

Targeted Investment Programs Update

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Targeted Investment Programs

- This update will cover the following:
 - California Infrastructure Program
 - California Investment Initiatives
 - Responsible Contractor Program Policy
 - Legislation
 - Emerging Manager Five-Year Plan

California Initiatives

- Infrastructure Outreach
 - CalPERS to host discussion with financial advisors for California public agency infrastructure projects on April 22, 2013 at CalPERS Headquarters
- Private Equity California Initiative
 - Met and discussed work plan for considering new investment opportunities in California
 - Staff will return to the Investment Committee with a progress update in the second half of the calendar year

Responsible Contractor Program Policy

- Woodfield Mall
- Caesars Las Vegas
- Holiday Inn LAX

Emerging Manager Five-Year Plan

- Progress on work streams:
 - Emerging & Diverse Manager Data Report (begins slide #6)
 - GE restructuring plan and process transition complete mid-year 2013
 - Initiated process to improve Investment Proposal Tracking System
 - Working with Office of Public Affairs on Targeted Investment Programs information to be posted on CalPERS website
 - Follow-on activities from December 3, 2012 CalPERS Emerging and Diverse Manager Forum
 - Survey Forum attendees
 - Forum Q&A
 - Post Forum video

Emerging & Diverse Manager Data Report

Report Highlights

- Context for Data Report
- Methodology
- Key Findings
- Observations
- Next Steps

Context: Emerging Manager Five Year Plan

- Emerging Manager Five-Year Plan adopted August 2012
- Data report is first deliverable under Portfolio Management Initiative - Establish performance, cost, and diversity of existing Emerging Manager Portfolio
- Data Report establishes performance and diversity of existing emerging manager portfolio

Context: Commitment to Diversity

- Committed to equality of access and opportunity for business partners
- View diversity as a competitive advantage
- Emerging manager programs have resulted in increased diversity
- Operate within Prop. 209 prohibitions

CalPERS Invests with Emerging Managers

- CalPERS has a legacy of leadership and innovation in emerging manager investments and 20-year track record of investment with emerging managers
- Generate investment returns by identifying early stage funds with strong potential for success
- Access unique investment opportunities that may be overlooked
- Cultivate next generation of external portfolio management talent

