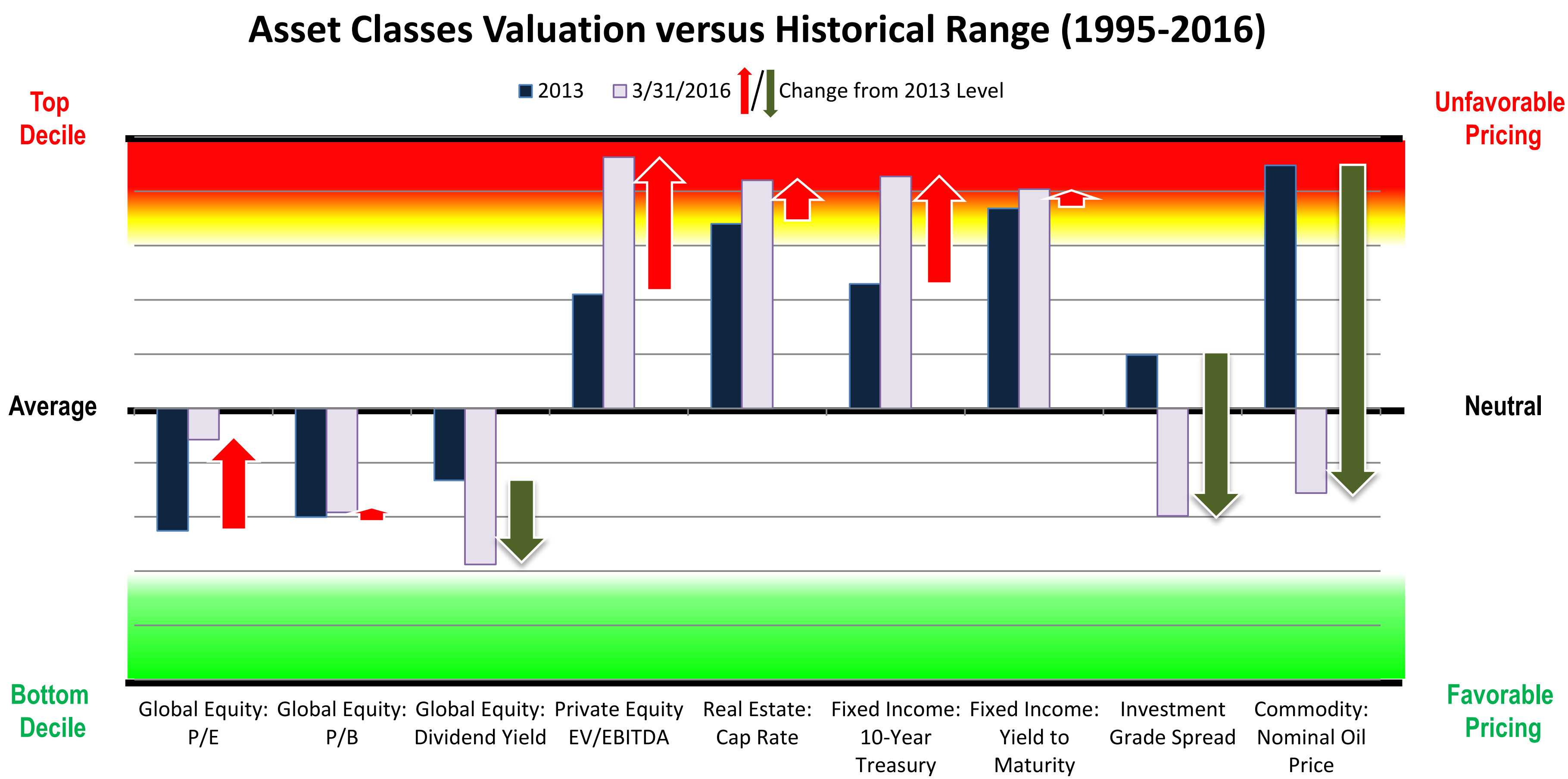
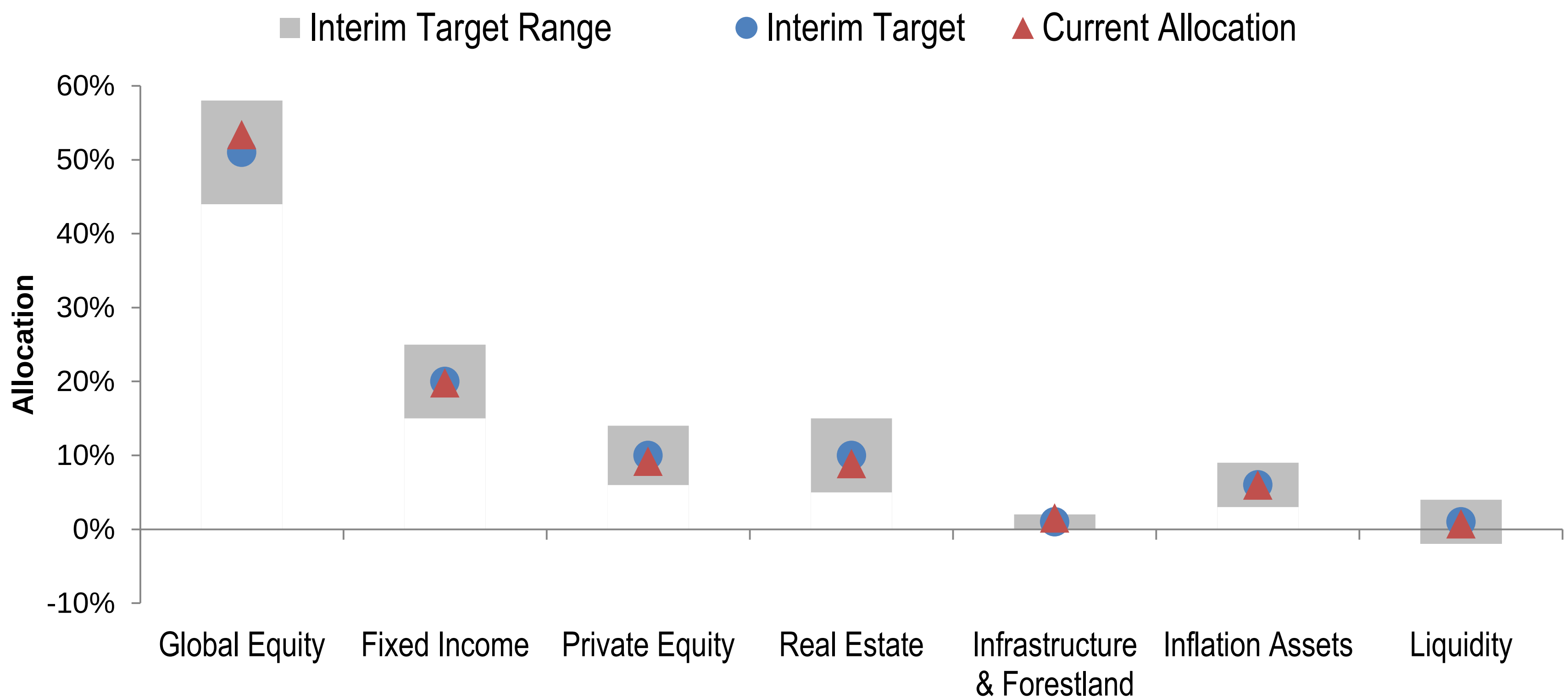
Interim Asset Allocation Targets Review (Including Capital Markets Outlook)

