

Private Equity Annual Review - Supplemental Report

Period Ending June 30, 2015

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

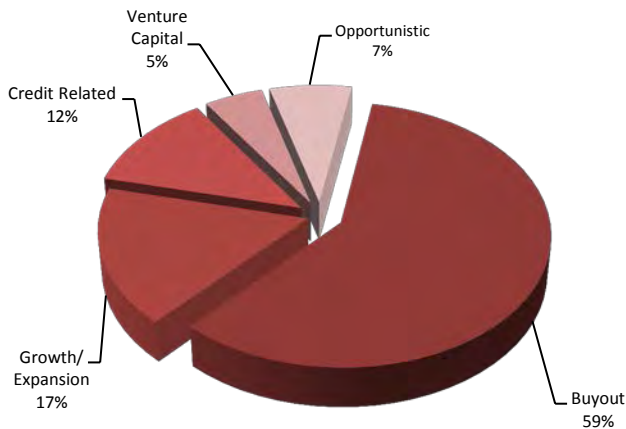
Managing Investment Director: Réal Desrochers

Assets: \$28.9 Billion

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

- Unfunded commitments of \$14.2 billion as of 06/30/15
- Portfolio is invested 51% in the United States (ex California), 12% California, 19% in Europe, 12% in Asia, 2% in Canada and 4% in Other.

Private Equity Programs

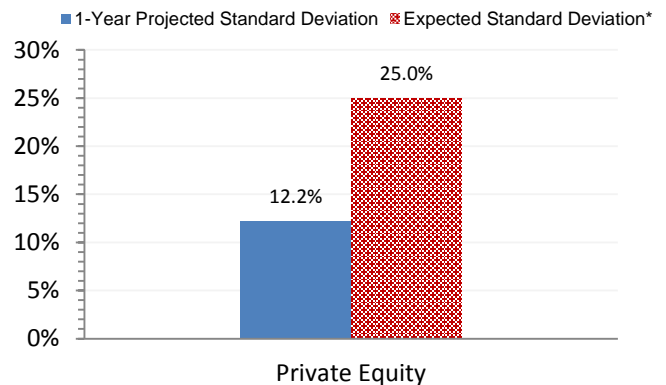
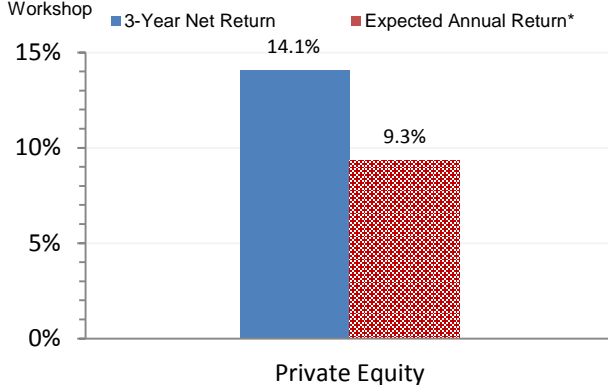


Class Allocation	Private Equity
Strategic Target Range %	6-14%
Interim Strategic Target %	10%
Actual Investment %	10%
Variance % (Strategic vs. Actual)	(0%)
Interim Strategic Target	\$ 30.2 Billion
Actual Investment	\$ 28.9 Billion
Variance \$(Interim Strategic vs. Actual)	\$(1.3 Billion)