Methodology

Methodology: Emerging Managers

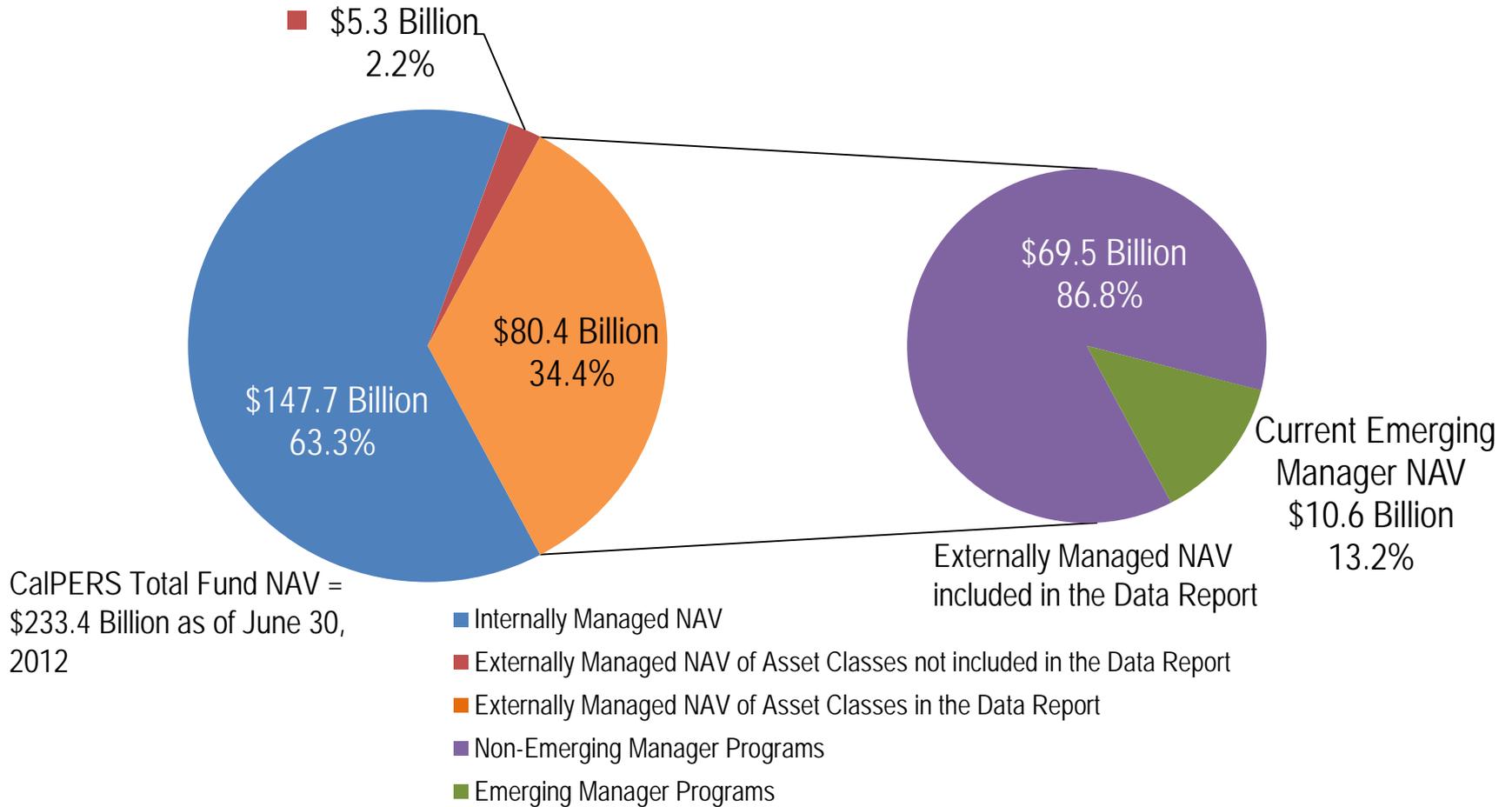
- Global Equity and ARS/Hedge Funds data counted by management firm
- Private Equity and Real Estate data counted by individual partnership
- Data sourced as of June 30, 2012 from State Street Bank and CalPERS Automated Real Estate Investment System

Methodology: Diverse Managers

- Current diverse manager data is based on voluntary disclosure in CalPERS External Manager Diversity Survey
- Survey was distributed to 175 firms and 136 respondents provided a complete response
- Survey respondents identified 98 managers or 9% of external managers as meeting CalPERS definition of Diverse Investment Management Business

