

# Global Equity Annual Review - Supplemental Report

Period Ending June 30, 2015

## Investment Objective

*The role of equities is total return oriented and to capture the equity risk premium, defined as the excess return over risk free government bonds, by means of ownership risk in companies and exposure to corporate earnings growth. The major driver is appreciation, with some cash yield.*

- CalPERS ALM Workshop (2013)

## Asset Class Characteristics

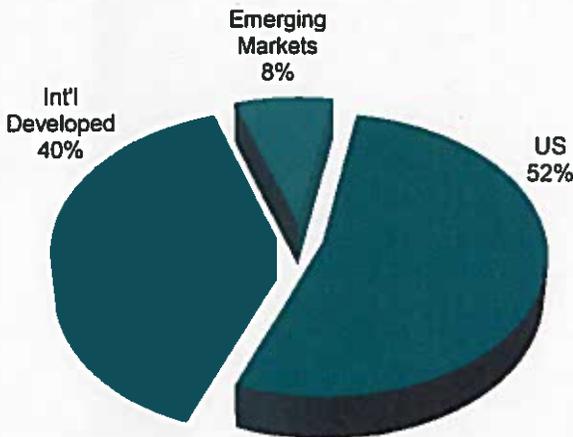
Managing Investment Director: Dan Bienvenue

Assets: \$162.6 Billion

Benchmark: FTSE Custom All-World, All-Cap Index

- Coverage includes 47 countries, 37 currencies, and approximately 10,000 securities
- CalPERS customization excludes tobacco, firearms, Iran/Sudan and complies with emerging market principles
- Utilize 50 strategies :
  - 5 Index -Oriented (65%)
  - 45 Active Strategies (35%)
- Internal Management of 21 strategies
- External Management of 29 strategies by 28 external managers
- US - 52%
- Int'l Developed - 40%
- Emerging Markets - 8%

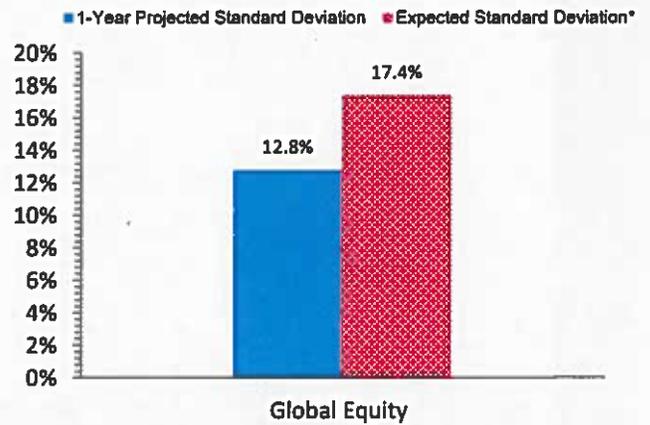
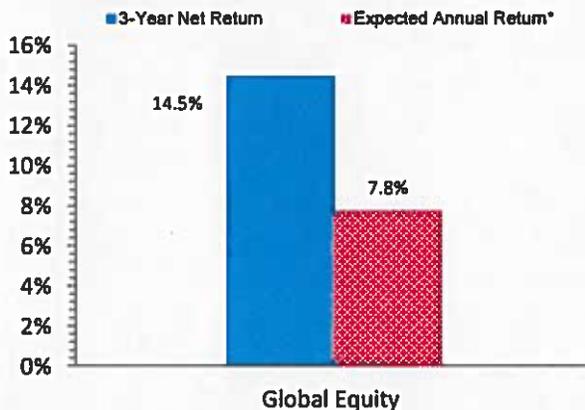
## Global Equity Programs



Class Allocation	Global Equity
Strategic Target Range %	44-58%
Interim Strategic Target %	51%
Actual Investment %	54%
Variance % (Strategic vs. Actual)	3%
Interim Strategic Target	\$ 154.0 Billion
Actual Investment	\$ 162.6 Billion
Variance \$(Interim Strategic vs. Actual)	\$ 8.6 Billion

