SEMI-ANNUAL FINANCIAL REPORT (PERF)

Fiscal Year-to-Date December 31, 2017

Preliminary Unaudited Financial Results

For the quarter ended December 31,	2017	2016	$ Change			FISCAL YEAR TO DATE COMPARISON
	($ Thousands)					
ADDITIONS						
Retirement Contributions						
Members	$2,207,122	$2,083,343	$123,779	6%	↑	The increase in member contributions is primarily attributable to an increase in covered payroll resulting from: 1. State employee salary increase effective July 1, 2017 2. The number of active members who contribute continues to increase. As of 6/30/17 there were 887,220 active employees, compared to 873,026 at 6/30/16
Employers	$10,000,567	$6,677,465	$3,323,102	50%	↑	The increase is due to approximately $4.8 billion in additional employer current service contributions received as of mid-FY 2017-18, compared with $1.4 billion received as of mid-FY 2016-17. Effective 7/1/17, employer contribution rates increased between 0.6 percent and 4.1 percent for State, 1.6 percent for schools, and between 1.1 percent and 1.7 percent on average for public agency miscellaneous and safety plans (respectively). Additionally, the number of active members who contribute increased by 1.6 percent, from 873,026 as of 6/30/2016 to 887,220 as of 6/30/2017.
Total Retirement Contributions	**$12,207,689**	**$8,760,808**	**$3,446,881**	39%	↑	
Investment & Other Income						
Net Appreciation in Fair Value of Investments	$24,525,024	$10,681,386	13,843,638	130%	↑	Favorable market conditions resulted in positive returns. Per SSB performance analytics, PERF total fund had a net return of 8.1 percent in the mid-FY 2017-18, compared with a net return of 3.8 percent in the mid-FY 2016-17.
Interest & Amortization	1,007,094	$443,106	563,988	127%	↑	Interest from fixed income securities increased $523.5 million with significant increases from Tactical commodities (SWTR), which increased $331.4 million from negative income (amortization) of $71.9 million as of mid-FY 2016-17 to $259.5 million as of mid-FY 2017-18. Interest from Synthetic Enhanced Equity (SWKZ) increased $194.3 million from $147.4 million as of mid-FY 2016-17 to $341.7 million as of mid-year FY 2017-18. As a note, portfolios SWTR and SWKZ hold primarily derivative products (total return swaps, options, and futures) and unitized portfolios containing mostly CMOs and other asset-backed securities.
Dividends	603,950	562,594	41,356	7%	↑	Favorable market conditions resulted in more dividends being declared and paid by most companies.
Other Investment Income	3,068	4,588	(1,520)	(33%)	↓	Other investment income includes income from securities litigation, credit enhancement program, draw fees etc. Amount can fluctuate depending on the activities.
Less Investment Expenses:						
Management & Performance Fees	(370,089)	(300,240)	(69,849)	23%	↑	Real assets incentive fees increased $40.5 million, coinciding with a significant increase in unrealized gains for real assets, which increased (337.8%) from $219.5 million as of mid-FY 2016-17 to $960.0 million as of mid-FY 2017-18. Additionally, RA asset management fees increased $28.7 million.
Other [1]	(91,546)	(118,950)	27,404	(23%)	↓	This period's expense includes lower ACCS costs ($1.1 million). Prior year's amount included larger ACCS costs (approximately $37.2 million) than reimbursements. (ACCS is a reimbursement to funds for transition costs associated with transition activity. Instead of funds transferring securities to a transition fund to ultimately transfer to another fund, the Equity managers flag activity as "ACCS" so costs are reimbursed and charged to the transition fund directly. It allows CalPERS and SSB to avoid the an additional layer of security transfers). Both the reimbursements and fees aspect of the ACCS activty are currently recorded as Other Investment Expensse. The decrease in ACCS cost in FY 2017-18 was partially offset by an increase (approx. $8.7 million) in personnel costs for merit salary increases and bargaining unit salary increases for INVO staff, miscellaneous operating expenses, investment analytics for supporting functions performed by analytics systems and tools used for investment decision making.
