Wilshire

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October 25, 2011

Dr. George Diehr
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Focus List Program Analysis

Dear Dr. Diehr:

Wilshire has updated the study of performance for all companies CalPERS has engaged through its Focus List Program over the last eleven years. The letter summarizes our findings.

Methodology

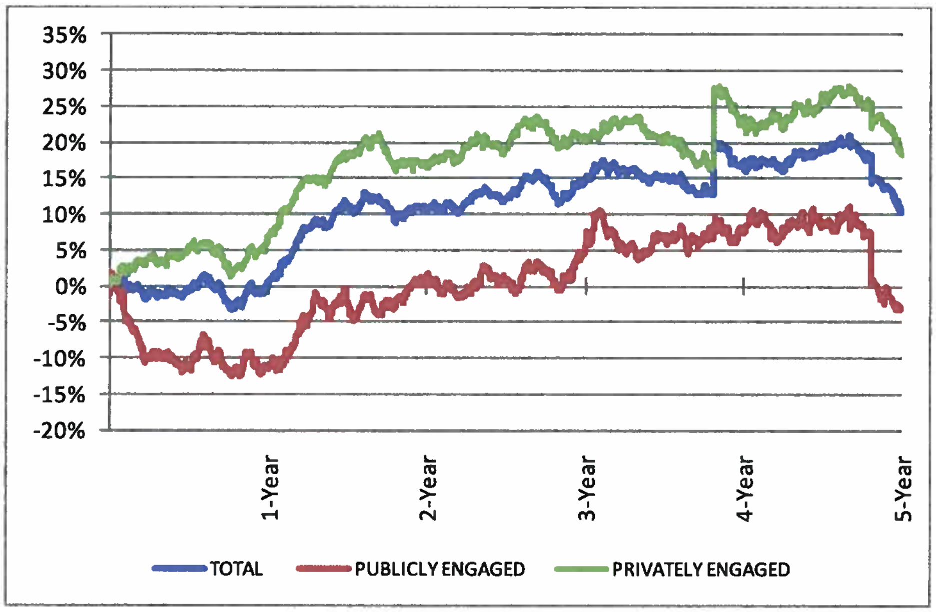
Under the Focus List Program, from 1999 to 2009 CalPERS engaged a total of 169 companies, 59 of which were publicly named to the CalPERS public Focus List and 110 which were engaged privately. In 2009 there were 14 new companies privately engaged and none were named to the public Focus List due to successful engagement outcomes. Historically, only the worst offenders that were resistant to governance reform were named to the CalPERS public Focus List. It is worth noting that in November 2010 CalPERS abolished the use of its public Focus List by adopting a solely private engagement approach.

To conduct this analysis, Wilshire examined the daily returns for each company beginning at CalPERS' initial contact date and calculated excess returns for each company relative to an appropriate benchmark. The initial contact dates were provided by CalPERS. S&P 500 companies were benchmarked to the S&P 500 and all others were benchmarked to the Wilshire 4500. This is the same methodology used in the annual "CalPERS Effect" paper that Wilshire provided for many years. The sector analysis was derived from the Wilshire 5000. For example, technology companies were compared to the technology sector of the Wilshire 5000 and so forth.

Findings

The following graph depicts the average cumulative excess returns for the total sample, the publicly engaged companies, and the privately engaged companies versus the appropriate benchmarks.

The "CalPERS Effect" of Focus List Program Engaged Companies Relative to Benchmark

