

# CalPERS for California 2011

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Supporting Economic Opportunity in California



CalPERS

## CalPERS for California

*The California Public Employees Retirement System (CalPERS) is one of the largest investors in the world, with more than \$235 billion in assets as of June 30, 2011.*

*Approximately \$19 billion (8.2 percent) of these funds are invested in California-based companies and projects.*

*CalPERS for California highlights some of the broad ancillary benefits of all CalPERS investments in California.*



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## Executive Summary

The California Public Employees' Retirement System (CalPERS) plays a significant role in California's economy, providing retirement and health benefits to more than 1.6 million public employees, retirees, and their families, and more than 3,000 employers.

As of June 30, 2011, CalPERS investment portfolio totaled \$237.5 billion. Of this amount, 8.2 percent, or \$19.4 billion, is invested in California, supporting 1.4 million local jobs.<sup>1</sup>

CalPERS investments in California are a direct result of the strength and diversity of California's economy and the quality of its companies, properties, and other investment opportunities. The ancillary benefits of CalPERS investments in California include jobs, infrastructure for communities and commerce, business expansion and related economic activity.

This report documents the capital invested in California by CalPERS and resulting ancillary benefits.

At June 30, 2011, CalPERS invested:

- \$7.8 billion in 666 California-headquartered public companies, which employ over 1,040,000 people in California
- \$3.7 billion of fixed income capital in California, \$615 million of which is invested in 46 California-headquartered corporate bond issuers employing 61,000 people in California<sup>2</sup>
- \$4.2 billion in 1,536 California-headquartered private companies, which employ 190,000 people in California
- \$3.6 billion in 363 California-based real estate projects, which employ 100,000 people in California
- \$68 million in 6 California-based infrastructure projects, which employ 2,200 people in California

Separate from this report, CalPERS has prepared a study examining the economic impacts of its pension payments in California. The report, *The Economic Impacts of CalPERS Pension Payments in 2010*, is available on the CalPERS website at [www.calpers.ca.gov/index.jsp?bc=/about/press/news/economic-engine/econ-impacts/home.xml](http://www.calpers.ca.gov/index.jsp?bc=/about/press/news/economic-engine/econ-impacts/home.xml).

### CalPERS Investments in California by Asset Class: June 30, 2011

	Total Portfolio Value (in billions)	Dollars Invested in California (in billions)	Percentage of Dollars Invested in California	Jobs in California <sup>3</sup>
Public Equities	\$123.3	\$7.8	6.3%	1,040,000
Private Equity	\$33.6	\$4.2	12.5%	190,000
Real Estate	\$18.6	\$3.6	19.4%	100,000
Infrastructure <sup>1</sup>	\$0.7	\$0.1	10.0%	2,200
Fixed Income	\$50.2	\$3.7	7.4%	61,000
Other <sup>2</sup>	\$11.1	—	—	—
<b>All CalPERS Total</b>	<b>\$237.5</b>	<b>\$19.4</b>	<b>8.2%</b>	<b>1,393,200</b>

<sup>1</sup>The values for the infrastructure portfolio have been rounded for this chart. The actual values are \$681 million and \$68.1 million respectively.

<sup>2</sup>CalPERS total portfolio value was \$237.5 billion at 6/30/2011. The 5 asset classes above do not comprise the entire portfolio. "Other" consists primarily of non-infrastructure inflation linked securities, cash, and cash-equivalents.

<sup>3</sup>For methodologies calculating the number of jobs in California please refer to individual asset class sections within the report.

# Introduction

CalPERS has invested \$19 billion in companies, properties and projects located in California across five key asset classes including public equities, private equities, fixed income, real estate, and infrastructure. The companies, properties and projects in which CalPERS invests employ an estimated 1,393,200 workers in California, representing over 10 percent of the state workforce.<sup>3</sup>

The primary objective of CalPERS investments in California is to achieve appropriate risk adjusted returns on investment. Investment in California by CalPERS and its third-party investment managers is a consequence of the strength and diversity of California's economy and the quality of its companies, properties, and other investment opportunities.<sup>4</sup>

Specifically:

- At \$1.9 trillion,<sup>5</sup> California represents 13 percent of U.S. Gross Domestic Product (GDP) and ranks as the world's tenth largest economy.<sup>6</sup>
- California is home to 53 Fortune 500 companies and 15 of the largest 500 corporations in the world.<sup>7</sup>
- California has received \$126 billion of \$1 trillion in private equity investments made from 2000-10 in the U.S..<sup>8</sup>
- California exported \$143 billion of goods in 2010, representing 19.2 percent of the U.S. total.<sup>9</sup>

CalPERS invests like other large institutions, diversifying its portfolio among categories of investments, called "asset classes," to reduce its exposure to any one market risk and maximize its return on investment.

Asset classes in this report include:

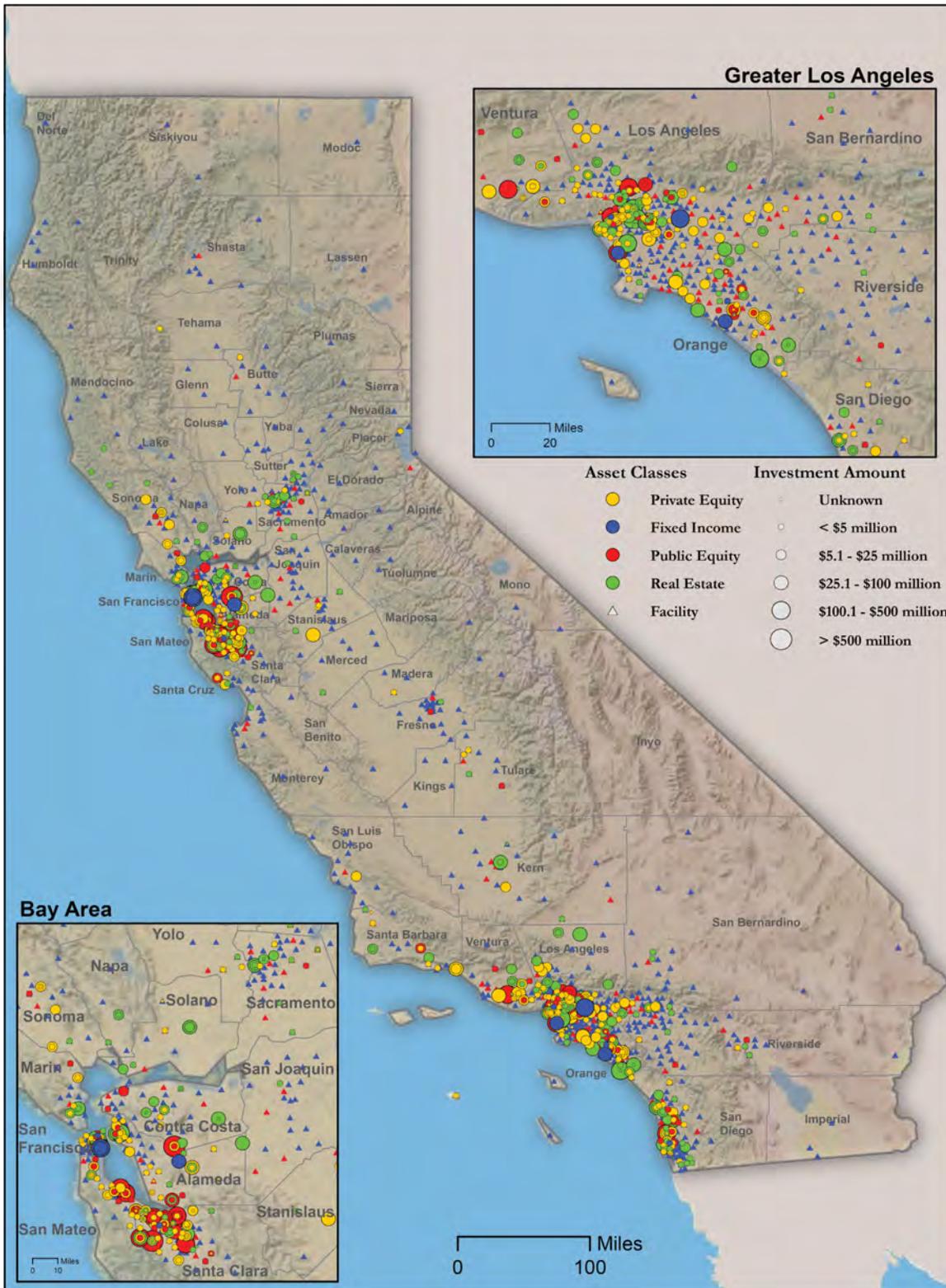
- **Public markets**
  - Public equities: investments in public companies domestically and internationally, for example through the New York Stock Exchange
  - Fixed income: investments in loans provided to governments, companies, and other borrowers
- **Private markets**
  - Private equities: investments in private companies that are not publicly traded
  - Real estate: investments in commercial, residential and industrial property
  - Infrastructure: investments in real assets including bridges, toll roads, utilities, and airports

California is home to investment opportunities in each asset class, to which CalPERS deploys capital directly, using an in-house team of investment professionals, or by employing the services of qualified third-party investment management companies.

