

2014 PRIVATE EQUITY ANNUAL REVIEW

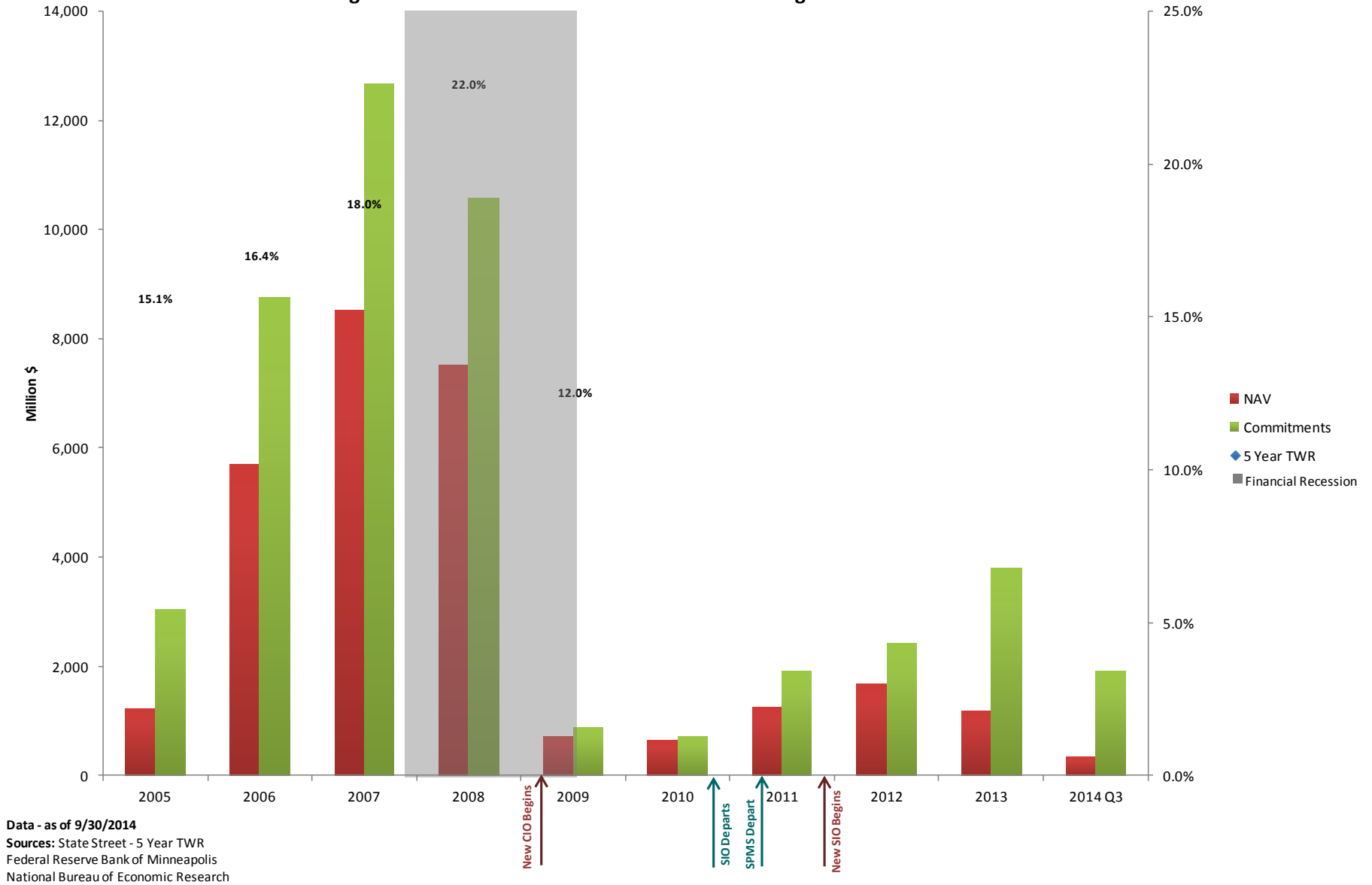
California Public Employees' Retirement System



ANNUAL REVIEW OUTLINE

- Private Equity is meeting its strategic objective
 - Role of private equity is to enhance returns
 - Underperformed policy benchmark largely due to volatile public markets (suggests need to seek a new benchmark)
 - Outperformed Global Equity over 3, 5, 10 and 20-year time periods
- Investment Beliefs
 - Long-term horizon: PE is long-term asset, further movement toward “permanent capital”
 - Risk-reward: PE portfolio is well-diversified
 - Costs matter: Staff is aggressive when negotiating on terms; Program paid less in fees than previous fiscal year
 - Resources/Process: Moving forward with development of PEARS
- 2011 Strategic Plan
 - Rebalance and restructure the portfolio – ongoing with focus on number of managers
- Industry Exposure – Energy – same as last year – approximately 9% of portfolio
 - Impact of recent crude oil pricing volatility is uncertain
- Emerging Manager
 - Executed plan with ongoing commitment
- Private equity landscape
 - Sovereign wealth fund growing participation, outsized manager distributions to existing investors and Q3 2014 purchase price multiples of 11.3 have converted it to a sellers’ market thereby complicating maintenance of allocation
- Regulatory spotlight is precipitating changes in manager operating practices
 - Indemnification payout is causing a reevaluation of contract provisions
- New business model
 - Developing knowledge base will take time
 - Multiple locations should be considered for managing global private equity investing
 - Limited partner advocacy organization is needed
- Impact of quantitative easing cessation is uncertain
- Lastly, like my real estate colleagues, in comparing priorities of maintaining underwriting standards and containing risk, versus reaching the target allocation level, we counsel CalPERS to maintain its discipline for best long term investment results.

CalPERS Vintage Year Commitment and NAV & 5 Year Time Weighted Return



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