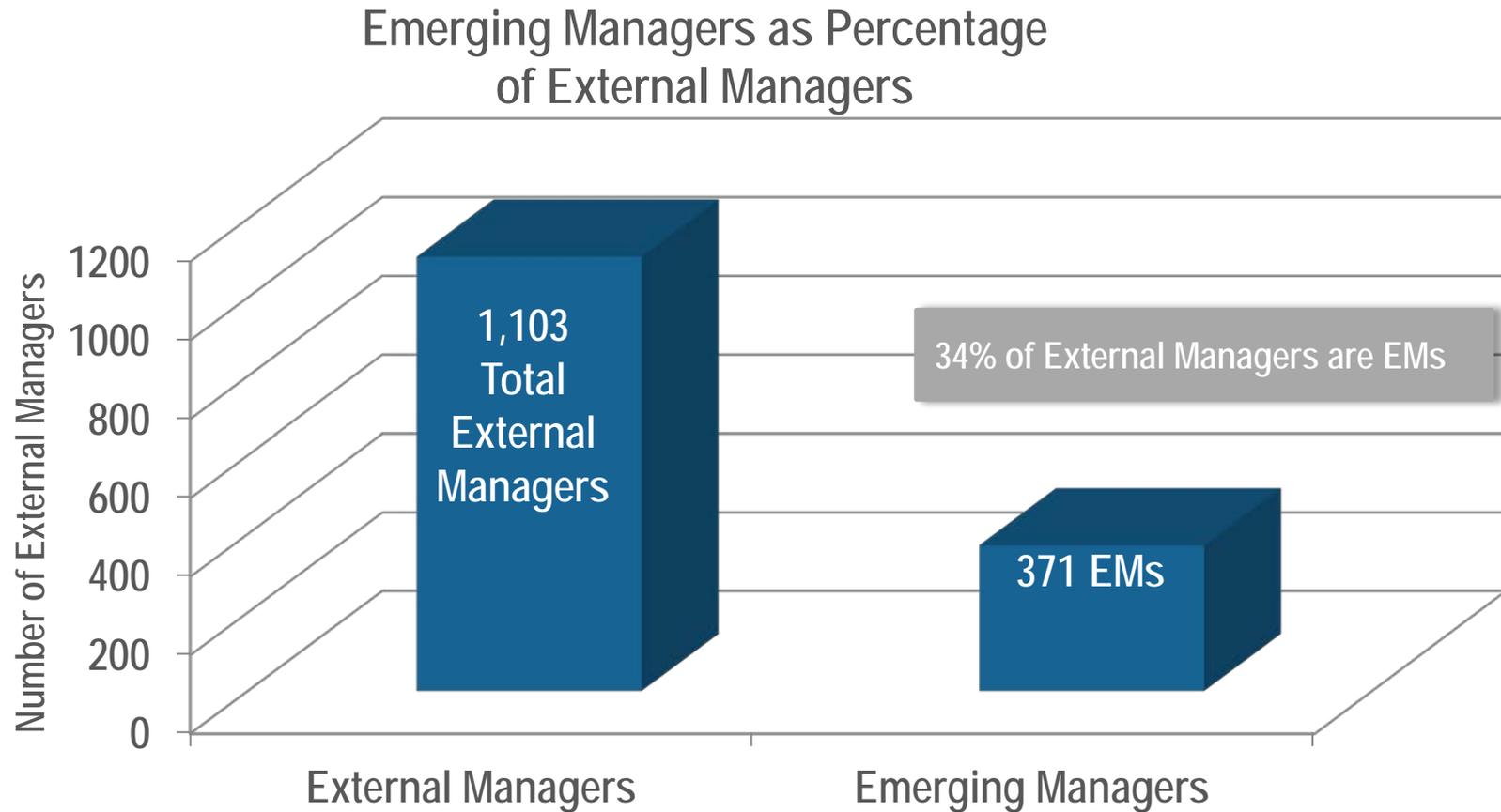
Key Findings

CalPERS Total Fund Net Asset Value



Number of Emerging Managers

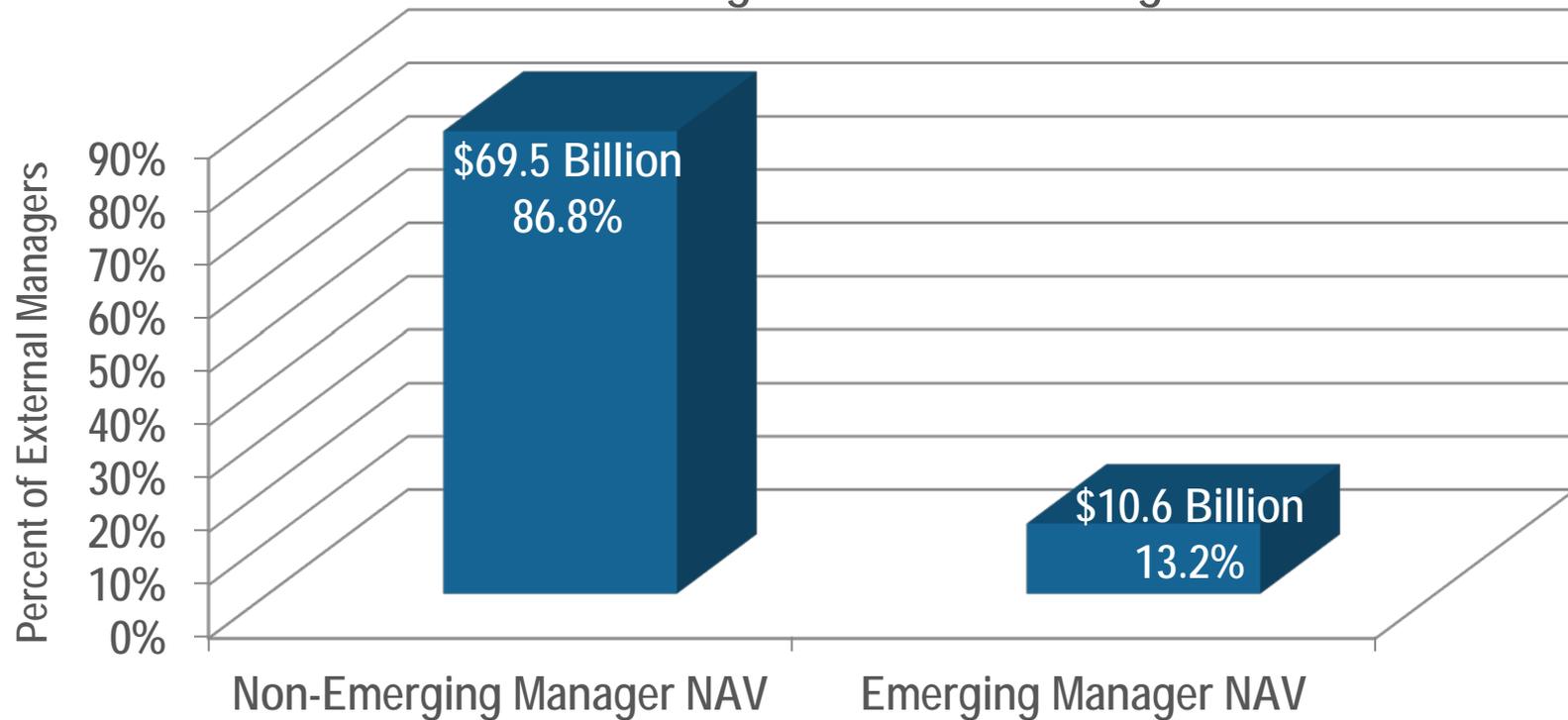
Of the 1,103 current external managers, 374 or 34% meet CalPERS emerging manager definitions