California's large and vibrant economy will continue to attract a proportion of CalPERS total investments and will benefit from the impacts that this capital brings to the state.

This report describes the breadth of the System's exposure to companies, properties and projects in California, highlighting the number of jobs that these investments support. The geographic characteristics of investments are used to document the deployment of capital by CalPERS to communities of interest like low- to moderate-income areas.

CalPERS Investments by Asset Class in California



## Public Markets

CalPERS invests the largest volume of its assets in total, and in California, in the public equity and fixed income markets.

The analysis below includes estimates of the number of workers employed in California by the companies in which CalPERS invests. These jobs are not created or sustained only by CalPERS investments. CalPERS owns approximately 0.2 percent of the largest California-headquartered companies in its portfolio. Nonetheless, CalPERS provides an important source of capital for use in all the activities of the public companies and fixed income opportunities in which it invests.

This research focuses on California-headquartered companies because it is readily apparent that the impacts these firms have on California are more significant than those headquartered elsewhere. Companies headquartered in California have 21 percent of their facilities located in-state compared to companies with headquarters outside of California, which have three percent of their facilities based locally.

### PUBLIC EQUITIES

<b>Public Equities</b>	Total Market Value	\$123.3 billion
	Value in CA	\$7.8 billion
	Percentage in CA	6.3%

CalPERS invests in public companies primarily as a long-term investor, without betting on market fluctuations. The largest proportion of its public equity portfolio is passively managed by an in-house team of investment professionals. CalPERS maintains some active equity management, where there is potential to add value, using both in-house expertise, and by engaging the services of qualified third-party investment management companies.

The 666 California-headquartered public companies in which CalPERS invests employ an estimated 1,040,000 workers locally. Just over one-fifth of the facilities of California-headquartered companies (21 percent) are located in California. Half of CalPERS public equity investments in California are in companies that manufacture products (50 percent).

### CalPERS Public Equity Portfolio in California<sup>1</sup>

Total Companies	666	
Median Company Size (Employees)	444	
Average CalPERS Investment (in millions)	\$23.4	
Company Size (Employees)	1-100 Employees	23%
	101-500 Employees	32%
	>500 Employees	45%
Company Size (Revenue, in millions)	<\$100	39%
	\$101 - \$500	31%
	Over \$500	30%
Median 1-Year Employee Growth <sup>2</sup>	3.2%	
Percentage Manufacturing Companies <sup>3</sup>	50%	
Estimated Number of Jobs in California <sup>4</sup>	1,040,000	
Facilities in California	11,424	
Percentage of Facilities in California	21%	

<sup>1</sup> Analysis based on a 25 percent random sample (n=167). All data was collected from the Hoovers Inc. online database of publicly traded companies. Hoovers Inc. is a Dun & Bradstreet company.

<sup>2</sup> Median employee growth data from Hoovers Inc. is measured as the percentage difference between the most current reported employee numbers, and the numbers reported approximately one year prior.

<sup>3</sup> Percentage of manufacturing companies data from Hoovers Inc. A company is classified as a manufacturer if they produce any kind of physical good.

<sup>4</sup> The number of jobs in California is estimated using the percentage of total company facilities in California. Given that 21 percent of sample facilities are in California, and assuming that employment is spread evenly by facility, 1,040,000=total jobs at California-headquartered companies x 21 percent.

CalPERS makes investments of more than \$100 million in 15 separate companies headquartered in California. These companies account for 60 percent of CalPERS public equity investments in California and 20 percent of the California workers employed at public companies in CalPERS portfolio.

#### CalPERS +\$100 Million Public Equity Investments in California

Company Name	CalPERS Investment (in millions) <sup>1</sup>	Total Market Capitalization (in millions) <sup>2</sup>	CalPERS % of Market Value	Company Facilities in California <sup>3</sup>
Apple Inc	\$856.6	\$342,913	0.25%	17%
Chevron Corp	\$587.8	\$190,505	0.31%	27%
Oracle Corp	\$426.8	\$150,570	0.28%	12%
Wells Fargo & Co	\$426.3	\$126,195	0.34%	16%
Google Inc	\$322.5	\$148,480	0.22%	18%
Intel Corp	\$303.7	\$118,338	0.26%	17%
Occidental Petroleum Corp	\$278.7	\$74,384	0.37%	18%
QUALCOMM Inc	\$259.7	\$91,580	0.28%	21%
Hewlett-Packard Co	\$246.2	\$52,953	0.47%	11%
Cisco Systems Inc	\$242.6	\$96,891	0.25%	15%
The Walt Disney Co	\$204.0	\$63,141	0.32%	26%
Amgen Inc	\$152.7	\$48,184	0.32%	14%
DirecTV	\$128.0	\$32,704	0.39%	29%
Visa	\$118.3	\$47,569	0.25%	34%
eBay	\$111.4	\$37,480	0.30%	15%

<sup>1</sup> CalPERS investment is market value at 6/30/2011.

<sup>2</sup> Total market capitalization at 6/30/2011. Data from smartmoney.com Stock Quote key stats.

<sup>3</sup> The percent of facilities in California is determined using Hoovers, Inc. data and includes all company facilities with a California address.

CalPERS invests in approximately 9,000 companies that are not headquartered in California. California operations comprise three percent of the total number of facilities globally for these companies.<sup>10</sup> While companies headquartered elsewhere likely employ millions of Californians, as evidenced by the approximately 40,000 facilities they operate in California compared to 11,000 for the 666 California-headquartered companies that employ 1,040,000 local workers, a precise jobs estimate was unable to be determined with available data.

**Impacts of Global Equity Companies not Headquartered in California on the California Economy<sup>1</sup>**

Total Companies	9,084
Approximate Number of Facilities	1,520,000
Percentage of Facilities in CA	3%

<sup>1</sup> Analysis based on a 3 percent random sample (n=273) of companies not headquartered in California in the CalPERS Global Equity portfolio.

**Case Study: CalPERS Investments in Innovative Global Companies**

At a time when technological and industrial innovation provides an important path to prosperity and job creation, CalPERS invests \$1.2 billion in 16 of Forbes' 20 most innovative global companies.<sup>11</sup> Two of these companies, Apple Inc. and Google Inc., are headquartered in California; nine are located in the United States. These 16 companies have an average of 19 percent of their facilities located in California and employ an estimated 115,000 workers in the state.<sup>12</sup> Moreover, during a period of modest job creation, eight companies experienced double-digit employee growth and only one lost jobs. The median one year employee growth rate at the 16 companies was 9.5 percent. Taking California-headquartered companies as an example, Apple recorded 28 percent employee growth in the past year, while Google reported 23 percent. Innovators on the Forbes list have contributed to the California economy by creating robotic-assisted medical procedures that lower costs and reduce medical errors, have supported business development efforts for underprivileged rural women, have transformed commerce with cloud computing, and superior customer relationship management systems.

## FIXED INCOME<sup>13</sup>

Fixed Income	Total Market Value	\$50.2 billion
	Value in CA	\$3.7 billion
	Percentage in CA	7.4%

CalPERS has fixed income investments in California, managed both internally and externally, in three primary vehicles:

- **Corporate bonds:** Corporate bonds are debt securities issued by private and public corporations. Companies issue corporate bonds to raise money for a variety of purposes, such as building new plants or purchasing equipment.<sup>14</sup>
- **Credit enhancements:** Credit enhancements for companies or government entities effectively substitute the credit rating and liquidity of the credit enhancement provider for that of the borrower. Credit enhancement thereby lowers the cost of capital for the borrower.
- **Structured securities:** Structured securities are investments in a diverse group of loans and provide risk and return characteristics contingent on a range of underlying indices, interest rates or cash flows.<sup>15</sup>

### CalPERS Fixed Income Key Investment Classes in California

	Dollars invested (in millions)	Percentage of dollars invested
CA Corporate Bonds	\$615	17%
Structured Securities	\$2,705	73%
Whole Loans	\$15	1%
Credit Enhancement	\$325	9%
<b>Total</b>	<b>\$3,660</b>	<b>100%</b>

CalPERS investments include loans to 46 companies headquartered in California. CalPERS invests \$549 million directly in 11 of these companies, without the assistance of external third-party investment managers. The 11 companies in which CalPERS invests directly are larger than companies invested in by other asset classes, with a median size of approximately 16,000 employees. These companies employ approximately 60,500 workers in California and operate 4,000 local facilities.

