

Private Equity Annual Review - Supplemental Report

Period Ending June 30, 2014

Investment Objective

Private equity allocations are a means of enhancing equity returns through a value-added approach to investment management of a diverse set of portfolio companies and to capture the illiquidity premium. The major driver for returns is appreciation, with negligible cash yield.

- CalPERS ALM Workshop (2013)

Private Equity invests in comingled funds, Customized Investment Accounts, co-investments and direct investments. Private Equity utilizes secondary sales and purchases to restructure and rebalance the portfolio.

Asset Class Characteristics

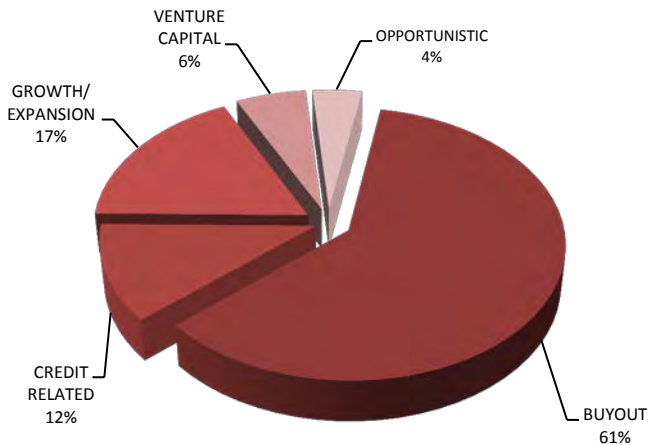
Senior Investment Officer: Réal Desrochers

Assets: \$31.5 Billion

Benchmark: (67% FTSE U.S. TMI + 33% FTSE All World ex-U.S. TMI) + 3% lagged one quarter

- Unfunded commitments of \$11.7 billion as of 11/1/14
- Portfolio is invested 52% in the United States (ex California), 12% California, 21% in Europe, 10% in Asia, 2% in Canada and 3% in Other.
- 684 Funds with 390 direct and fund of fund managers

Private Equity Programs

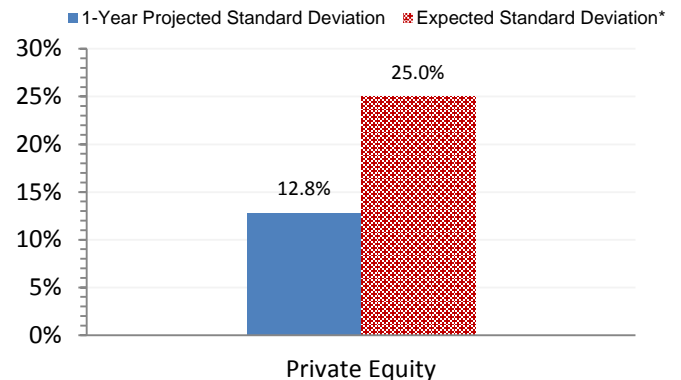
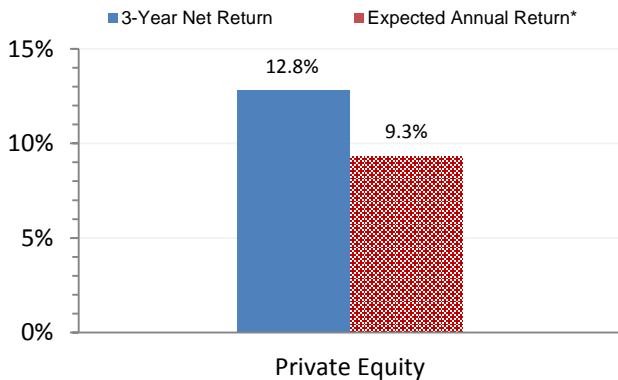


Class Allocation	Private Equity
Strategic Target Range %	6-14%
Interim Strategic Target %	10%
Actual Investment %	11%
Variance % (Strategic vs. Actual)	1%
Interim Strategic Target	\$ 30.0 Billion
Actual Investment	\$ 31.5 Billion
Variance \$(Interim Strategic vs. Actual)	\$ 1.5 Billion

