

# Monthly Update- Performance & Risk

## PUBLIC EMPLOYEES' RETIREMENT FUND (PERF)



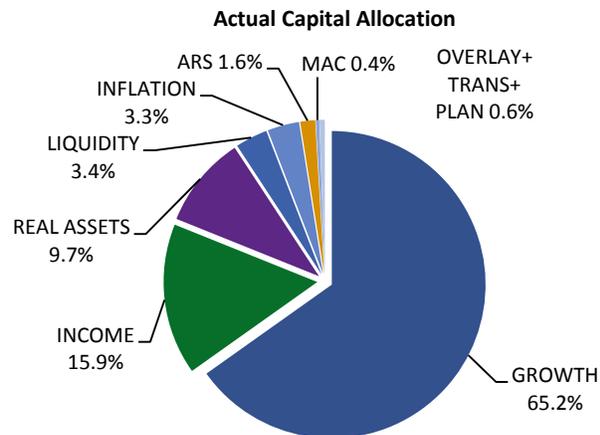
Month Ending May 31, 2014

### STRATEGIC ASSET ALLOCATION

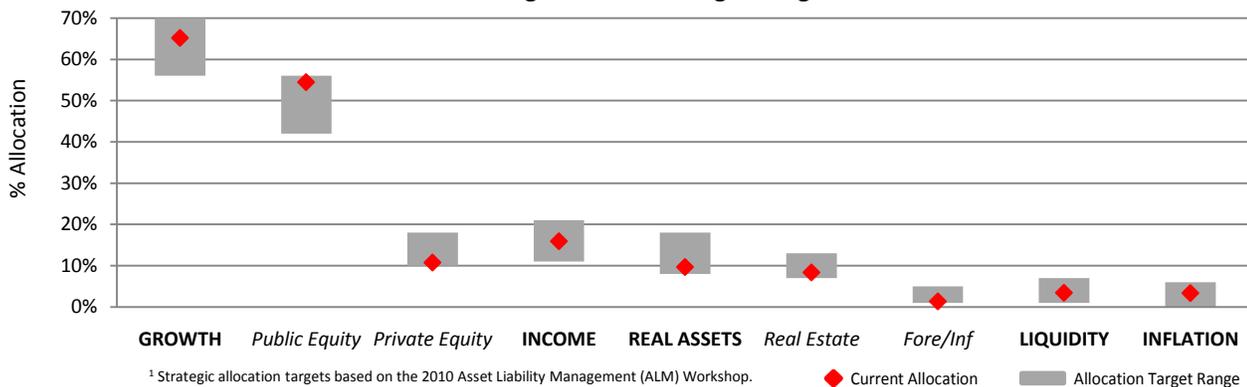
**Investment Belief 6:** Strategic asset allocation is the dominant determinant of portfolio risk and return. CalPERS strategic asset allocation process transforms the fund's targeted rate of return to the market exposures that staff will manage. CalPERS will aim to diversify its overall portfolio across distinct risk factors and return drivers.

#### Total Fund Objective

CalPERS' general investment goals are broad in nature. The overall objective of CalPERS' investment program is to provide members and beneficiaries with benefits as required by law. This will be accomplished through a carefully planned and executed long-term investment program that efficiently and effectively allocates and manages the assets of CalPERS. CalPERS' investment policies have been designed to allow CalPERS to achieve a long-term total return. As such, prudent risk-taking is appropriate within the context of overall diversification to meet CalPERS' long-term investment objectives. The assets of CalPERS will be broadly diversified to minimize the effect of short-term losses within any investment program.



