

CalPERS Emerging and Diverse Manager Forum

Private Equity – Asset Class Breakout Session

December 3, 2012

Agenda

- Overview / Role
- Governance
- Investment Processes
- Portfolio Exposure
- Emerging Manager & Targeted Investment Program
- Performance
- How to Contact CalPERS PE

CalPERS Portfolio

Asset Class	Net Asset Value (NAV)*	Policy Target
Global Equity	\$112.7	50%
Private Equity	\$34.2	14%
Income	\$41.9	17%
Liquidity	\$7.5	4%
Real Assets	\$24.2	11%
Inflation	\$7.1	4%
Absolute Return Strategies	\$5.1	N/A
TOTAL	\$233.4	

*\$'s in billions as of June 30, 2012

Program Role

To maximize risk-adjusted rates of return while enhancing the CalPERS position as a premier private equity investment manager.

The current policy return expectation is a net excess return of 3% over the public markets.

Program Governance



Approval

- Investment Committee approves investment policy and portfolio target.



Delegation

- Investment decision making authority is delegated to staff.

Program Governance (contin.)

Execution

- Private Equity Program staff, through the Private Equity Investment Review Committee (IRC) process, conduct consistent, thorough and objective analysis to reach investment decisions.

Also Involved in the Decision Making Process:

- Consultants with specialized expertise
- CalPERS Internal Legal Counsel is consulted*
- Outside Legal Counsel provides expert comments
- Board Consultant provides an opinion letter*

**CalPERS Internal Legal Counsel and Board Consultant opine on the conformity of the investment to CalPERS policy and not the decision to make the investment.*

