California Public Employees' Retirement System (CalPERS)
Alternative Investment Management Portfolio

Quarterly Report
Executive Summary

(As of March 31, 2012)

Presentation Date: May 14, 2012

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1.0 Executive Summary

Private equity is a long-term asset class with performance results influenced by various factors. This report concentrates on several key exposures that contribute to performance results, including sector, geography and vintage year. In addition, the broad industry trends highlighted herein may affect future performance results.

1.1 Overall Alternative Investment Management (AIM) Program Performance

This quarterly report reflects the first presentation of materials generated primarily with data provided by the custodian bank. PCA and Staff will continue to adapt the focus of this report towards time-weighted returns. AIM outperformed the Policy Benchmark over the latest one-year period and ten-year period while underperforming over the latest three-year and five-year periods. The Policy Benchmark was reduced by the declines in the public equity markets, as evidenced by the minus 0.9% return for the latest year. (The Wilshire 5000 Index posted a 1.0% return during the latest year.) However, AIM's results have also been dampened recently as the one-year return declined from 12.4% as of three months ago. The three-year returns for both the AIM Program and the Policy Benchmark improved significantly from the last reporting period as the latest three-year time frame no longer includes some of the largest valuations declines associated with the economic crisis, occurring in the fourth quarter of 2008. The inclusion of the Custom Young Fund Index[1] in the Policy Benchmark until July 2009 contributed to the Program's underperformance over the longer three-year and five-year periods as public market valuations exhibited a greater rebound, despite AIM's holdings being marked to market.

Performance vs. Policy Benchmarks

	1 Year	3 Year	5 Year	10 Year
AIM Program[2]	**7.0%**	**12.4%**	**7.8%**	**9.3%**
AIM Policy Benchmark[3]	*(0.9%)*	*19.1%*	*10.6%*	*8.0%*
Excess Return *v. Policy Benchmark*	7.9%	(6.7%)	(2.8%)	1.3%

Source: Wilshire Associates

[1] The Custom Young Fund Index is composed of private equity holdings where write downs lagged the public markets declines in the reporting period.
[2] The net asset value of CalPERS' AIM portfolio is lagged one quarter with adjustments for current cash flows through the reporting period
[3] Currently equals (67% FTSE US TMI + 33% FTSE AW x-US TMI) + 3% 1-quarter lagged from and since September 2011; the Wilshire 2500 ex-tob +3% since July 2009; previous periods for the AIM Policy Index are linked historically to the Custom Young Fund, AIM's prior benchmark

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1.2 Highlights of Program Activity

- After generating net cash flows during the 2011 calendar year (i.e., distributions received exceeded capital contributions made), the first quarter of 2012 exhibited negative cash flows (i.e., contributions exceeded distributions). Contribution activity was in-line with recent quarters, but distributions declined.

- The **Buyout sector continues to be the largest proportion of the AIM Program** at 57%, and was the largest contributor to performance over the latest year due to valuation increases across the sector.

- The United States, representing the largest exposure of the portfolio at 48%, had the most significant impact on performance results over the past year. Global mandates, with a 36% exposure, was also a large contributor to results.

- An analysis of the existing unfunded commitments shows that AIM's general partners have **substantial "dry powder"** ($11.8 billion), a majority of which is expected to be deployed within the next three years.

- Although the Program is in its twenty-second year, the preponderance of value and performance results are being **driven by investments made in the last ten years**.

- **AIM's five largest general partner relationships represent approximately 34% of total exposure**, which is defined as market value plus unfunded commitments. Amongst these five firms, capital is allocated across 80 investments (investment vehicles, partnerships and direct investments), targeting multiple sectors and geographies.

1.3 Industry Trends

- **Fundraising activity in the first quarter of 2012 was on pace to match the levels raised in 2011**, which had exhibited year-over-year increases since 2009. Buyouts continue to represent the largest proportion of capital raised domestically, and in a reversal of a recent short-term trend, fundraising targeting European investments exceeded those targeting Asia. The market may become bifurcated, resulting in the most attractive funds being quickly over-subscribed, with the remainder continuing to struggle in this challenging environment.

- **U.S. buyout deal volume exhibited a decrease in the first quarter of 2012**, continuing a trend throughout 2011. Buyout transaction volume is believed to have continued its decline due to multiple factors, including market volatility, concerns over U.S. and European economic stability, and availability of leverage.

- **Risk levels appeared to moderate slightly in the leveraged buyout market during the first quarter of 2012**. Purchase price multiples and debt multiples decreased (but still remained above their ten-year averages), resulting in more equity required to complete transactions. The gap between purchase price multiples for large leverage buyout (LBO) and middle-market LBO transactions had narrowed in 2010, but widened in 2011 and continued to widen in the first quarter of 2012.

- **Venture capital investment activity declined in the first quarter of 2012,** as venture capitalists appear to be exhibiting caution. Consolidation/contraction in the venture space may also be contributing to less investment activity, which may prove beneficial to longer-term results as less capital is competing for deals.

- **Exit activity for venture capital investments declined over the first three months of 2012.** Merger and acquisition (M&A) transactions posted their lowest quarterly activity since the third quarter of 2009. The initial public offering (IPO) market has exhibited volatility in quarterly activity over the past year, with capital raised in the first quarter of 2012 slightly below the quarterly average for last year. The passage of the JOBS Act, which is intended to make it easier for startups and small businesses to raise funds, may increase exit activity through public offering but its impact is uncertain at this time.

- The **outlook for distressed debt investment strategies is mixed**. Debt pricing has rebounded (according to the Leveraged Loan Index produced by the Loan Syndications and Trading Association), minimizing the near-term opportunity set for trading strategies. However, the continued concerns regarding the economic environment may again tighten lending standards, which may in turn improve the opportunity set for debt-for-control transactions.

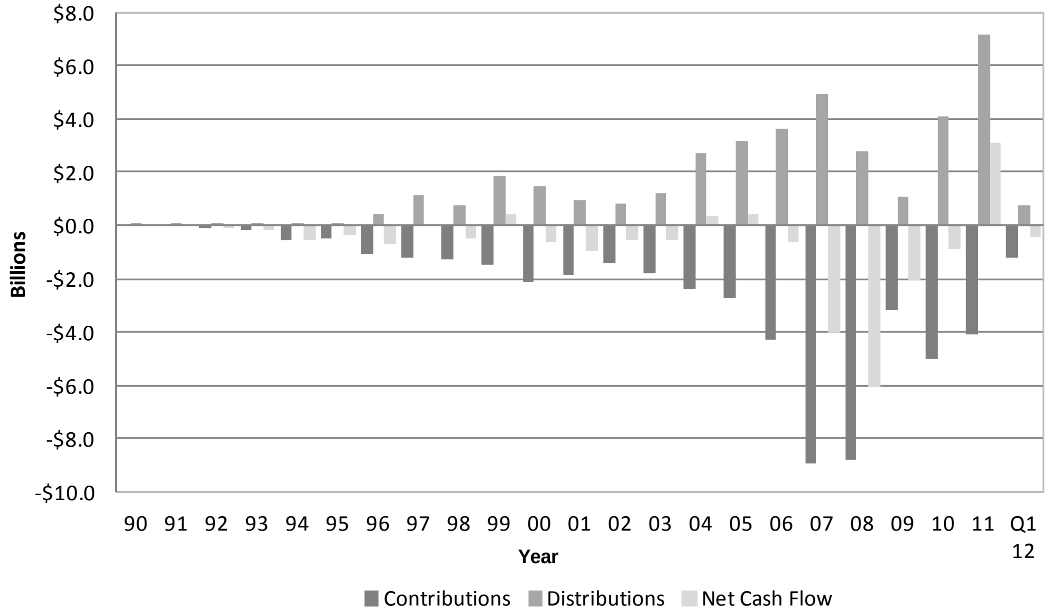
- At the present time, **the impact of European capital markets volatility on the AIM program is not known**. PCA continues to actively monitor the situation.