#### Strategic Allocation Target Range<sup>1</sup>



TOTAL FUND ASSET ALLOCATION	Current Allocation(%)	Interim Strategic Target (%) <sup>1</sup>	Variance(%)	Current Allocation (billions)	Interim Strategic Target (billions)	Variance (billions)
<b>GROWTH</b>	65.2%	64%	1.2%	\$ 191.3	\$ 187.9	\$ 3.4
PUBLIC EQUITY	54.4%	50%	4.4%	\$ 159.8	\$ 146.8	\$ 13.0
PRIVATE EQUITY	10.7%	14%	(3.3%)	\$ 31.5	\$ 41.1	\$ (9.6)
<b>INCOME</b>	15.9%	17%	(1.1%)	\$ 46.7	\$ 49.9	\$ (3.2)
<b>REAL ASSETS</b>	9.7%	11%	(1.3%)	\$ 28.4	\$ 32.3	\$ (3.9)
REAL ESTATE	8.4%	9%	(0.6%)	\$ 24.6	\$ 26.4	\$ (1.8)
FORESTLAND (FORE)	0.8%	1%	(0.2%)	\$ 2.2	\$ 2.9	\$ (0.7)
INFRASTRUCTURE (INF)	0.5%	1%	(0.5%)	\$ 1.6	\$ 2.9	\$ (1.4)
<b>LIQUIDITY</b>	3.4%	4%	(0.6%)	\$ 10.0	\$ 11.7	\$ (1.8)
<b>INFLATION</b>	3.3%	4%	(0.7%)	\$ 9.8	\$ 11.7	\$ (1.9)
<b>ARS</b>	1.6%	-	1.6%	\$ 4.6	-	\$ 4.6
<b>MULTI-ASSET CLASS (MAC)</b>	0.4%	-	0.4%	\$ 1.1	-	\$ 1.1
<b>OVERLAY+TRANS+PLAN</b>	0.6%	-	0.6%	\$ 1.6	-	\$ 1.6
<b>TOTAL FUND</b>	100.0%	100.0%	0.0%	\$ 293.6	\$ 293.6	\$ -

<sup>1</sup> Interim strategic targets adopted by the Investment Committee at the August 2011 Investment Committee meeting.

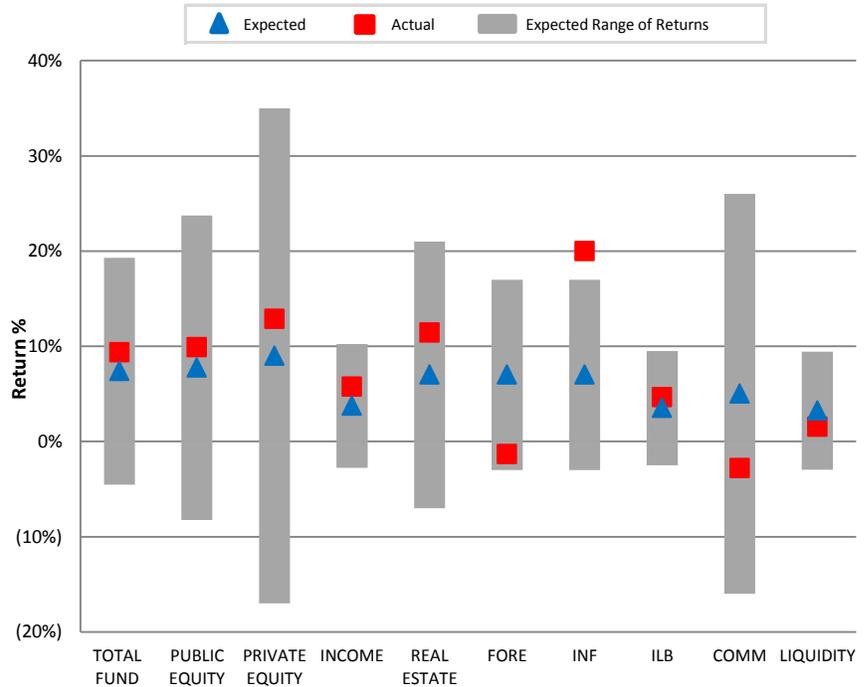
**ASSET LIABILITY MANAGEMENT EXPECTATIONS VS. ACTUAL RESULTS**

*Investment Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it. An expectation of a return premium is required to take risk; CalPERS aims to maximize return for the risk taken.*

