



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

Second Quarter 2014

Wilshire Associates
Incorporated
1299 Ocean Avenue, Suite 700
Santa Monica, CA 90401
Phone: 310-451-3051
contactconsulting@wilshire.com



TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Capital Market Review	3
Summary of all Plans	6
PERF	7
Judges II/Long-Term Care	29
Legislators' Fund	36
California Employers' Retiree Benefit Trust	40
Supplemental Income Plans	45



Capital Market Overview

In the second quarter of 2014, most capital markets managed positive performance despite global political strife and turmoil, as well as a surprising third restatement of first quarter 2014 U.S. Real GDP indicating a sharp downturn in the U.S. economy. Real GDP surprised to the downside during the first quarter of 2014 by contracting 2.9% on an annualized basis, the largest drop in economic activity since the recession five years ago. The Bureau of Economic Analysis had estimated first quarter Real GDP Growth at an anemic 0.1% in April, then revised the figure to -1.0% in May; more complete economic data resulted in the -2.9% restatement in June. Consumer spending, the primary driver of growth, was mild while businesses allowed their inventories to deplete and exports fell sharply. Most experts believe that the economy will rebound during the second quarter of 2014, and early data support that assertion. Investors did not appear overly concerned with the worst quarter for Real GDP growth since the recession, and the largest revision of any initial estimate ever. Reactions from the Federal Reserve were muted as well. The Fed continued tapering their asset purchases and suggested that they believe the downtick in growth and uptick in inflation are both temporary occurrences. Investors globally continue to demand U.S. Treasuries as they provide an attractive yield relative to other developed-market government bonds; rates in the long-end of the curve continued to fall for much of the second quarter, with the largest decline occurring in May. The ten-year U.S. Treasury yield, which entered the quarter at 2.73%, fell to 2.53% at quarter-end. The 10-year breakeven inflation rate, a signal of the market's consensus on forecast inflation, closed the second quarter at 2.36%, up from 2.23% last quarter. After a brief disappointment in December, jobs growth has returned to the U.S. economy. Total nonfarm jobs added averaged 234,000 during the three months ending May, with the average for all of 2014 a bit lower at 214,000 jobs. The U.S. unemployment rate has fallen from 6.7% in December to 6.3% in May, a level last seen in mid-2008. Overseas securities markets also rose in the second quarter despite significant geopolitical conflicts in Ukraine and the Middle East; accommodative central bank policy worldwide gave strong support to global investors. The first half of 2014 has also seen many commodities rebound from disappointing results in 2013. Global geopolitical events have fueled a remarkable comeback in gold, where "safe-haven" trades have resulted in a 9.82% year-to-date jump in prices. The political turmoil in energy-rich Eastern Europe and Iraq has fueled run-ups in the prices of crude oil (up 7.53% YTD) and natural gas (up 8.80% YTD) as well. MLPs rebounded from a relatively slack first quarter with a healthy rally in the second quarter, yielding excellent year-to-date performance.

U.S. Equity Market

The U.S. stock market, represented by the Wilshire 5000 Total Market IndexSM, was up 4.86% for the second quarter, posting its eighth consecutive quarterly gain. After a nearly flat April, the index was up strongly in both May and June and is up 24.92% since June 30 of last year. Large capitalization stocks led smaller shares by a sizeable amount with the Wilshire Large-Cap IndexSM up 5.11% vs. 3.05% for the Wilshire US Small-Cap IndexSM. Larger shares trailed during the past twelve months, however, up 24.75% vs. a gain of 26.37% for small cap stocks. The Wilshire US Micro-Cap IndexSM was down 1.05% for the quarter but produced a one-year gain of 26.39%. Results for growth stocks versus value during the second quarter were mixed; growth led in the large-cap segment (Wilshire U.S. Large Growth IndexSM, 5.72%; Wilshire U.S. Large Value IndexSM, 4.62%), but trailed value stocks within small caps (Wilshire U.S. Small Growth IndexSM, 2.44%; Wilshire U.S. Small Value IndexSM, 3.59%). Turning to economic sector performance within the Wilshire 5000 (GICS classification), all economic sectors showed gains



during the quarter, while Energy was far and away the winner, up 12.27%. Utilities and Technology were also strong, with moves of 7.66% and 5.99%, respectively. Financials were the primary laggard, although still up 2.25%. Consumer Discretionary (3.32%) and Industrials (3.57%) were the other sectors where performance lagged the market by more than 1%. Real estate-related equities extended their 2014 rally into the second quarter, with low interest rates providing broad market support worldwide (Wilshire U.S. Real Estate Securities IndexSM, 7.22%).

Fixed Income Market

Fixed income markets turned in solid performance in the second quarter, as U.S. Treasury yields fell at most maturities; the Barclays U.S. Aggregate returned 2.04% in the second quarter. Janet Yellen's initial public statements as the new chair of the U.S. Fed reassured markets that accommodative Fed monetary policy would stay in place in the short term. As noted above, the bellwether U.S. Treasury 10-Year yield fell 20 basis points over the second quarter to 2.53%. The two-year yield, in contrast, actually ticked upward 3 bps, while thirty-year Treasury yields slid 22 bps to 3.34%. Naturally, this resulted in long-term bonds strongly outperforming shorter-term paper (Barclays U.S. Treasury 1-3 Years, 0.27%; Barclays U.S. Treasury Long, 4.70%). Yet again, investors looked to longer-maturity and higher-credit risk paper in search of yield, tightening investment-grade Corporate spreads to 99 basis points, their lowest level since 2007 (source: Barclays Live). Unsurprisingly, Treasury issuance (Barclays U.S. Treasury, 1.35%) was outperformed by investment grade Corporates (Barclays U.S. Corporate, 2.66%), speculative-grade Corporates (Barclays U.S. Corporate High Yield, 2.41%) and securitized paper (Barclays U.S. Securitized, 2.32%).

Non-U.S. Markets

The escalation of tensions between Russia and Ukraine threatened to impact important energy trade flows between Eastern and Western Europe, with much of the West proposing sanctions against Russia in response to its absorption of Crimea. The deterioration of Iraq's fragile régime fueled additional investor concern during the quarter. However, this turmoil barely provided a pause for global stock markets' upward march in the second quarter of 2014 (MSCI All Country World ex-USA net dividends: 5.03% U.S. dollar terms, 3.97% local currency terms). With most major economies enjoying increased central bank support, and China's government working to buoy the nation's economic growth, developed market equities returned healthy gains (MSCI EAFE, net: 4.09% USD, 3.41% local), and emerging market stocks recovered strongly from a weak first quarter (MSCI Emerging Markets, net: 6.59% USD, 5.14% local). European stock markets, despite the conflict in the East, turned in respectable performance (MSCI Europe, net: 3.30% USD, 3.04% local); Asia-Pacific stocks outperformed European equities, helped by China's improving outlook (MSCI Pacific, net: 5.77% USD, 4.20% local). Developed global bond markets performed in line with their U.S. compatriots, with a somewhat weaker U.S. dollar enhancing return to U.S.-based investors (Barclays Global Aggregate Ex-US: 1.95% USD-hedged, 2.72% unhedged USD terms). Emerging market bonds have performed relatively strongly in the first half of 2014 as well, with frontier market financing activity reaching new levels (Barclays Emerging Markets Local Currency Government Universal: 2.29% USD-hedged, 4.44% unhedged USD terms).



Summary of Index Returns

For Periods Ended June 30, 2014

	<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	5.24%	24.62%	16.59%	18.83%	7.78%
Wilshire 5000	4.87	24.92	16.29	19.15	8.28
Wilshire 4500	3.65	27.63	15.92	21.77	10.30
Wilshire Large Cap	5.11	24.75	16.31	18.75	8.06
Wilshire Small Cap	3.05	26.37	16.26	22.74	10.55
Wilshire Micro Cap	-1.05	26.39	16.75	19.96	7.25
Domestic Equity					
Wilshire Large Value	4.62%	20.72%	16.01%	18.46%	7.59%
Wilshire Large Growth	5.72	29.70	16.66	19.05	8.42
Wilshire Mid Value	6.44	26.49	16.86	22.83	9.46
Wilshire Mid Growth	3.39	30.40	14.92	22.79	11.90
Wilshire Small Value	3.59	24.79	16.16	22.37	9.85
Wilshire Small Growth	2.44	28.00	16.27	23.04	11.20
International Equity					
MSCI All World ex U.S. (USD)	5.03%	21.75%	5.73%	11.11%	7.74%
MSCI All World ex U.S. (local currency)	4.38	18.49	9.56	11.13	6.98
MSCI EAFE	4.09	23.57	8.10	11.77	6.93
MSCI Europe	3.30	29.28	8.67	13.03	7.54
MSCI Pacific	5.77	13.09	7.10	9.58	5.79
MSCI Emerging Markets Index	6.59	14.31	-0.39	9.24	11.94
Domestic Fixed Income					
Barclays Aggregate Bond	2.04%	4.37%	3.67%	4.85%	4.93%
Barclays Credit	2.71	7.44	5.88	7.65	5.85
Barclays Mortgage	2.41	4.66	2.80	3.92	4.95
Barclays Treasury	1.35	2.04	3.06	3.61	4.53
Citigroup High Yield Cash Pay	2.29	11.22	9.32	13.44	8.65
Barclays US TIPS	3.81	4.44	3.55	5.55	5.25
91-Day Treasury Bill	0.01	0.06	0.07	0.11	1.63
International Fixed Income					
Citigroup Non-U.S. Gov. Bond	2.64%	8.88%	1.03%	3.59%	4.91%
Citigroup World Gov. Bond	2.27	6.85	1.57	3.60	4.82
Citigroup Hedged Non-U.S. Gov.	2.01	5.97	5.03	4.02	4.65
Currency*					
Euro vs. \$	-0.66%	5.33%	-1.89%	-0.48%	1.19%
Yen vs. \$	1.66	-1.94	-7.28	-0.97	0.75
Pound vs. \$	2.56	12.73	2.12	0.75	-0.59
Real Estate					
Wilshire REIT Index	7.22%	13.54%	11.69%	24.04%	9.55%
Wilshire RESI	7.22	13.77	11.55	24.07	9.47



Summary Review of Plans Periods Ended 6/30/2014

	<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	\$300.3 bil	4.7%	18.4%	10.4%	12.5%	7.2%
<i>Total Fund Policy Benchmark ¹</i>		3.8%	18.0%	10.0%	13.0%	8.1%
<i>Actuarial Rate</i>		1.8%	7.5%	7.6%	7.7%	7.7%
Affiliate Fund						
Judges II	\$999.8 mil	4.8%	18.6%	10.6%	14.0%	7.3%
<i>Weighted Policy Benchmark</i>		4.8%	18.3%	10.7%	13.6%	7.3%
Long-Term Care ("LTC")	\$4,148.2 mil	4.3%	10.5%	5.7%	10.6%	6.2%
<i>Weighted Policy Benchmark</i>		4.3%	10.1%	5.6%	10.1%	6.0%
CERBT Strategy 1	\$3,147.7 mil	4.8%	18.5%	9.9%	13.9%	--%
<i>Weighted Policy Benchmark</i>		4.7%	18.1%	9.8%	13.7%	--%
CERBT Strategy 2	\$542.1 mil	4.6%	15.6%	--%	--%	--%
<i>Weighted Policy Benchmark</i>		4.6%	15.2%	--%	--%	--%
CERBT Strategy 3	\$77.5 mil	4.4%	12.9%	--%	--%	--%
<i>Weighted Policy Benchmark</i>		4.3%	12.3%	--%	--%	--%
Legislators' Fund						
LRS	\$129.3 mil	4.4%	13.1%	8.4%	11.4%	6.9%
<i>Weighted Policy Benchmark</i>		4.4%	12.7%	8.3%	10.6%	6.8%