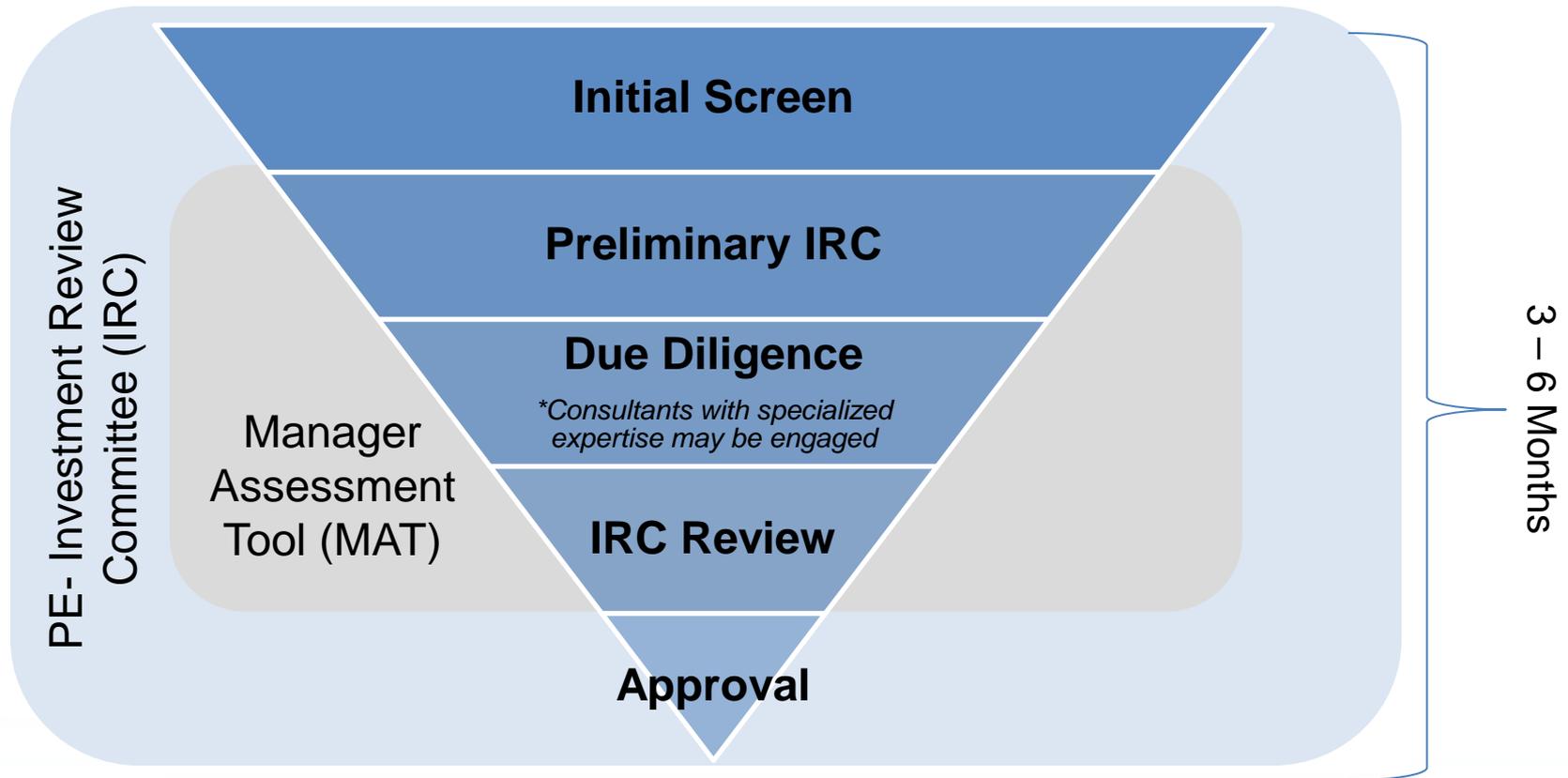
Strategic Review – September 2011

Objectives

- Restructure and rebalance PE portfolio
- Improve governance through the use of IPTS
- Improve portfolio performance
- Reduce fees and economics
- Upgrade technology

Evaluation Process

Investment Proposal Tracking System (IPTS)



Manager Assessment Tool (MAT)

- Investments are screened using a consistent, rigorous process focusing on five key metrics:
 - Alignment/Governance
 - Performance
 - Portfolio Fit
 - Team Cohesiveness
 - Value Creation

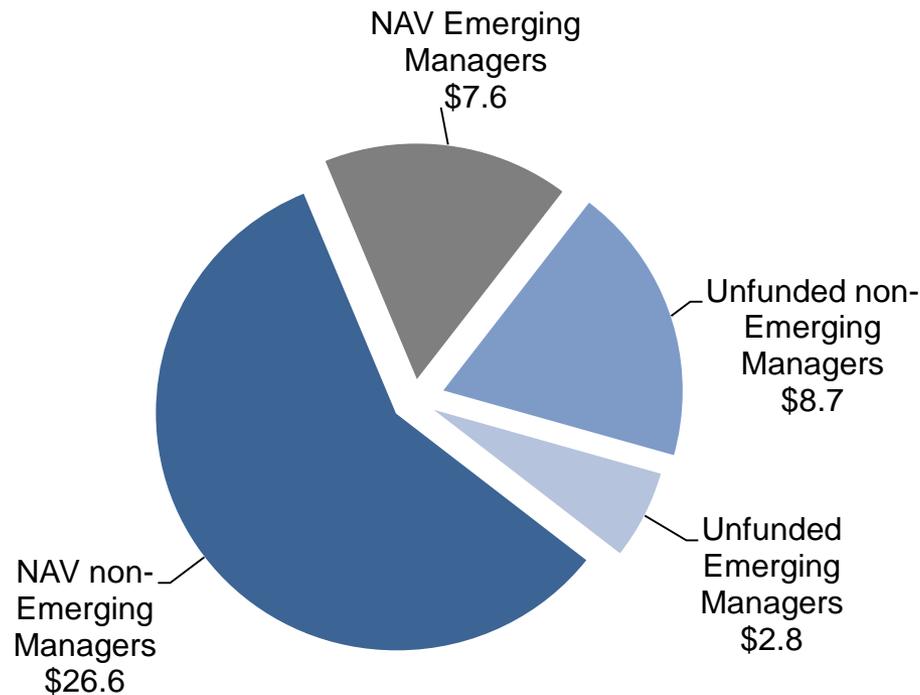
Emerging Manager Definition

“A firm raising a first or second time Institutional Fund.”

An Institutional Fund is a Fund which is being raised by a proven team with a demonstrable track record to which at least three institutional investors have made a commitment.

