

CalPERS Emerging and Diverse Manager Forum

Global Equity – Asset Class Breakout Session

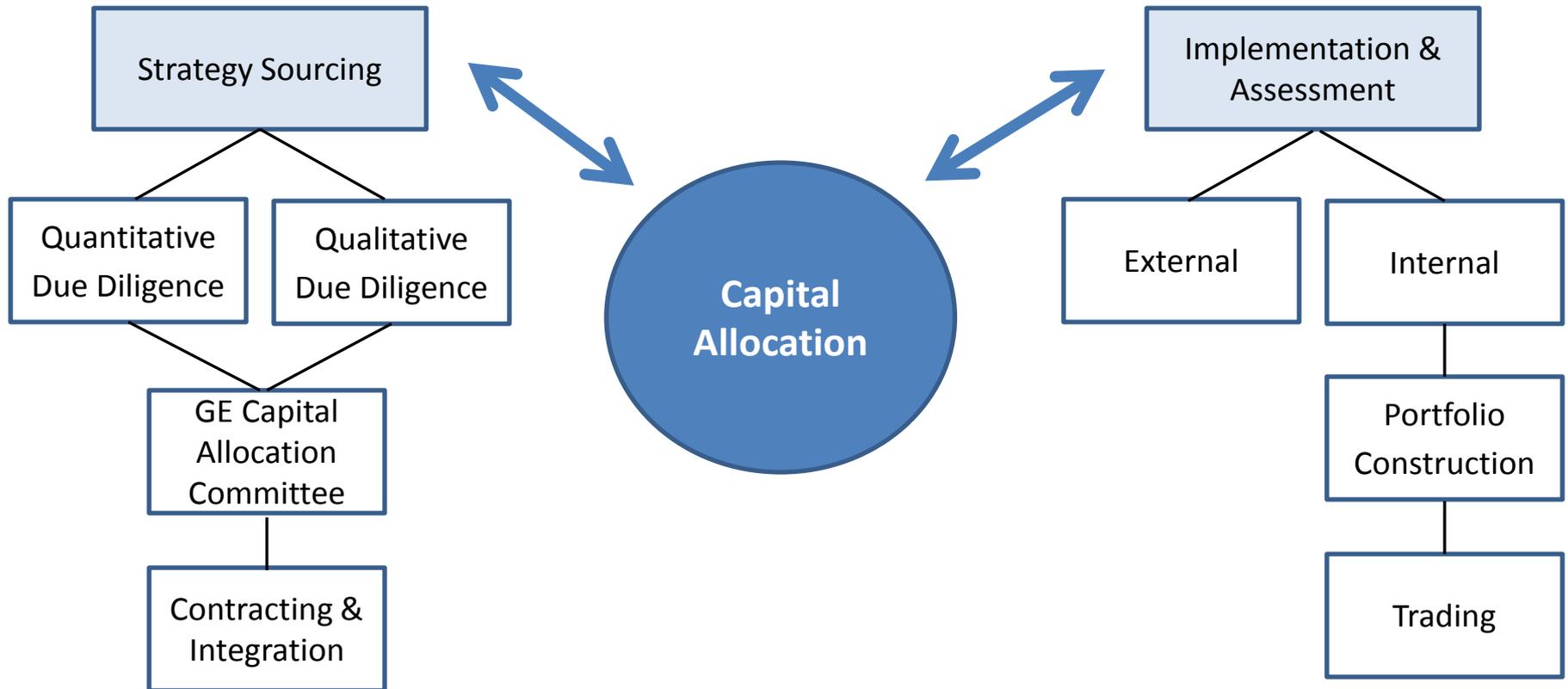
December 3, 2012

Global Equity

- AUM \$119 billion*
- FTSE All World, All Capitalization benchmark
- 79% internal management
- Active risk 0.35%