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 6/30/2014

	Market Value	Five-Year Ratios							
		Qtr	1-Year	3-Year	5-Year	10-Year	VaR ¹²	Sharpe ¹³	Info ¹⁴
TOTAL FUND	\$300.3 bil	4.7%	18.4%	10.4%	12.5%	7.2%	\$40.8 bil	1.6	-0.2
<i>Total Fund Policy Benchmark</i> ²		3.8%	18.0%	10.0%	13.0%	8.1%		1.7	0.0
<i>Actuarial Rate</i>		1.8%	7.5%	7.6%	7.7%	7.7%			
GROWTH	191.0	5.0%	23.9%	11.7%	16.3%	8.2%	\$40.0 bil	1.4	-0.2
<i>Growth Policy Benchmark</i> ³		4.4%	24.3%	12.1%	17.0%	9.1%		1.3	0.0
PUBLIC EQUITY	159.4	5.1%	24.8%	11.3%	15.6%	7.6%	\$31.9 bil	1.0	0.9
<i>Public Equity Policy Benchmark</i> ⁴		5.0%	24.3%	11.0%	15.1%	7.9%		1.0	0.0
PRIVATE EQUITY	31.5	4.5%	20.0%	12.8%	18.7%	13.3%	\$10.2 bil	3.3	-0.3
<i>Private Equity Policy Benchmark</i> ⁵		2.3%	23.3%	14.5%	23.2%	15.4%		1.5	0.0
INCOME	46.9	3.6%	8.3%	6.3%	9.2%	7.0%	\$5.7 bil	1.8	1.2
<i>Income Policy Benchmark</i> ⁶		3.6%	7.1%	5.6%	7.0%	6.3%		1.4	0.0
REAL ASSETS ⁷	30.0	8.0%	13.4%	12.4%	0.8%	3.7%	\$3.4 bil	0.1	-0.6
<i>Real Assets Policy Benchmark</i> ⁸		2.2%	11.8%	10.9%	8.2%	9.1%		1.8	0.0
INFLATION	9.9	3.9%	8.3%	2.8%	6.2%	--%	\$0.6 bil	0.7	0.3
<i>Inflation Policy Benchmark</i> ⁹		3.8%	8.2%	3.1%	5.4%	--%		0.8	0.0
LIQUIDITY	9.0	0.4%	0.6%	1.5%	1.0%	2.3%	\$0.3 bil	0.7	-0.8
<i>Liquidity Policy Benchmark</i> ¹⁰		0.9%	1.4%	1.9%	1.3%	2.3%		0.7	0.0
ABSOLUTE RETURN STRATEGIES ¹¹	4.5	0.8%	7.1%	3.9%	5.6%	4.8%		1.6	0.0
<i>Absolute Return Strategies Policy Benchmark</i> ¹¹		1.3%	5.3%	5.3%	5.5%	7.2%		27.0	0.0
MULTI-ASSET CLASS COMPOSITE	1.1	5.3%	11.5%	--%	--%	--%		N/A	N/A
<i>Absolute 7.5%</i>		1.8%	7.5%	--%	--%	--%		N/A	N/A
CURRENCY + ASSET ALLOCATION TRANSITION	7.9	--%	--%	--%	--%	--%		N/A	N/A
TERMINATED AGENCY POOL	0.1	4.1%	4.6%	--%	--%	--%		N/A	N/A
TOTAL FUND PLUS TAP	300.4	4.7%	18.4%	10.4%	12.5%	7.2%		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.

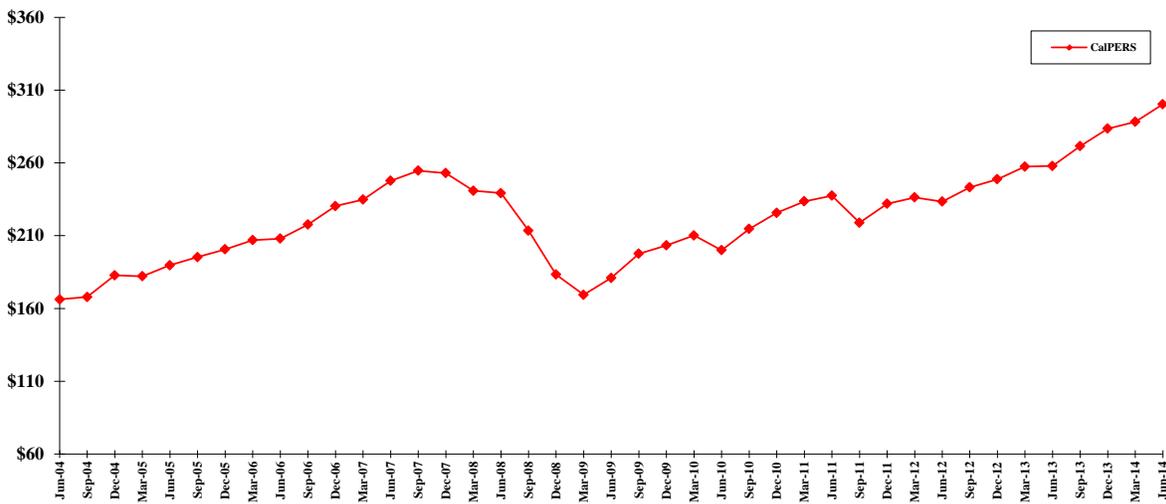


Total Fund Review for PERF (continued) Periods Ended 6/30/2014

Total Fund Flow

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>1Q14</u>	<u>2Q14</u>
Market Value (\$bil)	161.1	182.8	200.6	230.3	253.0	183.3	203.3	225.7	225.0	248.8	283.5	288.2	300.3

Total Fund Market Value



Asset Allocation

Asset Allocation: Actual versus Target Weights*

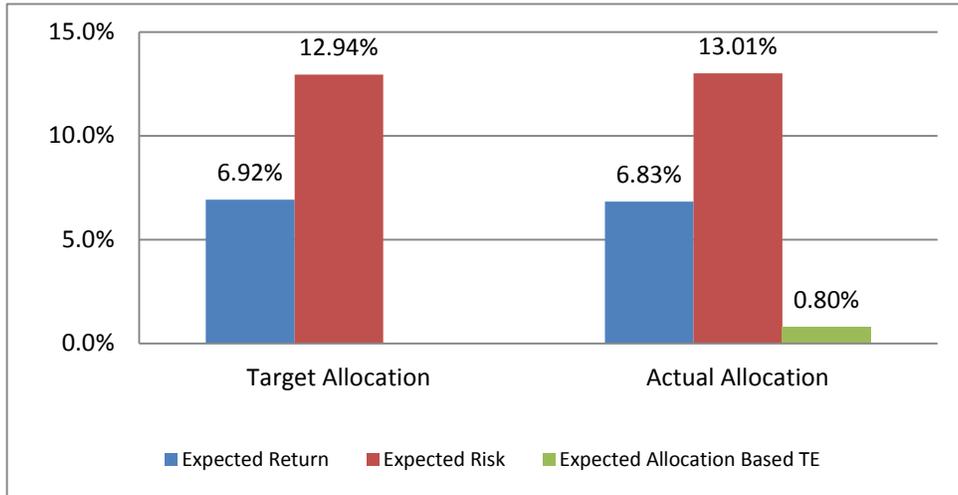
Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Growth	66.2%	64.0%	2.2%
Income	15.6%	17.0%	-1.4%
Real Assets	10.0%	11.0%	-1.0%
Inflation	3.3%	4.0%	-0.7%
ARS	1.5%	0.0%	1.5%
Liquidity	3.0%	4.0%	-1.0%
Multi-Asset	0.4%	0.0%	0.4%

* 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 6/30 cash allocation included transition assets that have been recaptured elsewhere since the adoption of a new asset allocation policy in July 2012.

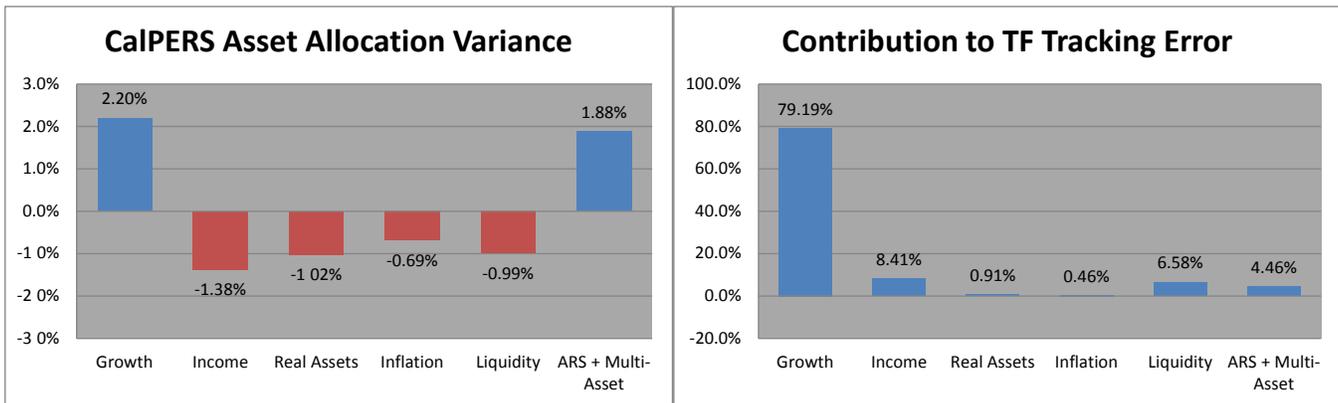
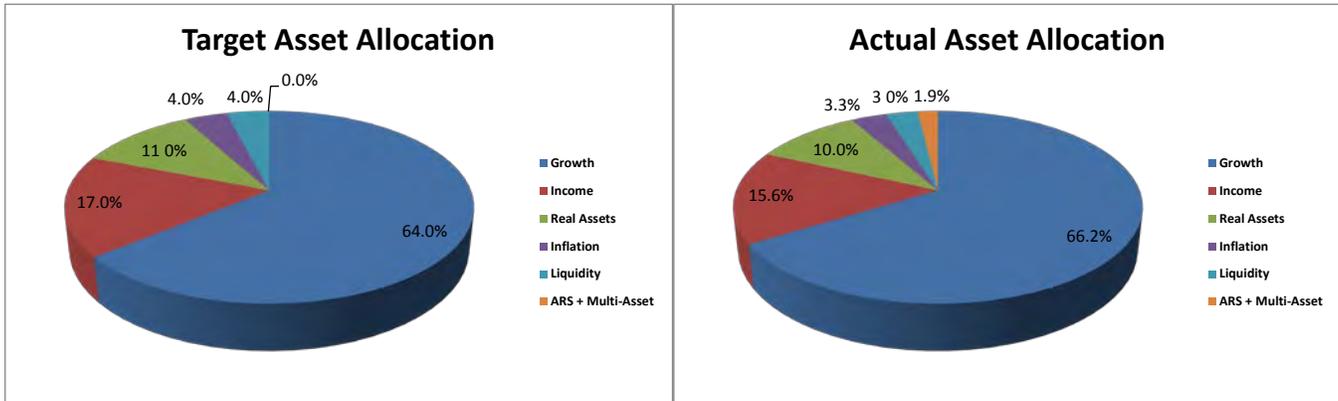