**CalPERS Fixed Income Portfolio –  
Corporate Bonds in California<sup>1</sup>**

Total Companies		11
Median Company Size (Employees)		16,200
Average CalPERS Investment (in millions)		\$32.3
Company Size (Employees)	1-100 Employees	0%
	101-500 Employees	0%
	>500 Employees	100%
Company Size (Revenue, in millions)	<\$100	9%
	\$101 - \$500	9%
	Over \$500	82%
Median 1-Year Employee Growth <sup>2</sup>		0.0%
Percentage Manufacturing Companies <sup>3</sup>		18%
Estimated Number of Jobs in California <sup>4</sup>		60,547
Facilities in California		4,037
Percentage of Facilities in California		11%

<sup>1</sup> Data from corporate bond recipients with headquarters in California, as listed in the Hoovers Inc. database. This includes 11 companies and \$550 million of investments. This table does not include California corporate bond recipients receiving investment through external managers. There are 40 California corporate bond recipients receiving a total of \$66.4 million in investment from third-party investment managers with an average investment of \$0.9 million. Five of these 40 corporate bond recipients receiving investment from third-party investment managers also receive direct investment from CalPERS.

<sup>2</sup> Median employee growth data from Hoovers Inc. is measured as the percentage difference between the most current reported employee numbers, and the numbers reported approximately one year prior.

<sup>3</sup> Percentage of manufacturing companies data from Hoovers Inc. A company is classified as a manufacturer if they produce any kind of physical good.

<sup>4</sup> California jobs estimated by multiplying total number of employees by the percentage of facilities in California.

CalPERS also invests in approximately 360 corporate bond issuers that are not headquartered in California, of which 66 percent have facilities in-state and employ local workers. In-state operations comprise 4 percent of the total number of facilities globally for these companies.<sup>16</sup> While companies headquartered elsewhere likely employ hundreds of thousands of Californians as evidenced by the approximately 11,000 facilities they operate in California compared to 4,000 for the 11 California-headquartered companies that employ 60,500 local workers, a precise jobs estimate was unable to be determined with available data.

**Impacts of Fixed Income Corporate Bond  
Recipients not Headquartered in California<sup>1</sup>  
on the California Economy**

Total Companies	363
Approximate Number of Facilities	28,000
Percentage of Facilities in CA	4%

<sup>1</sup> Analysis based on a 10 percent random sample (n=35) of companies not headquartered in California in the CalPERS Fixed Income portfolio.

### **Case Study: Supporting the California General Obligation Bond Program**

The Credit Enhancement Program, approved by the CalPERS Board in February 2003, is designed to assist municipalities nationwide in accessing the bond market more efficiently. In 2008, CalPERS doubled the capacity of the program following significant turmoil in the municipal bond market, which increased demand for credit enhancement facilities and led to an increase in the cost of credit. As of June 30, 2011, the Credit Enhancement Program provided credit enhancement for three bond issues in California totaling \$325 million.

One of these issuers is the State of California, through the Variable Rate General Obligation Bond program, to which CalPERS provides a letter of credit. CalPERS credit enhancement allows the State to access short term credit markets and pay a lower interest rate than they would ordinarily need to, even in longer term credit markets. By reducing the interest cost of the State's debt, the credit enhancement program assists the State in reducing expenditures on debt service and increasing available funds for other public services and capital projects that benefit California.

## Private Markets

CalPERS invests approximately 22 percent of its total assets in private markets inside and outside of California, including in private equity, real estate and infrastructure. Within California, the proportion of CalPERS assets in private market strategies is much greater, at 41 percent. Private market strategies encompass investments in companies, properties, and projects that cannot be accessed publicly.

The job creation and other ancillary benefits of private companies, properties and projects that receive investments directly from CalPERS, or through contracted third-party investment managers, can be more directly attributed to the System than investments in public markets.

CalPERS is typically a larger investor among a more targeted group of institutions in any given deal, fund or partnership. Moreover, in the case of private equity, the investment managers supported by CalPERS (called “General Partners”) often join the boards of directors of the companies in which they invest and provide strategic advice, improved operating guidance, and access to broad networks that directly enhance the probability of business success.

At times, the investment managers that CalPERS enlists to support its efforts in private markets have also raised *additional* capital as a result of CalPERS anchor partnership commitment in their funds. While not all of these “co-investments” in private California-based companies, properties, and projects can be attributed to CalPERS, the opportunity to partner with CalPERS and its investment managers has proven to be attractive to other providers of capital.

The private markets section of *CalPERS for California* highlights four areas in which capital is especially socially beneficial.<sup>17</sup> This includes:

- Low- to Moderate-Income (LMI) Areas<sup>18</sup>
- High Unemployment Areas<sup>19</sup>
- High Minority Areas<sup>20</sup>
- Rural Areas<sup>21</sup>

Access to capital is an important factor in business and productivity growth, job and wealth creation, innovation, and sustainable community and economic development. The benefits of access to capital accrue to the direct recipients of investments, and to the areas in which they are located.

The proportion of CalPERS investments in LMI, High Unemployment, High Minority, and Rural Areas reflects the demands for capital in the asset classes in which CalPERS invests, for example from companies and properties located primarily in central business districts and other economic hubs, which tend to be ethnically and economically diverse. As with all the System’s investments, the decision of CalPERS and its third-party investment managers to support a California-based company, property or project is made solely on the basis of the financial merits of the particular opportunity.

## Locating Investments in California

The analysis in this section uses the demographic and income characteristics of ZIP codes. If the ZIP code in which an investment is located is determined to be an LMI, High Unemployment, High Minority, or Rural Area, the investment – and the dollars associated with the investment – are considered to be in the defined community.

In the case of High Unemployment, Rural, and High Minority Areas, the calculations are relatively straightforward. The data used to determine the appropriate status of relevant populations is available by ZIP code and uses 2000 U.S. Census and 2010 California Employment Development Department data.

Calculating the LMI status of a ZIP code is more complex. The following method is applied using U.S. Census Bureau 2006-10 American Community Survey data for every tract in the United States:

1. The population in a census tract is assumed to be evenly distributed across the entire census tract. This includes the LMI population.
2. The number of census tracts and percentage of each census tract located in every ZIP code is determined using geographic information systems (GIS) data.
3. The percentage of the total population and LMI population from each census tract is attributed to the ZIP code in which it is located.
4. A total population number, and LMI population number, is calculated for every ZIP code by combining partial census tracts.
5. The ZIP code is considered to be LMI if the percentage of LMI population in a ZIP code is greater than 50 percent of the total.

In the United States 38 percent of all ZIP codes are classified as LMI using this analysis. In California, 49 percent of all ZIP codes are classified as LMI, including 85 percent in the “urban core” comprising the Central Business Districts of San Francisco, Oakland, Los Angeles and San Diego.<sup>22</sup>

## PRIVATE EQUITY

Private Equity	Total Market Value	\$33.6 billion
	Value in CA	\$4.2 billion <sup>23</sup>
	Percentage in CA	12.5%

CalPERS is a significant investor in privately held California-based companies in a wide range of industries. Private companies are generally smaller than public companies and use capital to support rapid growth, whether by commercializing new technologies, expanding operations, or by realizing efficiencies in readiness for an acquisition or public listing.

CalPERS invests in private companies primarily through Limited Partnerships, or funds. These investments are often structured as ten year agreements with a professional investment manager. The manager, known as the General Partner, is the intermediary between investors with capital and businesses seeking capital.

### CalPERS Private Equity Portfolio in California

Total Companies	1,536
CalPERS Investments (in millions)	\$4,175
Other Co-Invested Dollars (in millions) <sup>1</sup>	\$32,805
Estimated Jobs in CA <sup>2</sup>	190,000

<sup>1</sup> Includes all other capital invested alongside CalPERS in the same companies in the same private equity fund, not the total market value of the company. Other co-invested dollars are determined only from \$2.9 billion in investments for which information was available.

<sup>2</sup> Estimated jobs in California was determined by applying the total number of California jobs supported by the California Initiative to the entire California AIM portfolio.

The companies in CalPERS private equity portfolio that are headquartered in California are estimated to employ 190,000 workers in the state. More than \$32 billion has been co-invested alongside CalPERS in the same California-based companies by other institutional Limited Partners.

Of 253 third-party funds investing CalPERS assets in California-headquartered companies, the majority (58 percent) are managed by General Partners based in California.