## Asset Liability Management Expectations

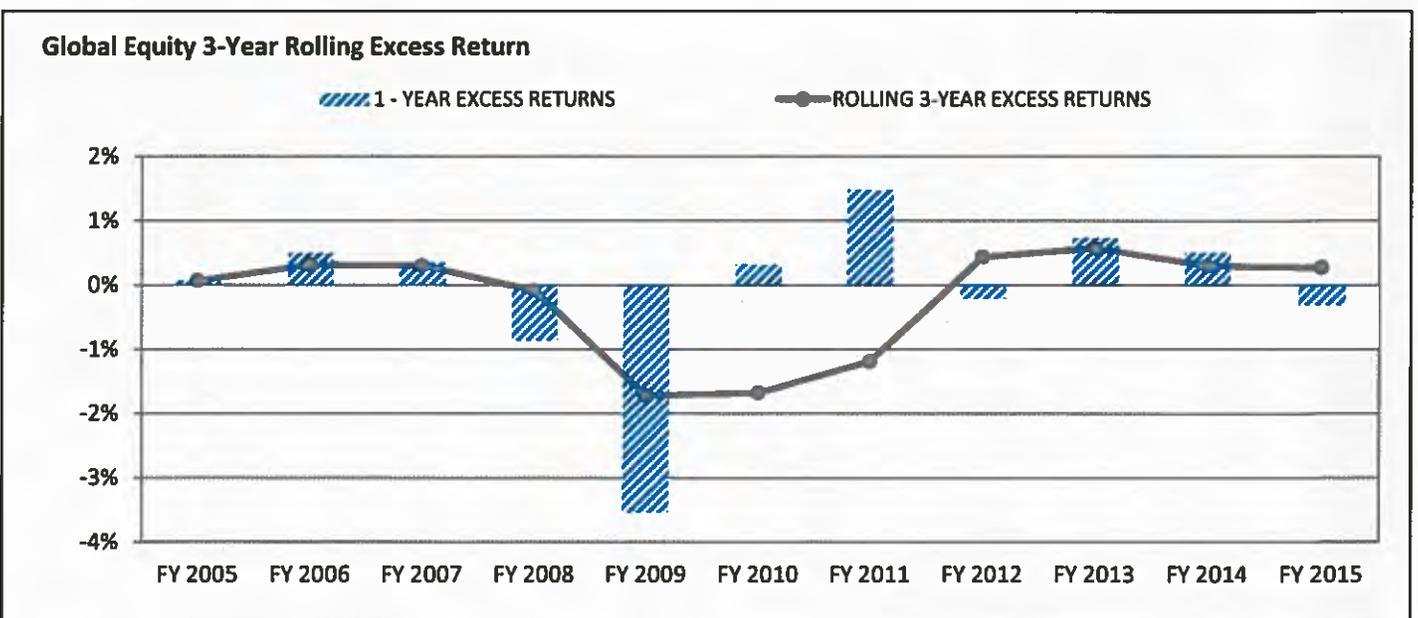
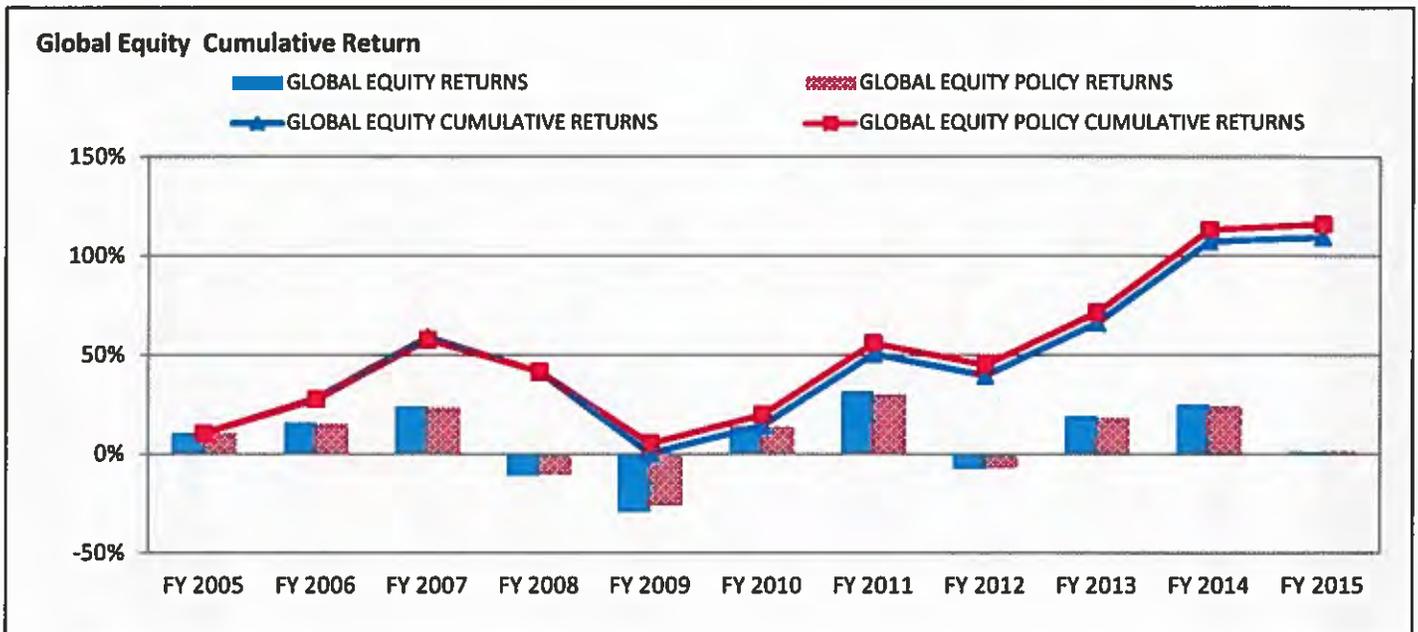
\*Capital markets assumptions used in the November 2013 ALM Workshop