Total Fund Review for PERF (continued) Periods Ended 6/30/2014

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



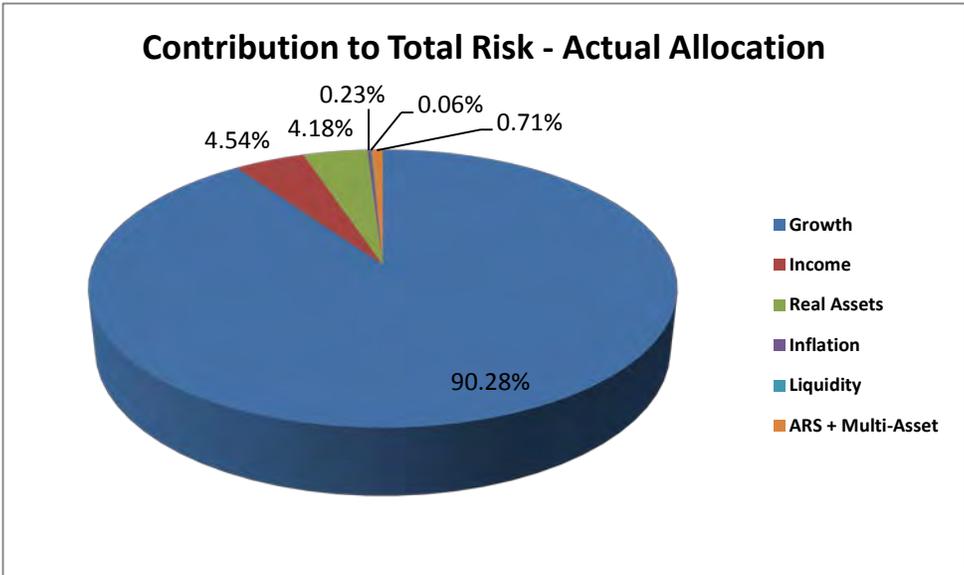
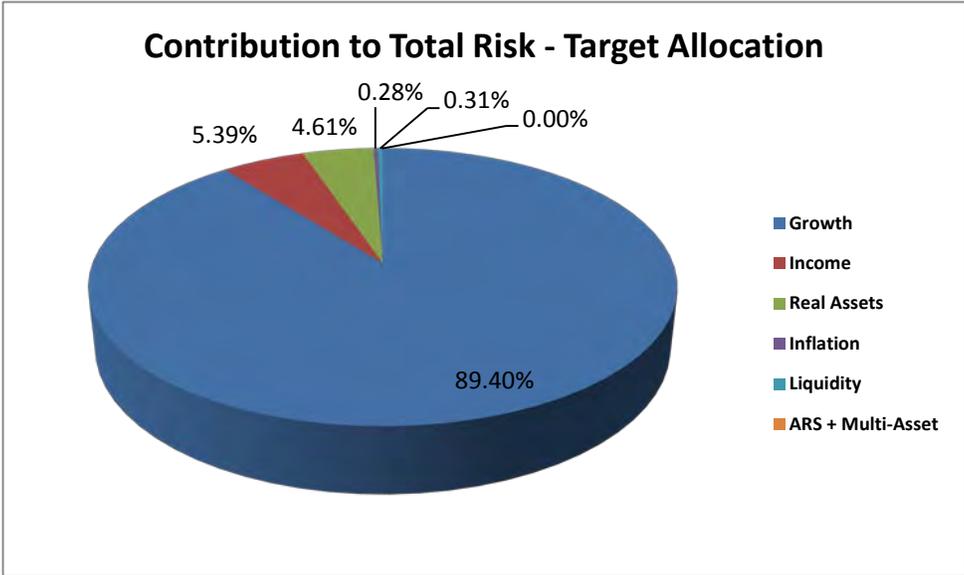
Total Fund Asset Allocation





Total Fund Review for PERF (continued)
Periods Ended 6/30/2014

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





California Public Employees' Retirement System
Total Fund Attribution - Quarter
As of 6/30/2014

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	64.81	5.00	64.00	4.45	0.81	0.55	0.09	-0.06	0.32	0.35
Public Equity	54.08	5.08	50.00	5.03	4.08	0.05	0.05	0.00	0.03	0.08
Private Equity	10.73	4.53	14.00	2.33	-3.27	2.20	0.04	-0.06	0.30	0.27
Income	16.03	3.57	17.00	3.59	-0.97	-0.02	-0.01	0.00	0.00	-0.01
Real Assets	9.76	8.00	11.00	2.24	-1.24	5.76	0.02	-0.08	0.65	0.59
Inflation	3.33	3.86	4.00	3.76	-0.67	0.10	0.00	0.00	0.00	0.00
Absolute Return	2.06	0.83	0.00	1.30	2.06	-0.46	-0.05	-0.01	0.00	-0.07
Liquidity	4.01	0.43	4.00	0.89	0.01	-0.47	0.01	0.00	-0.02	-0.01
Monthly Linked Return	100.00	4.75	100.00	3.90		0.86	0.06	-0.15	0.95	0.86
Trading/Hedging/Other		-0.05		-0.06		0.01				0.01
Total		4.71		3.84		0.87				0.87

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 6/30/2014

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	65.28	7.21	64.00	7.80	1.28	-0.59	-0.21	0.07	-0.24	-0.38
Public Equity	54.48	6.69	50.00	6.62	4.48	0.08	-0.05	0.00	0.04	-0.01
Private Equity	10.80	9.82	14.00	11.67	-3.20	-1.85	-0.15	0.07	-0.28	-0.37
Income	15.33	7.35	17.00	7.39	-1.67	-0.04	-0.04	0.00	-0.01	-0.05
Real Assets	9.82	10.47	11.00	5.29	-1.18	5.18	0.01	-0.07	0.58	0.53
Inflation	3.32	6.69	4.00	6.51	-0.68	0.18	0.00	0.00	0.01	0.01
Absolute Return	2.17	2.30	0.00	2.62	2.17	-0.32	-0.10	-0.01	0.00	-0.11
Liquidity	4.08	0.96	4.00	1.54	0.08	-0.58	0.01	0.00	-0.02	-0.01
Monthly Linked Return	100.00	7.17	100.00	7.19		-0.02	-0.32	-0.01	0.31	-0.02
Trading/Hedging/Other		-0.10		-0.09		0.00				0.00
Total		7.07		7.09		-0.02				-0.02

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 6/30/2014

Asset Class	Actual (%)		Policy (%)		Difference (%)		Total Fund Return Contribution (%)			
	Weight	Return	Weight	Return	Weight	Return	Actual Allocation	Interaction	Active Management	Total
Growth	65.17	23.86	64.00	24.26	1.17	-0.39	-0.08	0.14	-0.26	-0.21
Public Equity	53.94	24.77	50.00	24.27	3.94	0.51	0.13	0.02	0.25	0.39
Private Equity	11.24	19.99	14.00	23.30	-2.76	-3.31	-0.21	0.12	-0.51	-0.60
Income	15.35	8.32	17.00	7.13	-1.65	1.19	0.15	-0.03	0.22	0.34
Real Assets	9.83	13.42	11.00	11.82	-1.17	1.60	0.05	-0.03	0.20	0.23
Inflation	3.40	8.32	4.00	8.21	-0.60	0.10	0.06	0.00	0.00	0.06
Absolute Return	2.18	7.06	0.00	5.31	2.18	1.75	-0.29	0.04	0.00	-0.25
Liquidity	4.06	0.61	4.00	1.40	0.06	-0.79	0.00	0.00	-0.04	-0.04
Monthly Linked Return	100.00	18.39	100.00	18.25		0.13	-0.10	0.11	0.12	0.13
Trading/Hedging/Other		0.03		-0.27		0.31				0.31
Total		18.42		17.98		0.44				0.44

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 6/30/2014

- ◆ The California Public Employees' Retirement System ("CalPERS, the System") generated a total fund return of 4.7%, for the quarter ended June 30, 2014. CalPERS' return can be attributed as follows:

3.84%	Strategic Policy Allocation
-0.03%	Actual/Tactical Asset Allocation
0.98%	Active Management
-0.09%	Interaction
<u>0.01%</u>	Trading/Currency Hedging
4.71%	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 wrapped up the second quarter of 2014 on a very good note; it has earned a more than respectable total return of 4.7% as most of its major asset classes posted solid gains, while also beating the strategic policy benchmark by a margin of 87 bps. The System's asset allocation variances was a very small negative mostly due to the 2% Absolute Return segment exposure, as the investments here recorded meager gains during the quarter. Other than this the Total Fund's outperformance was solely driven by strong investment returns, most notably from Real Assets and Private Equity. Real Assets was the highest returning asset class for CalPERS during Q2, and its 8.0% return represented a 576 bps outperformance over its policy benchmark. Private Equity, which has been a laggard over the past two quarters, also beat its own policy benchmark by 220 bps and contributed to CalPERS' relative success this quarter.
- ◆ The Total Fund composite's 4.7% return was easily ahead of its actuarial rate this quarter; its one-year return of 18.4%, three-year return of 10.4%, and five-year return of 12.5% 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 high-single digit level, currently trails by a modest amount.

Total Fund Review for PERF (continued) Periods Ended 6/30/2014

Relative to the Total Fund Policy Benchmark:

- ◆ **Growth Exposure:** The Growth composite continues to serve as the major asset class exposure for CalPERS, accounting for over 66% of assets at the end of the second quarter. It served as a meaningful contributor in Q2, earning a 5.0% net return that topped the total fund policy benchmark's 3.8% gain. Among Growth's two components, public equity did very well (+5.1%) as both of PERS' domestic and international equity portfolios fully participated in the equity rally. The private equity investments, which are reported on a 1-quarter lagged basis, generated a slightly lower aggregate return of 4.5%. This represented an outperformance against its own allocation benchmark by a wide margin of 220 bps, and therefore also served as a solid contributor to the Growth composite.
- ◆ **Income Exposure:** After posting tepid returns to close out 2013, fixed income staged a comeback to start the year 2014 thanks to soft U.S. economic data and emerging market volatility. This strong momentum did not let up and extended well into the second quarter, allowing the CalPERS Income composite to follow up its strong Q1 gain (+3.7%) with a near-repeat performance of 3.6% return. Even though this result did not quite match the total fund policy's 3.8%, it was on par compared to the Income policy benchmark. Both the larger U.S. fixed income component as well as the smaller international fixed income composite enjoyed similar level of gains, with the former returning 3.5% and the latter 3.7%.
- ◆ **Real Assets Exposure:** Real Assets' performance handily outstripped those of other asset classes in the second quarter, and the 8.0% total return it generated was more than double of the total fund policy index. Most of the outsized gains here were attributed to the real estate portfolio, which experienced very strong appreciations during the quarter and helped lift the asset class' overall return.
- ◆ **Inflation Exposure:** The CalPERS Inflation composite logged a net gain of 3.9% for the quarter, finishing marginally ahead of both the total fund policy benchmark and its own asset class benchmark (+3.8%). The core TIPS portfolio was the primary bright spot in this asset class, up 4.3%, as TIPS securities once again became attractive after inflation readings crept up while rates fell. However the strong TIPS performance was offset by the rest of Inflation's smaller components, particularly the commodities portfolios, which saw much more modest returns in the quarter (at 3.3% for internal commodities and 2.7% for tactical commodities) and reigned in the composite on a relative basis.
- ◆ **Liquidity:** The Liquidity composite's 0.4% return naturally could not match the total fund policy benchmark given that most risk asset classes performed quite well in Q2, but it also underperformed when compared to its own asset class benchmark, which was up 0.9%. The composite's performance suffered mainly due to CalPERS trimming its Treasuries to underweight, which have continued to attract global investor demands that pushed down yields despite the looming prospect of Fed rate hike starting next year.
- ◆ **Absolute Return Strategy:** The Absolute Return Strategy (ARS) program generated a small amount of gain of 0.8% that trailed the total fund policy benchmark.