CalPERS private equity investments provide a unique ancillary benefit by deploying capital to areas that have traditionally had limited access to institutional private equity assets. Private equity investment has historically been clustered within geographic regions such as Silicon Valley. Specifically, more than 90 percent of private equity capital has been invested in just ten percent of ZIP codes in California. In addition to investing in these traditional private equity markets, CalPERS and its third-party investment advisors seek profitable investment opportunities in companies that may have been overlooked because of their location. As of June 30, 2011, 35 percent of the value of CalPERS private equity investments in California are directed to ZIP codes outside of the areas receiving the vast majority of investments from all sources of institutional private equity capital.

Approximately two-thirds of the value of CalPERS private equity investments in California are in High Minority Areas. CalPERS also makes private equity investments in High Unemployment, LMI, and Rural Areas.

CalPERS has a highly diversified private equity portfolio in California, with investments in more than 15 different industries. The following chart shows the distribution of sectors, including the heaviest concentrations in information technology, consumer discretionary and health care companies.

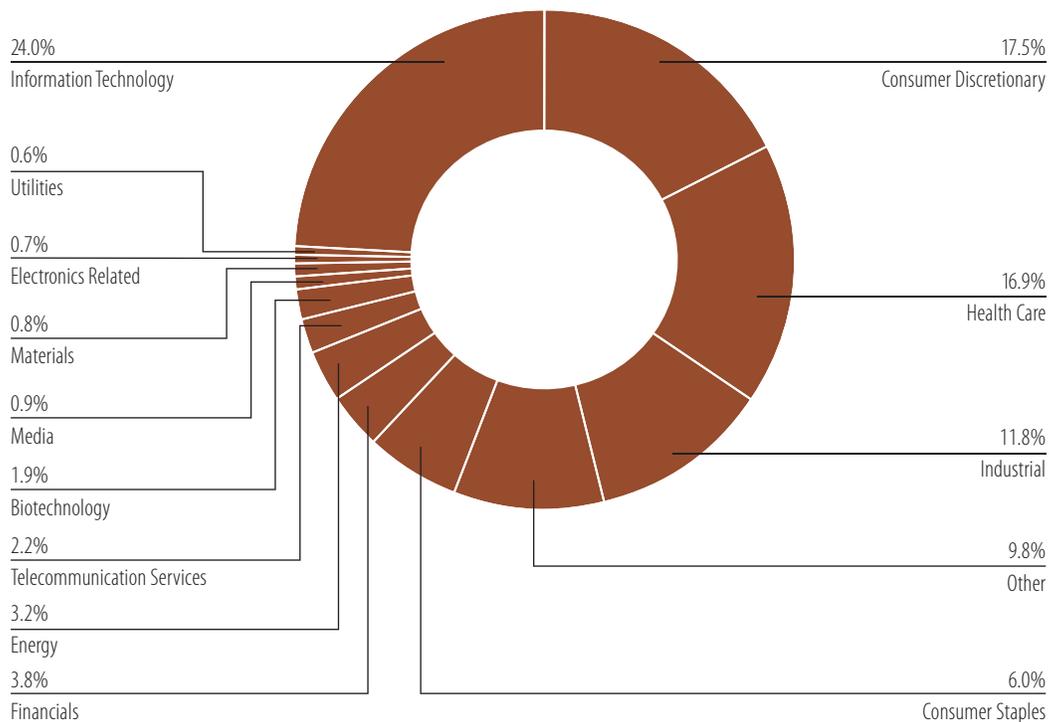
### Private Equity Ancillary Benefits in California<sup>1</sup>

	Percentage of investments	Percentage of dollars
High Unemployment Areas	15%	18%
Rural Areas	5%	10%
High Minority Areas	75%	65%
LMI Areas	27%	26%
Limited Capital Access Areas <sup>2</sup>	21%	35%

<sup>1</sup> Private Equity Ancillary Benefits in California were determined using AIM California investment amounts and ZIP code data from direct partnerships and does not include data from other externally managed investments.

<sup>2</sup> According to data from Thomson Reuters analyzing all private equity transactions between 2001 and 2007, more than 90 percent of all private equity in California has been committed to 10 percent of California ZIP codes. ZIP codes not included in this 10 percent are considered Limited Capital Access Areas.

### California Private Equity Investments by Industry



Note: "Other" includes commingled funds, unclassified investments, real estate, and transportation.

## Case Study: CalPERS California Initiative

The CalPERS California Initiative (Initiative) is a private equity investment strategy providing capital to companies primarily in California with the goal of generating financial returns that meet or exceed industry benchmarks. As an ancillary objective, the Initiative invests in traditionally underserved areas where opportunities may have been bypassed, aiming to impact the economic infrastructure of the state. The Initiative was established in 2001 and has invested \$1 billion since inception, with \$374 million currently invested in 166 active companies reporting data in 2011.

The *2010 CalPERS for California* report included detailed findings on the ancillary benefits of the Initiative. In 2011, the 7th annual examination of the ancillary benefits of the Initiative is available in a separate report on CalPERS website at <http://www.calpers.ca.gov/eip-docs/about/press/news/economic-engine/ca-initiative.pdf>.

Highlights include:

- 12,669 new jobs at 166 companies reporting data, for employment growth of 18 percent since investment
- Investment in areas that have not historically received institutional equity capital, with 46 percent of portfolio companies located in these underserved markets
- Employment opportunities for economically disadvantaged workers, with 51 percent of all reporting company employees classified as low- to moderate-income.

Ancillary benefits for the Initiative are summarized in the following tables:

### Since Inception California Initiative Results Job Support and Job Creation

Ancillary Benefits <sup>1</sup>	Overall California Initiative	The California Initiative within California	Percentage within California
Total Jobs/ Employees Supported	126,579	27,471	22%
Total Jobs Created Since Investment	11,879	3,542	30%
Percentage Job Growth Since Investment <sup>2</sup>	10%	15%	n/a

<sup>1</sup>Ancillary benefits are derived from data from all companies ever receiving investment under the California Initiative and includes both active and fully realized investments that have reported data. These ancillary benefits capture the entirety of the Initiative's Job Support and Job Creation ancillary benefits since inception.

<sup>2</sup>From 2001-11 the U.S. private sector experienced job growth of negative one percent and the California private sector experienced job growth of negative four percent.

### California Initiative Ancillary Benefits: June 30, 2011<sup>1</sup>

	Overall California Initiative	The California Initiative within California <sup>2</sup>
Total Companies	166	130
Total Dollars Invested	\$374,000,000	\$272,000,000
Total Jobs / Employees Supported	83,680	20,892
Total Jobs Created Since Investment	12,669	2,915
Percentage Job Growth Since Investment	18%	16%
Percentage of Employees Classified as Low- to Moderate-Income	51%	55%
Percentage of Companies Located in Areas Underserved by Institutional Equity Capital	46%	41%
Percentage of Dollars Invested in Companies with at least one Female Officer	45%	38%
Percentage of Dollars Invested in Companies with at least one Minority Officer	31%	32%

<sup>1</sup>Ancillary benefits are derived from data from active companies reporting as of June 30, 2011. These ancillary benefits capture the Initiative's ancillary benefits for companies currently within the California Initiative portfolio.

<sup>2</sup>The California Initiative invests in companies with operations and employees in and outside of California. This column examines the Initiative's ancillary benefits solely in California.

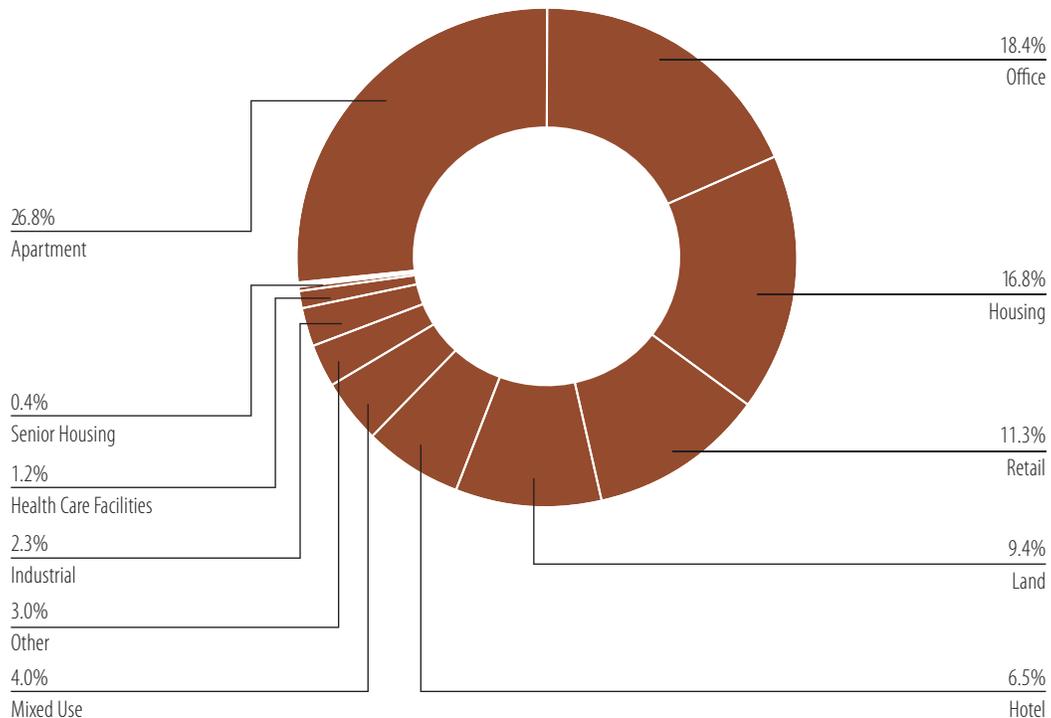
## REAL ESTATE

Real Estate	Total Market Value	\$18.6 billion
	Value in CA	\$3.6 billion
	Percentage in CA	19.4%