2.0 AIM Performance Overview

2.1 Portfolio Cash Flows

During 2011, AIM's net cash flow was positive (i.e., distributions received exceeded capital contributions made). Distribution activity was high due to more friendly credit markets and the re-emergence of the dividend recap, and greater use of the IPO market through the first half of the year. Distribution activity decreased over the last two quarters of 2011 and the first quarter of 2012 as market volatility and economic concerns returned. Contributions exceeded distributions over the first three months of 2012 as **AIM's net cash flow was negative during the quarter** primarily due to a decrease in distribution activity.

AIM Program Annual Cash Flows



Source: State Street Private Edge, PCA

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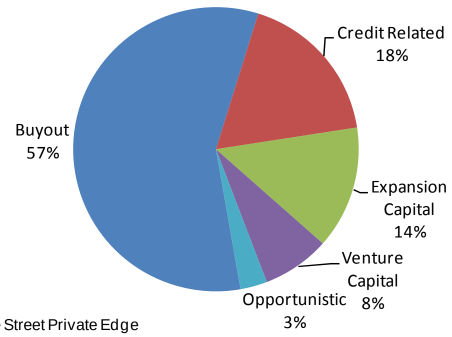
2.2 Portfolio Sector Composition and Performance

Sector distribution reflects the markets that AIM has determined will enable it to produce the expected return imbedded in the Investment Committee's asset allocation. The following charts portray distribution by net asset value (NAV). The **Buyout sector continues to be the largest proportion** of the AIM Program at 57%. This report reflects reclassified sectors to better depict exposure to the target sectors adopted as policy in November 2011. Sector allocations are within target ranges, except for Venture Capital which is expected to be reduced over time.

AIM Program NAV by Sector: $33.3 B



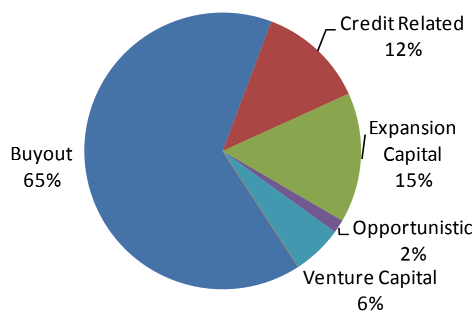
Source: State Street Private Edge

Target Sector Allocations

Sector	Target	Range	Actual
Buyouts	60%	50%-70%	57%
Credit Related	15%	10%-25%	18%
Venture Capital	1%	0%-7%	8%
Growth/Expansion	15%	5%-20%	14%
Opportunistic	10%	0%-15%	3%

Sector-wise, Buyouts represent the greatest proportion of AIM's unfunded commitments and will therefore continue to be the largest exposure within the Program going forward.

AIM Program Unfunded Commitments by Sector: $11.8 B



Source: State Street Private Edge

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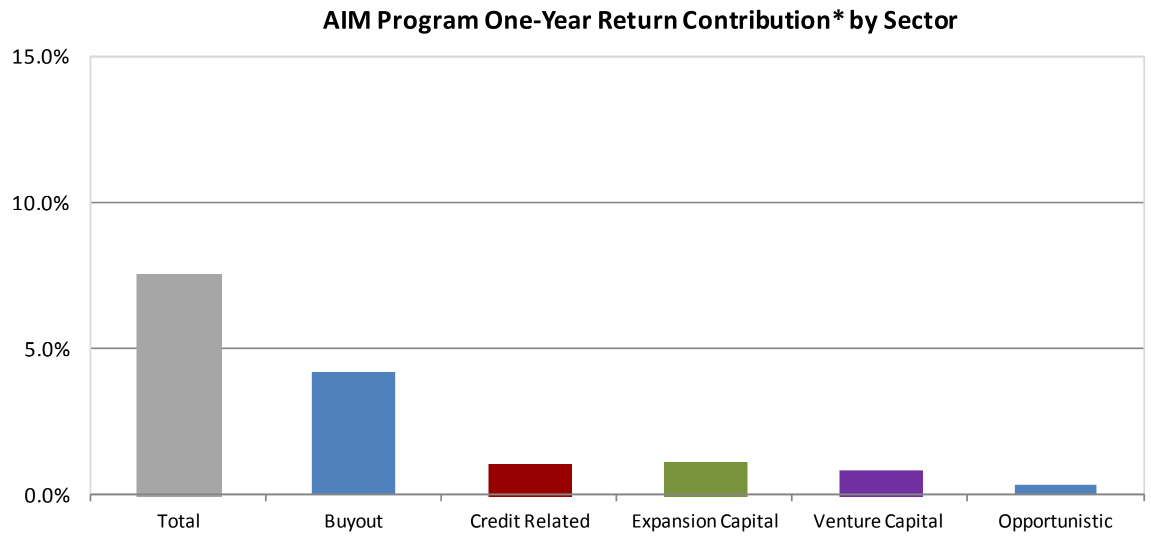
While all major sectors of the AIM Program contributed positive results over the last year, **Buyouts were the largest contributor** to performance as the sector continued to experience valuation increases. Credit Related, representing 18% of the Program, was the second largest contributor to results for the year, followed closely by Expansion Capital and Venture Capital.



* Sector return weighted by proportion of NAV.
Source: State Street Private Edge, PCA

Over the most recent three-year period, the AIM Program posted a 13.2% average annual return. The three-year results reflect the recovery from the depths of the economic crisis in late 2008/early 2009. In addition, implementation of ASC 820 (previously referred to as FAS 157) contributed to the volatility of valuations over this time period as assets were "marked-to-market." The Buyout sector (with an 11.5% return) was a large factor in generating returns over the last three years due to its significant allocation in the AIM Program. The Credit Related, Expansion Capital, and Opportunistic sectors were also large contributors, posting returns of 19.8%, 18.8% and 16.7% respectively over the same time period. The Buyout sector has generated attractive results over the longer five-year and ten-year periods, posting average annual returns of 8.0% and 12.2%, respectively.