CalPERS | Investment Office
Asset Allocation/Risk Management

Valuation Indicators versus Historical Range



Current Asset Allocation Compared to Interim Targets



	Global Equity	Fixed Income	Private Equity	Real Estate	Infrastructure & Forestland	Inflation Assets	Liquidity
Max (%)	58	25	14	15	2	9	4
Min (%)	44	15	6	5	0	3	-2
Interim Target (%)	51	20	10	10	2	6	1
Strategic Target (%)	47	19	12	11	3	6	2

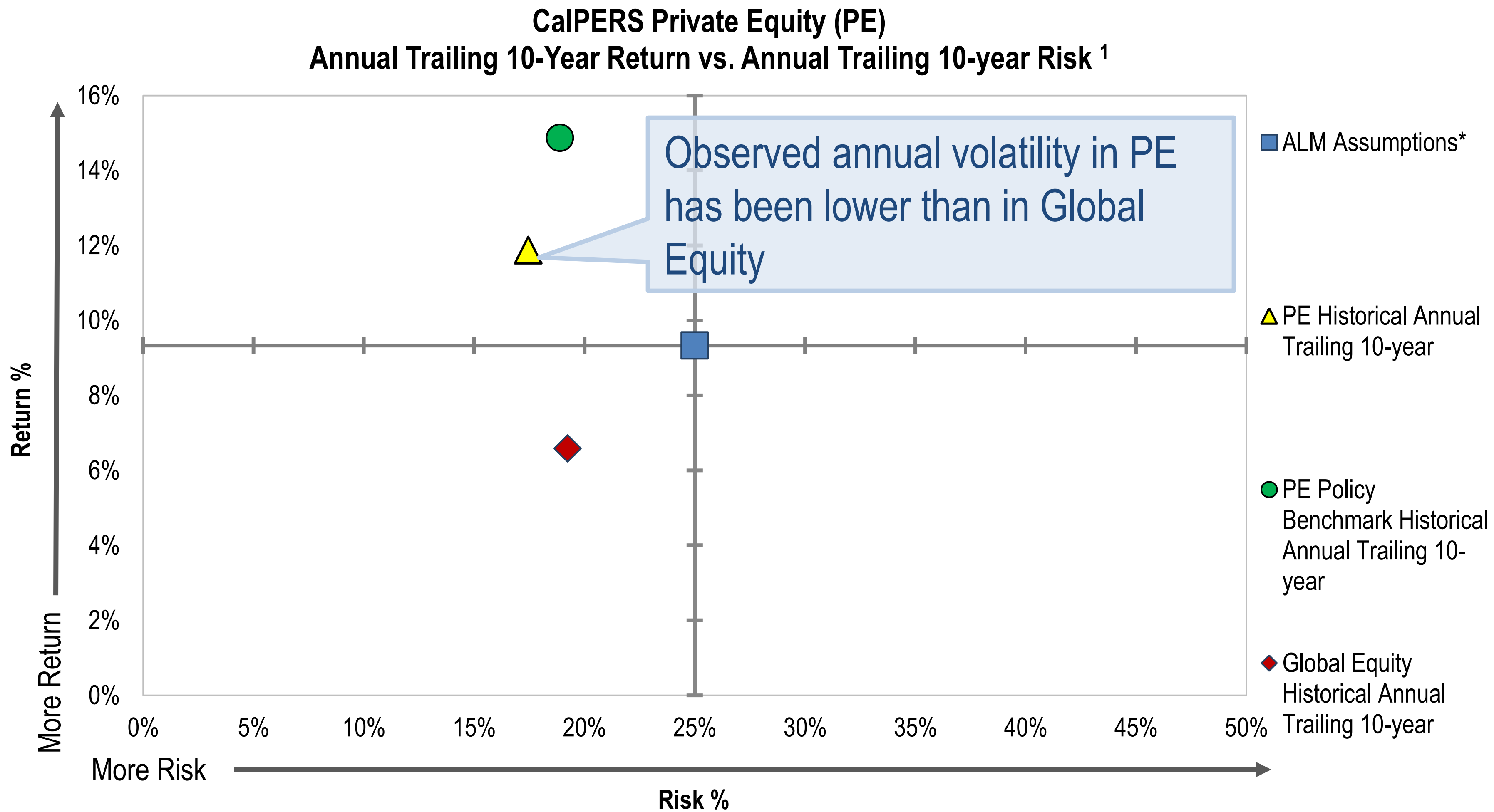
Current asset allocation as of March 31, 2016

Historical Private Equity Returns

- Private Equity has outperformed the Global Equity (GE) Benchmark, supporting Portfolio Priority 3
- Without its contribution, expected annual returns for the Public Employees' Retirement Fund would be reduced by an estimated 30 to 70 basis points.

Returns (as of 3/31/16)	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
PE Portfolio (%)	6.0	11.6	11.1	10.7	11.5
PE Policy Benchmark (%)	1.3	13.7	11.9	13.1	10.2
GE Policy Benchmark (%)	-4.6	6.1	5.7	4.7	6.7