Growth Review for PERF

Periods Ended 6/30/2014

Growth Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
<u>Growth</u>	<u>66.2%</u>	<u>64.0%</u>	<u>+2.2%</u>
Public Equity	55.7%	50.0%	+5.7%
Private Equity	10.5%	14.0%	-3.5%

Growth Segment Performance

	Market Value						5-year Sharpe Ratio ²³	5-year Info Ratio ²⁴	
		<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	VaR ²²		
GROWTH	191.0	5.0%	23.9%	11.7%	16.3%	8.2%	\$40.0 bil	1.4	-0.2
<i>Growth Policy Benchmark</i>		4.4%	24.3%	12.1%	17.0%	9.1%		1.3	0.0
<i>Value Added</i>		0.6%	-0.4%	-0.4%	-0.7%	-0.9%			
PUBLIC EQUITY¹⁵	159.4	5.1%	24.8%	11.3%	15.6%	7.6%	\$31.9 bil	1.0	0.9
<i>Public Equity Policy Benchmark¹⁶</i>		5.0%	24.3%	11.0%	15.1%	7.9%		1.0	0.0
<i>Value Added</i>		0.1%	0.5%	0.3%	0.5%	-0.3%			
US Equity Composite	79.4	5.0%	25.9%	16.7%	19.7%	8.2%		1.4	0.6
<i>Custom US Equity Benchmark¹⁷</i>		5.0%	25.8%	16.5%	19.3%	8.2%		1.4	0.0
<i>Value Added</i>		0.0%	0.1%	0.2%	0.4%	0.0%			
Total Int'l Equity	78.1	5.2%	23.7%	6.7%	12.3%	8.3%		0.7	0.5
<i>Custom Int'l Equity Benchmark¹⁸</i>		5.1%	23.1%	7.0%	11.7%	8.0%		0.7	0.0
<i>Value Added</i>		0.1%	0.6%	-0.3%	0.6%	0.3%			
Global Equity Equitization	1.1	2.2%	19.5%	10.8%	14.3%	-.-%			
<i>Custom Benchmark¹⁹</i>		5.0%	24.3%	11.0%	15.1%	-.-%			
<i>Value Added</i>		-2.8%	-4.8%	-0.2%	-0.8%	-.-%			
PRIVATE EQUITY²⁰	31.5	4.5%	20.0%	12.8%	18.7%	13.3%	\$10.2 bil	3.3	-0.3
<i>PE Policy Benchmark²¹</i>		2.3%	23.3%	14.5%	23.2%	15.4%		1.5	0.0
<i>Value Added</i>		2.2%	-3.3%	-1.7%	-4.5%	-2.1%			
Private Equity Partnership Investments	31.5	4.5%	20.0%	12.9%	18.8%	13.4%			
Private Equity Distribution Stock	0.0	-7.2%	-12.3%	-25.4%	-9.7%	0.5%			

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:** Despite the negative surprise that final Q1 U.S. GDP reading contracted by 2.9%, which was the largest drop since the recession five years ago, domestic public equities actually enjoyed a very good quarter. Supported by other positive developments that included Fed's continued pledge to keep interest rates low, the clear resumption of jobs growth/falling unemployment claims and a strong rebound in home sales, CalPERS' total U.S. equity composite ran up 5.0% in the second quarter. This was more than double the return it earned in the first quarter of this year, and easily outpaced the Growth policy benchmark's 4.4% gain in Q2. The System's internal and external U.S. equity composites did equally well, with the former posting a slightly higher return than the latter, 5.1% to 4.9%.
- ◆ **International Equity Exposure:** Following a muted opening of the year, international equities charged ahead during Q2 as investors were unfazed by lingering concerns with the Russia/Ukraine tension and rising conflicts from extremist Iraqi insurgency. With better economic data from the developed European region and encouraging outlook from emerging economies in Asia, PERS' international equity portfolios returned healthy gains: the internally managed international equity composite was up 4.9% while the externally managed composite did even better, at 6.0%, both outperformed the Growth policy benchmark's 4.4% rate of return and were contributors to the Growth asset class' overall success this quarter.
- ◆ **Private Equity Exposure:** Once again CalPERS' private equity investments were able to generate positive returns on a fairly consistent pace. Following a 5.1% gain in the first quarter of 2014, the private equity program closed out Q2 up 4.5%. While this level of performance was modestly shy of what public equities delivered, this quarter's return represented a 220 bps outperformance versus the private equity policy benchmark and therefore is considered a solid contributor to the Growth asset class' relative performance.
- ◆ **Corporate Governance:** CalPERS' Corporate Governance portfolio saw very strong appreciation in Q2; its overall gain of 8.0% was the highest among all Growth components and finished ahead of the Growth policy benchmark by a notable margin.

Impeded Performance:

- ◆ **MDP:** The Manager Development Program generated a very respectable return of 4.3% in Q2, however this performance paled when compared to the program's own benchmark (+4.9%) as well as to the Growth policy benchmark.
- ◆ **FoF:** The Total Fund of Funds composite was the weakest Growth component this quarter, as it "only" earned a 2.9% that trailed both the asset class policy and its own policy benchmark.



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)	79.4	5.0%	25.9%	16.7%	19.7%	8.2%	12/79
<i>Custom US Equity Benchmark</i> ²⁵		5.0%	25.8%	16.5%	19.3%	8.2%	
<i>Value Added</i>		0.0%	0.1%	0.2%	0.4%	0.0%	
Total Internal US Equity	69.2	5.1%	25.7%	16.9%	19.8%	8.5%	6/88
<i>Custom Internal US Equity Benchmark</i> ²⁶		5.0%	25.8%	16.5%	19.3%	8.2%	
<i>Value Added</i>		0.1%	-0.1%	0.4%	0.5%	0.3%	
Total External US Equity	10.0	4.9%	27.0%	15.7%	18.8%	7.5%	12/98
<i>Custom External US Equity Benchmark</i> ²⁷		5.1%	25.1%	16.6%	18.9%	8.4%	
<i>Value Added</i>		-0.2%	1.9%	-0.9%	-0.1%	-0.9%	

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)	78.1	5.2%	23.7%	6.7%	12.3%	8.3%	12/02
<i>Custom Int'l Equity Benchmark</i> ²⁸		5.1%	23.1%	7.0%	11.7%	8.0%	
<i>Value Added</i>		0.1%	0.6%	-0.3%	0.6%	0.3%	
Total Internal Int'l Equity	61.7	4.9%	24.2%	6.8%	12.2%	-.-%	3/05
<i>Custom Internal Int'l Equity Benchmark</i> ²⁹		4.7%	24.0%	7.5%	11.9%	-.-%	
<i>Value Added</i>		0.2%	0.2%	-0.7%	0.3%	-.-%	
Total External Int'l Equity	16.4	6.0%	21.9%	6.4%	12.8%	9.2%	6/89
<i>Custom External Int'l Equity Benchmark</i> ³⁰		5.8%	18.8%	4.8%	10.6%	8.5%	
<i>Value Added</i>		0.2%	3.1%	1.6%	2.2%	0.7%	

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	3.8	8.0%	29.1%	11.9%	15.3%	6.4%	12/98
<i>Policy Benchmark</i>		5.5%	20.0%	12.1%	13.4%	6.5%	
<i>Value Added</i>		2.5%	9.1%	-0.2%	1.9%	-0.1%	
Total MDP	1.9	4.3%	26.6%	13.0%	16.1%	7.6%	6/00
<i>Policy Benchmark</i>		4.9%	25.9%	13.1%	16.0%	8.3%	
<i>Value Added</i>		-0.6%	0.7%	-0.1%	0.1%	-0.7%	
Total FoF	1.2	2.9%	21.5%	11.2%	17.4%	-.-%	3/08
<i>Policy Benchmark</i>		4.2%	21.8%	11.6%	17.2%	-.-%	
<i>Value Added</i>		-1.3%	-0.3%	-0.4%	0.2%	-.-%	

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 6/30/2014

ARS Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
ARS	1.5%	0.0%	+1.5%

ARS Segment Performance

	<u>Market Value</u>						5-Year Info Ratio ³²	5-Year Up Capture Ratio	5-Year Sharpe Ratio ³³	5-Year Sortino Ratio ³⁴
	Value	Qtr	1-Year	3-Year	5-Year	10-Year				
Absolute Return Strategies	4.5	0.8%	7.1%	3.9%	5.6%	4.8%	0.0	1.0	1.6	1.4
ARS Policy Benchmark ³¹		1.3%	5.3%	5.3%	5.5%	7.2%				
Value Added		-0.5%	1.8%	-1.4%	0.1%	-2.4%				
Total Direct Investments	3.8	0.7%	7.4%	4.1%	6.5%	5.2%				
Total Funds of Funds	0.8	1.4%	7.2%	3.9%	3.5%					
HFRI Fund of Funds Index		1.6%	7.7%	3.3%	4.3%	3.4%				

ARS Characteristics

Percentage of positive Months	Beta vs. S&P 500	<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	0.3	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.

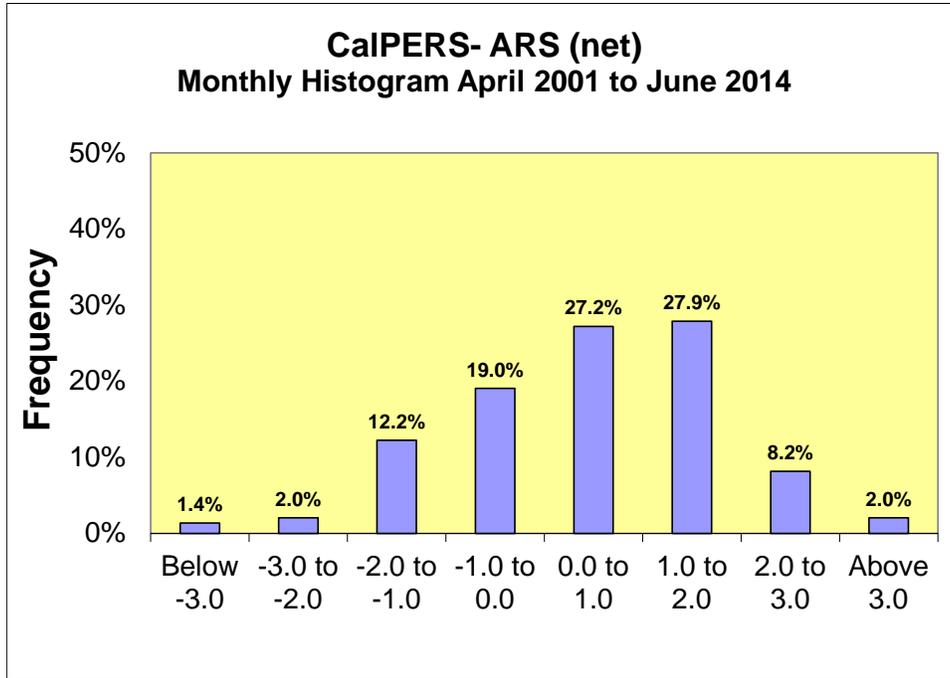
³¹ The ARS Policy Benchmark consists of the Merrill Lynch 1-Year Treasury Note + 5% and is linked historically to its prior benchmark.