Note: Strategic Target effective July 1, 2014

Asset Liability Management Expectations

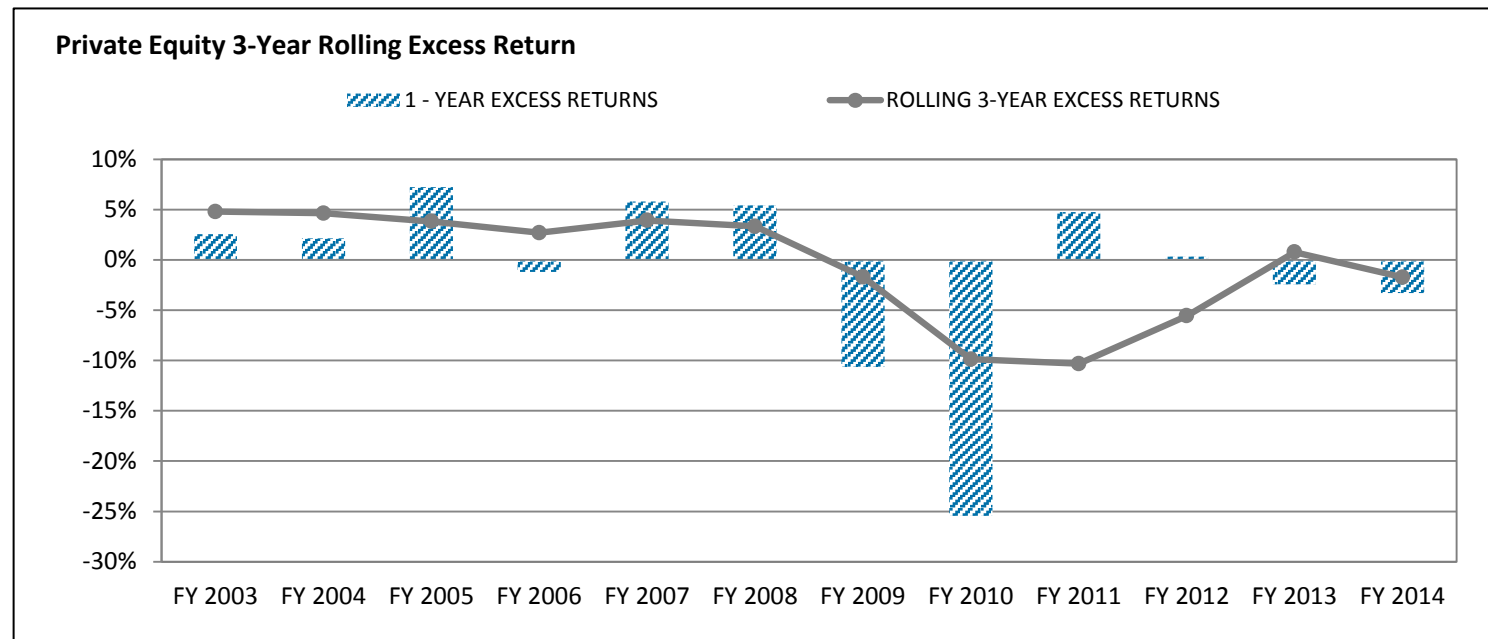
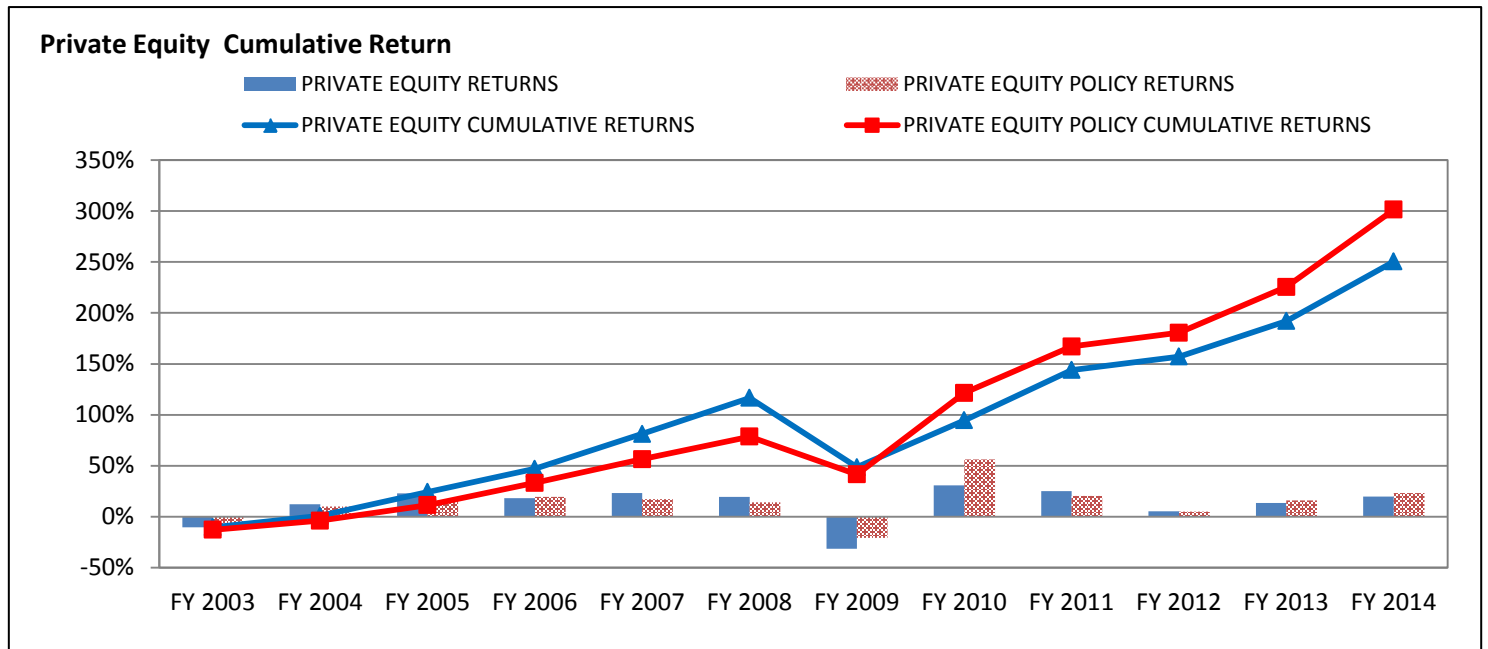
*Capital markets assumptions used in the 2013 ALM Workshop



