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Circular Letter

TO: ALL PUBLIC AGENCIES

SUBJECT: CALPERS INVESTMENTS DURING RECENT MARKET DOWNTURN

**ATTENTION: FINANCE DIRECTORS, HUMAN RESOURCE DIRECTORS,
PUBLIC AGENCY DECISION MAKERS**

Recent news surrounding the financial market volatility may be cause of concern to CalPERS employers and members. In an effort to address any questions by employers and members, this circular letter is being issued to provide information regarding the protections and security of the CalPERS defined benefit plan.

OVERVIEW

The CalPERS pension system remains sound amid the current global market downturn. Although CalPERS is not immune from market fluctuations, we continue to achieve a stable funding status by adhering to a prudent, long term investment strategy and maintaining a well diversified portfolio. CalPERS has an excellent record of enduring market downturns and rebounding from periods of negative investment returns. The recent market volatility has no bearing on our ability to meet our benefit payments to retirees.

INVESTMENT DIVERSIFICATION

CalPERS strategic asset allocation sets the percentage of funds to be invested in each asset class. Our goal is to maximize returns at a prudent level of risk; an ever-changing balancing act between market volatility and long-term goals. Our portfolio is well-diversified with investments in private companies, real estate, fixed income, and other assets. This diversification is designed to mitigate losses in one asset class with investment gains in other asset classes. The Board of Administration's recent asset allocation decisions further diversified the portfolio by creating a new inflation-linked asset class, increasing allocation to private equity and expanding real estate (with a tilt toward international investing). Our investment professionals continue to manage the portfolio within asset allocation and risk management policies set by the Board of Administration and designed for long term performance. While our market value of assets has experienced a decline in recent weeks, it is important to note that our pension system is structured – and well diversified - to withstand these types of gyrations.

CALPERS HISTORY OF RESILIENCY

CalPERS is responding to the recent stock market volatility as we have in the past. We endured and rebounded significantly from other market events such as the savings and loan problems and soaring interest rates in the 1980's and 1990's, the real estate slump of the early 1990s, the technology stock losses in early 2000, and the market downturn following the 9/11 tragedy. We're monitoring our financial sector exposure closely and identifying buying opportunities in the changing market environment. As a long-term investor, we can afford to hold our position and look for longer term gains.

INVESTMENT STRATEGY

Our portfolio is well-positioned for the long term. We're exploring investment opportunities in the private equity market, especially in the financial services industry. Institutional investors like CalPERS are a stable force in the market with long-term capital deployment. We have a long-range investment focus and are in a good position to generate value, over time, with our diversified portfolio.

IMPACT ON LOCAL PUBLIC AGENCY EMPLOYER CONTRIBUTION RATES

Cushioning the impact of investment set backs is the fact that CalPERS experienced double digit gains in the four years leading up to the 2007/2008 fiscal year. In previous down markets, flat or negative investment returns contributed substantially to increases in employer contributions the following year. However, CalPERS rate stabilization policies now spread market gains and losses over 15 years, thus reducing the volatility of employer rates. Financial markets have dropped significantly this fiscal year, but the volatility we have experienced through 9/30/2008 will have only a slight impact on employer contribution rates. The typical employer payroll contribution rate would increase approximately one quarter of one percent (0.25%) of pay. The CalPERS rate stabilization policy is working as intended.

IMPACT ON MEMBER BENEFITS

Our members' retirement benefits are safe and secure and protected by law. Benefit payments to current members are not impacted by stock market swings. We understand the concerns you and your employees may have in response to the recent market conditions. CalPERS is diligently monitoring the situation to ensure the long term success of the System and the financial security for our members and employers. We have included information on our Website, are in a position to respond quickly and effectively to members who call us or email us their concerns. We continue to urge our federal policymakers and regulators to take steps necessary to restore investor overall confidence in the markets.

Kenneth W. Marzion
Interim Chief Executive Officer