**Asset Liability Assumptions**

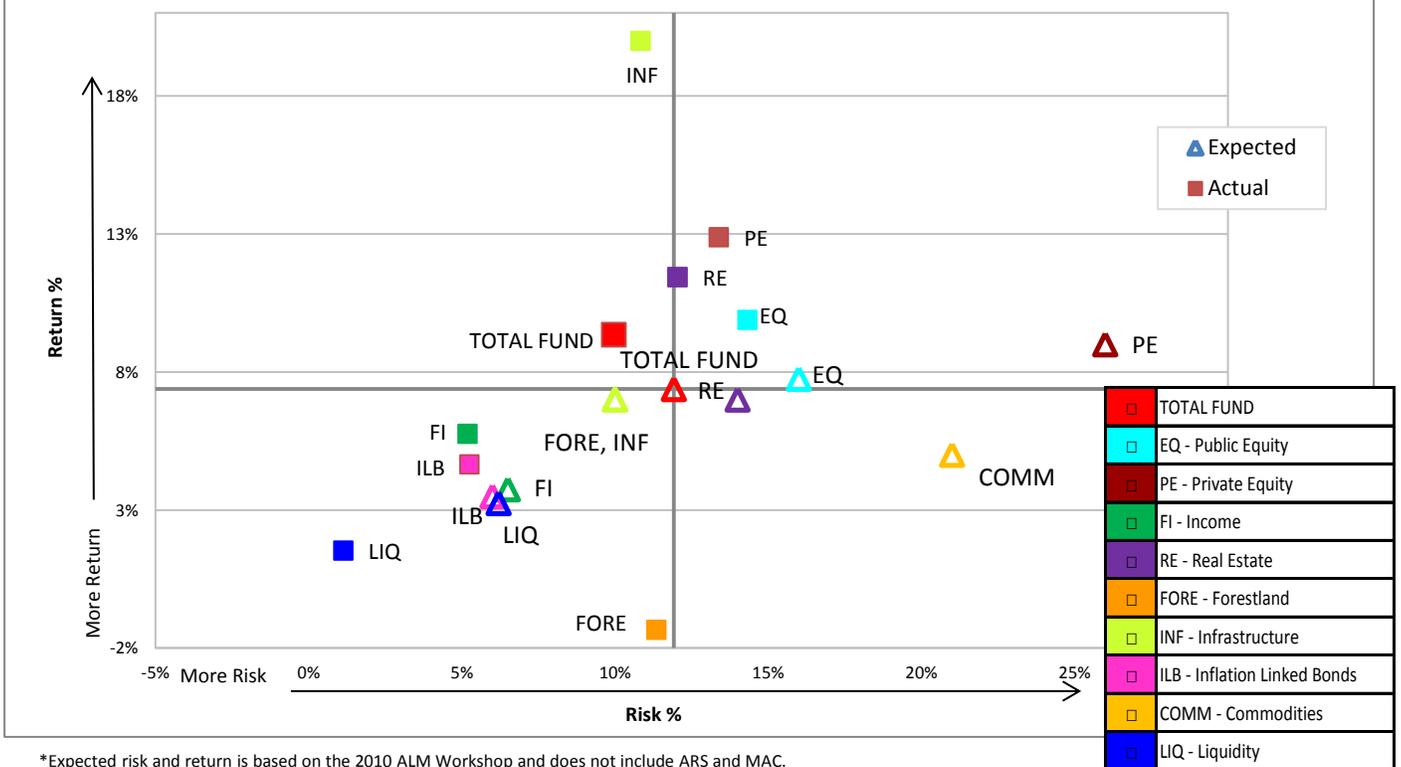
As part of the Strategic Asset Allocation process, a comprehensive strategy analysis shall be completed at least once every three years and will be presented to the Investment Committee (IC) for review and approval of policy target asset class allocations and ranges. Staff may recommend a more frequent analysis of asset class allocations and ranges if expected returns, risks or liability values have substantially changed since the prior analysis. Additionally, the strategy shall be reviewed by staff at least annually to ensure that all assumptions used in establishing the strategy continue to be reasonable. Staff may also recommend to the IC changes in the policy targets and ranges. The strategy shall reflect analyses that consider the current and expected financial condition of CalPERS including projected CalPERS liabilities. Analyses shall also encompass the expected long-term capital markets outlook, expected inflation, and CalPERS risk tolerance.