Private Equity Actual vs. Expected Returns/Risk

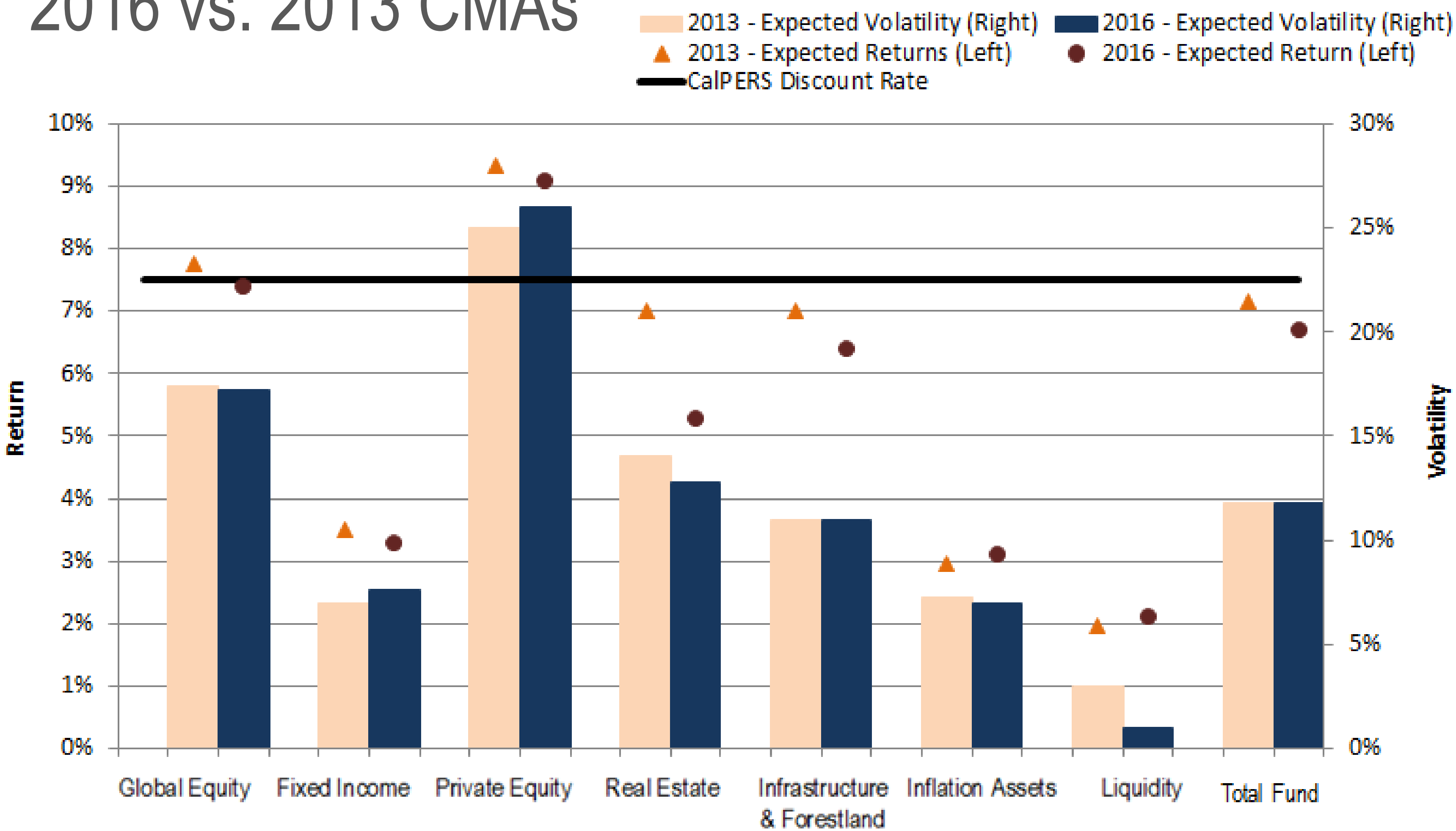


*Capital Market Assumptions used in the 2013-14 ALM Process

[1] Trailing 10-year returns and risks were calculated based on fiscal year ending data at annual frequency from FY2004/05 to FY2014/15