Net Investment & Other Income	**$25,677,501**	**$11,272,484**	**$14,405,017**	128%	↑	
Securities Lending Income	$94,192	$88,321	5,871	7%	↑	Securities lending income does not necessarily correlate to prior years balances due to CalPERS auctioning all asset classes every year - current activity is reflective of current demand to borrow securities. As such, these balances will fluctuate from year to year. Variance is mostly due to an increase of $14.8 million from Securities Lending Collateral Reinvestment Distributed Earnings (SWPO) from $24.5 million as of mid-FY 2016-17 to $39.3 million as of mid-FY 2017-18. The increase was partly offset by a decrease in security lending income from GE Undistributed Lending Income Ext Managers (SWPJ) of $4.8 million, which decreased from $16.7 million as of mid-FY 2016-17 to $11.9 million as of mid-FY 2017-18. Additionally, security lending income from INT DOM FTSE 3000 PERF ACCTG-SWRP decreased $4.5 million from $11.9 million as of mid-FY 2016-17 to $7.4 million as of mid-FY 2017-18.
Securites Lending Expense	($44,695)	($26,162)	($18,533)	71%	↑	Securities lending rebates paid from Securities Lending Collateral Reinvestment Distributed Earnings (SWPO) increased $17.3 million, from $18.8 million as of mid-FY 2016-17 to $36.1 million as of mid-FY 2017-18
Net Securities Lending	**$49,497**	**$62,159**	**($12,662)**	(20%)	↓	
Other Income	$6,488	$7,584	(1,096)	(14%)	↓	Unclaimed benefits over 4 years are escheated and recorded as Other Income. Variance in activity will vary depending on the $ amount, and the number of unclaimed benefits escheated. However, decrease is due to transfer of unclaimed benefits over 4 years from Other Income (Deposit Uncl Benefit Over 4 yr-account 8090234) back to Unclaimed Benefit Payable account (3010032) to pay off some overpayment receivables.
Plan to Plan Resource Movement	$219	$109	110	101%	↑	Increase in the internal transfer of funds resulting from adjustments in balances between PERF A, B, and C, at mid-year.
TOTAL ADDITIONS	**$37,941,394**	**$20,103,144**	**$17,838,250**	89%	↑	
DEDUCTIONS						
Retirement, Death & Survivor Benefits	($11,129,135)	($10,424,055)	($705,080)	7%	↑	The increase in retirement, death & survivor benefits is attributable to an increase in the number of benefit receipients based on the fiscal year end numbers, in combination with a COLA increase of between 1 and 2 percent for most retirees. The number of retirees and beneficiaries increased by 3.0%, from 648,645 at 6/30/16 to 668,059 as of 6/30/17. Note: member data only run at fiscal year end (mid-year data unavailable for trending purposes)
Refund of Contributions	(133,036)	(105,445)	(27,591)	26%	↑	Increase in members separating from the plan. Note: refund benefits will vary due to the nature of refund related activity.
Plan to Plan Resource Movement	($219)	(109)	(110)	101%	↑	Increase in the internal transfer of funds resulting from adjustments in balances between PERF A, B, and C, during the year-end.
Administration Costs [2]	(165,787)	(135,659)	(30,128)	22%	↑	Increase in administrative expenses is due to: a) State administrative costs (Pro Rata) of $14.6 million for first and second quarters of FY2017-18 are included in this year's administrative expenses. State administrative costs for first and second quarters of FY 2016-17 for $14.2 million was not included due to the timing of when the invoice was received b) Increase due to employee salary increase effective July 1, 2017 and rate increases to employee benefits (including retirement, health and dental coverage, central administrative services)
TOTAL DEDUCTIONS	**$ (11,428,177)**	**$ (10,665,268)**	**$ (762,909)**	7%	↑	
Change in Net Position	**$26,513,217**	**$9,437,876**	**$17,075,341**	181%	↑	
NET POSITION						
Beginning of Year	**$ 326,498,998**	**$ 298,704,002**	**$ 27,794,996**	9%	↑	From July 2016
Net Position, December 31	**$ 353,012,215**	**$ 308,141,878**	**$ 44,870,337**	15%	↑	From December 2016

[1] OTHER INVESTMENT EXPENSES
Other investment expenses includes administrative and legal costs incurred in the Investment office (INVO), dividend

[2] ADMINISTRATION COSTS
Administrative costs include personnel service, external consultant and professional services, and operating expenses