**Expected Return vs. 3-Year Actual Return**



Note: The expected range of returns is based on the expected volatility of returns (standard deviation) from the 2010 ALM Workshop.

**Expected Risk and Return\* vs. Current Projected Risk and 3-Year Return**



\*Expected risk and return is based on the 2010 ALM Workshop and does not include ARS and MAC.

**PERFORMANCE SUMMARY**

*Investment Belief 5: CalPERS must articulate its investments goals and performance measures and ensure clear accountability for their execution.*

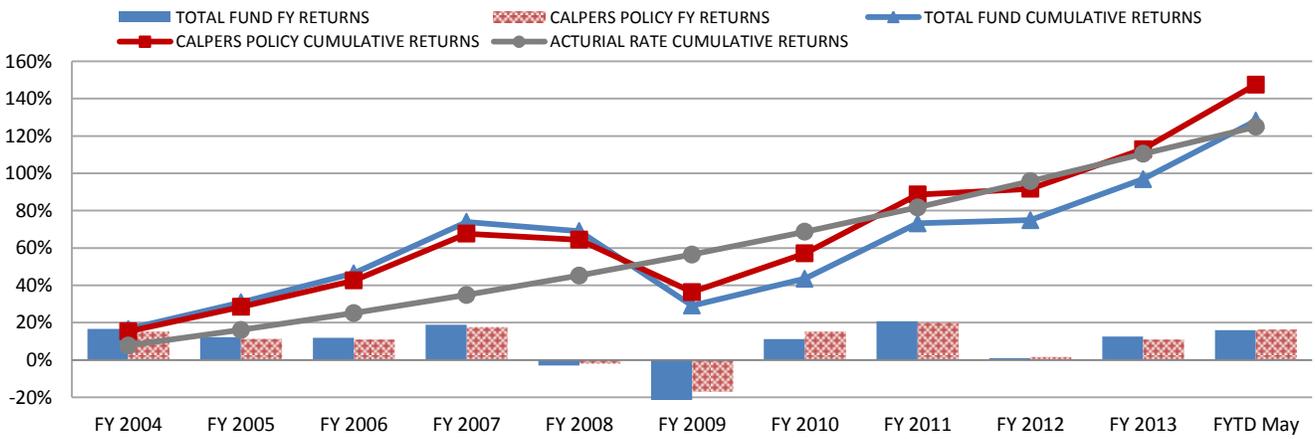
As of May 31, 2014	FYTD		3-YR		5-YR		10-YR		20-YR	
	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS
<b>GROWTH</b>	21.4%	(50)	10.6%	(42)	15.7%	(75)	8.2%	(90)	9.4%	38
PUBLIC EQUITY	22.0%	48	9.9%	28	15.1%	54	7.5%	(30)	9.0%	57
PRIVATE EQUITY	19.2%	(327)	12.9%	(161)	17.7%	(506)	13.2%	(221)	12.6%	71
<b>INCOME</b>	7.9%	105	5.8%	41	9.6%	239	7.1%	70	7.7%	59
<b>REAL ASSETS</b>	5.0%	(449)	10.3%	(79)	(3.5%)	(992)	3.3%	(585)	7.0%	(259)
REAL ESTATE	5.2%	(505)	11.4%	(69)	(4.3%)	(1,219)	2.6%	(711)	6.6%	(323)
FORE	1.1%	(698)	(1.3%)	(762)	(1.0%)	(367)	-	-	-	-
INF	9.8%	521	20.0%	1,408	19.5%	1,285	-	-	-	-
<b>LIQUIDITY</b>	0.8%	(73)	1.5%	(45)	1.0%	(26)	2.3%	(6)	3.6%	18
<b>INFLATION</b>	7.2%	(0)	1.6%	(71)	6.1%	80	-	-	-	-
<b>ARS</b>	5.1%	22	2.8%	(249)	5.4%	(16)	4.6%	(265)	-	-
<b>MAC</b>	10.2%	334	-	-	-	-	-	-	-	-
<b>TOTAL FUND</b>	<b>15.9%</b>	<b>(33)</b>	<b>9.4%</b>	<b>10</b>	<b>11.7%</b>	<b>(94)</b>	<b>7.1%</b>	<b>(98)</b>	<b>8.3%</b>	<b>(23)</b>