Note: Strategic Target effective July 1, 2015

Asset Liability Management Expectations

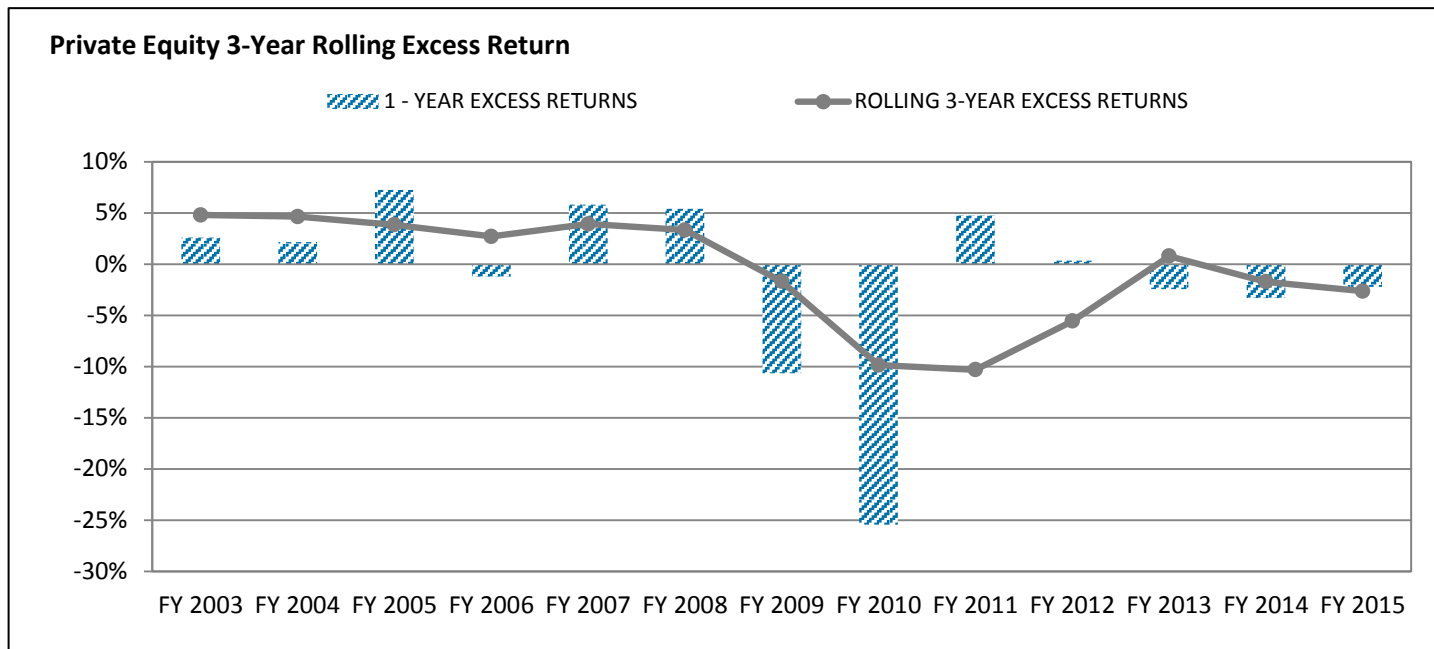
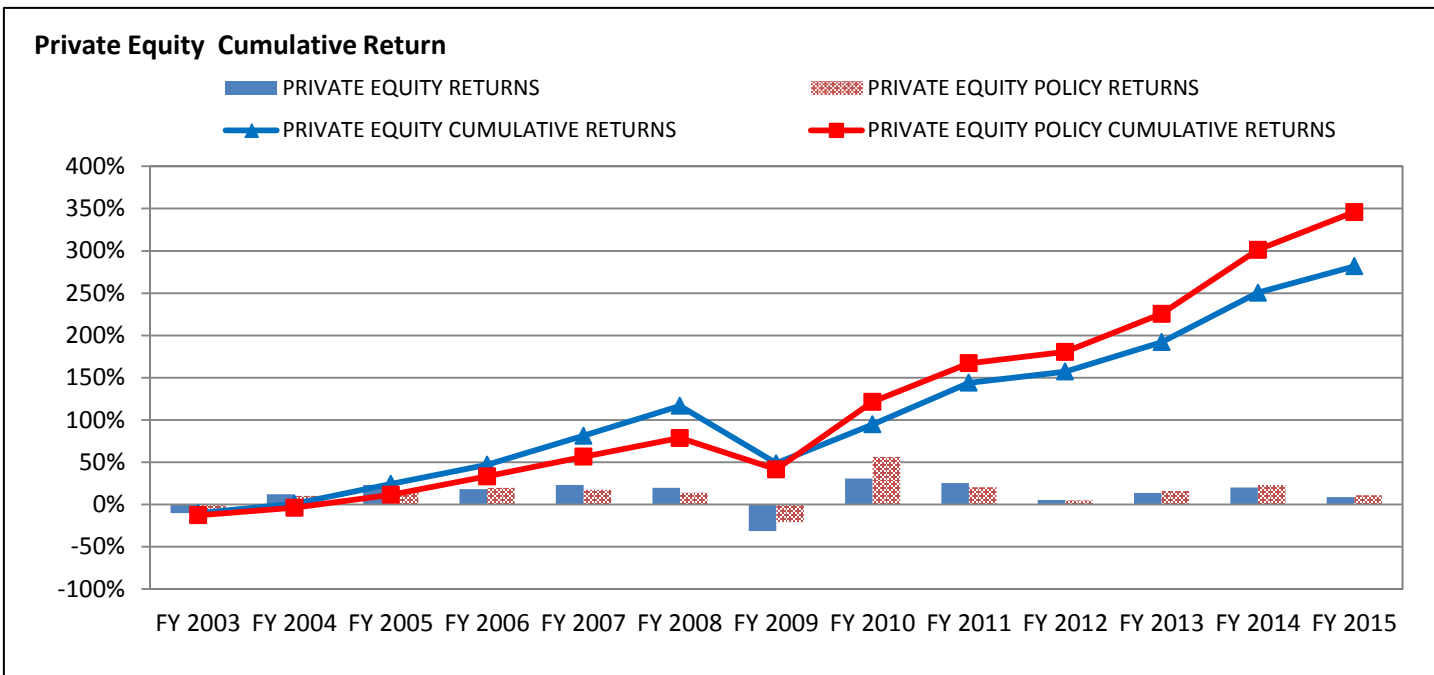
*Capital markets assumptions used in the November 2013 ALM Workshop