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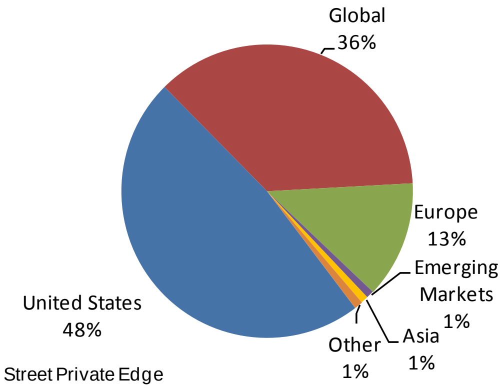
2.3 Portfolio Geographic Composition and Performance

AIM, like CalPERS' other asset classes, invests globally. Approximately **48% of AIM's NAV is inside of the United States** (based on partnership mandate) with Global mandates representing an additional 36% (which includes U.S. investment), highlighting the global nature of the Program.

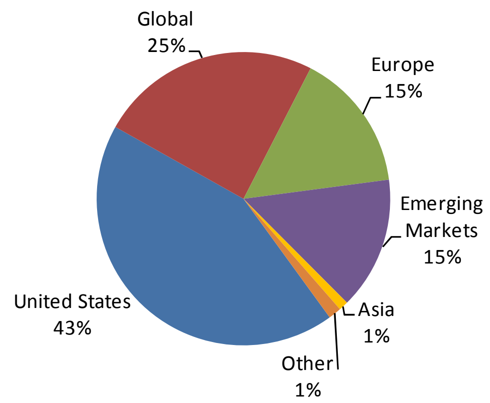
AIM Program NAV by Geography: $33.3 B



Source: State Street Private Edge

The United States is expected to receive only 43% of remaining unfunded commitments (not including potential U.S. investments from Global mandates), thereby potentially increasing the Program's non-U.S. exposure.

AIM Program Unfunded Commitments by Geography: $11.8 B



Source: State Street Private Edge

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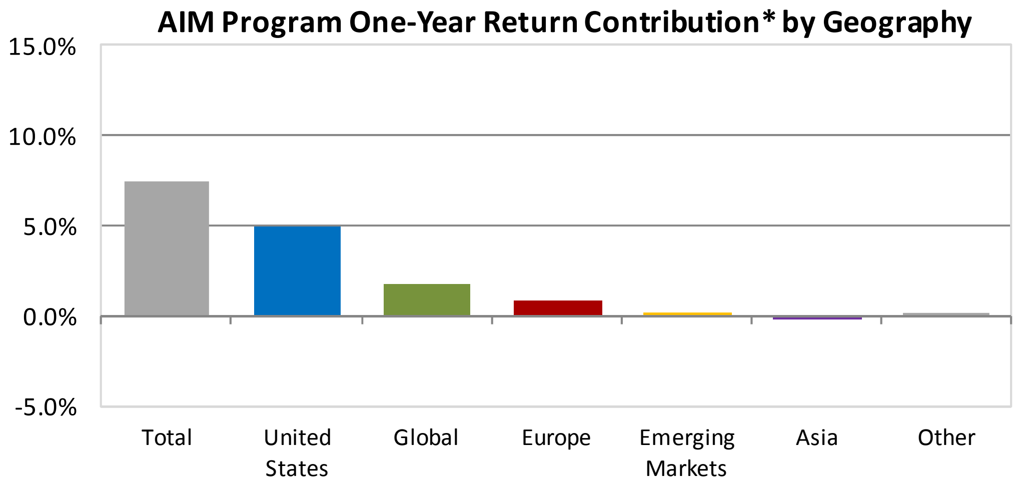
Performance results remained net positive across all geographic sectors, except for Asia which was slightly negative over the latest year. The **United States, representing the largest exposure of the portfolio, had the most significant impact on performance** results over the past year. AIM's Global exposures provided the second largest positive contribution followed by the European exposures.



* Geographic return weighted by proportion of NAV.
Source: State Street Private Edge, PCA

Over the most recent three-year period, AIM's Global and United States exposures were the largest contributors to performance as the overall Program posted a 13.2% return. AIM's Global exposure posted an average annual return of 17.5% over the past three-year period, contributing to aggregate results. The U.S., with the largest exposure within AIM's portfolio, posted an 11.0% average annual return over this period. The U.S. has historically represented the largest geographic component of the Program but its prominence has decreased over recent years with the globalization of the portfolio. The U.S. exposure posted average annual returns of 6.8% and 6.3% over the latest five-year and ten-year periods, respectively.

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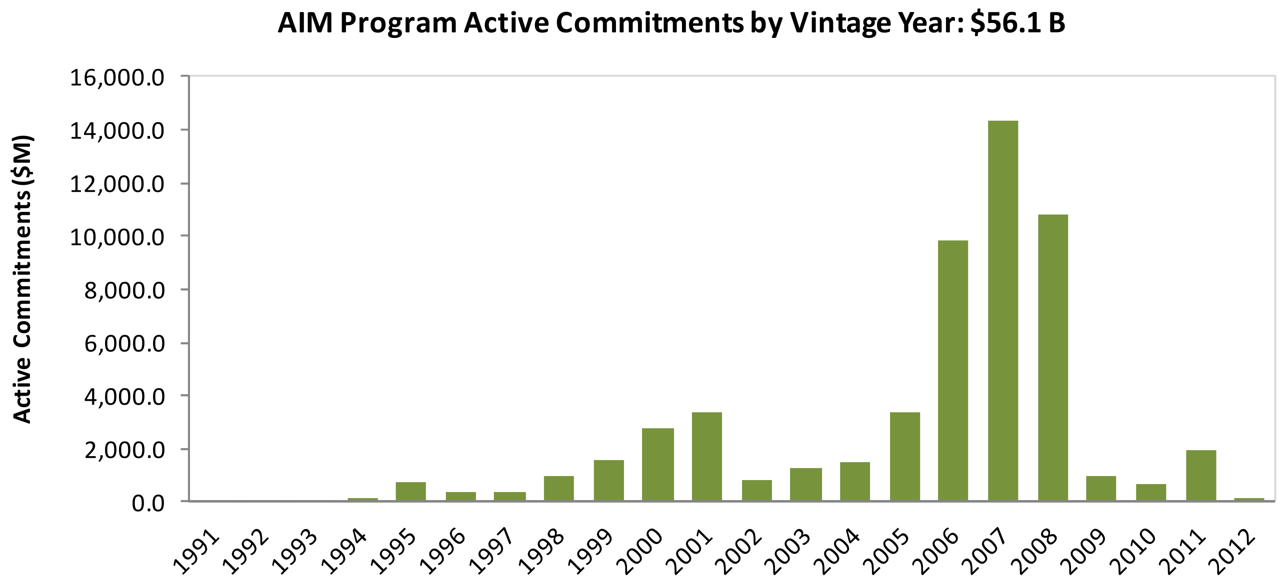
2.4 Portfolio Vintage Year Composition and Performance

The AIM Program currently has $56.1 billion in active commitments. Consistent with the behavior of other large private equity investors, **AIM has made very few new commitments in recent years** ($1.0 billion during 2009, $700 million in 2010, $1.9 billion in 2011, and $140 million year-to-date in 2012).