TOTAL FUND SINCE INCEPTION DATE NET RATE OF RETURN (07/01/1988) 8.82%

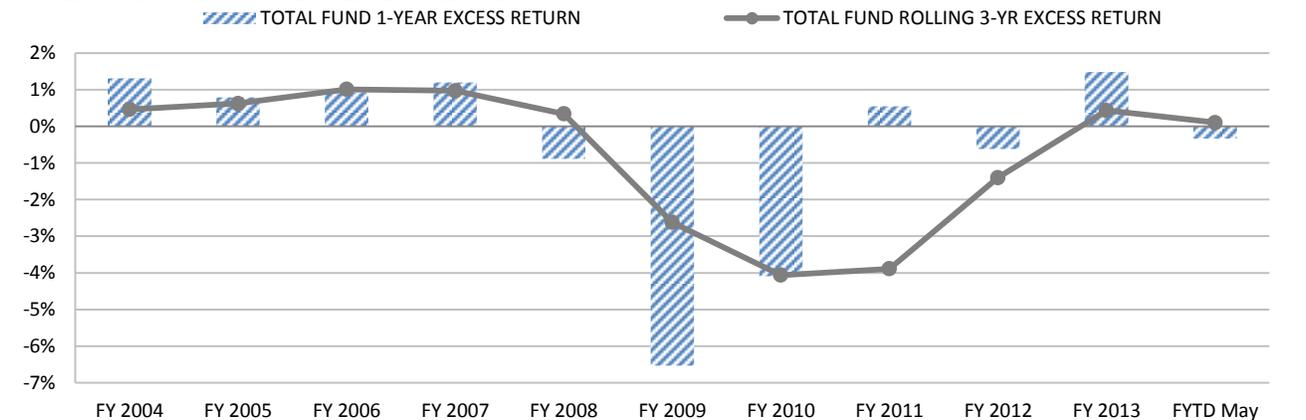
	FYTD		3-YR		5-YR		10-YR		20-YR	
	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS
TOTAL FUND (TF)	15.9%	(33)	9.4%	10	11.7%	(94)	7.1%	(98)	8.3%	(23)
TAP <sup>1</sup>	4.6%	-	-	-	-	-	-	-	-	-
<b>TF PLUS TAP</b>	<b>15.9%</b>	<b>-</b>	<b>9.4%</b>	<b>-</b>	<b>11.7%</b>	<b>-</b>	<b>7.1%</b>	<b>-</b>	<b>8.3%</b>	<b>-</b>

<sup>1</sup> Terminated Agency Pool (TAP) funded in July 2013 and exists to provide benefit payments to members who are employees of agencies that have terminated their contract with CalPERS.

**TOTAL FUND CUMULATIVE RETURN**



**TOTAL FUND ROLLING 3-YEAR EXCESS RETURN**



**TOTAL FUND RISK**

**Investment Belief 9:** Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error. CalPERS shall develop a broad set of investment and actuarial risk measures and clear processes for managing risk. The path of returns matters, because highly volatile returns can have unexpected impacts on contribution rates and funding status.