CalPERS invests in real estate primarily through the funds and partnerships of third-party investment managers. CalPERS has a “core” portfolio of real estate diversified by property type and geography, emphasizing high occupancy income. The portfolio also includes single family housing, senior housing, urban real estate, international investments and natural resources (timber and agriculture).

The real estate asset class is more heavily weighted to California than any other asset class. The portfolio in California includes a diverse group of assets that provide ancillary benefits in the areas in which they are located, including the creation of construction jobs and economic activity connected to construction, the accommodation of new retail, industrial and commercial employers and the anchoring of communities with real assets. The following chart shows the distribution of CalPERS California real estate investments, including the heaviest concentrations in apartment, office, housing, and retail properties.

California Real Estate Investments by Property Type



An additional \$2.9 billion in capital from other institutions is co-invested alongside CalPERS in California real estate. CalPERS real estate investments support 100,000 jobs statewide.<sup>24</sup>

CalPERS California real estate projects in the development and construction phase support a total of 20,000 jobs. The construction of CalPERS California real estate projects not only supports workers within the construction industry, but also indirectly supports workers throughout the state.<sup>25</sup>

Additionally, CalPERS California real estate investment portfolio includes income-generating properties with high occupancy levels such as neighborhood retail centers and office buildings. These properties provide critical infrastructure and operating space to retail and professional service providers supporting a total of 80,000 jobs. CalPERS properties with high occupancy levels also support workers within property management and other related industries.<sup>26</sup>

#### CalPERS Real Estate Portfolio in California

CalPERS CA Portfolio Value (in millions)	\$3,640
Other Co-Invested Dollars (in millions) <sup>1</sup>	\$2,965
Number of Investments	363
Estimated Jobs in California <sup>2</sup>	100,000

<sup>1</sup>Value includes all other capital invested alongside CalPERS in the same real estate and infrastructure investments in the same third-party funds, partnerships and real estate investment trusts.

<sup>2</sup>See endnotes for estimated jobs in California methodology.

Forty percent of CalPERS California real estate investments are located in LMI areas. Real estate investments are often in Central Business Districts and concentrated urban areas, where property investments of all types are more readily available. These urban districts typically include a larger proportion of LMI, High Unemployment, and High Minority Areas.

#### Real Estate Ancillary Benefits in California<sup>1</sup>

	Percentage of investments	Percentage of dollars
High Unemployment Areas	37%	39%
Rural Areas	18%	9%
High Minority Areas	70%	68%
LMI Areas	50%	46%

<sup>1</sup> Ancillary benefits are based on the 284 California real estate investments for which valid ZIP code data was available.

### Case Study: CalPERS Real Estate Hollywood & Highland

Hollywood & Highland is a retail, hotel, and entertainment complex in the heart of historic Hollywood, Los Angeles County, known by billions of people as the cinematic capital of the world and home to the Hollywood & Highland Center Theater and Academy Awards.

Hollywood & Highland was purchased by CIM Group in 2004 for \$200 million, including \$127 million from CalPERS. The property was targeted in part because of its location in an underserved community and its favorable price-to-replacement value. After purchasing Hollywood & Highland, and leveraging significant public sector initiatives to revitalize the neighborhood, CIM redesigned the landscape and signage, made tenant improvements, added additional vertical transportation options, upgraded the onsite Renaissance Hotel, and retrofitted the Hollywood & Highland Center Theater after attracting Cirque du Soleil for a 10-year commitment of performances.

Since CIM's purchase of this asset, sales and rents have increased significantly and Hollywood & Highland has become a destination for the local community, tourism, charitable activities, and events including music festivals and a farmers' market.

In connection with a loan provided to CIM by the US Department of Housing and Urban Development, Hollywood & Highland committed to creating 858 new jobs across all areas of the project, of which 51 percent have been made available to low- and moderate-income persons. In order to accomplish its job creation goals, Hollywood & Highland is working directly with the WorkSource Center, administered by the City of Los Angeles Community Development Department.

## INFRASTRUCTURE

Infrastructure	Total Market Value	\$680 million
	Value in CA	\$68.1 million
	Percentage in CA	10.0%

CalPERS searches for infrastructure opportunities in sectors including transportation, energy, natural resources, utilities, water, communications and certain social infrastructure projects, investing both directly, and in partnership with third-party investment managers. CalPERS considers infrastructure investments, by definition, to benefit society as a whole.

CalPERS invests \$68.1 million in infrastructure assets in California. More than 92 percent (\$62.9 million) of these investments are in projects providing reliable water supplies to drought-prone areas.

Other institutions co-invested \$112.2 million alongside CalPERS in California infrastructure projects. CalPERS infrastructure investments support 2,200 jobs statewide.<sup>27</sup>

## CalPERS Infrastructure Portfolio in California

CalPERS CA Portfolio Value (in millions)	\$68.1
Other Co-Invested Dollars (in millions) <sup>1</sup>	\$112.2
Number of Investments	6
Estimated Jobs in California <sup>2</sup>	2,200

<sup>1</sup>Value includes all other capital invested alongside CalPERS in the same infrastructure projects.

<sup>2</sup>See endnotes for estimated jobs in California methodology.

## The Development of CalPERS Infrastructure Program in California

On September 12, 2011, the CalPERS Board of Administration approved the allocation of up to \$800 million of infrastructure investments in California over the next three years. CalPERS recognizes that focusing on California’s infrastructure will not only add value to the investment portfolio but will also stimulate economic growth within the state. According to CalPERS Board President, Rob Feckner, the investments will first and foremost have the goal of investment return, with a secondary priority to support “essential community services that are crucial to continued economic development, a safe environment, and healthy schools and communities.”<sup>28</sup>

CalPERS will lead an outreach effort with two goals: first, to engage with key stakeholders and market participants to broaden understanding of public policies and investment opportunities pertaining to California infrastructure; and second, to communicate with vital state and local agencies to determine key opportunities for investment in strategic areas in California. The effort is intended in part to build relationships with key California agencies for the allocation of investments.

CalPERS will invest up to \$5 billion of its total fund in infrastructure opportunities. Of that portion, up to \$4 billion will be directed to U.S. investments, of which up to 20 percent is proposed for investment in California, equivalent to a maximum of \$800 million. CalPERS strategy in infrastructure targets investments of over \$150 million in primarily “defensive” assets with minimal competition, healthy returns, little risk and strong credit. The three year time horizon table illustrates both the target and highest infrastructure investment amounts in California.

**Infrastructure Portfolio: 3-Year Time Horizon<sup>1</sup>**

	Portfolio Target	Portfolio Maximum
Total U.S. Investments (in millions)	\$3,000	\$4,000
Total California Investment <sup>2</sup> (in millions)	\$600	\$800
Number of California Transactions <sup>3</sup>	2-4	2-5

<sup>1</sup> CalPERS Investment Committee Meeting, September 12, 2011

<sup>2</sup> California at 20 percent of U.S. Portfolio Target and Maximum

<sup>3</sup> Assumes average transaction size of \$150-300 million, consistent with Strategic Plan

CalPERS will invest in both private and public infrastructure in areas including transportation, energy, natural resources, and water.

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## Conclusion

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Institutional investors like CalPERS play an important role in sustaining and growing all economies, providing the capital that companies and other investment recipients need to survive and thrive. CalPERS provides significant ancillary benefits to California as a result of the breadth and scale of its investments in the state.