Source: State Street Private Edge

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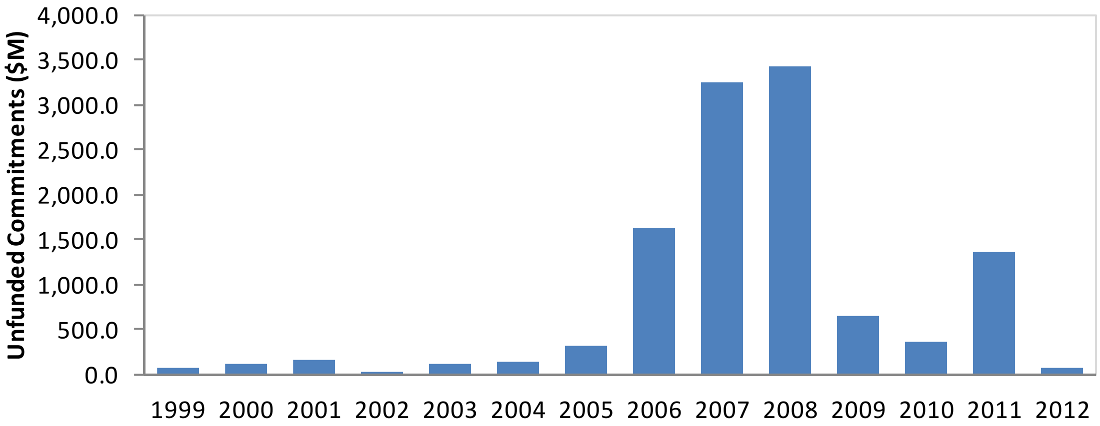
An analysis of the existing unfunded commitments shows that **AIM's general partners have substantial "dry powder"** ($11.7 billion) to pursue investments consistent with the strategies contained in their limited partnership agreements with AIM. The 2006 vintage year includes $9.8 billion of commitments and remains 17% unfunded as of March 31, 2012. Commitments categorized as 2007 and 2008 vintages were $14.3 billion (23% unfunded) and $10.8 billion (32% unfunded), respectively. Only $1.0 billion of commitments were categorized as a 2009 vintage, 65% of which remains unfunded. The 2010 vintage year commitments of $700 million have drawn approximately $342 million in contributions and are therefore 51% unfunded. Commitments to 2011 vintage funds have drawn down approximately $560 million and remain 71% unfunded.

AIM Program Unfunded Commitments by Vintage Year: $11.8 B



Source: State Street Private Edge

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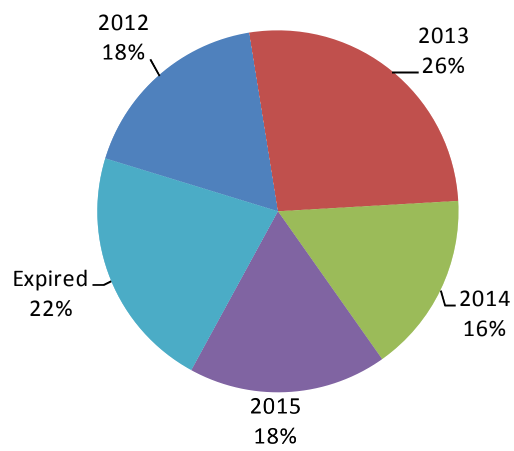
The majority of unfunded commitments are expected to be **deployed within the next three years** (as determined by the expiration of the respective investment periods). However, the pace at which capital is drawn down is primarily at the discretion of each general partner and may be called at any time, subject to any restrictions contained in the respective limited partnership agreements.

AIM Program Unfunded Commitments by Maturity



Source: CalPERS

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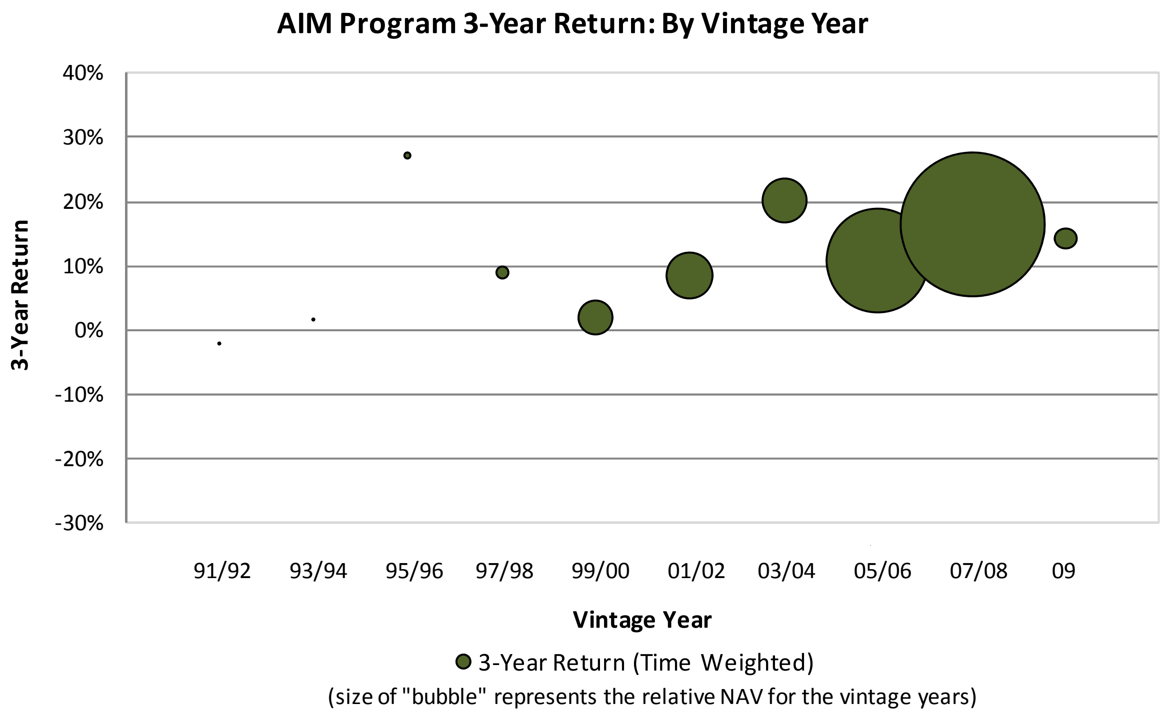
The following chart depicts the distribution of returns and net asset values by vintage years for the AIM Program. Although the Program is in its twenty-second year, the preponderance of value (represented by the size of the "bubbles" below) and **performance results are being driven by investments made in the last ten years**.