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 6/30/2014



- ◆ 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 6/30/2014

Income Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Income	15.6%	17.0%	-1.4%

Income Segment Performance

	Market Value						5-year Sharpe Ratio ³⁹	5-year Info Ratio ⁴⁰	
		Qtr	1-Year	3-Year	5-Year	10-Year	VaR ³⁸		
INCOME	46.9	3.6%	8.3%	6.3%	9.2%	7.0%	\$5.7 bil	1.8	1.2
<i>Income Policy Benchmark³⁵</i>		3.6%	7.1%	5.6%	7.0%	6.3%		1.4	0.0
<i>Value Added</i>		0.0%	1.2%	0.7%	2.2%	0.7%			
U.S. Income	42.1	3.5%	8.2%	6.7%	9.6%	7.2%		1.9	1.1
<i>U.S. Income Policy Benchmark³⁶</i>		3.6%	6.9%	6.1%	7.3%	6.4%		1.4	0.0
<i>Value Added</i>		-0.1%	1.3%	0.6%	2.3%	0.8%			
Non-U.S. Income	4.8	3.7%	10.0%	1.9%	5.7%	5.7%		0.7	1.1
<i>Non-US Income Policy Benchmark³⁷</i>		3.5%	9.1%	1.0%	3.7%	4.9%		0.5	0.0
<i>Value Added</i>		0.2%	0.9%	0.9%	2.0%	0.8%			

Comments Regarding Income Segment Performance

Helped Performance:

- ◆ **Corporate Bonds:** Investment grade credits had no problems attracting more capital in the second quarter, thanks to the ability of the corporate sector to continue improving profit margins in this still low-growth environment. CalPERS' internal corporate bond portfolio benefited greatly from this favorable macro trend and returned 4.7% in Q2, comfortably outpacing the Income policy benchmark by 109 bps.
- ◆ **Sovereign Bonds:** CalPERS' sovereign bonds portfolio saw very strong appreciation this quarter, in part due to the expectation for ECB to broaden its quantitative easing program, driving investors towards other countries' debt (including peripheral Europe) for better yields. The portfolio posted a quarterly gain of 5.6% and outperformed the Income policy benchmark.

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.

- ◆ **International Fixed Income:** International bonds performed mostly in line with U.S. domestic bonds in Q2, and the PERS international fixed income portfolio earned a return of 3.7% that came in marginally above the Income policy benchmark's 3.6% pace.

Impeded Performance:

- ◆ **Treasury Bonds:** Treasuries performed very well in their own right in the second quarter; the 10-year Treasury yields fell another 20 bps during the quarter after dropping 31 bps in Q1, as demand for the U.S. securities held up firm amid continued soft U.S. economic data and ongoing geopolitical tensions in eastern Europe and southeast Asia. The PERS government portfolio followed up a strong Q1 performance with another round of solid outing, earning a 3.5% return for Q2 that just barely missed the Income policy benchmark by 7 bps.
- ◆ **High Yield Bonds:** While stable business fundamentals and persistent investor demand have allowed high yield securities to continue recording gains, the pace of return growth has moderated since the beginning of the year as high yield spreads shrink towards record low. Both the internal and external high yield portfolios saw pretty healthy returns in the second quarter, with gains of 3.0% and 2.4% respectively, but they were not high enough to match the Income policy index.
- ◆ **Mortgage Bonds:** The mortgage bond market remains one of the consistent performing fixed income segments due to the Fed's continued (albeit slowing) QE purchase that outstrips supply. Once again CalPERS' mortgage portfolio was able to deliver a modest amount of gain in the second quarter, but its 2.4% return could not keep up with the higher pace of investment grade credits and the Income policy index.

Income Review for PERF (Continued)

	Market Value	Qtr	1-Year	3-Year	5-Year	10-Year	Date
INCOME	46.9	3.6%	8.3%	6.3%	9.2%	7.0%	6/88
<i>Income Policy Benchmark</i> ⁴¹		3.6%	7.1%	5.6%	7.0%	6.3%	
<i>Value Added</i>		0.0%	1.2%	0.7%	2.2%	0.7%	
Internal US Income + Opportunistic	42.1	3.5%	8.2%	6.7%	9.6%	7.2%	12/95
Mortgage Bonds	8.6	2.4%	6.8%	4.2%	7.3%	5.1%	12/82
Long Duration Mortgages*	2.2	3.1%	5.3%	4.9%	10.2%	-.%	6/05
Corporate Bonds*	10.5	4.7%	13.4%	10.2%	12.1%	8.3%	3/02
U.S. Government*	15.7	3.5%	4.6%	6.3%	6.2%	5.8%	12/99
Sovereign Bonds* ⁴²	1.9	5.6%	11.3%	7.1%	9.4%	7.4%	6/96
Long Duration Corporates*	1.6	2.3%	11.8%	13.3%	16.8%	-.%	9/05
<i>Custom Benchmark</i> ⁴³		3.6%	6.9%	6.1%	7.3%	6.4%	
Opportunistic ⁴⁴	3.1	2.6%	11.4%	6.1%	16.7%	8.6%	6/00
Internal High Yield Bonds*	0.7	3.0%	12.7%	6.6%	11.0%	13.2%	9/99
External High Yield*	1.7	2.4%	11.6%	9.8%	13.8%	7.3%	3/02
High Yield Mortgage*	0.3	3.2%	10.3%	13.6%	18.1%	-.%	3/08
<i>Citigroup High Yield Cash Pay</i>		2.3%	11.5%	9.3%	13.5%	8.6%	
Special Investments	0.0	1.8%	8.1%	9.4%	6.7%	6.4%	3/91
Total International Fixed Income	4.8	3.7%	10.0%	1.9%	5.7%	5.7%	3/89
<i>Custom Benchmark</i> ⁴⁵		3.5%	9.1%	1.0%	3.7%	4.9%	
<i>Value Added</i>		0.2%	0.9%	0.9%	2.0%	0.8%	
Currency overlay ⁴⁶							
Active Currency Overlay - Internally Managed	-0.1	-0.1%	-0.2%	-0.6%	-0.4%	0.2%	6/92
<i>Custom Benchmark</i>		-0.1%	-0.3%	-0.3%	-0.3%	0.2%	
<i>Value Added</i>		0.0%	0.0%	-0.3%	-0.1%	-0.1%	

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*	17.2	0.1%	0.8%	0.8%	2.2%	1.9%	8/00
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	0.1%	1.7%	
<i>Value Added</i>		0.1%	0.7%	0.7%	2.1%	0.2%	
Internal Active Short Term**	2.7	0.0%	0.2%	0.2%	-.%	-.%	3/11
<i>Custom Benchmark</i>		0.0%	-0.1%	0.0%	-.%	-.%	
<i>Value Added</i>		0.0%	0.3%	0.2%	-.%	-.%	
CalPERS ESEC Cash Collateral**	14.4	0.0%	0.1%	0.1%	-.%	-.%	6/10
<i>Custom Benchmark</i>		0.0%	0.1%	0.1%	-.%	-.%	
<i>Value Added</i>		0.0%	0.0%	0.0%	-.%	-.%	
External Collateral Portfolio***	0.1	2.7%	56.4%	-.%	-.%	-.%	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 6/30/2014

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						5-year	5-year	
		Qtr	1-Year	3-Year	5-Year	10-Year	Sharpe Ratio ⁵⁰	Info Ratio ⁵¹	
INFLATION	9.9	3.9%	8.3%	2.8%	6.2%	-.%	\$0.6 bil	0.7	0.3
<i>Inflation Policy Benchmark</i> ⁴⁷		3.8%	8.2%	3.1%	5.4%	-.%		0.8	0.0
<i>Value Added</i>		0.1%	0.1%	-0.3%	0.8%	-.%			
Internal Commodities ⁴⁸	1.3	3.3%	8.9%	-0.5%	3.8%	-.%			
<i>GSCI Total Return Index</i>		2.7%	10.4%	0.2%	3.7%	-.%			
<i>Value Added</i>		0.6%	-1.5%	-0.7%	0.1%	-.%			
Core Inflation Linked Bonds	6.2	4.3%	8.3%	4.8%	6.4%	-.%			
<i>Custom Benchmark</i>		4.2%	8.0%	4.4%	6.0%	-.%			
<i>Value Added</i>		0.1%	0.3%	0.4%	0.4%	-.%			
Tactical Commodities	1.2	2.7%	9.8%	-.%	-.%	-.%			
<i>GSCI Total Return Index</i>		2.7%	10.4%	-.%	-.%	-.%			
<i>Value Added</i>		0.0%	-0.6%	-.%	-.%	-.%			
Tactical TIPS	1.2	3.6%	4.1%	-.%	-.%	-.%			
<i>CalPERS TIPS</i>		3.8%	4.4%	-.%	-.%	-.%			
<i>Value Added</i>		-0.2%	-0.3%	-.%	-.%	-.%			

- ◆ The Inflation asset class churned out modest amount of gains in the second quarter of 2014 and finished marginally ahead of its policy benchmark. The segment's 3.9% Q2 return was largely driven by its core inflation linked bonds portfolio, as this largest component (accounting for over 62% of Inflation's assets) benefited greatly from the favorable condition of rising inflation amid declining real yields and generated a segment-best return of 4.3%. The asset class' commodities portfolios didn't do too bad, either. Both the internal and tactical commodities portfolios recorded steady returns for the quarter that were well supported by a rebound in energy prices (crude/natural gas), soft commodity prices (coffee/soybean) as well as a late rally by gold. Combined with Q1's 2.7% return, the Inflation asset class is now up 8.3% over the past 12-month period and has earned an average annualized 6.2% in the last five years, both compared favorably to its custom policy benchmark.