PRIVATE 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
PRIVATE EQUITY*	\$ 28.9 Billion		8.9%	(221)	14.1%	(264)	14.4%	(61)	11.9%	(300)
BUYOUT	\$ 16.9 Billion		8.9%		14.6%		10.4%		17.7%	
GROWTH EXPANSION	\$ 4.9 Billion		14.4%		13.9%		12.7%		8.8%	
CREDIT RELATED	\$ 3.4 Billion		6.9%		18.8%		17.7%		15.6%	
VENTURE CAPITAL	\$ 1.6 Billion		8.4%		8.0%		2.8%		5.0%	
OPPORTUNISTIC	\$ 2.0 Billion		1.9%		9.5%		8.8%		6.1%	

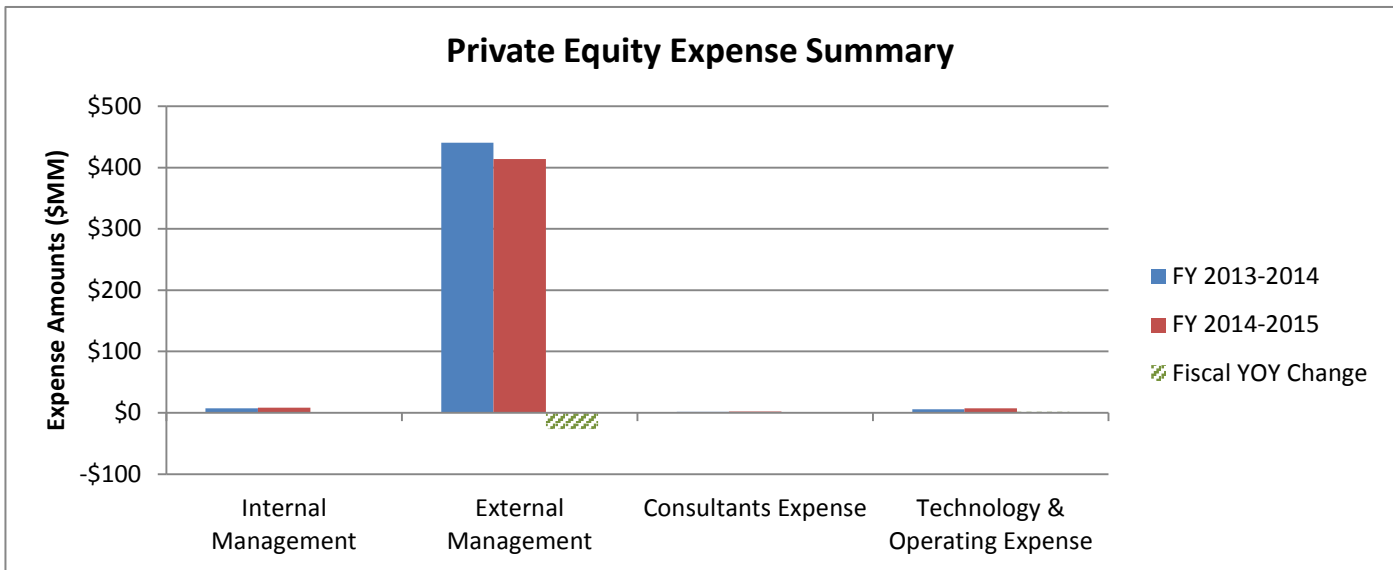
*Includes currency and distributed securities in the amount of \$102 million