NAV Managed by Emerging Managers

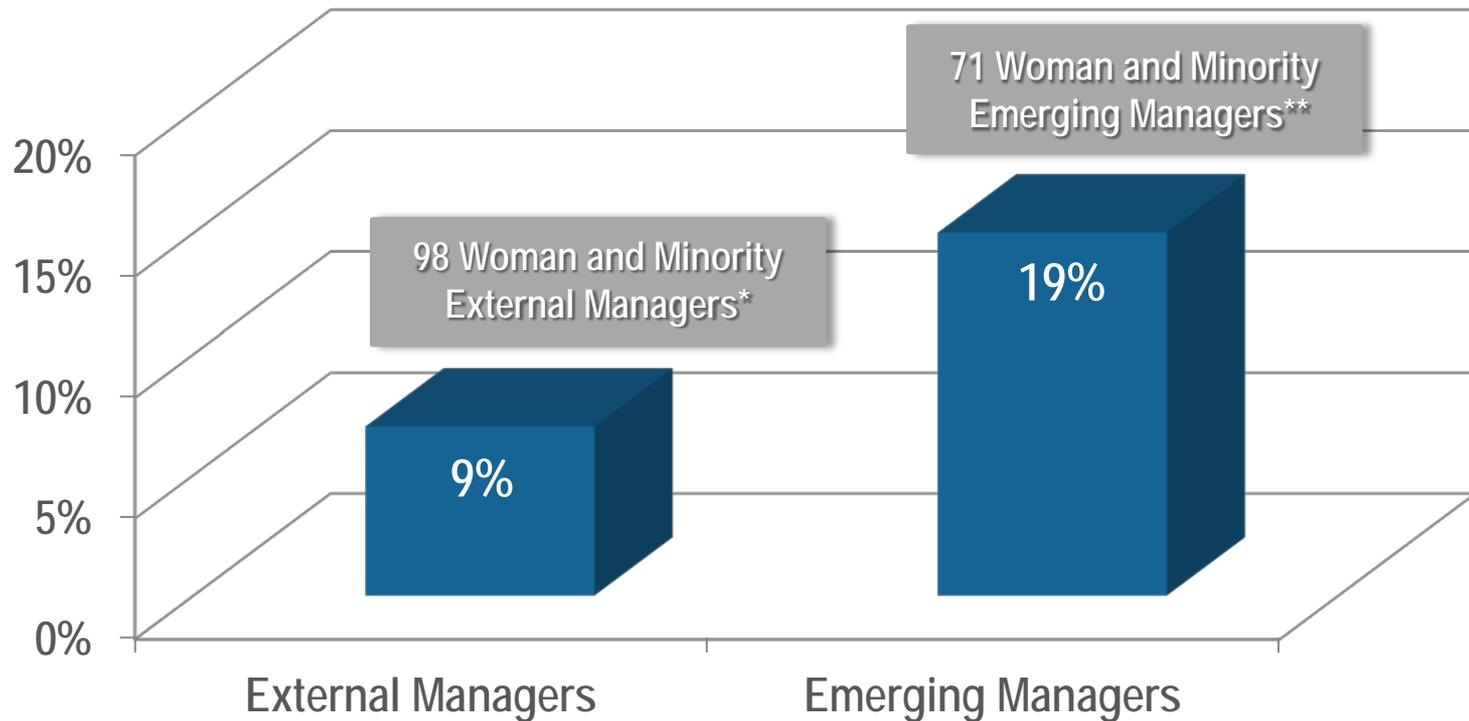
Of the total externally managed net asset value, approximately \$10.6 billion or 13% is managed by emerging managers