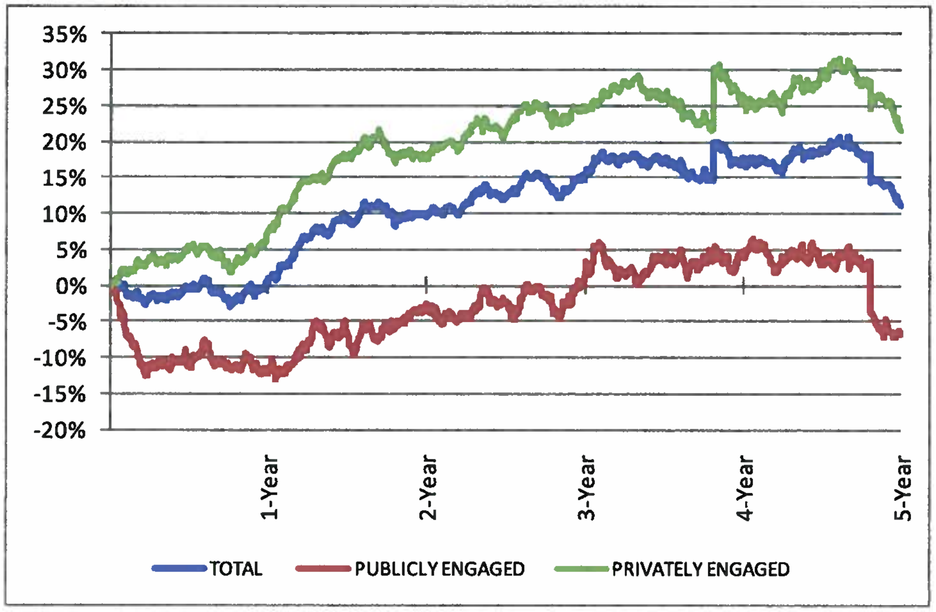


As you can see, privately engaged companies outperformed the publicly engaged companies in this analysis. The turnaround in stock performance for publicly engaged companies is not apparent until close to two years from engagement, whereas the privately engaged firms that are contacted are receptive to or are already engaged in some measure of reform move more quickly to better governance standards, improving the performance of those stocks more rapidly.

Further, the publicly engaged companies in aggregate have modestly underperformed the index over the full five year horizon, which is a change from the report provided one year ago. This was driven by the 2005 cohort companies which had a cumulative excess return versus the benchmark fall materially from -5.45% four years from engagement to -25.6% with a full five year post-engagement record.

The following graph depicts the average cumulative excess returns for the total sample, the publicly engaged companies, and the privately engaged companies versus the relevant sectors of the Wilshire 5000.

The "CalPERS Effect" of Focus List Program Engaged Companies Relative to Sector



Again, the privately engaged companies outperfomed the publicly engaged companies relative to their respective sectors. The publicly engaged companies, on average over the full five year measurement period, underperformed their respective sectors and by a larger amount than the underperformance seen using the benchmark methodology displayed in the prior chart. One area of note, however, is that the results for those publicly engaged companies with four years of post-engagement history improved. This was driven by the positive average relative performance of the 2006 cohort of firms. If engagement efforts manage to hold onto these gains for a further year, we would expect the data to improve over the five year horizon in future reports.

An alternative view would be that the individual companies should not be equally weighted, but that the yearly cohorts should be. This logic would be supported by the fact that Staff spends a certain amount of time each year on engagement activities and that one year's efforts should not count more than another simply because there were more companies engaged during a particular year. The table below presents the average of the yearly cohort performance.

	All Engaged Companies Average of Yearly Cohorts		Publicly Engaged Companies Average of Yearly Cohorts		Privately Engaged Companies Average of Yearly Cohorts	
	Cumulative		Cumulative		Cumulative	
	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM
1 Year	2.42%	3.47%	-8.94%	-5.33%	7.56%	7.53%
3 Years	13.83%	11.59%	-9.58%	-5.84%	26.07%	21.07%
5 Years	7.92%	4.77%	-22.95%	-20.88%	23.40%	17.86%

Again, the privately engaged companies outperformed the publicly engaged companies.

The table below examines various company level performance characteristics for the full five years versus both the sector and benchmark. The table details the company with the maximum, minimum and median relative performance, in addition to the overall number of underperforming and outperforming companies. Note that 60 of the 169 companies did not have five years of returns due to their more recent initial contact dates.