PRIVATE EQUITY PERFORMANCE

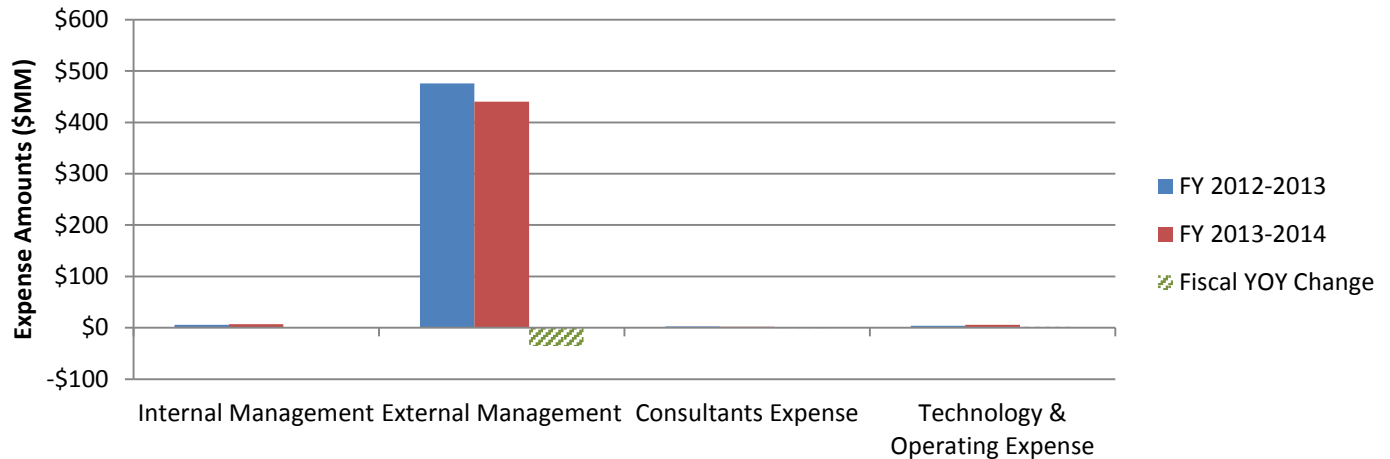
MONTH ENDING JUNE 30, 2014		FYTD		3-YR		5-YR		10-YR	
Asset Class	Ending Market Value	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS
PRIVATE EQUITY*	\$ 31.5 Billion	20.0%	(331)	12.8%	(171)	18.7%	(446)	13.3%	(210)
BUYOUT	\$ 19.1 Billion	19.5%		13.0%		17.6%		16.7%	
GROWTH EXPANSION	\$ 5.5 Billion	21.5%		11.6%		16.8%		9.2%	
CREDIT RELATED	\$ 3.6 Billion	18.5%		15.5%		29.0%		15.1%	
VENTURE CAPITAL	\$ 1.8 Billion	21.9%		9.8%		9.6%		6.4%	
OPPORTUNISTIC	\$ 1.3 Billion	7.5%		4.9%		12.8%		6.2%	