**Overview**

Risk management is central to managing the assets of CalPERS and to achieving the strategic objectives. A framework for risk management is established through the adoption of investment policies for total fund strategic asset allocation, individual asset classes and portfolios with appropriate benchmarks and reasonable risk limits for the implementation of the risk program. The level of risk assumed will be monitored and reported using selected risk metrics as required in the Risk Management Policy.

Risk Measure	4/30/2014	6/30/2013	Explanation of Risk Measures:
<b>Forecast Total Risk</b>			
Portfolio	10.0%	11.9%	The total (gross) risk of the Total Fund expressed in the standard deviation (1 yr) of the funds total return distribution, expressed in percent. The forecast expected return of the Total Fund from the previous ALM process was 7.38%. There is two-thirds probability that the Total Fund return over the next year will be between -2.58% and 17.34%, and a 95% probability that the fund will return between -12.54% and 27.3%.
Benchmark	9.8%	11.2%	
<b>Forecast Tracking Error</b>			
Portfolio	0.8%	1.1%	Forecast tracking error is the difference in risk between a managed portfolio and benchmark, measured as the standard deviation (1-yr) of the differential return between the portfolio and an equal investment in the benchmark. There is a two-thirds probability that the Total Fund excess return will fall within 0.76% above or below the policy benchmark return, and 95% probability the return of the Total Fund will fall within 1.52% above or below the policy benchmark return.
<b>Value at Risk (10 day, 95%)</b>			
Portfolio	\$9.18 B	\$10.07 B	Value at Risk (VaR) characterizes the potential loss in a portfolio over a given period for a chosen probability level. There is a 1 in 20 chance that the Total Fund will experience a drawdown greater than \$9.18 Billion over a 10-day period.
<b>Expected Shortfall (10 day, 95%)</b>			
Portfolio	\$11.69 B	\$12.4 B	Expected shortfall measures the magnitude of loss in an event outside of a specified VaR confidence level and mathematically it is the mean of the tail distribution. The expected shortfall of the portfolio over a 10-day horizon and 95% confidence level is \$11.69 Billion.

Risk and Return Summary								
Asset Class	Portfolio Risk			Active Risk				Realized Info Ratio
	3-Year Realized Return(%)	3-Year Realized Risk(%)	Projected Total Risk(%)	3-Year Active Return(%)	3-Year Active Risk(%)	Policy Risk Budget(%)	Projected Active Risk(%)	
<b>GROWTH</b>	9.5%	11.3%	14.0%	(0.2%)	3.0%		0.9%	0.0
<i>Public Equity</i>	8.4%	14.7%	14.3%	0.3%	0.3%		0.2%	2.2
<i>Private Equity</i>	13.5%	4.9%	13.4%	(0.5%)	13.0%		5.5%	(0.1)
<b>INCOME</b>	5.8%	4.9%	5.2%	0.5%	0.9%		1.2%	1.4
<b>REAL ASSETS</b>	11.9%	6.8%	11.6%	0.7%	5.1%		4.1%	0.3
<i>Real Estate</i>	13.1%	7.6%	12.0%	0.9%	5.8%		4.3%	0.3
<i>Forestland</i>	0.5%	7.3%	11.3%	(5.9%)	7.3%		6.9%	(5.8)
<i>Infrastructure</i>	24.5%	30.6%	10.8%	18.5%	30.4%		10.8%	0.7
<b>LIQUIDITY</b>	1.3%	1.7%	1.1%	0.0%	0.4%		0.2%	-
<b>INFLATION</b>	(0.0%)	8.1%	7.6%	(1.3%)	2.4%		1.7%	0.9
<b>ARS</b>	2.9%	3.2%	3.2%	(2.5%)	3.2%		3.3%	0.0
<b>TOTAL FUND</b>	8.8%	7.1%	10.0%	0.3%	1.9%	1.5%	0.8%	-

NOTE: Due to reporting constraints, all risk statistics are as of April 30, 2014