	Versus Sector	Versus Benchmark
Maximum	389.01%	321.27%
Minimum	-156.70%	-183.93%
Median	-0.27%	-0.31%
# Underperforming	56	55
# Outperforming	53	54
# w/o 5 Years of Returns	60	60

Conclusion

In aggregate the corporate governance program has accomplished its goal of engaging with companies in order to drive positive long term shareholder value. CalPERS has a long history of active involvement and discussion of the best practices in this area, and the data supports the contention that their involvement has improved investment results.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

Andrew Junkin, CFA, CAIA
Managing Director

Thomas Toth, CFA
Managing Director

All Companies Engaged

	2000			2001			2002			2003			2004			2005			2006			2007			2008			2009			Total Composite		Average of Yearly Cohorts	
	Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative		Cumulative	
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM
1-Yr	-2.48%	11.24%	28.99%	-18.52%	-1.53%	-7.05%	55.63%	21.51%	25.99%	13.27%	4.37%	5.84%	10.06%	1.12%	0.33%	24.85%	6.42%	7.76%	5.83%	-7.75%	-10.62%	-36.44%	-18.15%	-24.06%	-9.64%	-2.90%	-1.11%	19.56%	8.82%	8.60%	0.67%	0.67%	2.42%	3.47%
3-Yr	14.30%	21.89%	40.65%	17.52%	0.91%	-8.00%	92.71%	48.99%	34.67%	54.84%	15.57%	17.36%	67.35%	10.42%	20.90%	-24.81%	-5.65%	-10.68%	19.90%	27.67%	27.67%	(0.43)	(0.19)	(0.30)	-	-	-	-	-	-	15.25%	14.45%	13.83%	11.59%
5-Yr	61.84%	51.45%	71.83%	47.05%	4.04%	-13.71%	81.91%	-1.46%	-27.71%	25.20%	6.94%	13.02%	10.88%	-5.05%	-1.45%	-3.30%	-8.40%	-13.34%	-	-	-	-	-	-	-	-	-	-	-	-	11.12%	10.38%	7.92%	4.77%
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM		
1-Yr	-2.48%	11.24%	28.99%	-18.52%	-1.53%	-7.05%	55.63%	21.51%	25.99%	13.27%	4.37%	5.84%	10.06%	1.12%	0.33%	14.85%	6.42%	7.76%	5.83%	-7.75%	-10.62%	-36.44%	-18.15%	-24.06%	-9.64%	-1.90%	-1.11%	19.56%	8.82%	8.60%	0.67%	0.67%		
3-Yr	4.56%	6.82%	22.04%	5.53%	0.30%	-2.74%	24.44%	14.21%	10.43%	15.69%	4.94%	5.48%	18.72%	6.39%	6.53%	-9.07%	-1.92%	-3.70%	6.14%	8.48%	8.48%	(0.17)	(0.07)	(0.11)	-	-	-	-	-	-	4.84%	4.60%		
5-Yr	10.11%	8.66%	11.43%	8.02%	0.80%	-2.91%	12.71%	-0.29%	-6.28%	4.60%	1.35%	2.48%	2.09%	-1.03%	-0.29%	-0.67%	-1.74%	-2.82%	-	-	-	-	-	-	-	-	-	-	-	-	2.13%	1.99%		