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 6/30/2014

Real Assets Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Real Assets	10.0%	11.0%	-1.0%

Real Assets Segment Performance

	Market Value						5-year	5-year	
		Qtr	1-Year	3-Year	5-Year	10-Year	Sharpe Ratio ⁵⁷	Info Ratio ⁵⁸	
REAL ASSETS	30.0	8.0%	13.4%	12.4%	0.8%	3.7%	\$3.4 bil	0.1	-0.6
<i>Real Assets Policy Benchmark</i> ⁵²		2.2%	11.8%	10.9%	8.2%	9.1%	1.8	0.0	
<i>Value Added</i>		5.8%	1.6%	1.5%	-7.4%	-5.4%			
Real Estate ⁵³	25.9	8.4%	13.9%	13.9%	0.5%	3.1%	\$3.3 bil	0.0	-0.6
<i>Real Estate Policy Benchmark</i> ⁵⁴		2.3%	12.7%	11.9%	9.9%	9.7%	1.8	0.0	
<i>Value Added</i>		6.1%	1.2%	2.0%	-9.4%	-6.6%			
Forestland ⁵⁵	2.3	1.5%	2.5%	-1.0%	-0.8%	-.-%			
<i>NCREIF Timberland Index</i>		1.6%	9.8%	6.6%	2.9%	-.-%			
<i>Value Added</i>		-0.1%	-7.3%	-7.6%	-3.7%	-.-%			
Infrastructure ⁵⁵	1.8	11.9%	22.8%	12.0%	23.3%	-.-%			
<i>CPI + 400 BPS 1Qtr Lag</i>		2.4%	5.6%	5.9%	6.7%	-.-%			
<i>Value Added</i>		9.5%	17.2%	6.1%	16.6%	-.-%			

- ◆ Broadly speaking all of CalPERS major asset classes did very well in the second quarter, but Real Assets was the brightest star by delivering the highest total return, in both absolute (+8.0%) and relative terms (+576 bps vs. policy benchmark). This strong performance was primarily attributed to the System's real estate portfolio, which rallied an aggregate of 8.4% during Q2 as the segment benefited greatly from another notable drop in interest rate and the continued improving fundamentals. Comparing to its benchmark's 2.3% return, the real estate portfolio's strong showing therefore single-handedly drove Real Assets' outperformance. It should be noted that the smaller Infrastructure portfolio did very well this quarter, too, rising 11.9%, leaving the forestland's 1.5% gain the only laggard in this program. After earning very generous gains in the first half of 2014, the Real Assets composite has now built a very solid track record over the three-year mark, however it remains behind the policy benchmark over the long-term.

⁵² The Real Assets Policy Benchmark equals the benchmark returns of real estate, timber, and infrastructure weighted at policy allocation target percentages.

⁵³ The Real Estate performance is reported on a 1-quarter lagged basis. The Real Estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

⁵⁴ The Real Estate Policy Benchmark consists of the NCREIF ODCE Index (1-quarter lagged) and the FTSE EPRA/NAREIT Developed Index weighted at their policy allocation target percentages. It is historically linked to its prior benchmarks.

⁵⁵ These investments are reported on a 1-quarter lagged basis.

⁵⁶ VaR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value.

⁵⁷ The Sharpe Ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

⁵⁸ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured.

Real Assets Review for PERF (Continued) Period Ended 6/30/2014

Real Estate Segment Performance

	<u>Market Value</u>	<u>Qtr</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>VaR⁶¹</u>	<u>5-year Sharpe Ratio⁶²</u>	<u>5-year Info Ratio⁶³</u>
Real Estate⁵⁹	25.9	8.4%	13.9%	13.9%	0.5%	3 1%	\$3.3 bil	0.0	-0.6
<i>Real Estate Policy Benchmark⁶⁰</i>		2.3%	12.7%	11.9%	9.9%	9.7%		1.8	0.0
<i>Value Added</i>		6.1%	1.2%	2.0%	-9.4%	-6.6%			
Strategic Real Estate	19.0	8.4%	13.7%	16.4%	9.2%	15.6%			
<i>Wt. NCREIF ODCE+FTSE EPRA NAREIT</i>		2.3%	12.7%	11.9%	9.9%	9.7%			
<i>Value Added</i>		6.1%	1.0%	4.5%	-0.7%	5 9%			
Legacy Real Estate ex Public	6.9	8.3%	14.7%	9.9%	-5.8%	-1.4%			
<i>Wt. NCREIF ODCE+FTSE EPRA NAREIT</i>		2.3%	12.7%	11.9%	9.9%	9.7%			
<i>Value Added</i>		6.0%	2.0%	-2.0%	-15.7%	-11.1%			

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 6/30/2014

Liquidity Allocation

Asset Allocation: Actual versus Target Weights

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

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	9.0	0.4%	0.6%	1.5%	1.0%	2.3%	\$0.3 bil	N/A	N/A
<i>Liquidity Policy Benchmark</i> ⁶⁴		0.9%	1.4%	1.9%	1.3%	2.3%			
<i>Value Added</i>		-0.5%	-0.8%	-0.4%	-0.3%	0.0%			
US 2-10 Year	2.2	1.1%	1.6%	2.4%	-.%	-.%			
<i>Barclays Gov Liquidity 2-10 Yr Idx</i>		1.2%	1.9%	2.6%	-.%	-.%			
<i>Value Added</i>		-0.1%	-0.3%	-0.2%	-.%	-.%			
Cash Composite	6.8	0.0%	0.1%	0.1%	0.2%	1.9%			
<i>Custom STIF</i> ⁶⁵		0.0%	-0.1%	0.0%	0.1%	1.7%			
<i>Value Added</i>		0.0%	0.2%	0.1%	0.1%	0.2%			

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.

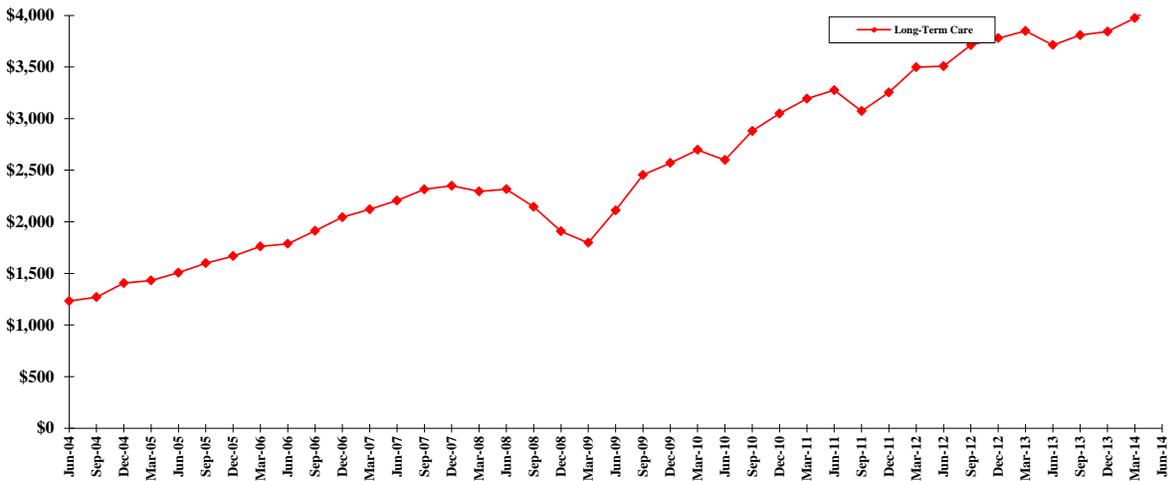
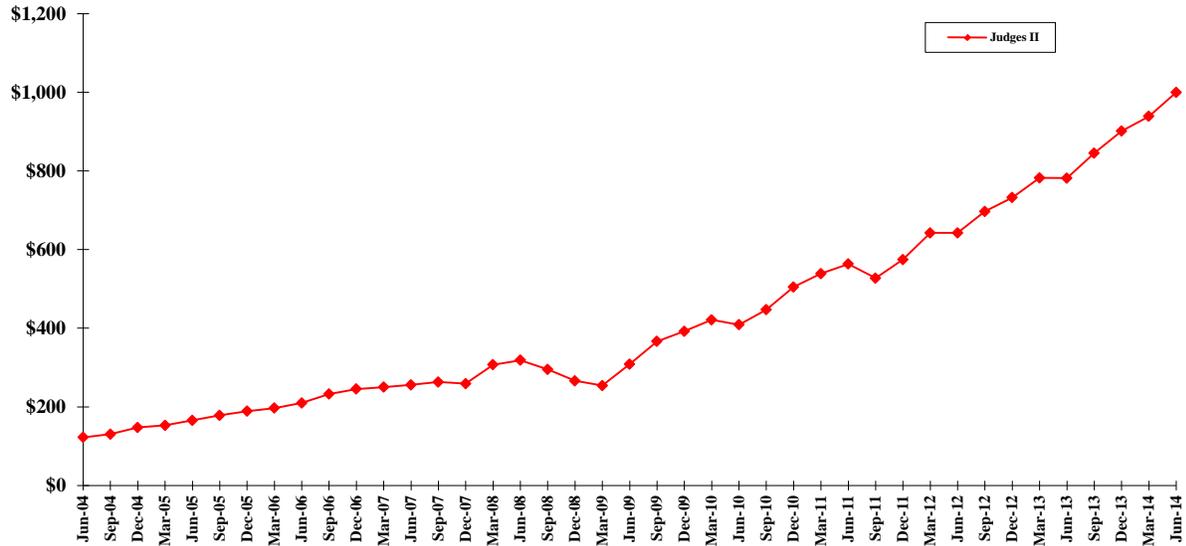


Affiliate Fund Information



Affiliate Fund Performance Period Ended June 30, 2014

Growth in Assets (in \$Millions)





Total Plan Performance Results

Total Plan Performance Periods Ended June 30, 2014

	<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	\$999.8 mil	4.8%	18.6%	10.6%	14.0%	7.3%
		4.8	18.3	10.7	13.6	7.3
Long-Term Care (“LTC”) <i>Weighted Policy Benchmark</i> ⁶⁹	\$4,148.2 mil	4.3	10.5	5.7	10.6	6.2
		4.3	10.1	5.6	10.1	6.0

Total Plan Asset Allocation

Judges II Asset Allocation: Actual versus Target Weights

<u>Asset Class</u>	<u>Actual Asset Allocation (%)</u>	<u>Target Asset Allocation (%)</u>	<u>Difference</u>
Global Equity	63.0	63.0	0.0
US Fixed Income	20.0	20.0	0.0
TIPS	6.0	6.0	0.0
REITs	8.1	8.0	0.1
Commodities	3.0	3.0	0.0
Total	100.0	100.0	0.0

LTC Asset Allocation: Actual versus Target Weights

<u>Asset Class</u>	<u>Actual Asset Allocation (%)</u>	<u>Target Asset Allocation (%)</u>	<u>Difference</u>
Global Equity	17.1	15.0	2.1
US Fixed Income	59.0	61.0	-2.0
TIPS	5.5	6.0	-0.6
REITs	12.6	12.0	0.6
Commodities	5.9	6.0	-0.1
Total	100.0	100.0	0.0

⁶⁹ The weighted policy benchmark returns for Judges II and LTC are based on asset class index returns weighted by asset class policy targets.



Commentary – Total Plan

- ◆ Thanks to broad-based gains that were led by public traded equity securities, the Judges II (JRS II) closed out the second quarter of 2014 on a very solid note, rising 4.8%. This quarter's performance was easily on par with the weighted policy benchmark's pace and contributed to a 18.6% 1-year gain that was modestly better than the policy benchmark. Over the long-term, JRS II's track record has matched well against its policy benchmark.
- ◆ The Long-Term Care Program (LTC) also saw very healthy asset growth during the second quarter, but its overall return of 4.3% was slightly lower than JRS II's primarily due to it having a more conservative asset allocation with more than 60% of assets invested in stable-but-lower-yielding fixed income (including TIPS). Relative to its policy benchmark, the LTC's Q2 return met expectations while further added to its incremental outperformance over time.
- ◆ At the end of the quarter, Judges II's asset allocation essentially mirrored its adopted targets. The only notable difference was a marginal overweight in REITs.
- ◆ The LTC was overweight in global equity and REITs while underweight in fixed income and TIPS.