Source: State Street Private Edge, PCA

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2.5 Annual Commitment Activity and Manager Concentration

The AIM Program has committed to four opportunities at March 31, 2012 categorized as a 2012 vintage. All of the commitments year-to-date represent new relationships.

AIM Commitment Activity During Q1 2012

Partnership/Firm	Commitment ($M)	Sector	Relationship
PAG Asia I, L.P.	$100	Buyout	New
Cerberus Institutional Partners V, L.P.	400	Distressed Debt	New
Domestic Emerging Managers New Investment Vehicle	100	Emerging Managers	New
Energy Investment Fund (co-investment)	40	Co-investment	New

Source: CalPERS, PCA

AIM's five largest relationships, based on total exposure (defined as market value plus unfunded commitments) are listed below. Amongst these five firms, capital is allocated across 80 investments (investment vehicles, partnerships and direct investments) and targets multiple sectors and geographies.

Largest AIM Relationships by Total Exposure

Firm	Investments	Total Exposure ($M)	% of Program
The Carlyle Group	36	$4,610	10%
Apollo Investment Management	14	4,580	10%
TPG Capital	16	2,595	6%
Blackstone Group	10	1,905	4%
Grove Street Advisors	4*	1,512	3%

* investment vehicles are diversified by commitments to underlying partnerships

Source: State Street Private Edge, PCA

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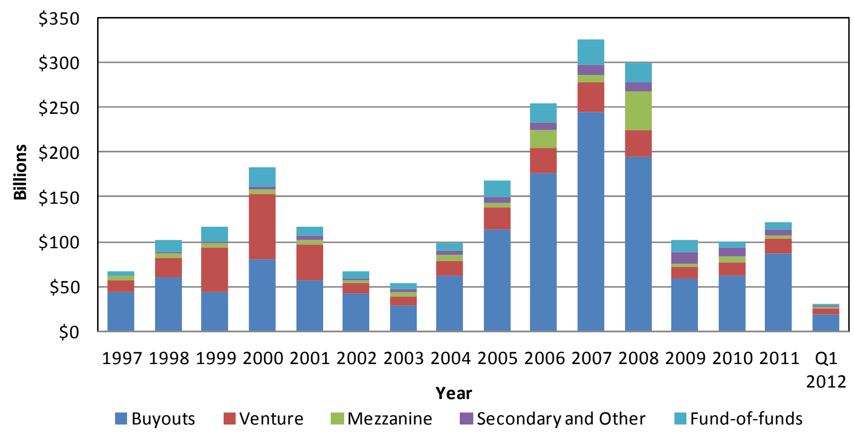
3.0 Private Equity Market Environment

Fund Raising Trends

- During the first quarter of 2012, approximately $30 billion of domestic commitments were raised exceeding the $24 million raised in the first three months of 2011 and on pace to match last year's aggregate commitments.
- Buyouts led fundraising activities in Q1 2012 raising $18.4 billion of commitments, followed by venture capital at $6.7 billion, secondary and "other" at $2.7 billion, mezzanine at $1.5 billion, and fund of funds at $0.8 billion.
- Fundraising activity last year, after experiencing year-over-year declines during the prior two years, outpaced capital raised in 2010. In aggregate, $122.4 billion in capital commitments were made in 2011, representing a 21.8% increase over 2010.

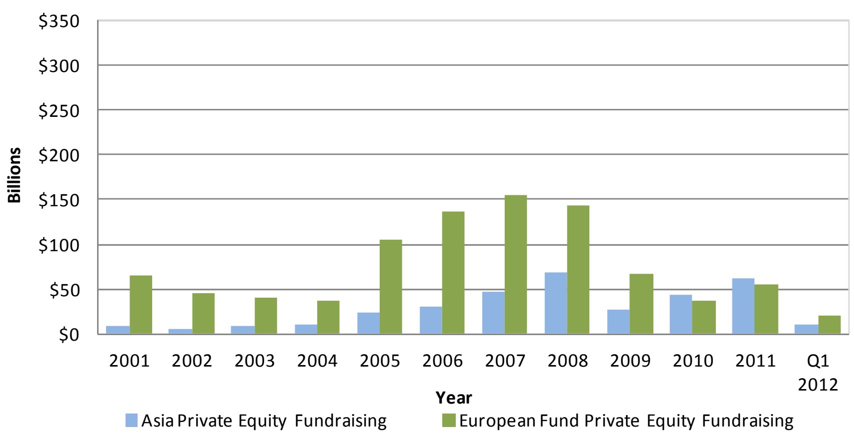
Commitments to U.S. Private Equity Partnerships



Source: *Private Equity Analyst* through March 2012

- Commitments to private equity partnerships outside of the U.S. have exhibited similar fundraising trends in fund raising activity over the past several years.
- Commitments to European funds outpaced those to Asian private equity funds over most periods with both regions trailing the activity of the U.S. markets.
- Between 2010 and 2011, Asia ended with this trend, as commitment levels to Asia exceeded the capital raised by the European markets, according to Thomson Reuters' data. However, in the first quarter of 2012 European markets raised more capital than Asian markets.

Commitments to Non-U.S. Private Equity



Source: Thomson Reuters

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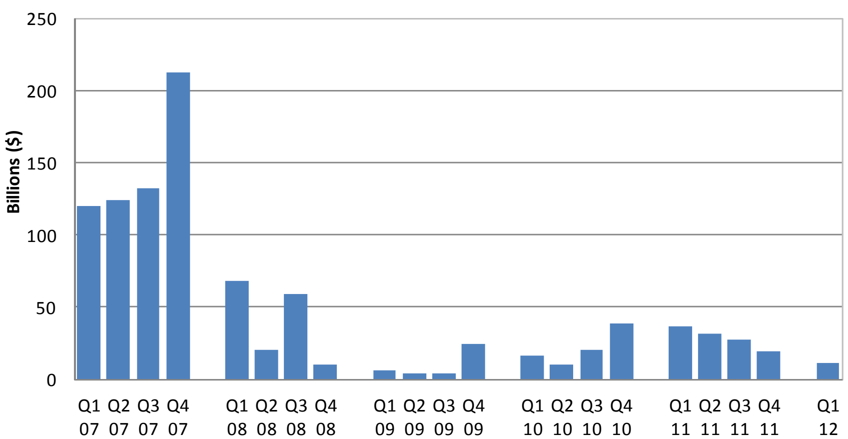
U.S. Buyout Market Trends

- Total U.S. buyout deal volume was $11.3 billion in Q1 2012 representing a decrease from Q4 2011 activity as confidence in the economic climate remains low.
- Q1 2012 saw platform investments representing the largest proportion of transactions followed by add-on acquisitions, carve-outs, sponsor-to-sponsor, and take-privates.
- Buyout transactions declined quarter over quarter throughout 2011. Remaining uncertainty about domestic economic recovery, the European debt crisis, downgrade of the United States' credit rating, increased competition from strategic buyers, and availability of leverage all contributed to slowed activity through the year.
- Exit activity may increase in 2012 as regulatory uncertainty (i.e. change in tax codes, including carried interest, Presidential election, etc.) may increase selling activity.