**GLOBAL EQUITY PERFORMANCE**

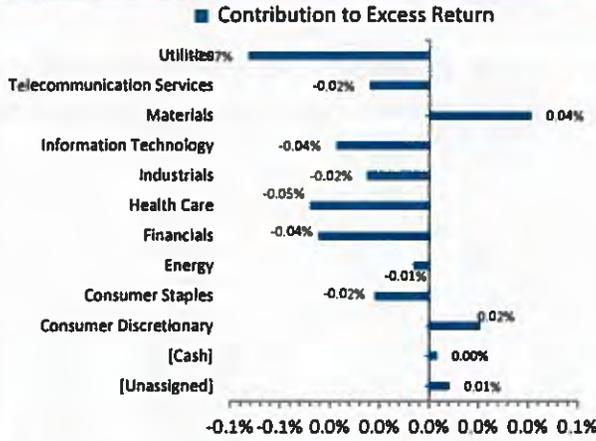
MONTH ENDING JUNE 30, 2015		FYTD		3-YR		5-YR		10-YR	
Asset Class*	Ending Market Value	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS	Net Return	Excess BPS
<b>GLOBAL EQUITY</b>	<b>\$ 162.6 Billion</b>	<b>1.0%</b>	<b>(31)</b>	<b>14.5%</b>	<b>27</b>	<b>12.9%</b>	<b>36</b>	<b>6.6%</b>	<b>(34)</b>
TOTAL DOMESTIC EQUITY	\$ 86.5 Billion	6.4%	(25)	18.2%	35	17.5%	6	8.1%	0
TOTAL INTERNATIONAL EQUITY	\$ 76. Billion	(4.4%)	(77)	10.9%	(46)	8.7%	(24)	6.1%	13

\* Performance for the total asset class and top 2 strategies based on ending market value