Source: My State Street

10-year Expected Returns & Volatilities: 2016 vs. 2013 CMAs

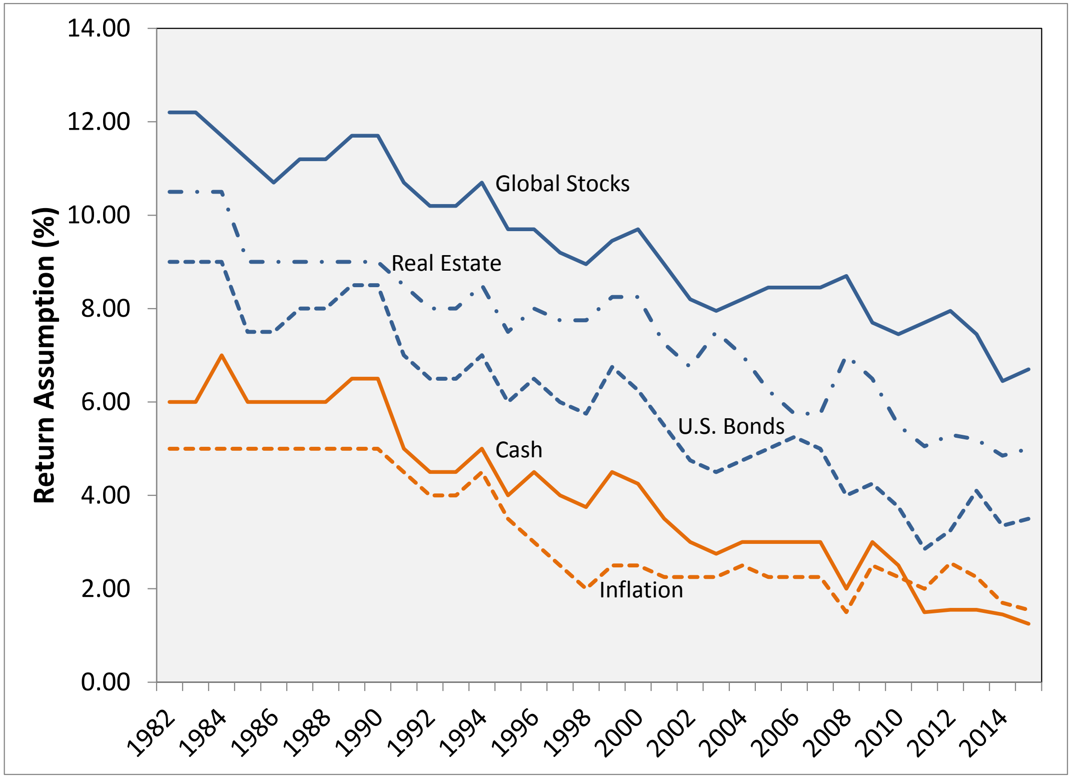


Median expected returns and volatilities for 2016 were taken from six sources: Wilshire, PCA, J. P. Morgan, BNY Mellon, Callan, and Voya.

Wilshire

Future Return Expectations

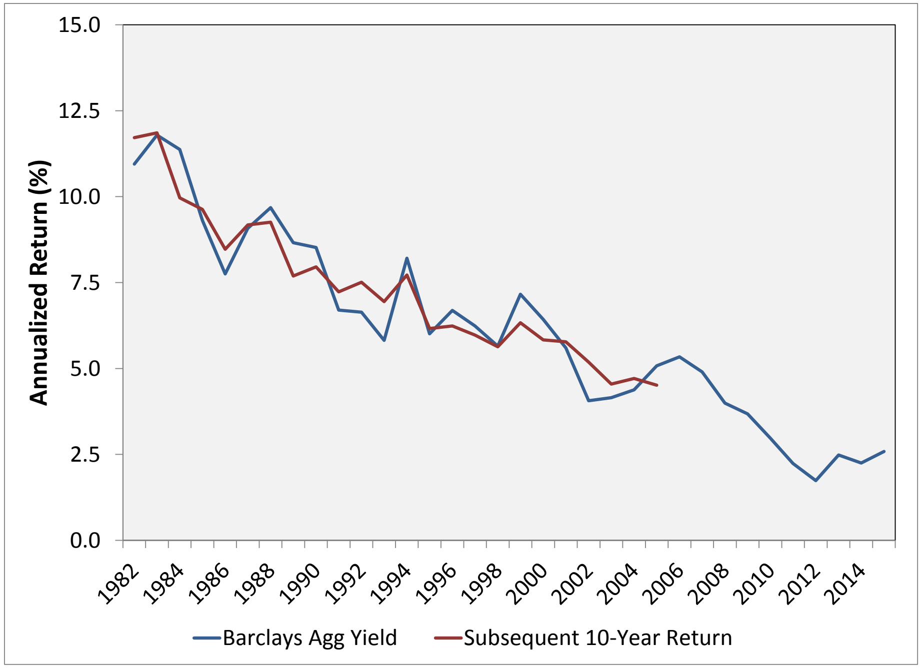
- Forward-looking assumptions are quite low
- Analyzing current market conditions can help investors understand why



Wilshire

Future Return Expectations: Why So Low?

- Yield environment is key to understanding return prospects
  - Asset class returns are “linked” to interest rates
  - Fairly direct methodology in forecasting fixed income
- High predictive accuracy in forecasting future bond returns is directly tied to the “going in” yield



Yield-to-Worst (as of December 2015)	
Barclays Treasury Index	1.73%
Barclays U.S. Aggregate Index	2.59%
Barclays Corporate Index	3.67%

Future Return Expectations: Why So Low?

Wilshire

- What about other asset classes, like stocks?
  - Forecast of equity risk premium not dramatically different from recent history
  - Yield environment anchors all return expectations
  - Investors price assets to provide adequate compensation for bearing various incremental risks