*Includes currency and distributed securities in the amount of \$211 million



EXPENSES

Private Equity Expenses	FY 2012-2013	FY 2013-2014	Fiscal YOY Change
	(\$millions)	(\$millions)	(\$millions)
Internal Management	\$6	\$7	\$2
External Management	\$476	\$441	(\$36)
Consultants Expense	\$2	\$2	(\$1)
Technology & Operating Expense	\$4	\$6	\$2

Private Equity Expense Summary**STAFFING**

Senior Management Team	Years with CalPERS	Years Experience
Real Desrochers - SIO	3	32
Sarah Corr - SPM	13	16
Christine Gogan - SPM	4	17
Mahboob Hossain - SPM	<1	17
Scott Jacobsen - SPM	4	17
Investment Team	Number of Members	
Portfolio Managers	9	
Investment Officers	27	
Additional Resources	Number of Members	
Administrative Support Staff	12	

Private Equity Staffing Updates

- Hired 1 Senior Portfolio Manager
- Hired 1 Portfolio Manager
- Hired 11 Investment Officers
- Hired 9 Administrative staff
- Current Vacancies
 - 3 Investment Officers

POLICY

REVIEWED	AMEND	POLICY/DELEGATION NAME	ACTION
✓	NO	Investment Policy	None
✓	NO	Restricting Private Equity Investments in Public Sector Outsourcers	During previous 12 months, CalPERS received no requests for a policy waiver from the General Partners
✓	NO	Healthcare Investment Initiative Inter-Program Conflict of Interest Protocol	None

INVESTMENT BELIEFS

CalPERS Investment Beliefs

#1 Liabilities must influence the asset structure

PE's role, according to the ALM, is to enhance equity returns through capturing the illiquidity premium. The major driver for returns is appreciation, with negligible cash yield.

#2 A long time investment horizon is a responsibility and an advantage

Investment horizon permits considerable capital allocation despite the illiquidity of the asset class.

#3 CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries

Engagement with Targeted Investment Programs for Emerging Managers and California Investments.

#4 Long-term value creation requires effective management of three forms of capital: financial, physical and human

Portfolio compliance and sustainability monitoring tools ensure portfolios are being managed according to expectations.

#5 CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution

Staff compensation is aligned using 3 year rolling excess returns where staff does not get paid incentive compensation when returns fall below the index.

#6 Strategic asset allocation is the dominant determinant of portfolio risk and return

The role of Private Equity and the Strategic Plan are both consistent with the Strategic Asset Allocation.

#7 CalPERS will take risk only where we have a strong belief we will be rewarded for it

Underwriting assumptions mandate that expected returns compensate CalPERS for the illiquidity risk and leverage associated with PE asset class.

#8 Costs matter and need to be effectively managed

Critical focus on costs across all aspects of PE program: external management fees, co-investment structures, long-lived assets, and discretionary fees paid to consultants.

#9 Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error

Utilize and incorporate a number of risk measures both quantitative and qualitative to understand positioning of portfolio and risks and markets.

#10 Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives

Enhanced training has taken team on path to be a world class investment management group. Addressing need for a new IT system. Renewed focus on processes and their repeatability.