Disclosed U.S. Quarterly LBO Deal Value*



* Total deal size (both equity and debt).
Source: *Thomson Reuters Buyouts*

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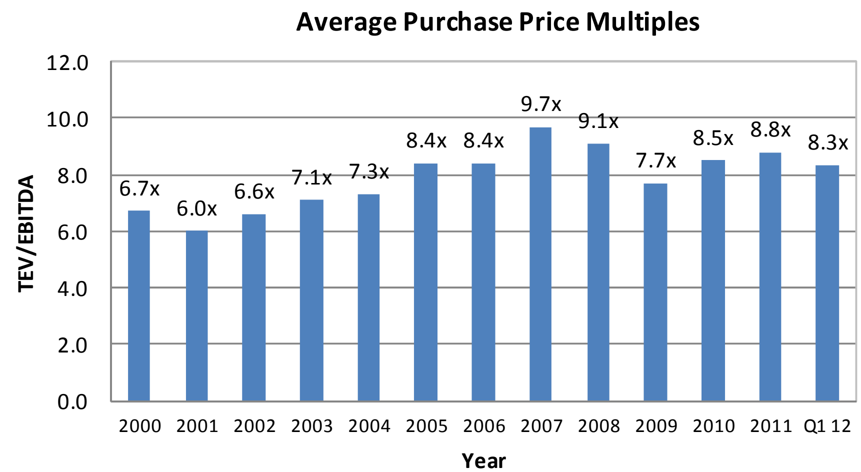
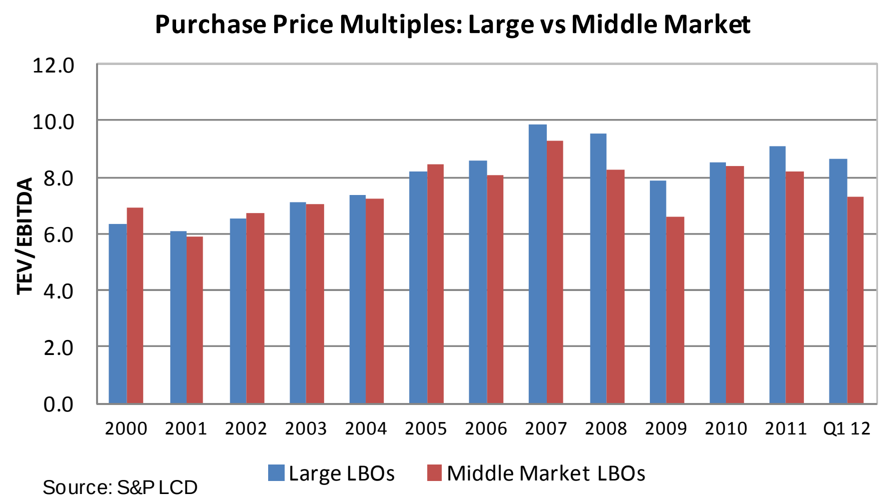
Purchase Price Multiples

- Purchase price multiples (as represented by total enterprise value divided by earnings before interest, taxes, depreciation and amortization or "EBITDA") have exhibited volatility over the past several years. Purchase price multiples initially declined from their 2007 peak to a near-term low in 2009, but rebounded to 8.8x in 2011 and declined to 8.3x in the first quarter of 2012.
- The average purchase price multiple for 2011 was above that of 2010 and the ten-year average of 8.2x. The causes of the increased purchase price multiples may be attributable to significant amounts of "dry powder" remaining in the industry, leading to increased competition among bidders, as well as easier access to affordable credit earlier in the year, especially at the large and upper-middle markets.



Source: S&P LCD

- Purchase price multiples for larger transactions (EBITDAs >$50 million and represented by the blue bars) have historically been higher than the purchase price multiples exhibited in the smaller and middle market (EBITDAs <$50 million and represented by the red bars).
- Given the anticipated focus on commitments to smaller/middle market opportunities over the near-term, there could be additional competition for deals going forward that could influence the purchase price multiple in the smaller end of the market. However, this has not become apparent in EBITDA multiples as the gap between larger transactions and middle market transactions widened over the first three months of 2012.



Source: S&P LCD

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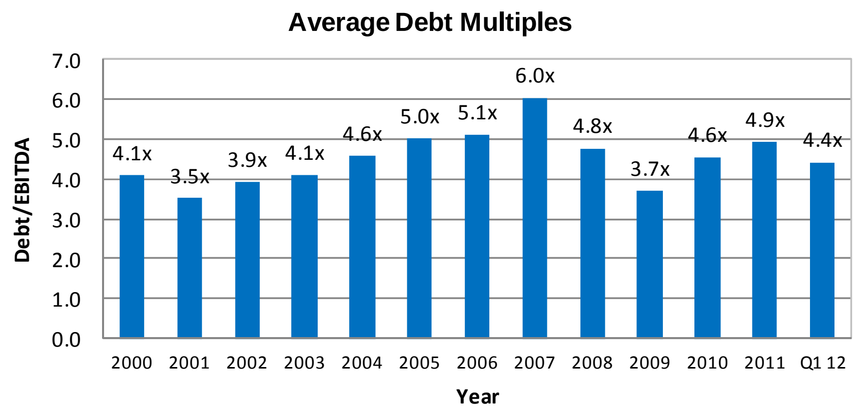
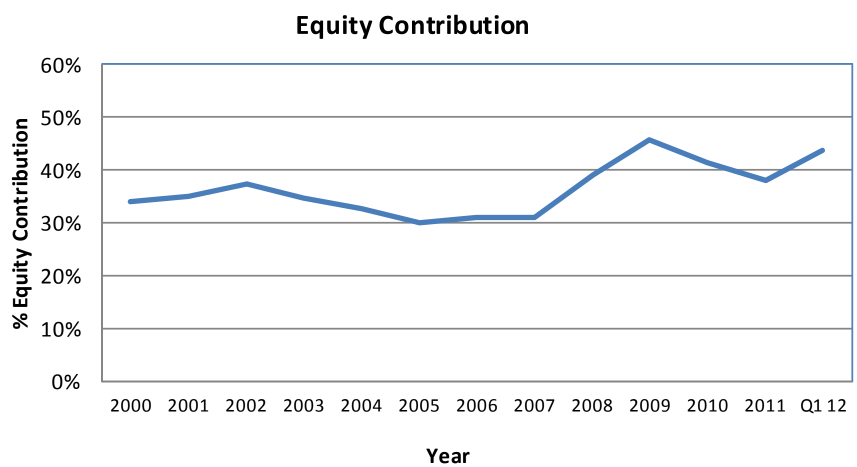
Debt Multiples

- After increasing to 4.9x average debt multiple in 2011, the first quarter of 2012 declined to a 4.4x multiple exhibiting a more cautious approach.
- The average debt multiple had increased from a low in 2009 (3.7x), but the average debt multiple in 2011 (4.9x) was still well below the peak in 2007 (6.0x).



