-0.6	-2.5	--	--	--
<i>GSCI Total Return Index</i>		-0.3	-1.2	--	--	--

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

- ◆ Global equity was once again the highest returning LRS portfolio as it followed up prior quarter's gain of 8.5% with a 7.6% return in Q4. Both U.S. and international equity markets carried forward their positive momentum into the fourth quarter on continued improvement in economic data points and investor sentiment. Overall speaking, it was a great quarter for equities and the portfolio beat the 7.5% return of its custom benchmark, while continuing to do well over longer-term periods.
- ◆ With bond yields drifting higher in November and December (the 10-year U.S. Treasury yield rose 40 bps and ended the quarter at 3.04%), the fixed income market in general finished the fourth quarter on a down note. With this backdrop, the LRS domestic fixed income portfolio actually did very well for it generated a small but positive total return of 0.4% that handily outperformed the Barclays Long Liability Index's -0.8% return. This added to the fixed income portfolio's already strong relative performance, allowing its track record to further distance itself from the benchmark over the long-term.
- ◆ TIPS continued to face similar pressures that it encountered during the last quarter, as real yields ticked up amid low and stable inflation readings. This unfavorable combination weighed on TIPS performance, causing both the portfolio and the Barclays U.S. TIPS Index to report a loss of -2.0% in Q4, and making the portfolio the worst performer of LRS.
- ◆ The steady rising yields created notable headwinds for REITs in the fourth quarter and acted as drag on REIT performance. As a result, the Plan's REIT portfolio recorded a small loss in Q4 that was just marginally better when compared to its custom benchmark, the FTSE EPRA/NAREIT Developed Index (-0.4% vs. -0.5%, respectively). Through the past three years, both measures have reported mid-single digit returns that mirrored each other.
- ◆ Contributing to tamed inflation during the fourth quarter was stagnated commodity prices, as prices for both energy and non-energy commodities were soft. The LRS commodities portfolio was not immune to this macro trend and gave back a small amount of gains it earned in prior quarter. The portfolio was down -0.6% and fared slightly worse than its benchmark, the GSCI Total Return Index, which had a return of -0.3%. The commodities portfolio's one-year track record of -2.5% currently also sits behind its benchmark by 30 bps.



California Employers' Retiree Benefit Trust

California Employers' Retiree Benefit Trust Strategy 1

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	66.5%	66.0%	+0.5%
US Bonds	17.4	18.0	-0.6
TIPS	4.8	5.0	-0.2
REITS	7.9	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, 2013

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total Fund	\$2,656.3 mil	4.7%	14.2%	9.3%	13.4%	-.%
<i>Benchmark</i>		4.4	13.6	9.3	13.3	-.
Global Equity	1,767.5 mil	7.3	23.9	11.3	15.1	-.
<i>Benchmark</i>		7.2	23.6	11.2	15.1	-.
Domestic Fixed Income	463.3 mil	0.4	-3.9	5.6	8.3	-.
<i>Benchmark</i>		-0.8	-5.8	4.8	6.1	-.
REITs	210.8 mil	-0.8	3.1	7.6	11.9	-.
<i>Benchmark</i>		-1.0	2.5	7.5	12.3	-.
TIPS	127.6 mil	-2.0	-8.5	-.	-.	-.
<i>Benchmark</i>		-2.0	-8.6	-.	-.	-.
Commodities	78.0 mil	-0.6	-2.5	-.	-.	-.
<i>Benchmark</i>		-0.3	-1.2	-.	-.	-.
Cash[±]	9.0 mil	0.0	0.0	0.1	0.2	-.

[±] The cash component may contain residual trade balance that has yet to be settled during the periodic rebalancing process as of December 31.

California Employers' Retiree Benefit Trust Strategy 2

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	50.9%	50.0%	+0.9%
US Bonds	23.5	24.0	-0.5
TIPS	14.5	15.0	-0.5
REITS	8.0	8.0	0.0
Commodities	2.9	3.0	-0.1
Cash Equivalents	<u>0.1</u>	<u>0.0</u>	<u>+0.1</u>
	100.0	100.0	0.0

Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2013

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total Fund	\$468.0 mil	3.3%	9.2%	--%	--%	--%
<i>Benchmark</i>		3.0	8.5	--	--	--
Global Equity	238.4 mil	7.3	23.9	--	--	--
<i>Benchmark</i>		7.2	23.6	--	--	--
Domestic Fixed Income	110.0 mil	0.4	-3.9	--	--	--
<i>Benchmark</i>		-0.8	-5.8	--	--	--
TIPS	68.0 mil	-2.0	-8.5	--	--	--
<i>Benchmark</i>		-2.0	-8.6	--	--	--
REITs	37.4 mil	-0.8	3.1	--	--	--
<i>Benchmark</i>		-1.0	2.5	--	--	--
Commodities	13.7 mil	-0.6	-2.5	--	--	--
<i>Benchmark</i>		-0.3	-1.2	--	--	--
Cash[±]	0.5 mil	0.0	0.0	--	--	--

[±] The cash component may contain residual trade balance that has yet to be settled during the periodic rebalancing process as of December 31.

California Employers' Retiree Benefit Trust Strategy 3

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	31.3%	32.0%	-0.7%
US Bonds	39.5	42.0	-0.5
TIPS	13.9	15.0	-1.1
REITS	7.7	8.0	-0.3
Commodities	2.8	3.0	-0.2
Cash Equivalents	<u>4.8</u>	<u>0.0</u>	<u>+4.8</u>
	100.0	100.0	0.0

Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2013

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total Fund	\$68.5 mil	2.1%	4.1%	-.-%	-.-%	-.-%
<i>Benchmark</i>		1.6	3.3	--	--	--
Global Equity	21.4 mil	7.4	23.7	--	--	--
<i>Benchmark</i>		7.2	23.6	--	--	--
Domestic Fixed Income	27.1 mil	0.4	-3.9	--	--	--
<i>Benchmark</i>		-0.8	-5.8	--	--	--
TIPS	9.6 mil	-2.0	-8.5	--	--	--
<i>Benchmark</i>		-2.0	-8.6	--	--	--
REITs	5.3 mil	-0.8	3.0	--	--	--
<i>Benchmark</i>		-1.0	2.5	--	--	--
Commodities	1.9 mil	-0.6	-2.5	--	--	--
<i>Benchmark</i>		-0.3	-1.2	--	--	--
Cash[±]	2.5 mil	0.0	0.0	--	--	--

[±] The cash component may contain residual trade balance that has yet to be settled during the periodic rebalancing process as of December 31.

Health Care Bond Fund

Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2013

	<u>Market</u> <u>Value</u>	<u>Qtr</u>	<u>One</u> <u>Year</u>	<u>Three</u> <u>Year</u>	<u>Five</u> <u>Year</u>	<u>Ten</u> <u>Year</u>
Health Care Bond Fund	\$394.8 mil	0.2%	-0.9%	4.0%	5.8%	4.6%
<i>Benchmark</i>		-0.1	-2.0	3.3	4.4	4.6



Supplemental Income Plans

Supplemental Income Plan Performance

Net Fund Performance Results – Supplemental Contribution Plan

Periods Ended December 31, 2013

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
CalPERS Target 2015	\$2.543 mil	1.6	9.2	6.5	--
<i>SIP 2015 Policy</i>		1.7	9.5	7.3	--
CalPERS Target 2020	\$1.378 mil	2.6	11.9	7.2	--
<i>SIP 2020 Policy</i>		2.7	12.2	8.0	--
CalPERS Target 2025	\$777.4 thous	3.4	14.7	7.9	--
<i>SIP 2025 Policy</i>		3.4	14.8	8.8	--
CalPERS Target 2030	\$247.4 thous	4.1	17.6	8.7	--
<i>SIP 2030 Policy</i>		4.2	17.7	9.7	--
CalPERS Target 2035	\$97.0 thous	--	--	--	--
<i>SIP 2035 Policy</i>		--	--	--	--
CalPERS Target 2040	\$135.9 thous	5.7	21.4	9.8	--
<i>SIP 2040 Policy</i>		5.8	21.5	10.9	--
CalPERS Target 2045	\$93.1 thous	--	--	--	--
<i>SIP 2045 Policy</i>		--	--	--	--
CalPERS Target 2050	\$1.0 thous	--	--	--	--
<i>SIP 2050 Policy</i>		--	--	--	--
CalPERS Target 2055	\$3.5 thous	--	--	--	--
<i>SIP 2055 Policy</i>		--	--	--	--
CalPERS Target Income	\$11.128 mil	1.4	5.3	5.4	--
<i>SIP Income Policy</i>		1.4	5.5	5.8	--
SSgA Russell All Cap Index SL	\$2.314 mil	9.3	--	--	--
<i>Russell 3000</i>		9.4	--	--	--
SSgA Global All Cap ex-US SL	\$216.1 thous	4.0	--	--	--
<i>MSCI ACWI ex-US IMI (N)</i>		4.4	--	--	--
SSgA US Bond Index SL	\$67.5 thous	-0.1	--	--	--
<i>Barclays Aggregate Bond Index</i>		-0.1	--	--	--
SSgA US Short Term Bond	\$281.9 thous	0.0	--	--	--
<i>BarclaysUS Gov/Credit</i>		0.2	--	--	--
SSgA Real Asset NL	\$14.8 thous	1.0	--	--	--
<i>Real Assets Blended Index</i>		0.3	--	--	--
SSgA STIF	\$956.9 thous	-0.1	-0.4	-0.2	--

