

SEMI-ANNUAL FINANCIAL REPORT (PERF)

Fiscal Year-to-Date December 31, 2018

Preliminary Unaudited Financial Results

For the mid-year ended December 31,	2018	2017	\$ Change	% Change	MID-YEAR TO MID-YEAR COMPARISON
	(\$ Thousands)				
ADDITIONS					
Retirement Contributions					
Members	\$2,313,165	\$2,207,122	\$106,043	5%	↑ The increase in member contributions is primarily attributable to an increase in covered payroll resulting from: 1. State employee salary increase effective July 1, 2018 2. The number of active PEPRAs members who contribute continues to increase. As of 6/30/18 there were 312,319 active PEPRAs employees, compared to 267,476 at 6/30/17.
Employers	\$9,168,958	\$10,000,567	(\$831,609)	(8%)	↓ The decrease is primarily due to less unfunded liability payments received, which decreased by \$1.4 billion, from \$4.8 billion as of mid-FY 2017-18 to \$3.4 billion as of mid-FY 2018-19. Employer contributions were unusually higher in FY 2017-18 due to state supplemental payment of \$2.0 billion received as of mid-year 2017-18, compared to no supplemental payment made by the state as of mid-FY 2018-19. The decrease was offset by an increase in employer contribution of \$0.5 billion. Effective 7/1/18, employer contribution rates increased between 0.02% and 1.1% for State, 2.5% for schools, and between 2.0% and 3.1% on average for public agency miscellaneous and safety plans (respectively).
Total Retirement Contributions	\$11,482,123	\$12,207,689	(\$725,566)	(6%)	↓
Investment & Other Income					
Net Appreciation in Fair Value of Investments	(\$15,582,878)	\$24,525,024	(40,107,902)	(164%)	↓ Unfavorable market conditions resulted in negative returns. Per State Street Bank (SSB) performance analytics, PERF total fund had a negative return of 3.9 percent in the mid-FY 2018-19, compared with a net return of 8.1 percent in the mid-FY 2017-18.
Interest & Amortization	840,037	1,007,094	(167,057)	(17%)	↓ Interest income will vary, depending on the specific interest payment policies of holdings within global debt securities. Interest from short term securities and fixed income securities decreased \$68.5 million and \$93.8 million (respectively).
Dividends	978,962	603,950	375,012	62%	↑ Dividend income will vary depending on the specific dividend payment policies of holdings within global equity securities.
Other Investment Income	7,934	3,068	4,866	159%	↑ Other investment income includes income from securities litigation, credit enhancement program, draw fees etc. Amount can fluctuate depending on the activities. Increase is primarily due to higher security litigation income.
<i>Less Investment Expenses:</i>					
Management & Performance Fees	(317,221)	(370,089)	52,868	(14%)	↓ Real assets performance fees decreased \$39.1 million, coinciding with a significant decrease in unrealized gains for real assets, which decreased (106.7%) from \$886.1 million as of mid-FY 2017-18 to unrealized loss of \$59.4 million as of mid-FY 2018-19. Additionally, Real Asset management fees decreased \$22.0 million.
Other [1]	(107,772)	(91,546)	(16,226)	18%	↑ Dividend tax withheld expense increased \$13.4 million, coinciding with an increase in dividend revenue.
Net Investment & Other Income	(\$14,180,938)	\$25,677,501	(\$39,858,439)	(155%)	↓
Securities Lending Income	\$110,943	\$94,192	16,751	18%	↑ 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 \$34.9 million in Securities Lending Collateral Reinvestment Distributed Earnings from \$39.3 million in the mid-FY 2017-18 to \$74.2 million in the mid-FY 2018-19. The increase was partly offset by a decrease in securities lending income from Global Equity Undistributed Lending Income Ext Managers of \$6.2 million, which decreased from \$11.9 million in the mid-FY 2017-18 to \$5.7 million in the mid-FY 2018-19. Additionally, securities lending income from CalPERS Domestic Fixed Income decreased \$4.3 million from \$5.2 million in the mid-FY 2017-18 to \$0.9 million in the mid-FY 2018-19.
Securities Lending Expense	(\$68,271)	(\$44,695)	(\$23,576)	53%	↑ Securities lending rebates paid from Securities Lending Collateral Reinvestment Distributed Earnings increased \$29.2 million, from \$36.1 million in the mid-FY 2017-18 to \$65.3 million in the mid-FY 2018-19.
Net Securities Lending	\$42,672	\$49,497	(\$6,825)	(14%)	↓
Other Income	\$3,165	\$6,488	(3,323)	(51%)	↓ Unclaimed benefits over 4 years are escheated and recorded as Other Income. Variance in activity will vary depending on the dollar amount, and the number of unclaimed benefits escheated.
Plan-to-Plan Resource Movement	\$457	\$219	238	109%	↑ Increase in the internal transfer of funds resulting from adjustments in balances between PERF A, B, and C, at mid-year.
TOTAL ADDITIONS	(\$2,652,521)	\$37,941,394	(\$40,593,915)	(107%)	↓
DEDUCTIONS					
Retirement, Death & Survivor Benefits	(\$11,903,703)	(\$11,129,135)	(\$774,568)	7%	↑ The increase in retirement, death & survivor benefits is attributable to an increase in the number of benefit recipients based on the fiscal year end numbers, in combination with a COLA increase of between 1% and 2% for most retirees. The number of retirees and beneficiaries increased by 4.0%, from 668,059 at 6/30/17 to 694,570 as of 6/30/18. Note: member data only run at fiscal year end (mid-year data unavailable for trending purposes)
Refund of Contributions	(143,126)	(133,036)	(10,090)	8%	↑ Increase in members separating from the plan. This activity will naturally vary year to year depending on the number of participants who elect to separate from PERS.
Plan to Plan Resource Movement	(\$457)	(\$219)	(238)	109%	↑ Increase in the internal transfer of funds resulting from adjustments in balances between PERF A, B, and C, at mid-year.
Administration Costs [2]	(154,156)	(165,787)	11,631	(7%)	↓ External consultant service expenses decreased \$6.7 million from \$16.5 million at mid-FY 2017-18 to \$9.8 million at mid-FY 2018-19, as administrative enterprise costs decreased. Retirement annuitant enrollment fees (employment without reinstatement, failure to enroll or report fees) of \$4.5 million were collected as of mid-FY 2018-19. CalPERS started collecting these fees effective 7/1/18.
TOTAL DEDUCTIONS	\$ (12,201,442)	\$ (11,428,177)	\$ (773,265)	7%	↑
Change in Net Position	(\$14,853,963)	\$26,513,217	(\$41,367,180)	(156%)	↓
NET POSITION					
Beginning of Year	\$ 353,995,501	\$ 326,498,998	\$ 27,496,503	8%	↑ From July 2017
Net Position, December 31	\$ 339,141,538	\$ 353,012,215	\$ (13,870,677)	(4%)	↓ From December 2017

[1] OTHER INVESTMENT EXPENSES

Other investment expenses includes administrative and legal costs incurred in the Investment office (INVO), dividend tax withheld, other tax related expenses, and investment related consultant services.

[2] ADMINISTRATION COSTS

Administrative costs include personnel service, external consultant and professional services, and operating expenses and equipment. Excludes INVO admin expenses for both FY's.