EXPENSES

Private Equity Expenses	FY 2013-2014	FY 2014-2015	Fiscal YOY Change
	(\$millions)	(\$millions)	(\$millions)
Internal Management	\$7	\$8	\$1
External Management	\$441	\$414	(\$27)
Consultants Expense	\$2	\$2	\$0
Technology & Operating Expense	\$6	\$7	\$2

Totals may not reconcile due to rounding

**STAFFING**

Senior Management Team	Years with CalPERS	Years Experience
Real Desrochers - MID	4	33
Sarah Corr - ID	14	17
Christine Gogan - ID	5	18
Mahboob Hossain - ID	1	18
Scott Jacobsen - ID	5	18
Investment Team	Number of Members	
Investment Managers	9	
Investment Officers	27	
Additional Resources	Number of Members	
Administrative Support Staff	12	

Private Equity Staffing Updates

- Hired 1 Investment Director
- Hired 6 Investment Officers
- Promoted 3 Investment Officers
- Current Vacancies
 - 2 Investment Managers
 - 4 Investment Officer
- Diversity
 - 12 languages spoken
 - 10+ countries of origin
 - 20 women, 27 men

POLICY

REVIEWED	AMEND	POLICY/DELEGATION NAME	ACTION
✓	YES	Private Equity Program Policy	Program to propose revisions at November 2015 IC Meeting
✓	YES	Healthcare Investment Initiative Inter-Program Conflict of Interest Protocol	Repealed at March 2015 IC Meeting
✓	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

INVESTMENT BELIEFS

CalPERS Investment Beliefs

#1 Liabilities must influence the asset structure

While value appreciation is the primary component of total return for Private Equity (PE), appropriate consideration is given to the fact that CalPERS has a large and growing liquidity requirement.

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

Adequate premium in the form of higher expected return is required for taking risk inherent in illiquid asset classes like PE.

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

Engagement with external partners and like-minded investors, as well as partnership with Global Governance and Targeted Investment Programs to implement CalPERS stakeholder views.

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

Engagement with external managers on alignment of interests, diversity issues, fair labor practices, and sustainability are essential elements of value creation for PE.

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

Annual performance is benchmarked relative to public equity indexes (with added premium), but team performance is also evaluated based on contributions to long-term trust level objectives.

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

Portfolio construction process for PE is designed to have a material impact on overall return of the fund. Risk management process ensures diversification across different risk factors like sectors, vintages, managers, and strategies.

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

PE aims to maximize return with the expectation that excess return will be achieved as compensation for the risk taken.

#8 Costs matter and need to be effectively managed

Align the interests of the fund, staff and external managers to promote transparency and ensure appropriate balance of risk, return and cost.

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

Both quantitative and qualitative risk factors need to be analyzed and understood before implementing any investment strategy. Impact of exogenous factors, like climate change, need to be incorporated as part of risk analysis.

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

Strong team built on diversity of talent and a commitment to implement CalPERS investment beliefs is the key to PE's success. Senior team is accountable for ensuring strong governance and compliance with policies and procedures.