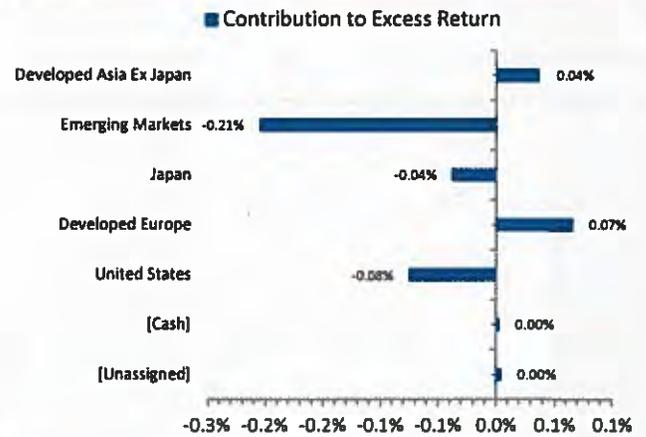


**GLOBAL EQUITY ATTRIBUTION (FY 2014-2015)**

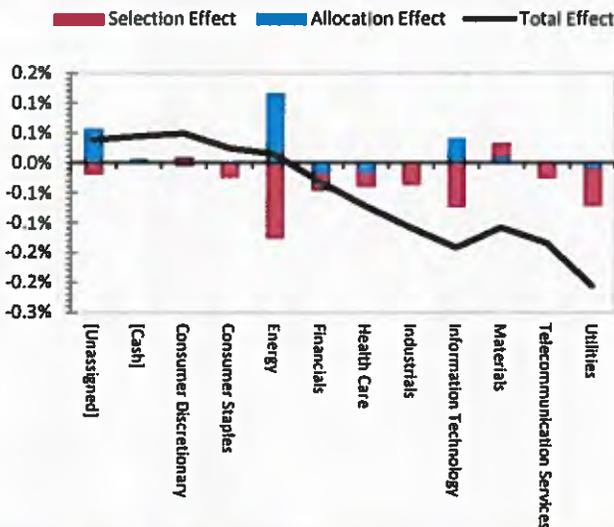
**Contribution to Excess Return by Sector**



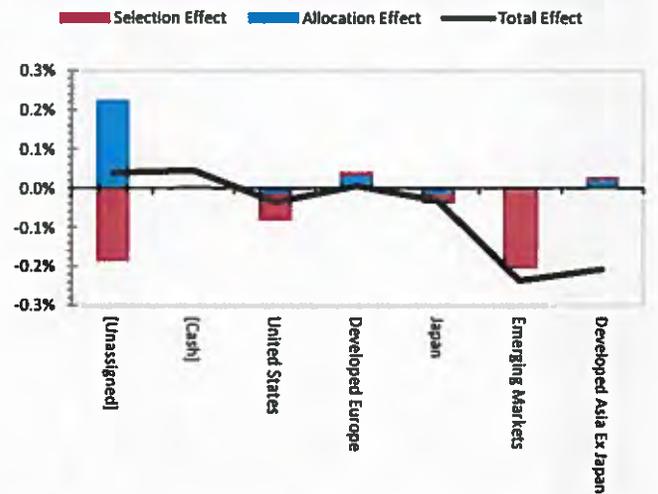
**Contribution to Excess Return by Region & Country**