Portfolio

Net Asset Value plus Unfunded (Total Exposure) is \$45.7 billion



Strategy	Target
Buyouts	60%
Credit Related	15%
Venture Capital	<1%
Growth/Expansion	15%
Opportunistic	10%

As of June 30, 2012; \$'s in billions

Targeted Investment Programs (\$3.4 billion)

Clean Energy and Technology Program

- \$600 million allocation / fully committed

California Initiative Program

- \$1 billion allocation / fully committed

Healthcare Investment Initiative

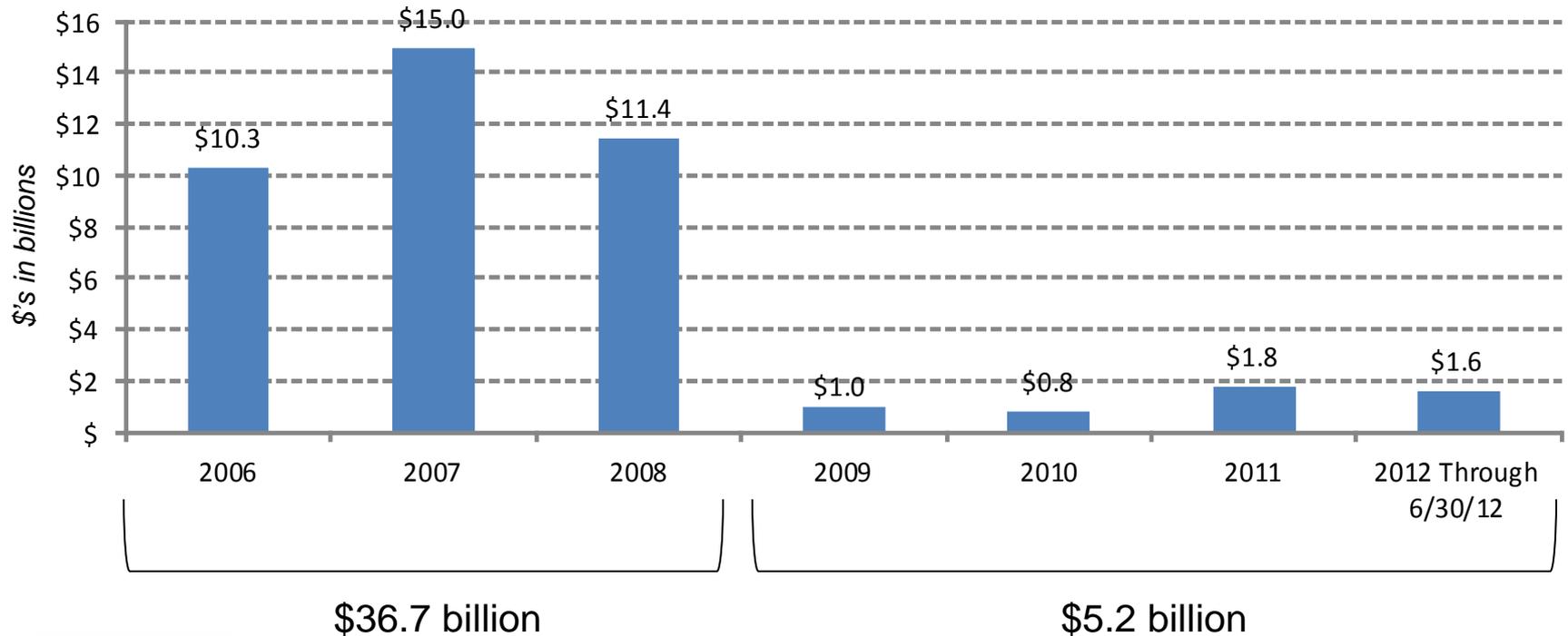
- \$705 million allocation

Emerging Manager Program

- \$1 billion fully committed and \$100 million allocated in 2012

Commitments

Capital Committed by Year



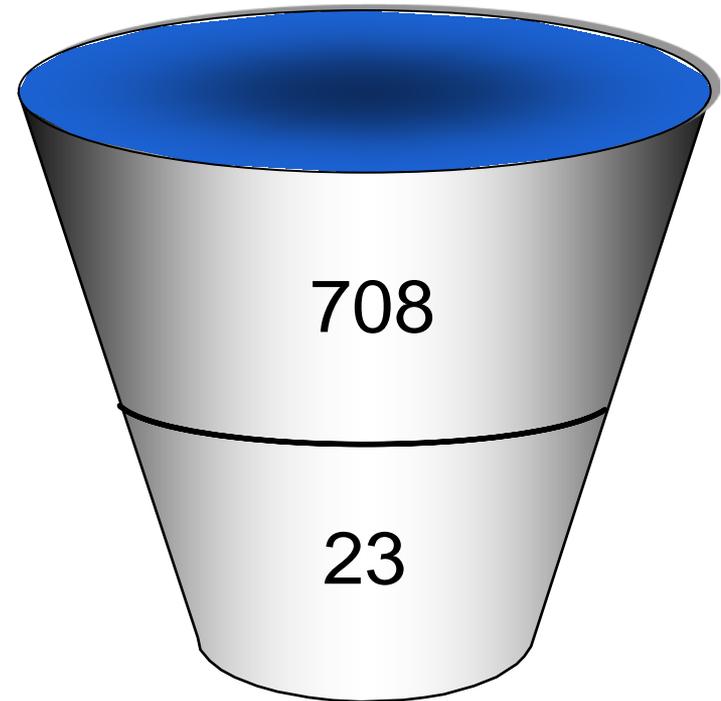
Number of Deals Received/Approved

Total Committed \$36.7
2006 - 2008



12% Approval Rate

Total Committed \$5.2
2009 - 2012



3% Approval Rate

Emerging Manager* Commitments

Type of Investment	Total Partnerships	Net Asset Value
Direct Investments to Emerging Managers by CalPERS	166	\$7.6 B
From CalPERS Fund-of-Funds to Emerging Managers	148	\$1.3 B
Totals Funds	314	

*CalPERS definition of Emerging Managers

Performance

Net IRR as of 6/30/12

	Net Asset Value	10 Year	Since Inception
Private Equity Emerging Managers	\$7.6 B	7.28%	9.55%
Private Equity Non-Emerging	\$26.6 B	9.35%	10.65%
Private Equity Total	\$34.2 B	8.73%	10.30%

December 2012

Customized Fund Investment Group Presentation

CalPERS Domestic Emerging Manager Program

- The CalPERS Domestic Emerging Manager (“DEM”) program was established in March 2012 to continue CalPERS investment activity in emerging managers
- The Program was launched with \$100 million in total commitments, to be deployed over a four-year period
- Diversified portfolio of approximately 12-15 investments in high quality diversified Domestic Emerging Managers funds