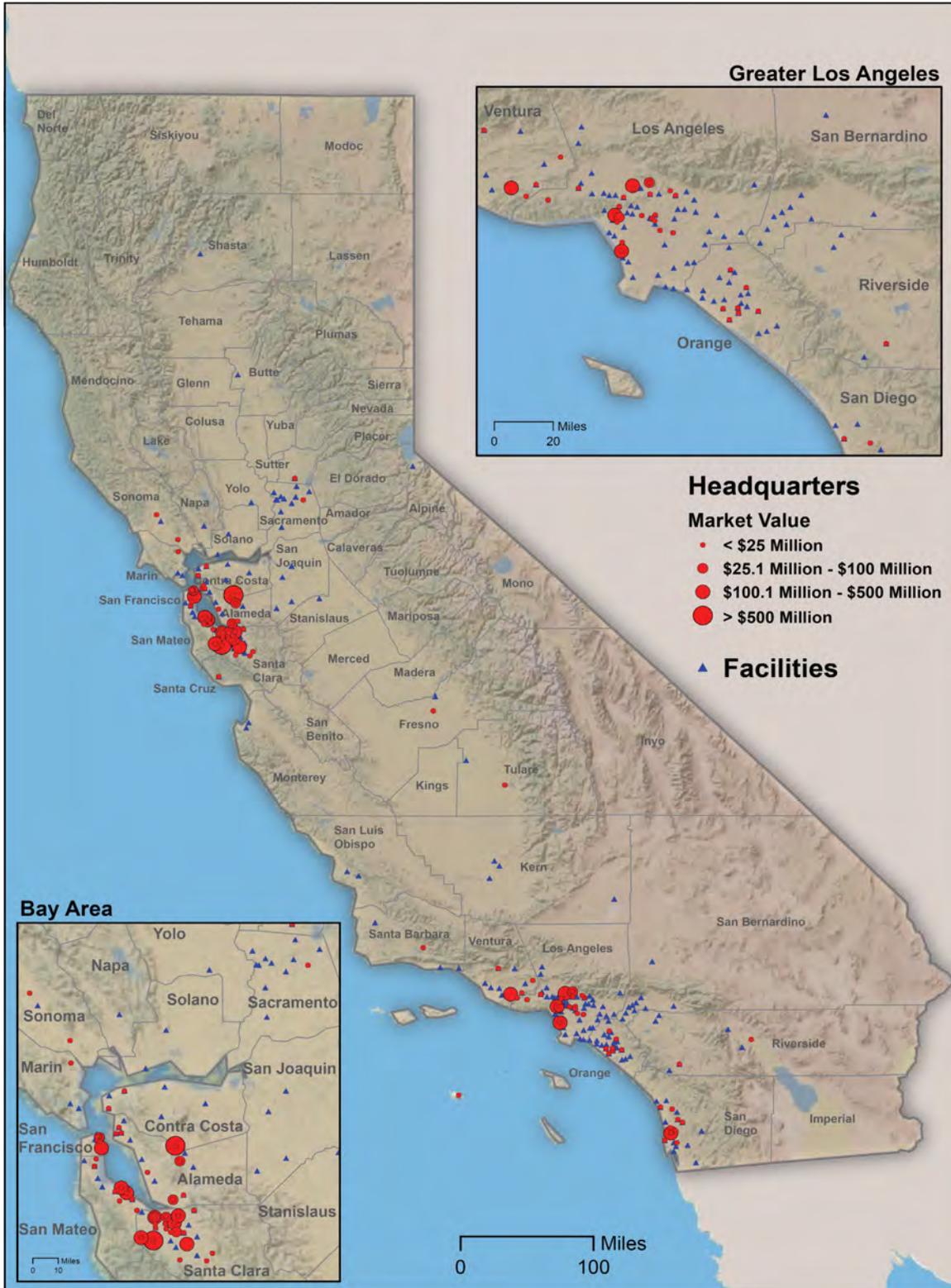
CalPERS invests \$19 billion (8.2 percent) of its \$237.5 billion in assets in California, including in companies, properties and projects located in the state's

underserved communities. The capital provided by CalPERS is an essential support in all the areas in which the fund invests.

CalPERS will continue to pursue California-based investment opportunities grounded in the historic strength of the state economy, seeking attractive risk-adjusted financial returns and the ancillary benefits they provide. The *CalPERS for California* report demonstrates CalPERS ongoing commitment to rigorously track and report the results of these investments.

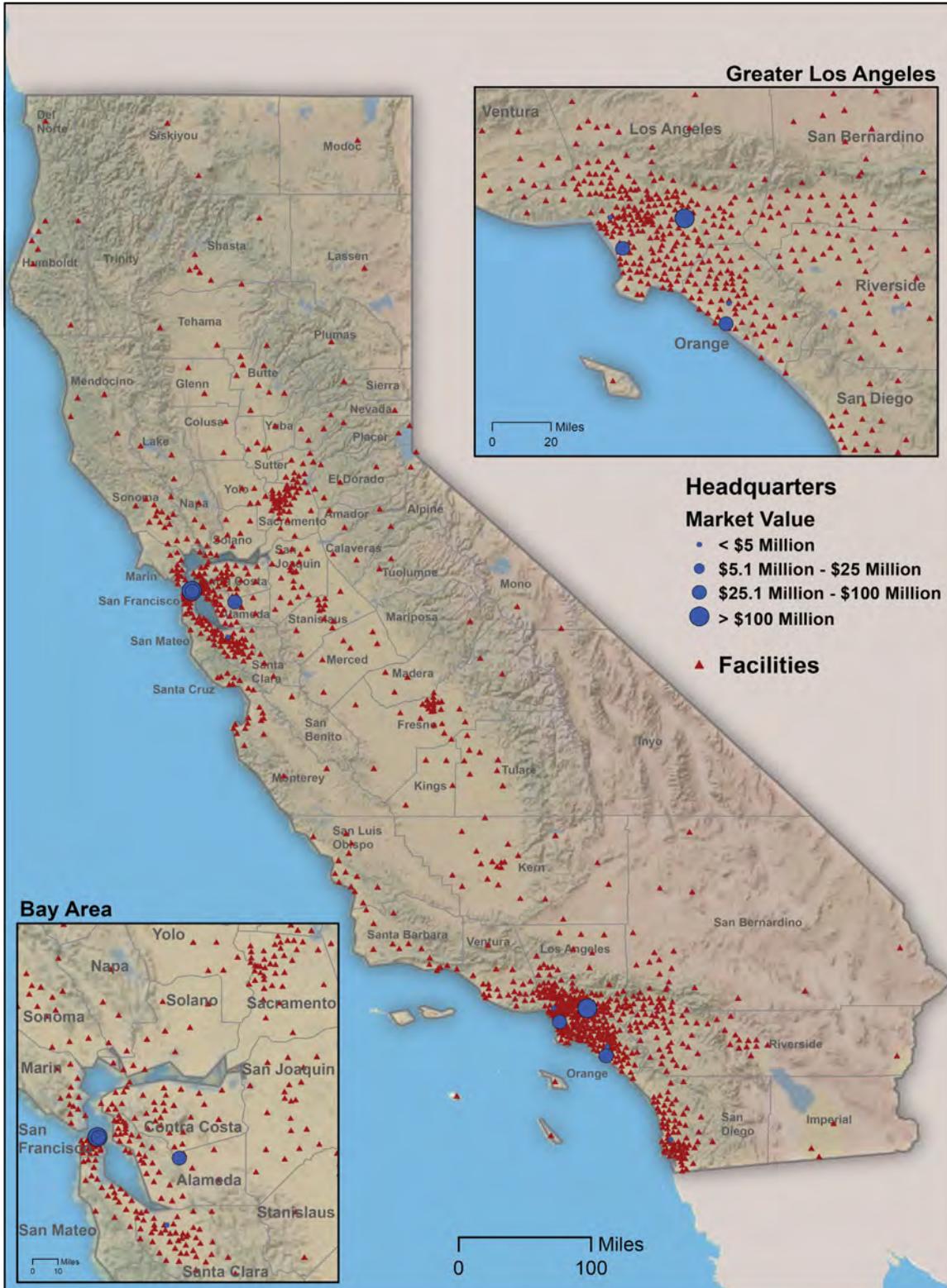
# Location of CalPERS Investments in California\*

## CalPERS Public Equity Investments in California



\* These maps only contain information on CalPERS investments headquartered in California.