Non-Emerging Managers and Emerging Managers as Percentage of External Managers



Number of Women and Minority Managers

Women and minority owned managers comprise 9% of external managers and 19% of emerging manager relationships



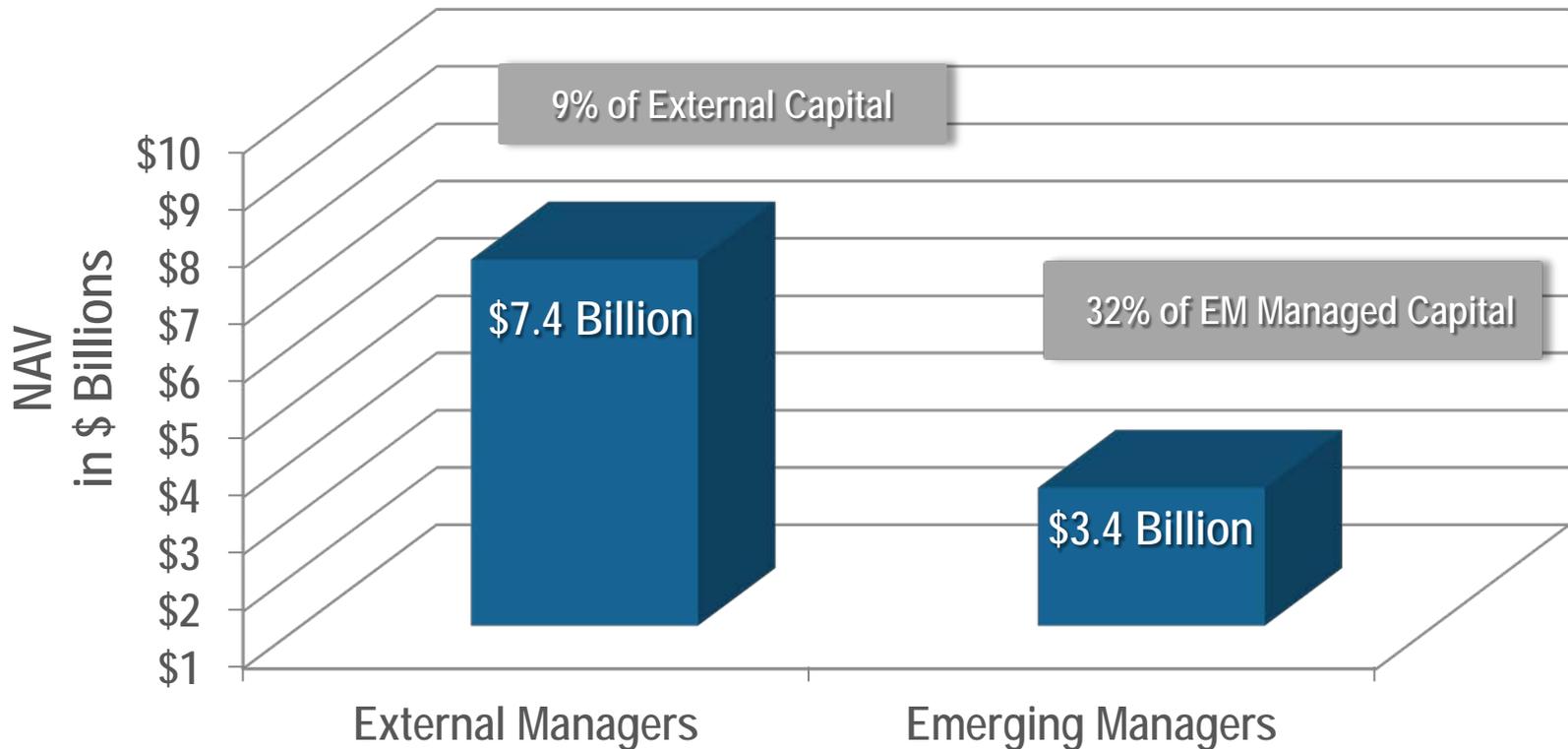
* Current diverse manager data is based on voluntary disclosure in CalPERS External Manager Diversity Survey