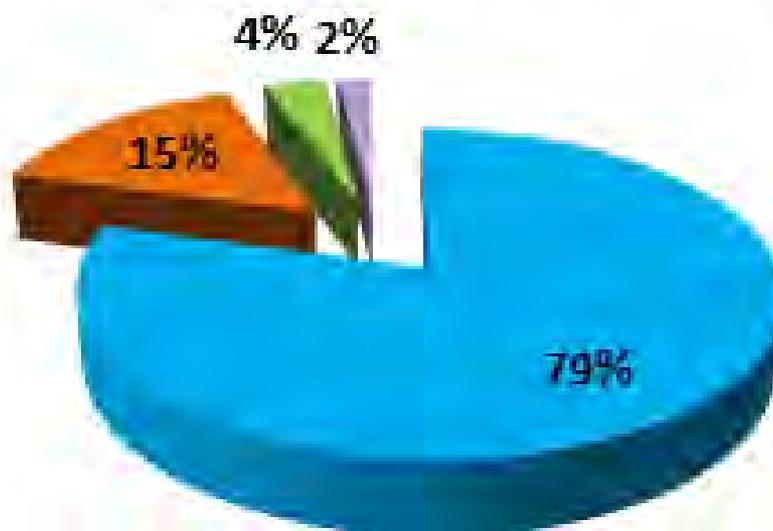
* As of September 30, 2012

Global Equity Business Activities



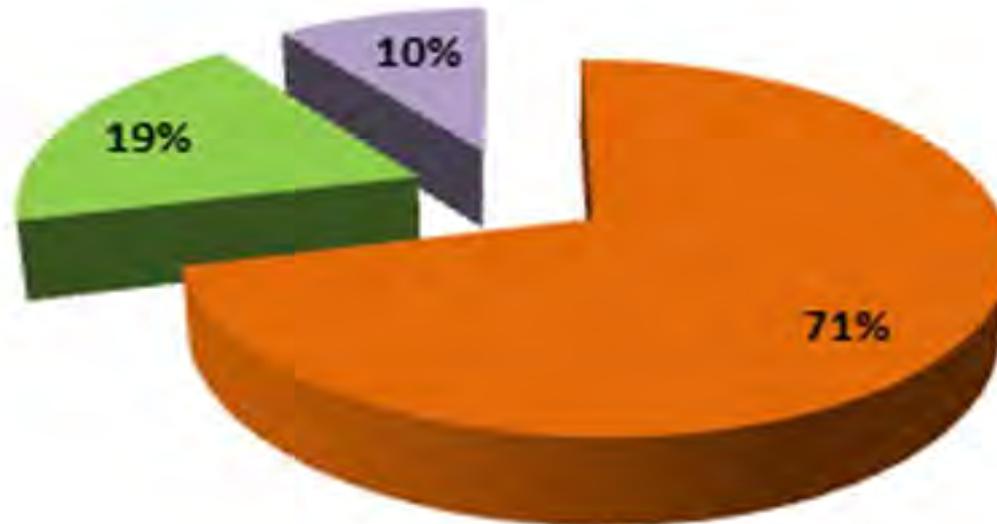
Total Global Equity Allocation

- Internal Equity
- Traditional External
- Corporate Governance
- Emerging Managers



Global Equity External Allocation

■ Traditional External ■ Corporate Governance ■ Emerging Managers



Key Statistics

	2007	2012
Total Global Equity AUM	\$144 Billion	\$119 Billion
Total External AUM	\$52 Billion	\$25 Billion
Total Emerging Manager AUM	\$1.8 Billion	\$2.3 Billion
Emerging Managers % of Total External	3%	10%
Number of Emerging Manager Advisors	3	5
Number of Emerging Managers	11	32
Number of Diverse Managers / Advisors		20
Total Number of External Managers / Advisors	69	61
<i>* Data as of September 30th</i>		

Opportunities

- Key role of our advisors
- Use of the Investment Proposal Tracking System (IPTS)
- Six to twelve months transition underway towards a holistic Global Equity structure

Advisors

- Legato Capital Management
- Progress Investment Management
- Leading Edge Investment Advisors
- Strategic Investment Group
- FIS Group