Source: S&P LCD

- The decline in average debt multiple in Q1 2012 resulted in an increase in the average equity component of a transaction to 44%. The equity contribution had a recent peak in 2009 at 46% up from 31% in 2007.
- Higher equity contributions result in more conservative capital structures for transactions. The long-term impact on performance results remains uncertain.



Source: S&P LCD

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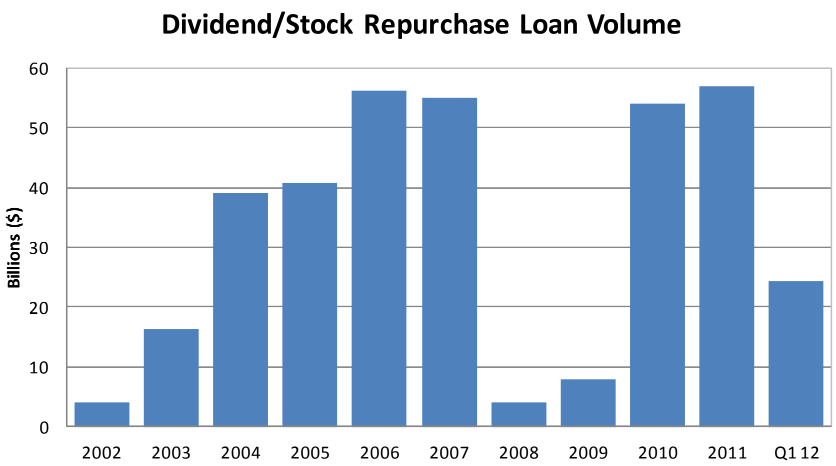
Recaps and Stock Repurchases

- The private equity market saw a re-emergence of dividend recaps and stock repurchase activity in 2010, which had virtually disappeared post credit bubble.
- Dividend recaps result in increasing leverage, and ultimately risk, at the portfolio company level.
- $24.4 billion in dividend recaps/stock repurchases occurred in the first quarter of 2012, on pace to materially exceed the $56.9 billion in 2011.



* through 3/31/2012
Source: S&P Capital IQ LCD, Bank of America Merrill Lynch

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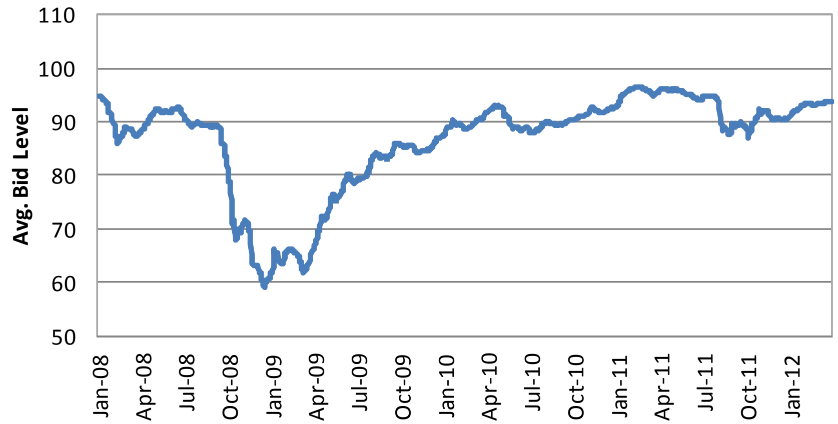
Distressed Debt

- The outlook for distressed debt investment strategies is mixed. The rebound in debt pricing is easing the opportunity set for trading strategies as interest in the leveraged loan market has pushed the price of leveraged loans back towards par.

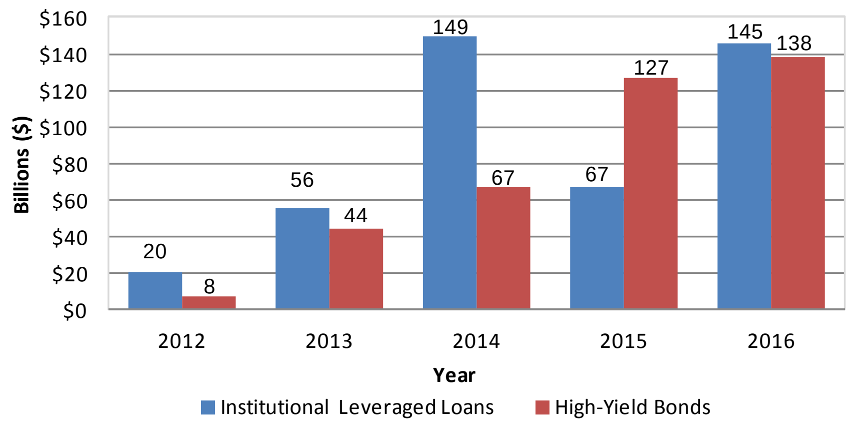
Leveraged Loan Index



Source: Loan Syndications and Trading Association (LSTA)

- The opportunity set for debt-for-control strategies remains unclear. There appears to be an attractive pending opportunity set, with the magnitude of debt that was "amended and extended" during the crisis resulting in a significant volume of debt issues that are maturing over the next several years. With the uncertain economic environment and changing availability of debt, the opportunity set for debt-for-control transactions may be positioned to grow.

U.S. High-Yield and Leveraged Loan Maturities



Source: Credit Suisse

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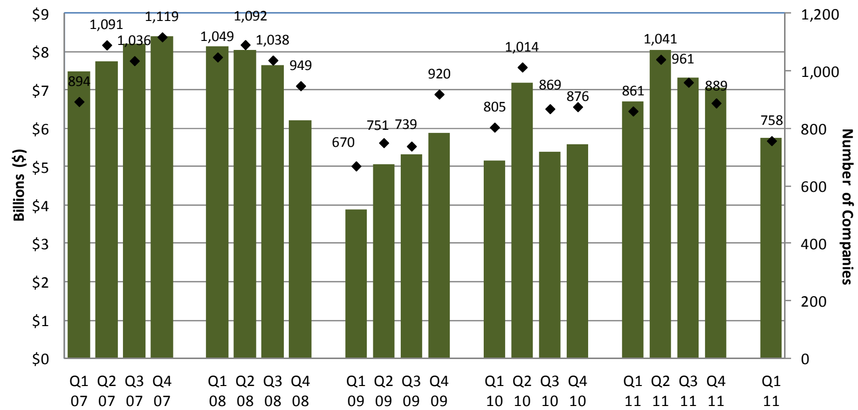
U.S. Venture Capital Trends

- In the first quarter of 2012, 758 companies received approximately $5.8 billion of capital down from prior quarters, as venture capitalists appear to be exhibiting caution.
- Venture capital investment activity increased throughout 2009, 2010 and 2011. Approximately $29.1 billion was invested across 3,752 transactions in 2011, up from $23.3 billion invested across 3,564 transactions in 2010 and $20.1 billion invested across 3,080 transactions in 2009.
- Several favorable dynamics in the industry suggest potential for attractive long-term results going forward, including: reduced institutional investor commitments to venture capital; ability for entrepreneurs to create new companies at a lower cost due to ongoing technological enhancements; embedded value within existing venture capital portfolios that have yet to be realized.