Asset Class Performance Results – Judges II

Judges II Asset Class Performance Periods Ended June 30, 2014

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
JRS II Global Equity	\$629.6 mil	5.1%	24.4%	11.4%	15.2%	7.1%
<i>Global Equity Benchmark</i> ⁷⁰		5.0	24.3	11.3	15.1	7.0
JRS II US Fixed Income	\$200.0 mil	3.5	8.2	6.7	9.1	6.4
<i>Custom Benchmark</i> ⁷¹		3.6	6.9	6.1	7.3	6.0
JRS II TIPS	\$60.1 mil	3.8	4.2	--	--	--
<i>Custom Benchmark</i> ⁷²		3.8	4.4	--	--	--
JRS II REITs	\$80.6 mil	7.8	14.6	10.2	18.5	--
<i>Custom Benchmark</i> ⁷³		7.9	14.4	10.2	18.5	--
JRS II Commodities	\$29.5 mil	3.3	8.9	--	--	--

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.



<i>GSCI Total Return Index</i>	2.7	10.4	-.-	-.-	-.-
--------------------------------	-----	------	-----	-----	-----

Commentary – Judges II

- ◆ Global equity has been the primary factor contributing to JRS II's solid growth for the majority of the past three years, and it was no exception during the second quarter of 2014. Both U.S. and international equity markets climbed in similar pace as major economies around the world continued to enjoy central bank support nurturing slow but gradual improvement in economic growth. As Q2 drew to a close, the global equity portfolio was once again among the highest returning JRS II components with a 5.1% return; the portfolio is also pushing to a 24.4% gain for the last 12-month period, and both measures slightly edged out the portfolio's custom benchmark.
- ◆ Even though public equities posted very strong performance during the second quarter, bonds actually rallied, too. Riding on the back of multiple developments that included a -2.9% Q1 U.S. GDP growth that was the worst reading since the recession and persisting concerns about a further slowdown in China, the U.S. fixed income markets had no problems attracting jittery investors in search for yields. This fueled the Judges II's domestic fixed income portfolio return to jump 3.5% in the quarter, following Q1's 3.7% rise, and nearly matched the pace of the custom Barclays Long Liability Index. For the full 1-year period, the fixed income portfolio has a 8.2% return that is well ahead of the benchmark's 6.9%; its track record over longer time periods is continuing to do very well, too.
- ◆ TIPS rebounded strongly during the second quarter, too, after recording lackluster results in the past three quarters. With real yields extending its slide since the beginning of the year and U.S. inflation readings starting to perk up, market conditions have now turned favorable for inflation-protected bonds. Both JRS II's portfolio and the Barclays U.S. TIPS Index rose in the quarter, notching a 3.8% gain that even bettered the core fixed income portfolio's result.
- ◆ With real estate market fundamentals already improving (rent growth, occupancy rate, transaction activity all rising), the drop in interest rates in 2014 has further benefited real estate equities, driving a rally in this segment. The REIT portfolio recorded the biggest jump in return this quarter, rising 7.8% that just narrowly missed the custom REIT index's 7.9% return. The portfolio has rallied 12.3% so far in 2014 and 14.6% in the past 1-year period, both are on par with the custom benchmark's pace.
- ◆ Similar to publicly traded REITs, commodities are rebounding nicely from their disappointing 2013 lows as well. The JRS II commodities portfolio locked in a gain of 3.3% in Q2; while this was the smallest return among all JRS portfolios, it did still compare favorably to its benchmark, the GSCI Total Return Index (+2.7%). For the most recent one-year period, though, the commodities portfolio's 8.9% return remains modestly behind the benchmark by 146 bps.

Asset Class Performance Results – Long-Term Care

Long-Term Care Asset Class Performance Periods Ended June 30, 2014

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
LTC Global Equity	\$711.0 mil	4.3%	10.5%	5.7%	10.6%	6.2%
<i>Custom Benchmark ⁷⁴</i>		4.3	10.1	5.6	10.1	6.0
LTC US Fixed Income	\$2,446.4mil	3.6	7.0	6.1	8.7	6.4
<i>Custom Benchmark ⁷⁵</i>		3.6	6.9	6.1	7.3	6.0
LTC TIPS	\$225.9 mil	3.8	4.4	3.5	5.4	--
<i>Barclays U.S. TIPS Index</i>		3.8	4.4	3.6	5.6	--
LTC REITs	\$520.5 mil	8.0	13.4	9.6	18.1	--
<i>Custom Benchmark ⁷⁶</i>		7.9	12.8	9.4	18.0	--
LTC Commodities	\$244.5 mil	2.7	10.2	--	--	--
<i>GSCI Total Return Index</i>		2.7	10.4	--	--	--

Commentary – Long-Term Care

- ◆ Following a slow start at the beginning of the year, global equities picked up pace in the second quarter and allowed LTC's global equity fund to finish as the second highest asset class. The fund's 4.3% return safely matched its own custom benchmark for the quarter while the long-term track record continues to track it closely over all measured periods shown.
- ◆ The LTC domestic fixed income portfolio once again posted a market-like return as it followed its custom benchmark and ran up 3.6% in Q2. This quarter's strong results further added to the fixed income portfolio's track record, as it has produced very respectable gains over time that also compared favorably to its benchmark.

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

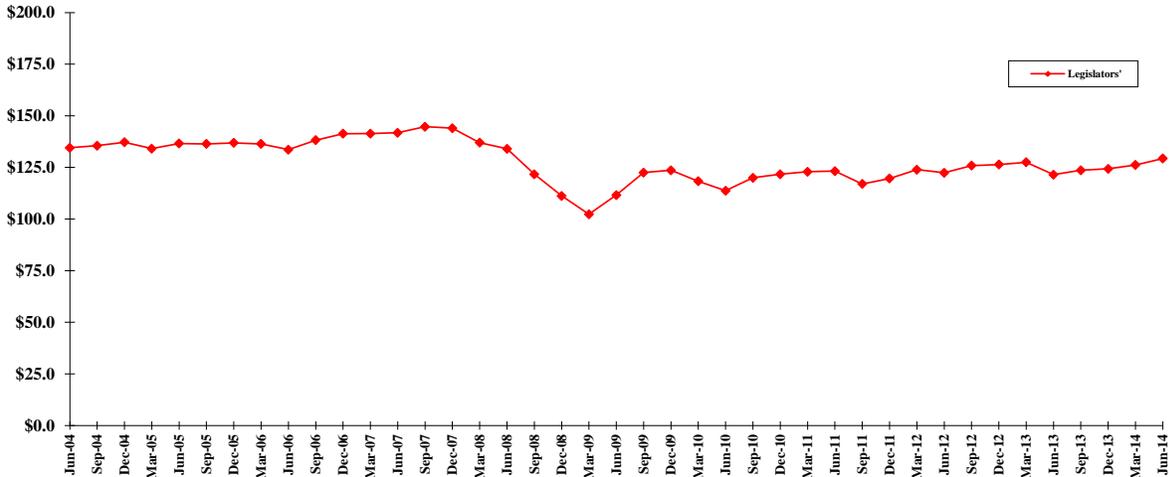
- ◆ Same as the JRS II's TIPS investment, the LTC TIPS portfolio saw very strong appreciation in the second quarter, benefiting from the combination of falling interest rates and rising inflation. The portfolio was up 3.8%, matching the pace of its custom benchmark, the Barclays U.S. TIPS Index. After suffering losses for most of 2013, the TIPS portfolio's performance has rebounded nicely in the first half of 2014, bringing its one-year return back up to 4.4%. It currently holds a five-year annualized return of 5.4% that is just a hair shy of the TIPS benchmark.
- ◆ Following most public equities, REITs valuation ran up nicely in Q2. LTC's REIT portfolio recorded a 8.0% gain that finished ahead of its custom benchmark, the FTSE EPRA/NAREIT Developed Liquid Index (net) while also making it the highest returning LTC segment this quarter. This 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 posted the smallest amount of gains among all LTC investments in Q2, but relatively speaking its 2.7% return did not disappoint as this was on par with the GSCI Total Return Index. Over the last 12-month period, the LTC commodities portfolio has returned 10.2% that is just 17 bps behind the benchmark measure.

Legislators' Information



California Legislators' Retirement System

Growth in Assets



Total Plan Performance Results

Total Plan Performance Periods Ended June 30, 2014

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
LRS	\$129.3 mil	4.4%	13.1%	8.4%	11.4%	6.9%
<i>Weighted Policy Benchmark</i> ⁷⁷		4.4	12.7	8.3	10.6	6.8

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	32.0%	32.0%	0.0%
US Fixed Income	42.0	42.0	0.0
TIPS	15.0	15.0	0.0
REITs	8.1	8.0	+0.1
Commodities	<u>2.9</u>	<u>3.0</u>	<u>-0.1</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") has an asset allocation that somewhat resembles the Long-Term Care Program where it has more than half of its assets invested in core fixed income and TIPS (at 57%). And given this similarity in heightened fixed income exposure, the LRS also posted a steady-pace return of 4.4% in the second quarter that mirrored its weighted policy benchmark. This quarter's gain allowed the System to continue build its longer-term track record on solid footing, where it currently outperforms the benchmark in all measured periods shown.
- ◆ As of June 30, the System was marginally overweight in REITs while underweight in commodities.

Asset Classes Performance Results

Asset Class Performance Periods Ended June 30, 2014

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
LRS Global Equity	\$41.3 mil	5.1%	24.4%	11.6%	15.4%	6.9%
<i>Global Equity Benchmark ⁷⁸</i>		5.0	24.3	11.6	15.4	6.8
LRS US Fixed Income	\$54.3 mil	3.5	8.2	6.7	9.1	6.5
<i>Custom Benchmark ⁷⁹</i>		3.6	6.9	6.1	7.3	6.5
LRS TIPS	\$19.4 mil	3.8	4.2	3.5	5.5	5.2
<i>Custom Benchmark ⁸⁰</i>		3.8	4.4	3.6	5.6	5.4
LRS REITs	\$10.4 mil	7.8	14.6	--	--	--
<i>Custom Benchmark ⁸¹</i>		7.9	14.4	--	--	--
LRS Commodities	\$3.8 mil	3.3	8.9	--	--	--
<i>GSCI Total Return Index</i>		2.7	10.4	--	--	--

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 has been the primary factor contributing to LRS' solid growth for the majority of the past three years, and it was no exception during the second quarter of 2014. Both U.S. and international equity markets climbed in similar pace as major economies around the world continued to enjoy central bank support nurturing slow but gradual improvement in economic growth. As Q2 drew to a close, the global equity portfolio was once again among the highest returning LRS components with a 5.1% return; the portfolio is also pushing 24.4% gain for the last 12-month period, and both measures slightly edged out the portfolio's custom benchmark.
- ◆ Even though public equities posted very strong performance during the second quarter, bonds actually rallied, too. Riding on the back of multiple developments that included a -2.9% Q1 U.S. GDP Growth that was the worst reading since the recession and persisting concerns about a further slowdown in China, the U.S. fixed income markets had no problems attracting jittery investors in search for yields. This fueled the LRS' domestic fixed income portfolio return to jump 3.5% in the quarter, following Q1's 3.7% rise, and nearly matched the pace of the custom Barclays Long Liability Index. For the full 1-year period, the fixed income portfolio has a 8.2% return that is well ahead of the benchmark's 6.9%; its track record over longer time periods is continuing to do very well, too.
- ◆ TIPS rebounded strongly during the second quarter, too, after recording lackluster results in the past three quarters. With real yields extending its slide since the beginning of the year and U.S. inflation readings starting to perk up, market conditions have now turned favorable for inflation-protected bonds. Both LRS' portfolio and the Barclays U.S. TIPS Index rose in the quarter, notching a 3.8% gain that even bettered the core fixed income portfolio's result.
- ◆ With real estate market fundamentals already improving (rent growth, occupancy rate, transaction activity all rising), the drop in interest rate in 2014 has further benefited real estate equities, driving a rally in this segment. The REIT portfolio recorded the biggest jump in return this quarter, rising 7.8% that just narrowly missed the custom REIT index's 7.9% return. The portfolio has rallied 12.3% so far in 2014 and 14.6% in the past 1-year period, both are on par with the custom benchmark's pace.
- ◆ Similar to public traded REITs, commodities are rebounding nicely from their disappointing 2013 lows as well. The LRS commodities portfolio locked in a gain of 3.3% in Q2; while this was the smallest return among all LRS portfolios, it did still compare favorably to its benchmark, the GSCI Total Return Index (+2.7%). For the most recent one-year period, though, the commodities portfolio's 8.9% return remains modestly behind the benchmark by 146 bps.