** Not all women and minority managers are emerging managers

NAV Managed by Women and Minority Managers

On a net asset value basis, approximately \$7.4 billion or 9% of externally managed capital is invested with women and minority managers in direct relationships

Women and minority managers comprise 32% of emerging manager programs net asset value



Break Out of Women and Minority Managers

U.S. Census Classifications	Diverse Managers (Self-Identified)	NAV Managed	Highest Number of Diverse Managers by Asset Class
Women	65	\$5.9 Billion	Global Equity, Private Equity
Asian-American	32	\$2.2 Billion	ARS, Real Estate
African-American	13	\$1.3 Billion	Private Equity
Hispanic-American	12	\$291 Million	Private Equity
Multiple	19	\$1.9 Billion	Private Equity

Notes: Current diverse manager data is based on voluntary disclosure in CalPERS External Manager Diversity Survey
NAV as of 6/30/12

Observations

Observation – Exposure to Emerging and Diverse Managers

1. CalPERS has significant assets under management with emerging and diverse managers as a result of commitments made during the past two decades.

This commitment has been across almost all asset classes and covers direct mandates including fund of fund advisors, as well as underlying funds in fund of funds investment structures.

Observation – Women and Minority Ownership

2. Among diverse managers, the number of women and minority owned managers varies by asset classes.

Women make up the majority of diverse managers, with Asian American, African American and Hispanic American classifications following in declining order.

Observation – Emerging Manager Programs Result in Diversity

3. CalPERS emerging manager program investments have higher levels of diversity than our non-emerging manager investments.

This validates CalPERS belief that women and minority owned managers are more likely to be emerging managers; as a result, an ancillary benefit of our emerging manager strategies is increased diversification of CalPERS external managers.

Observation – Emerging and Diverse Manager Performance

4. There is a wide range of performance outcomes of emerging and diverse managers in CalPERS portfolio.

Based on our experience, it is not possible to reach broad conclusions about the performance of emerging and diverse managers.

There appears to be some evidence of better performance of emerging and diverse managers in actively managed fund of funds compared to performance in direct relationships.

Observation – Emerging and Diverse Manager Performance

5. As with CalPERS established managers, performance of emerging managers varies. Manager and strategy selection are critical to success.

A rigorous process of diligence and risk analysis on a manager-by-manager basis is needed for manager selection decisions.

Next Steps

- Post Report on CalPERS website
- Present findings to stakeholders and gather their feedback
- Ongoing data collection and reporting