Quarterly U.S. Venture Capital Deal Volume*



* Only includes equity portion of deal value.

Source: MoneyTree Report from PricewaterhouseCoopers LLP

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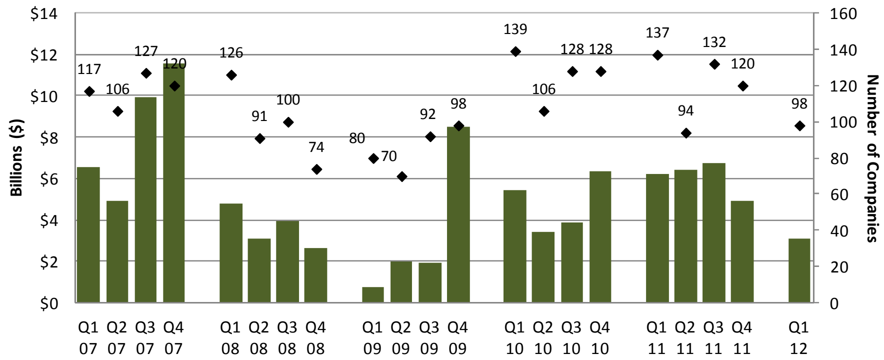
Venture Capital Exit Environment

- M&A activity for venture-backed companies declined in the first quarter of 2012, as 98 transactions were completed representing $3.1 billion of value.
- Despite the decline in Q1 2012, exit opportunities for venture-backed companies have shown signs of increased activity. In 2011, 483 venture-backed M&A transactions representing $24.3 billion in value were completed, above the $19.1 billion in value transacted across 501 companies in 2010 and the $13.2 billion in value across 340 companies in 2009.

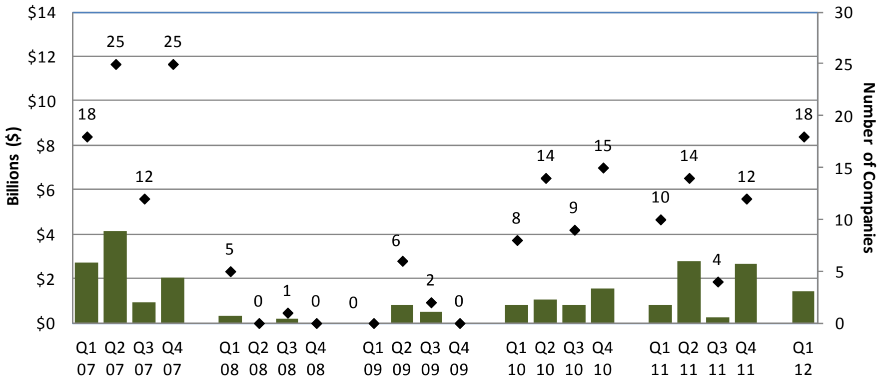
Quarterly U.S. Venture Capital M&A Activity



Source: Thomson Reuters

- Eighteen venture-backed companies went public in the first quarter of 2012, raising $1.4 billion in capital.
- Volatility in the IPO market was exhibited on a quarterly basis in 2011. The second and fourth quarters exhibited strong quarterly activity while the first and third quarters lagged. In aggregate 39 venture-backed companies went public, raising $6.5 billion while 47 venture-backed companies raised $4.4 billion in 2010.
- The passage of the JOBS Act, which is intended to make it easier for startups and small businesses to raise funds, may increase exit activity through public offering but its impact is uncertain at this time.

Quarterly U.S. Venture Capital IPO Activity



Source: Thomson Reuters

Quarterly Report

March 31, 2012

Appendix 1: AIM Relationships by Total Exposure

Firm	Total Exposure ($M)	% of Program
The Carlyle Group	4,610	10%
Apollo Investment Management	4,580	10%
TPG Capital	2,595	6%
Blackstone Group	1,905	4%
Grove Street Advisors	1,512	3%
CVC Capital Partners	1,487	3%
KKR	1,391	3%
Silver Lake	1,192	3%
57 Stars	1,022	2%
Hellman & Friedman	975	2%
Centinela Capital Partners	975	2%
Advent International	928	2%
Ares Management	873	2%
Yucaipa Companies	860	2%
First Reserve	777	2%
Aurora Capital Group	673	1%
Health Evolution Partners	627	1%
SL Capital Partners	617	1%
Bridgepoint Capital	605	1%
Leonard Green & Partners	599	1%
Avenue Capital Group	597	1%
Oak Hill Investment Management	590	1%
New Mountain Capital	530	1%
WL Ross & Co.	516	1%
Wayzata	505	1%
TowerBrook Capital	504	1%
Hamilton Lane	455	1%
Providence Equity	434	1%
Capital Dynamics	419	1%
Conversus Asset Management	410	1%
MHR	410	1%
Oak Hill Capital Partners	383	1%
Asia Alternatives	378	1%
Madison Dearborn	378	1%
Coller Capital	369	1%
Arclight Capital	346	1%
Wesh Carson Anderson & Stowe	332	1%

Firm (continued)	Total Exposure ($M)	% of Program
THL Partners	328	1%
Khosla Ventures	317	1%
Permira	308	1%
SAIF Partners	264	1%
Francisco Partners	256	1%
Birch Hill Equity	248	1%
Audax Group	236	1%
Levine Leichtman	229	1%
KPS Capital Partners	209	<1%
Clessidra Capital	203	<1%
Oaktree Capital	199	<1%
(blank)	198	<1%
Palladium Equity Partners	190	<1%
The Jordon Company	189	<1%
Clearwater Capital	187	<1%
Lion Capital	185	<1%
Enterprise Investors	178	<1%
KMCP Advisors	177	<1%
Wellspring	171	<1%
Lime Rock Partners	168	<1%
Court square	167	<1%
Huntsman Gay Capital Partners	167	<1%
Lombard Investments	156	<1%
Aisling Capital	149	<1%
Affinity Equity	148	<1%
Riverwood	147	<1%
Insight Capital	139	<1%
Candover	131	<1%
W Capital	125	<1%
VantagePoint Venture Partners	121	<1%
Magnum Capital	119	<1%
Essex Woodlands Health Ventures	109	<1%
Tricor	104	<1%
Clarus	101	<1%
Rhone Capital	100	<1%
PAG	100	<1%
TA Associates	100	<1%
Other	2,048	5%

Source: State Street Private Edge, PCA