California Employers' Retiree Benefit Trust

California Employers' Retiree Benefit Trust Strategy 1

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	65.2%	66.0%	-0.8%
US Bonds	17.8	18.0	-0.2
TIPS	4.9	5.0	-0.1
REITS	7.9	8.0	-0.1
Commodities	2.9	3.0	-0.1
Cash Equivalents	<u>1.3</u>	<u>0.0</u>	<u>+1.3</u>
	100.0	100.0	0.0

Trust Performance Results

Trust Performance Periods Ended June 30, 2014

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total CERBT Strategy 1	\$3,147.7 mil	4.8%	18.5%	9.9%	13.9%	-.%
<i>Benchmark</i>		4.7	18.1	9.8	13.7	-.
Global Equity	2,051.9 mil	4.9	23.8	11.5	15.2	-.
<i>Benchmark</i>		4.8	23.4	11.4	15.0	-.
Domestic Fixed Income	559.9 mil	3.5	8.2	6.7	9.1	-.
<i>Benchmark</i>		3.6	6.9	6.1	7.3	-.
REITs	249.0 mil	8.0	13.4	9.6	18.0	-.
<i>Benchmark</i>		7.8	12.8	9.4	18.0	-.
TIPS	155.2 mil	3.8	4.2	-.	-.	-.
<i>Benchmark</i>		3.8	4.4	-.	-.	-.
Commodities	91.8 mil	3.3	8.9	-.	-.	-.
<i>Benchmark</i>		2.7	10.4	-.	-.	-.
Cash[±]	40.0 mil	0.0	0.0	0.0	0.1	-.

[±] The cash component may contain residual trade balance that has yet to be settled during the periodic rebalancing process as of June 30.

California Employers' Retiree Benefit Trust Strategy 2

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	50.0%	50.0%	0.0%
US Bonds	23.7	24.0	-0.3
TIPS	14.8	15.0	-0.2
REITS	8.2	8.0	+0.2
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

Trust Performance Results

Trust Performance Periods Ended June 30, 2014

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total CERBT Strategy 2	\$542.1 mil	4.6%	15.6%	--%	--%	--%
<i>Benchmark</i>		4.6	15.2	--	--	--
Global Equity	271.1 mil	4.9	23.7	--	--	--
<i>Benchmark</i>		4.8	23.4	--	--	--
Domestic Fixed Income	128.4 mil	3.5	8.2	--	--	--
<i>Benchmark</i>		3.6	6.9	--	--	--
TIPS	80.5 mil	3.8	4.2	--	--	--
<i>Benchmark</i>		3.8	4.4	--	--	--
REITs	44.6 mil	8.0	13.4	--	--	--
<i>Benchmark</i>		7.8	12.8	--	--	--
Commodities	15.9 mil	3.3	8.9	--	--	--
<i>Benchmark</i>		2.7	10.4	--	--	--
Cash[±]	1.6 mil	0.1	0.1	--	--	--

[±] The cash component may contain residual trade balance that has yet to be settled during the periodic rebalancing process as of June 30.

California Employers' Retiree Benefit Trust Strategy 3

Asset Allocation

Asset Class	Actual	Policy	Difference
Global Equity	31.8%	32.0%	-0.2%
US Bonds	42.1	42.0	+0.1
TIPS	15.0	15.0	0.0
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

Trust Performance Results

Trust Performance Periods Ended June 30, 2014

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Total CERBT Strategy 3	\$77.5 mil	4.4%	12.9%	--%	--%	--%
<i>Benchmark</i>		4.3	12.3	--	--	--
Global Equity	24.6 mil	4.9	23.7	--	--	--
<i>Benchmark</i>		4.8	23.4	--	--	--
Domestic Fixed Income	32.7 mil	3.5	8.2	--	--	--
<i>Benchmark</i>		3.6	6.9	--	--	--
TIPS	11.7 mil	3.8	4.2	--	--	--
<i>Benchmark</i>		3.8	4.4	--	--	--
REITs	6.2 mil	8.0	13.5	--	--	--
<i>Benchmark</i>		7.8	12.8	--	--	--
Commodities	2.3 mil	3.3	8.9	--	--	--
<i>Benchmark</i>		2.7	10.4	--	--	--
Cash[±]	0.09 mil	0.5	0.5	--	--	--

[±] The cash component may contain residual trade balance that has yet to be settled during the periodic rebalancing process as of June 30.

Health Care Bond Fund

Fund Performance Results

Fund Performance Periods Ended June 30, 2014

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Health Care Bond Fund	\$410.3 mil	2.0%	5.0%	4.3%	5.9%	4.9%
<i>Benchmark</i>		2.0	4.4	3.7	4.9	4.9

Supplemental Income Plans

Supplemental Income Plan Performance

Net Fund Performance Results – Supplemental Contribution Plan

Periods Ended June 30, 2014

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
CalPERS Target 2015	\$2.324 mil	2.0	8.8	6.1	9.5
<i>SIP 2015 Policy</i>		2.1	9.3	6.9	10.5
CalPERS Target 2020	\$1.376 mil	2.6	11.2	6.9	10.7
<i>SIP 2020 Policy</i>		2.6	11.7	7.8	11.6
CalPERS Target 2025	\$849.0 thous	3.0	13.5	7.7	--
<i>SIP 2025 Policy</i>		3.1	13.9	8.7	--
CalPERS Target 2030	\$264.2 thous	3.5	15.7	8.7	12.9
<i>SIP 2030 Policy</i>		3.6	16.1	9.7	13.9
CalPERS Target 2035	\$103.2 thous	3.9	--	--	--
<i>SIP 2035 Policy</i>		4.0	--	--	--
CalPERS Target 2040	\$143.1 thous	4.4	19.7	10.1	14.3
<i>SIP 2040 Policy</i>		4.5	20.0	11.2	15.3
CalPERS Target 2045	\$129.0 thous	4.5	--	--	--
<i>SIP 2045 Policy</i>		4.6	--	--	--
CalPERS Target 2050	\$22.1 thous	4.5	--	--	--
<i>SIP 2050 Policy</i>		4.6	--	--	--
CalPERS Target 2055	\$3.9 thous	4.5	--	--	--
<i>SIP 2055 Policy</i>		4.6	--	--	--
CalPERS Target Income	\$11.281 mil	1.9	7.0	5.1	7.2
<i>SIP Income Policy</i>		2.0	7.5	5.6	8.0
SSgA Russell All Cap Index SL	\$2.347 mil	4.8	6.6	--	--
<i>Russell 3000</i>		4.9	6.9	--	--
SSgA Global All Cap ex-US SL	\$287.7 thous	4.8	--	--	--
<i>MSCI ACWI ex-US IMI (N)</i>		4.9	--	--	--
SSgA US Bond Index SL	\$125.9 thous	1.9	--	--	--
<i>Barclays Aggregate Bond Index</i>		2.0	--	--	--
SSgA US Short Term Bond	\$336.7 thous	0.2	--	--	--
<i>BarclaysUS Gov/Credit</i>		0.3	--	--	--
SSgA Real Asset NL	\$69.7 thous	4.7	--	--	--
<i>Real Assets Blended Index</i>		4.9	--	--	--
SSgA STIF	\$897.7 thous	-0.1	-0.5	-0.3	--
<i>BofAML 3-month US T-Bill</i>		0.0	0.1	0.1	--

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

Periods Ended June 30, 2014

	<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)	\$516.3 mil	3.6%	14.7%	8.4%	11.4%	5.7%
<i>SIP Moderate Policy</i>		3.6	15.0	9.2	12.3	6.6



Net Fund Performance Results – 457 Program

Periods Ended June 30, 2014

	<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	\$94.0 mil	1.9	7.2	5.1	7.1	--
<i>SIP Income Policy</i>		2.0	7.5	5.6	8.0	--
CalPERS Target 2015 Fund	\$82.7 mil	2.0	8.9	6.0	9.5	--
<i>SIP 2015 Policy</i>		2.1	9.3	6.9	10.5	--
CalPERS Target 2020 Fund	\$102.4 mil	2.6	11.3	6.9	10.6	--
<i>SIP 2020 Policy</i>		2.6	11.7	7.8	11.6	--
CalPERS Target 2025 Fund	\$65.3 mil	3.0	13.6	7.7	11.7	--
<i>SIP 2025 Policy</i>		3.1	13.9	8.7	12.6	--
CalPERS Target 2030 Fund	\$65.4 mil	3.5	15.8	8.8	12.9	--
<i>SIP 2030 Policy</i>		3.6	16.1	9.7	13.9	--
CalPERS Target 2035 Fund	\$34.8 mil	4.0	17.9	9.4	13.8	--
<i>SIP 2035 Policy</i>		4.0	18.2	10.6	14.9	--
CalPERS Target 2040 Fund	\$31.2 mil	4.5	19.8	10.1	14.3	--
<i>SIP 2040 Policy</i>		4.5	20.0	11.2	15.3	--
CalPERS Target 2045 Fund	\$8.0 mil	4.5	20.1	10.2	14.3	--
<i>SIP 2045 Policy</i>		4.6	20.3	11.3	15.4	--
CalPERS Target 2050 Fund	\$3.2 mil	4.5	20.0	10.2	14.3	--
<i>SIP 2050 Policy</i>		4.6	20.3	11.3	15.4	--
CalPERS Target 2055 Fund	\$1.7 mil	4.5	--	--	--	--
<i>SIP 2055 Policy</i>		4.6	--	--	--	--
SSgA Russell All Cap Index SL	\$468.4 mil	4.8	--	--	--	--
<i>Russell 3000</i>		4.9	--	--	--	--
SSgA Global All Cap ex-US SL	\$66.3 mil	4.9	--	--	--	--
<i>MSCI ACWI ex-US IMI (N)</i>		4.9	--	--	--	--
SSgA US Bond Index SL	\$56.4 mil	2.0	--	--	--	--
<i>Barclays Aggregate Bond Index</i>		2.0	--	--	--	--
SSgA US Short Term Bond	\$43.6 mil	0.2	--	--	--	--
<i>Barclays US Gov/Credit</i>		0.3	--	--	--	--
SSgA Real Asset NL	\$3.7 mil	4.8	--	--	--	--
<i>Real Assets Blended Index</i>		4.9	--	--	--	--
SSgA STIF	\$118.9 mil	-0.1	-0.4	-0.4	--	--
<i>BofAML 3 Month US TBill</i>		0.0	0.1	0.1	--	--