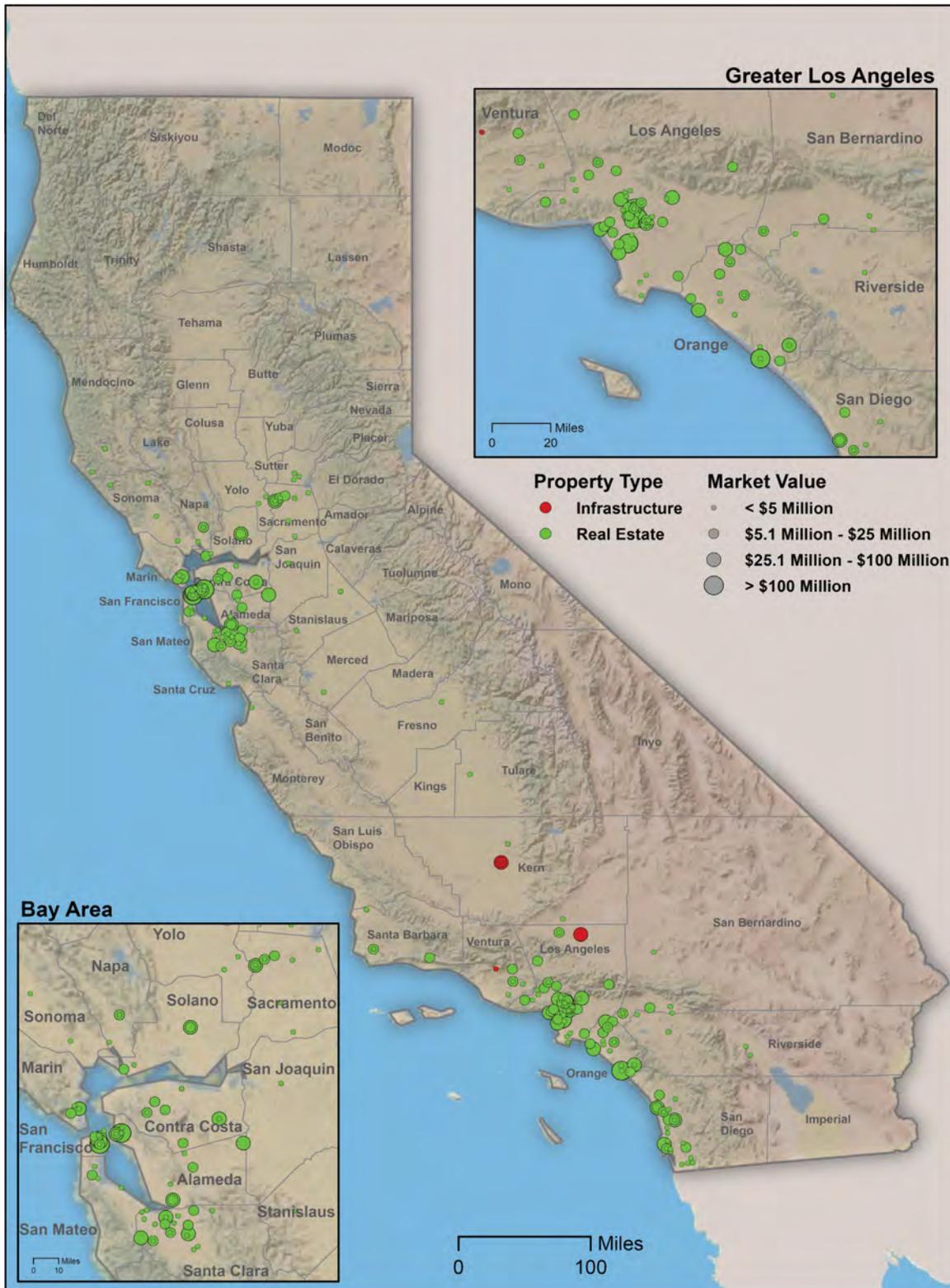
CalPERS Fixed Income Investments in California



## CalPERS Private Equity Investments in California



## CalPERS Real Estate Investments in California



## Endnotes

<sup>1</sup> CalPERS Facts At A Glance, available at [www.calpers.ca.gov/eip-docs/about/facts/investme.pdf](http://www.calpers.ca.gov/eip-docs/about/facts/investme.pdf).

<sup>2</sup> CalPERS has made corporate bond investments in 46 California-headquartered companies. Of the 46 companies, 11 have received direct investments from CalPERS and 40 have received investment indirectly through CalPERS external managers, with 5 companies receiving investments both directly and indirectly. The jobs estimate for fixed income is based only on the 11 companies receiving direct investments from CalPERS. The average size of these investments is \$32 million. The average size of external manager corporate bond investments in California companies is \$0.9 million.

Six of the 11 companies that received direct corporate bond investment from CalPERS are also part of CalPERS Public Equity portfolio. Job estimates cannot be combined as this would constitute double counting of six large companies.

<sup>3</sup> Bureau of Labor Statistics. As of June 30, 2011, California's workforce included 14.1 million workers.

<sup>4</sup> The capital that CalPERS invests in California is usually not explicitly directed to the state, but is the consequence of a typical institutional investment process weighing the financial merits of particular companies, properties and projects, regardless of location. The size and dynamism of California's economy are the primary drivers of CalPERS significant exposure to local communities and the related benefits that this brings, like job creation.

The research methods in this report are fully documented in footnotes. The difficulty of directly attributing ancillary benefits to CalPERS is especially notable and explains why public market and private market investments are discussed separately in CalPERS for California.

The data in this report offers a snapshot of CalPERS investments and has been analyzed by Pacific Community Ventures (PCV), a third-party research organization.

<sup>5</sup> U.S. Bureau of Economic Analysis, Regional Economic Accounts, available at [www.bea.gov/regional/index.htm](http://www.bea.gov/regional/index.htm).

<sup>6</sup> The World Factbook available at [www.cia.gov/library/publications/the-world-factbook/index.html](http://www.cia.gov/library/publications/the-world-factbook/index.html).

<sup>7</sup> CNNMoney, Fortune 500 and Fortune 500 Global, available at <http://money.cnn.com/magazines/fortune/fortune500/2011>.

<sup>8</sup> Private Equity Growth Council, 'Private equity-backed companies employ more than six million Americans, PEC report finds,' May 4, 2010, available at [www.pegcc.org](http://www.pegcc.org).

<sup>9</sup> U.S. Census Bureau, available at [www.census.gov/foreign-trade/statistics/state/data/ca.html](http://www.census.gov/foreign-trade/statistics/state/data/ca.html).

<sup>10</sup> The analysis is based on a three percent sample of all non-California headquartered companies (n=273). Assumptions about the entire portfolio should therefore be considered illustrative, but not conclusive. The employment assumption for California-headquartered public companies (that employees are spread evenly at all facilities) likely underestimates the actual number of California employees, since more employees are typically located in facilities at, or closer to, a company's headquarters. The same analysis would likely significantly overestimate the number of California employees of companies headquartered elsewhere – a problem compounded by the smaller sample size and larger number of companies.

<sup>11</sup> Forbes' most innovative global companies list can be found at <http://www.forbes.com/special-features/innovative-companies.html>. Forbes uses the Innovation Premium to compile the lists of the World's Most Innovative Companies. It is calculated first by projecting a company's income (cash flows, in this case) from existing businesses, plus anticipated growth from those businesses, and looks at the net present value (NPV) of those cash flows. The NPV of cash flows from existing businesses is compared with a current market capitalization: Companies with a current market cap above the NPV of cash flows have an innovation premium built into their stock. A more detailed explanation of this work around innovative companies and leaders can be found in the book, "The Innovator's DNA" (Harvard Business Press, 2011), written with Harvard Business School professor Clayton Christensen.

<sup>12</sup> CalPERS is invested in 16 of the 20 most innovative companies. The 16 companies are: Apple, Google, Amazon.com, Celgene, FMC Technologies, Hidustan Unilever, Infosys, Keyence, Monsanto, Natura Cosmetics, Nidex, Nintendo, Pernod Ricard, Reckitt Benckiser, Starbucks and Terumo.

<sup>13</sup> The fixed-income asset class includes 5 distinct investment programs. Only publicly available data was used to conduct analysis for this asset class, which was available only for companies that issued corporate bonds. According to the state of domicile obtained from Hoovers Inc., 16 corporate bond issuers (and \$810 million in investments) are considered California companies.

<sup>14</sup> CalPERS has made corporate bond investments in 46 California-headquartered companies. Of the 46 companies, 11 have received direct investments from CalPERS and 40 have received investment indirectly through CalPERS external managers, with five companies receiving investments both directly and indirectly. The jobs estimate for fixed income is based only on the 11 companies receiving direct investments from CalPERS. The average size of these investments is \$32 million. The average size of external manager corporate bond investments in California companies is \$0.9 million.

Six of the 11 companies that received direct corporate bond investment from CalPERS are also part of CalPERS Public Equity portfolio. Job estimates cannot be combined as this would constitute double counting of six large companies.

<sup>15</sup> The classification of a California-based structured security investment was derived using security composition data from Bloomberg. The total structured security market value for each of CalPERS investments was multiplied by the percentage composition of the structured security based in California.

