

Chief Investment Officer Ted Eliopoulos: Terrific. Good morning. Mr. Chair, members of the Investment Committee. I have some brief comments today. Earlier this month, I had the opportunity to travel to Boston for the ILPA, the Institutional Limited Partners Association, CIO symposium. This was a gathering of CIO's from around the globe from pension funds, sovereign wealth funds, corporate plans, endowment CIOs to discuss private equity investing today and into the future.

The ILPA CIO symposium was a good opportunity to check in with our peers on a range of topics with respect to private equity investing. Topics such as asset allocation, business models, progress on the ILPA template and fee and expense reporting, and transparency initiatives, the regulatory environment, and so on.

The ILPA meeting was especially timely, given the timing of our own CalPERS asset allocation process, our own review of private equity business models, and our continued progress on fee and expense reporting and transparency.

On our agenda today, we consider a significant milestone in the asset allocation process, the adoption of capital market assumptions for each asset class. What you will surely notice is that private equity is the only asset class whose return forecast is above seven percent over the next ten years. For this reason, and all the other reasons we have discussed in detail the past two years, private equity is an important asset class for our portfolio construction, and vital to maintaining our current discount rate.

My peer CIOs, and I would note they are also our competitors in the marketplace, view private equity as an essential cornerstone of their investment portfolios, and I agree. And in that regard, I think it's also important to emphasize that most, if not all, our competitors have a substantial portion of their private equity portfolios invested in the same or similar general partners in the same or similar commingled funds we have discussed so energetically these past two years.

Even the famed direct investors have anywhere from 50 to 80% of their portfolios in the same general partner and commingled funds that we invest in.

Why do I mention this?

Because it is vitally important to whether CalPERS can successfully meet our investment objectives over this next ten-year period. I mention it also because over the course of the past two years, and frequently in these monthly Investment Committee meetings, CalPERS' staff is attacked and denigrated for our decision to invest in these funds and for the manner and transparency of our reporting of the fees, carried interest, and expenses attached to these funds.

Let me take up the topic of reporting and transparency first. CalPERS is an industry leader in how we report private equity returns, fees, and expenses. CalPERS is an industry leader

in working with our peers, and importantly ILPA, to work for standardized and make consistent fee and expense disclosure globally. In fact, ILPA has invited CalPERS and a small number of peers to meet with the new SEC chair in a matter of weeks to discuss the regulatory environment surrounding private equity investing. And I'm proud to say Wylie Tollette will represent CalPERS at that meeting in July.

In addition, we've examined the public reports available by other large investors. And CalPERS, in our review, is now arguably the most transparent. All of that success goes to the hard work of our CalPERS staff, some of whom are here today in our auditorium, our Private Equity staff, our Operations staff, working under Wylie and Matt Flynn, our Finance staff.

And the credit also goes to the foresight by Joe Dear and Janine Guillot who over six years ago, before any critic said a word, made the decision to build the systems and data collection to get us to the point where we are today to be a leader in transparency and reporting of fee and expense disclosure in private equity. I am proud to work with this staff.

Private equity is a complex evolving, and for many decades, unregulated private asset class. And working for a public institution, this staff has delivered over the past 20 years over 12 to 18 billion dollars in extra profit to CalPERS, while building, at the same time, over the course of the last six years, an industry leading reporting system.

I mention this because looking to the future, and all investors need to think about -- and think about the future, we would like to have a successful and meaningful allocation to private equity in our portfolio.

Unfortunately, the negativity, which I believe is unique to CalPERS in the marketplace.... I do not see a similar investment environment at any of our other peers that we're competing with... are making it increasingly difficult for CalPERS to compete successfully in the private equity marketplace. Our brand, which we built up over the past twenty years, is being hurt by these attacks, and the private equity investment staff is being harmed by the relentless attacks as well.

I recognize that part of the price of our value of transparency and our role as a public agency is to take all the good and bad that comes with transparency, all the good and bad that comes with public comment and public attention. And we do receive both the benefits of that transparency and sometimes the negativity. But the sustained and repetitive attention on our staff and our private equity investment strategy is taking a toll on both our staff and our competitiveness in the marketplace. I read a wonderful quote from the former CEO of the Norges Fund in the Financial Times about investment strategy. He said and I quote, "You should never go for a more advanced investment strategy than your governance allows".

We may have reached that point with private equity at CalPERS. And I say that it is not without the support of the great, great majority of this Board, and the Herculean efforts of your Investment staff supported by our Legal staff, our Finance staff, our Communications staff. But the particular public nature and fish bowl of CalPERS may have reached a tipping point for us in private equity.

At our off-site next month, we will review the private equity business models available to us. And at their heart is the need for an effective governance system to oversee private equity investing.

If we are not successful in finding a better solution for both our traditional model of investing in commingled funds -- because I think that will be a cornerstone in our investment portfolio no matter what alternatives we review, and certainly for any alternative business models that we review. If we are not successful in finding a better solution, the asset allocation process will need to weigh a much-reduced allocation to private equity than we would otherwise have hoped for.

Mr. Chair, those are my comments, and I'm happy to take any questions.

Board Member Henry Jones: Yeah. Thank you.

[APPLAUSE]