Publicly Engaged Companies

	2000			2001			2002			2003			2004			2005			2006			2007			2008			2009			Total Composite		Average of Yearly Cohorts	
	Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative		Cumulative	
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM
1-Yr	-22.39%	-16.00%	12.49%	-64.59%	-41.12%	-48.73%	49.93%	5.28%	20.61%	3.58%	-13.63%	-3.73%	-18.86%	-22.48%	-27.37%	39.86%	22.63%	22.80%	0.78%	-13.40%	-15.60%	-15.45%	0.82%	-3.57%	-12.62%	-2.58%	-4.89%	-	-	-	-11.94%	-11.20%	-8.94%	-5.33%
3-Yr	-18.73%	-20.39%	7.33%	-42.23%	-50.98%	-50.95%	91.90%	41.69%	32.85%	38.25%	-17.62%	0.80%	2.71%	-42.93%	-40.25%	-29.49%	-7.34%	-18.48%	13.18%	19.05%	20.73%	(0.21)	0.02	0.01	-	-	-	-	-	-	0.24%	4.37%	-9.58%	-5.84%
5-Yr	38.00%	21.30%	46.27%	-41.55%	-73.23%	-72.01%	75.31%	-18.85%	-35.03%	13.98%	-10.92%	6.44%	-37.72%	-43.81%	-45.33%	-18.80%	-12.23%	-25.61%	-	-	-	-	-	-	-	-	-	-	-	-	-6.70%	-3.17%	-22.95%	-20.88%
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM		
1-Yr	-22.39%	-16.00%	12.49%	-64.59%	-41.12%	-48.73%	49.93%	5.28%	20.61%	3.58%	-23.63%	-3.73%	-18.86%	-22.48%	-27.37%	39.86%	22.63%	22.80%	0.78%	-13.40%	-15.60%	-15.45%	0.82%	-3.57%	-12.62%	-2.58%	-4.89%	-	-	-	-11.94%	-11.20%		
3-Yr	-6.68%	-7.32%	2.39%	-16.72%	-21.15%	-21.14%	24.27%	12.32%	9.93%	11.40%	-6.26%	0.27%	0.89%	-17.05%	-15.77%	-11.00%	-2.51%	-6.58%	4.21%	5.99%	6.48%	(0.04)	0.01	0.00	-	-	-	-	-	-	0.08%	1.44%		
5-Yr	6.65%	3.94%	7.90%	-10.18%	-23.17%	-22.48%	11.88%	-4.09%	-8.26%	2.65%	-2.29%	1.26%	-9.03%	-10.89%	-11.38%	-4.08%	-2.57%	-5.75%	-	-	-	-	-	-	-	-	-	-	-	-	-1.38%	-0.64%		

Privately Engaged Companies

	2000			2001			2002			2003			2004			2005			2006			2007			2008			2009			Total Composite		Average of Yearly Cohorts	
	Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative		Cumulative	
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM
1-Yr	7.47%	24.86%	37.24%	7.07%	20.47%	16.12%	58.74%	30.37%	28.92%	16.25%	9.91%	8.79%	23.21%	11.84%	12.92%	15.85%	-3.30%	-1.27%	13.75%	1.12%	-2.79%	-45.99%	-26.78%	-33.37%	-8.65%	-1.68%	0.15%	19.56%	8.82%	8.60%	7.43%	7.03%	7.56%	7.53%
3-Yr	30.82%	43.02%	57.32%	50.71%	29.74%	15.86%	93.16%	52.96%	35.66%	59.94%	15.78%	22.45%	96.73%	49.22%	48.70%	-22.00%	-4.64%	-6.01%	30.45%	41.22%	38.58%	(0.58)	(0.29)	(0.44)	-	-	-	-	-	-	24.91%	20.94%	26.07%	21.07%
5-Yr	73.76%	66.53%	84.61%	96.28%	46.98%	18.68%	85.50%	8.02%	-23.71%	28.65%	12.44%	15.05%	32.96%	12.57%	18.49%	6.00%	-6.10%	-5.98%	-	-	-	-	-	-	-	-	-	-	-	-	21.44%	18.23%	23.40%	17.86%
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM		
1-Yr	7.47%	24.86%	37.24%	7.07%	20.47%	16.12%	58.74%	30.37%	28.92%	16.25%	9.91%	8.79%	13.21%	11.84%	12.92%	15.85%	-3.30%	-1.27%	13.75%	1.12%	-2.79%	-45.99%	-26.78%	-33.37%	-8.65%	-1.68%	0.25%	19.56%	8.82%	8.60%	7.43%	7.03%		
3-Yr	9.37%	12.67%	16.30%	14.65%	9.07%	5.03%	24.54%	15.22%	10.70%	16.95%	7.94%	6.98%	25.30%	14.27%	14.14%	-7.95%	-1.57%	-2.04%	9.27%	12.19%	11.49%	(0.25)	(0.11)	(0.18)	-	-	-	-	-	-	7.70%	6.54%		
5-Yr	11.68%	10.74%	13.05%	14.44%	8.01%	3.49%	13.15%	1.55%	-5.27%	5.17%	2.37%	2.84%	5.86%	2.40%	3.45%	1.17%	-1.25%	-1.23%	-	-	-	-	-	-	-	-	-	-	-	-	3.96%	3.41%		