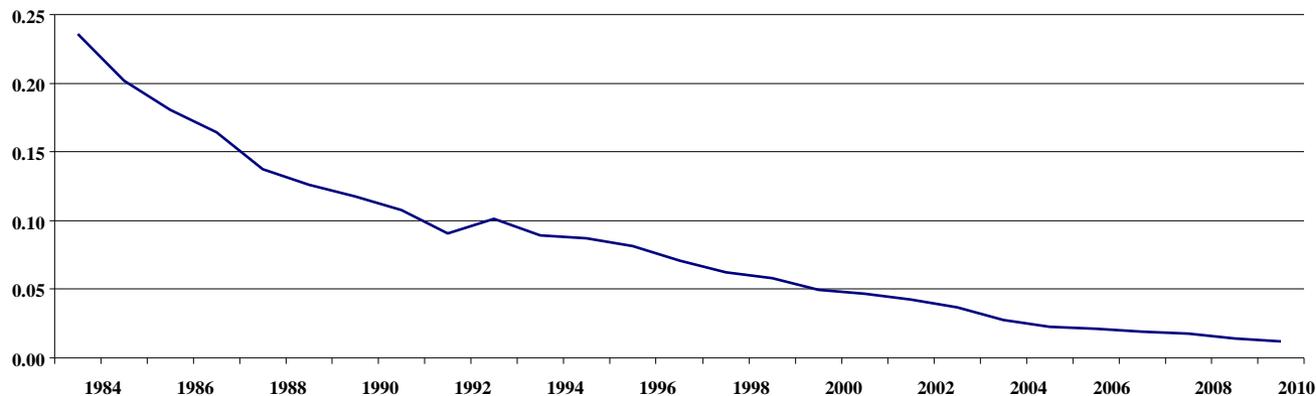
Global Equity Internal Equity Brokerage

December 3, 2012

Background

- In the absence of a coordinated effort in addressing CalPERS brokerage, CalPERS had an excessive number of brokers receiving minimal trade activity. This, coupled with declining commissions, caused several problems:
 - Numerous relationships that were “financially insignificant” for both parties
 - Complexity created in the CalPERS equity execution infrastructure due to the high number of broker connections
 - Lack of a structured evaluation process to recognize and reward the outstanding performers
 - Lack of structured process to evaluate potential new counterparties
- In response, a project was undertaken to overhaul the equity brokerage program and address these issues

Declining US Equity Commissions (Cents Per Share)



Broker Evaluation Process

- Mosaic Investment Advisors (Mosaic), one of CalPERS diversity consultants, is an integral partner in the process and helps to meet two overarching goals:
 - Achieving best execution (first and foremost)
 - Providing opportunity to a diverse set of counterparties
- A Structured Broker Evaluation was implemented with each broker scored on the basis of three metrics:
 - Execution Quality
 - Operational Capability
 - Value Added
- Based on this score, brokers are assigned to one of three different pools:
 - Core Brokers (top combined scores) receive a substantial amount of the trading activity
 - Development Brokers (middle-tier scores) receive activity and are evaluated and nurtured to potentially become Core Brokers
 - Queue Brokers (lowest scores) receive feedback to help them become stronger Development pool candidates
- This evaluation is completed twice each year with brokers moving between categories based on their scores

Results

- A much improved business environment for CalPERS brokerage:
 - A rigorous and transparent evaluation of each broker relationship and prospect with an explicit discussion of their strengths in all three metrics of evaluation (execution quality, operational capability, value add)
 - Improvement in brokerage quality across the three metrics
 - A stronger commitment to minority, women, and disabled veteran (M,W,DV) owned brokers
 - A substantially smaller and more diverse broker pool with counterparties who now recognize that continued order flow is directly dependent upon performance
- Total number of active brokers reduced from **78 to 23** (simplification / operational risk control)
- Number and percentage of active M,W,DV brokers increased from **9 to 10** and from **12% to 43%** respectively
- Percentage of commission activity with M,W,DV brokers increased from **11% to 40%**