- The CalPERS Domestic Emerging Manager program has the following asset allocation: 60% BO, 30% SS, 10% VC
- CFG deploys an open door policy and is welcoming of all emerging managers
- CFG works closely with CalPERS staff on the mandate, with CFG continually providing perspective on the emerging manager space

Definition of Emerging Manager for DEM Program

- Buyout and special situation funds with fund sizes at or below \$1 billion and currently raising fund I or II
- Venture capital funds with fund sizes at or below \$500 million and currently raising fund I or II
- Focus is on 1st and 2nd *institutional funds* being raised by emerging managers as GPs often invest “pre fund” capital that they receive from friends and family or a specific LP before raising their first institutional fund

CalPERS DEM Activity to Date and CFG Role

- CFG fully transitioned to take over management of the portfolio in October 2012. CFG is managing Capital Link I & II portfolios from the front and back office
 - CFG has been performing all duties as a manager, conducting a detailed review of the portfolio
 - CFG team members are fully engaged, sitting on advisory boards and attending annual meetings representing CalPERS
- Furthermore, the CFG team has also been actively engaged with CalPERS investment staff via regular deal flow calls to discuss the emerging manager landscape, share preliminary views on managers in the market and discuss diligence findings regarding potential investments
 - CFG has over 200 managers in the emerging manager pipeline who are currently fundraising that CFG is monitoring or evaluating for potential investment

Q & A

CFG Dedicated Team to CalPERS Program

Day-to-day

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IPTS

<http://www.calpers.ca.gov/index.jsp?bc=/investments/investment-proposals.xml>

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