CalPERS
Performance Analysis
December 31, 2013



<i>BofAML 3-month US T-Bill</i>	0.0	0.1	0.1	--
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Net Fund Performance Results – State Peace Officers’ & Firefighters’ (POFF) Defined Contribution Plan

Periods Ended December 31, 2013

	<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)	\$514.9 mil	4.1%	14.8%	8.2%	11.5%	5.4%
<i>SIP Moderate Policy</i>		4.1	14.8	9.0	12.5	6.3

Net Fund Performance Results – 457 Program

Periods Ended December 31, 2013

	<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 Income Fund	\$92.7 mil	1.4	5.4	5.3	7.3	--
<i>SIP Income Policy</i>		1.4	5.5	5.8	8.2	--
CalPERS Target 2015 Fund	\$78.9 mil	1.6	9.2	6.5	10.0	--
<i>SIP 2015 Policy</i>		1.7	9.5	7.3	11.0	--
CalPERS Target 2020 Fund	\$93.6 mil	2.7	12.0	7.2	11.1	--
<i>SIP 2020 Policy</i>		2.7	12.2	8.0	12.0	--
CalPERS Target 2025 Fund	\$56.5 mil	3.4	14.7	7.8	12.1	--
<i>SIP 2025 Policy</i>		3.4	14.8	8.8	13.0	--
CalPERS Target 2030 Fund	\$57.4 mil	4.1	17.6	8.7	13.4	--
<i>SIP 2030 Policy</i>		4.2	17.7	9.7	14.3	--
CalPERS Target 2035 Fund	\$29.5 mil	4.9	19.8	9.3	14.2	--
<i>SIP 2035 Policy</i>		5.0	19.9	10.4	15.3	--
CalPERS Target 2040 Fund	\$26.4 mil	5.7	21.4	9.7	14.6	--
<i>SIP 2040 Policy</i>		5.8	21.5	10.9	15.7	--
CalPERS Target 2045 Fund	\$5.6 mil	5.9	21.6	9.8	14.6	--
<i>SIP 2045 Policy</i>		6.0	21.6	10.9	15.7	--
CalPERS Target 2050 Fund	\$2.1 mil	5.8	21.6	9.8	14.6	--
<i>SIP 2050 Policy</i>		6.0	21.6	10.9	15.7	--
CalPERS Target 2055 Fund	\$0.8 mil	4.7	--	--	--	--
<i>SIP 2055 Policy</i>		5.4	--	--	--	--
SSgA Russell All Cap Index SL	\$447.2 mil	9.3	--	--	--	--
<i>Russell 3000</i>		9.4	--	--	--	--
SSgA Global All Cap ex-US SL	\$61.1 mil	4.1	--	--	--	--
<i>MSCI ACWI ex-US IMI (N)</i>		4.4	--	--	--	--
SSgA US Bond Index SL	\$54.9 mil	-0.1	--	--	--	--
<i>Barclays Aggregate Bond Index</i>		-0.1	--	--	--	--
SSgA US Short Term Bond	\$45.3 mil	0.0	--	--	--	--
<i>Barclays US Gov/Credit</i>		0.2	--	--	--	--
SSgA Real Asset NL	\$1.1 mil	0.4	--	--	--	--
<i>Real Assets Blended Index</i>		0.3	--	--	--	--
SSgA STIF	\$125.4 mil	-0.1	-0.4	-0.4	--	--
<i>BofAML 3 Month US TBill</i>		0.0	0.1	0.1	--	--