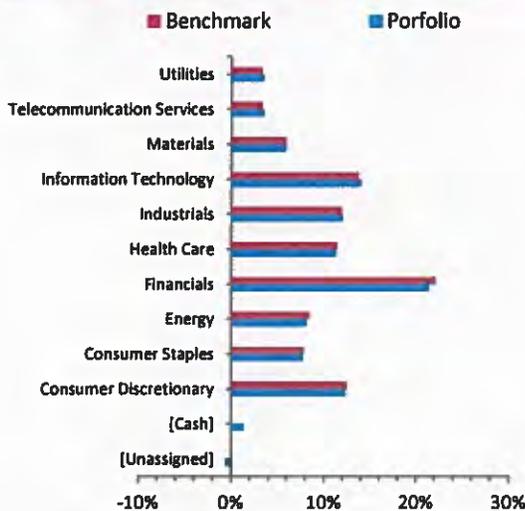
**Attribution by Sector**



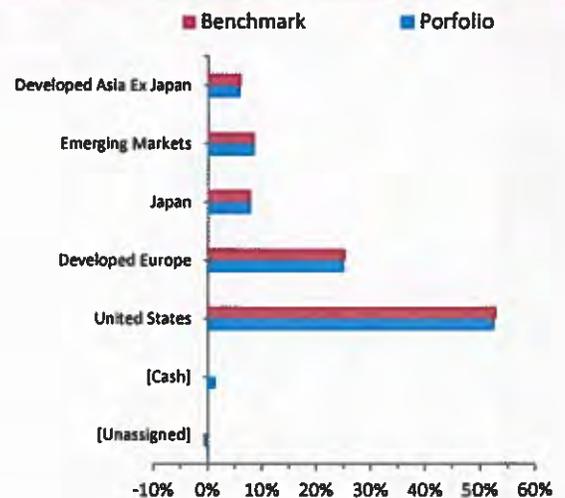
**Attribution by Region & Country**



**Relative Weight by Sector**

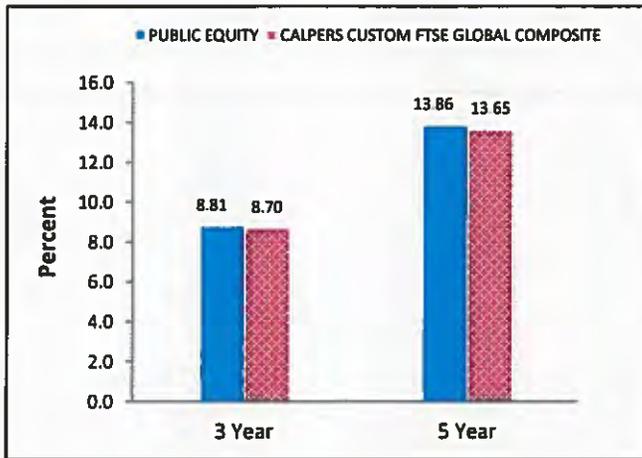


**Relative Weight by Region & Country**

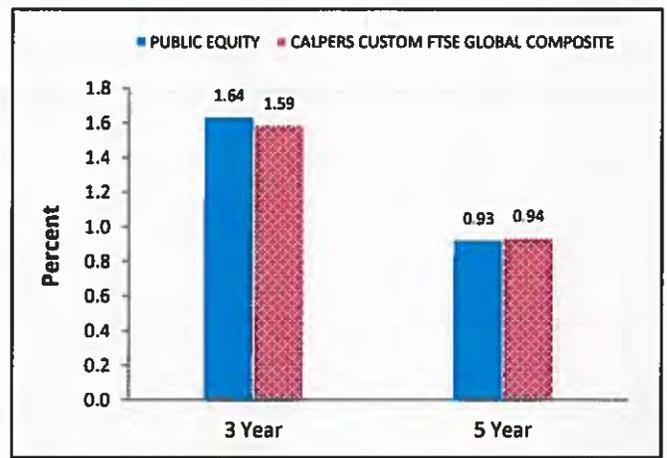


**GLOBAL EQUITY INVESTMENT RISK**

**Annualized Standard Deviation**



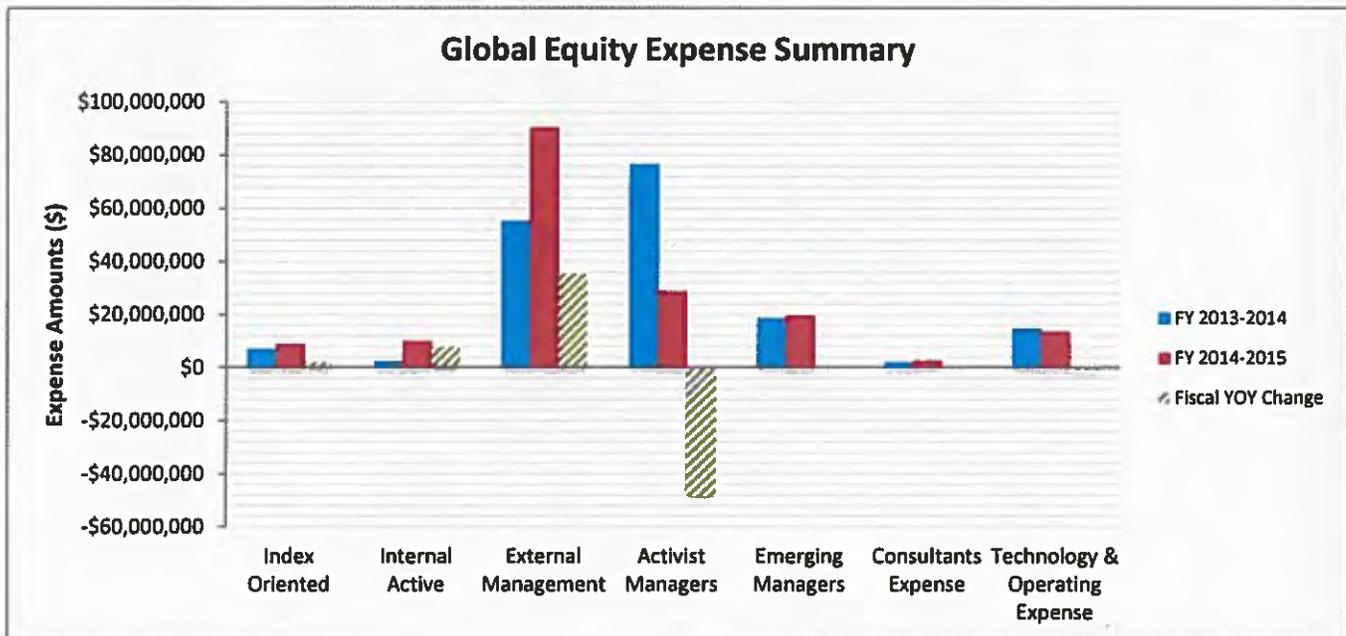
**Sharpe Ratio**



**GLOBAL EQUITY EXPENSES**

Global Equity Expenses	FY 2013-2014	FY 2014-2015	Fiscal YOY Change
Index Oriented	\$6,962,435	\$8,983,382	\$2,020,947
Internal Active	\$2,236,573	\$10,016,858	\$7,780,285
External Management	\$55,275,304	\$90,556,389	\$35,281,085
Activist Managers	\$76,717,026	\$28,848,152	-\$47,868,874
Emerging Managers	\$18,739,781	\$19,598,367	\$858,586
Consultants Expense	\$1,952,288	\$2,654,802	\$702,514
Technology & Operating Expense	\$14,687,732	\$13,668,918	-\$1,018,814

**Global Equity Expense Summary**



**GLOBAL EQUITY STAFFING (as of September 2015 Org Chart)**

Senior Management Team	Years with CalPERS	Years Experience
Dan Bienvenue - MID	11	20
John Cole - ID	3	35
Steve Carden - ID	11	15
Don Pontes - ID	10	20
Investment Team	Number of Members	
Portfolio Managers	10	
Investment Officers	21	
Additional Resources	Number of Members	
Administrative Support Staff	7	

**Global Equity Staffing Updates**

- Appointed 2 Investment Director
- Appointed 2 Investment Managers
- Appointed 6 Investment Officers
- Transferred 2 Investment Managers & 2 Investment Officers to other INVO programs
- Current Vacancies
  - 1 Investment Director
  - 1 Investment Managers
  - 2 Investment Officers

**GLOBAL EQUITY POLICY**

REVIEWED	AMEND	POLICY/DELEGATION NAME	ACTION
✓	YES	Global Equity Policy	Program to propose revisions at September 2015 IC Meeting
✓	YES	Corporate Governance Program	Repealed at October 2014 IC Meeting
✓	YES	Emerging Markets Principles	Consolidated into Global Governance Policy at March 2015 IC Meeting

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**GLOBAL EQUITY CalPERS Investment Beliefs**


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**CalPERS Investment Beliefs**


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**#1 Liabilities must influence the asset structure**


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Provide an important dual role of high expected total return combined with liquidity

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


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Investment horizon permits substantial capital allocation despite significant volatility in asset class

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


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Close engagement with Global Governance team to implement important CalPERS stakeholder views

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


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

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


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Performance measures based on rolling 3-year performance, balancing short-term performance with the long-term health of the Trusts

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


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Actively participate in the Asset Liability Management workshop to establish capital market and portfolio assumptions

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


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Take a prudent level of active risk aligned with the belief that Strategic Asset Allocation is the dominant driver of risk and return

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**#8 Costs matter and need to be effectively managed**


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Manage a cost efficient portfolio making extensive use of internally managed strategies, which are highly cost effective

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


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Actively incorporate multiple measures of risk including: stress test, macro exposures, correlations and factor style exposures

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


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Strong team and deep bench with a clear alignment around a core philosophy and investment process