<sup>16</sup> The analysis is based on a 10 percent sample of all non-California headquartered companies (n=35). Assumptions about the entire portfolio should therefore be considered illustrative, but not conclusive. The employment assumption for California-headquartered public companies (that employees are spread evenly at all facilities) likely underestimates the actual number of California employees, since more employees are typically located in facilities at, or closer to, a company's headquarters. The same analysis would likely significantly overestimate the number of California employees of companies headquartered elsewhere – a problem compounded by the smaller sample size and larger number of companies.

<sup>17</sup> To determine the dollar amounts invested in these areas, the market value of each investment is attributed to the ZIP code provided for a given company, property or project. Dollars invested in all ZIP codes that match the given criteria are summed and reported as a percentage of the total market value for each asset class invested in California.

<sup>18</sup> Low- to Moderate-Income (LMI) Areas are predominantly (50 percent or more) composed of LMI residents (38 percent of U.S. ZIP codes fall into this category). A census tract is determined to be LMI based on the following criteria:

- Median income of the tract is at or below 80 percent of the metropolitan statistical area median or below 80 percent of the statewide, non-metropolitan area median income.

- At least 20 percent of the population lives in poverty.
- The unemployment rate is at least 1.5 times the national average (based on US Census Bureau 2006-10 American Community Survey data, consistent with research on the California Initiative; 1.5 times the 2006-10 national average of 6.8 percent is 10.2 percent).

See the Milken Institute Center for Capital Access and Job Formation for extensive literature on the lack of access to capital in LMI communities, at [www.milkeninstitute.org](http://www.milkeninstitute.org).

<sup>19</sup> High unemployment areas are defined by the State of California Employment Training Panel as being 15 percent higher than the California average. At June 30, 2011, the California average unemployment rate was 12.1 percent; therefore any ZIP code with an unemployment rate above 13.9 percent is considered a High Unemployment Area.

<sup>20</sup> High Minority Areas are defined as ZIP codes in which the percentage of the minority population is higher than the median percentage of the minority population in all California ZIP codes (above 25 percent). See 'MBDA Study Finds Capital Access Remains Major Barrier to Success for Minority-Owned Firms' for more information on access to capital in minority communities. US Department of Commerce Minority Business Development Agency, January 29, 2010, available at [www.mbda.gov/pressroom/press-releases/mbda-study-finds-capital-access-remains-major-barrier-success-minority-owne](http://www.mbda.gov/pressroom/press-releases/mbda-study-finds-capital-access-remains-major-barrier-success-minority-owne). According to the MBDA study, minority-owned firms receive fewer loans and smaller equity investments than non-minority owned firms, even when controlling for firm size.

<sup>21</sup> Rural areas are defined as ZIP codes in which the percentage of the rural population is higher than the median percentage of the rural population in all California ZIP codes (above 6 percent). See 'Advancing Rural America', U.S. Small Business Administration Office of Advocacy, available at [www.sba.gov/advo/research/rural\\_sb.html](http://www.sba.gov/advo/research/rural_sb.html) for more information on access to capital in rural areas. According to the SBA, 'rural businesses' access to capital has historically been limited and may be constrained further as bank mergers replace community banks with larger entities that are less interested in non-credit card small-sized loans.'

<sup>22</sup> The boundaries of the Central Business Districts (CBD) of Los Angeles, Oakland, San Diego and San Francisco were determined using GIS technology. All ZIP codes that overlapped the CBD were included in this analysis. There are a total of 20 ZIP codes that overlap the 4 CBDs. 17 (85 percent) of those ZIP codes are predominantly comprised of LMI census tracts.

<sup>23</sup> This includes CalPERS private equity direct investments, California Emerging Ventures and partnership investments in California. This number may differ from total portfolio numbers in other CalPERS reports due to varying standards for defining a California company.

<sup>24</sup> Estimated jobs supported by CalPERS real estate investments in California are determined using the IMPLAN Version 3.0 economic multiplier model software package. IMPLAN is used by hundreds of government agencies, colleges and universities, non-profit organizations, corporations, and business development and community planning organizations for analyzing economic impacts (for more information visit [www.implan.com](http://www.implan.com)).

To determine jobs supported by CalPERS California real estate investments the IMPLAN model examines the State of California as the geographic area of study, capturing and accounting for economic benefits resulting from CalPERS real estate investments statewide. Methodologies specific to property type and development phase were used in determining the input values for the IMPLAN model to best capture the economic impacts resulting from the construction/operation of various property types. The methodologies are described below.

#### **Construction of Residential and Non-Residential Properties**

Total net asset values for residential and non-residential properties including apartments, single-family housing, senior housing, hotel, office, and retail under the predevelopment, development, and redevelopment categories were uploaded directly into the IMPLAN model for analysis where they are matched with construction activities.

#### **Sales of Goods and Services at Non-Residential Properties with Current Occupants**

Property square footage data for retail properties with current occupants is multiplied by industry data on retail sales. Property square footage data for other non-residential properties with current occupants including in the office and industrial sectors are multiplied by property-specific industry data on rental income. Total rental income amounts are subsequently divided by a rent-to-revenue ratio to derive total sales of goods/services for each tenant property. Total sales of goods and services at tenant properties are then uploaded into the IMPLAN model for analysis where they match industry activities.

#### **Rental/Leasing of Non-Residential Properties with Current Occupants**

Property square footage data for non-residential properties with current occupants including office, industrial, and retail are multiplied by industry data on property-specific rental income. The total rental income amounts are uploaded directly into the IMPLAN model for analysis where they match with rental, leasing, and property management activities.

As with other asset classes, this analysis does not imply that the jobs created and sustained by CalPERS investments in real estate are directly attributable to the System. Rather, it is an estimate of employment directly related to the properties in question, for which CalPERS investments play an important enabling role.

#### **Estimated California Jobs from CalPERS California Real Estate Investments**

Construction of Residential and Non-Residential Properties	19,000
Sales of Goods and Services at Non-Residential Properties with Current Occupants	78,000
Rental/Leasing of Non-Residential Properties with Current Occupants	3,000
<b>Total Estimated Jobs in California</b>	<b>100,000</b>

The following table outlines rental income per square foot, retail sales per square foot, rent-to-revenue ratios, and IMPLAN industry codes used in this analysis.

<b>Industry</b>	<b>Rental Income per Square Foot</b>	<b>Retail Sales per Square Foot</b>	<b>Rent-to-Revenue Ratio</b>	<b>IMPLAN Industry Codes and Descriptions</b>
Retail	\$28.64	\$386.43	—	34: Construction of new nonresidential commercial and health care structures 360: Real estate establishments 329: Retail Stores - General merchandise
Office	\$23.14	—	3.77%	34: Construction of new nonresidential commercial and health care structures 360: Real estate establishments 367-380: Various professional services (legal, accounting, architectural, technical, scientific, etc)
Apt, Housing	—	—	—	37: Construction of new residential permanent site single - and multi-family structures
Hotel	—	—	—	34: Construction of new nonresidential commercial and health care structures
Industrial	\$6.27	—	2.10%	360: Real estate establishments 319: Wholesale trade business

Sources: Cassidy Turley BT Commercial Research, IBIS World, and ICSC

<sup>25</sup> CalPERS California real estate projects in the development and construction phase indirectly support workers across the state through the purchase of goods and services needed for construction of these projects and through the personal consumption by construction workers tasked to these particular projects.

<sup>26</sup> CalPERS California investments in income-generating real estate properties directly support tenant businesses through the provision of critical infrastructure and operating space. Additionally, tenant businesses indirectly support workers across the state through the purchase of goods and services needed for day-to-day business operations and through the personal consumption by workers at their businesses of household purchases.

<sup>27</sup> California infrastructure supports an estimated 2,200 jobs statewide. This estimate is derived from the IMPLAN Version 3.0 economic multiplier model software package. For California infrastructure projects stage of development, land acquisition costs, and development costs were examined. For each project net asset values less land development costs were inputted directly into the IMPLAN model using IMPLAN Industry Code 36: Construction of other new non-residential structures.

<sup>28</sup> CalPERS Press Release, CalPERS Targets \$800 Million for Investment in California Infrastructure, September 12, 2011, available at <http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2011/sept/ca-infrastructure.xml>



## CalPERS Profile

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with assets of approximately \$236 billion.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.6 million members and more than 3,000 school and public employers. The System also operates 8 Regional Offices located in Fresno, Glendale, Orange, Sacramento, San Diego, San Bernardino, San Jose, and Walnut Creek. Led by a 13-member Board of Administration, consisting of member-elected, appointed, and ex officio members, CalPERS membership consists of approximately 1.1 million active and inactive members and more than 500,000 retirees, beneficiaries, and survivors from State, school and public agencies.

Established by legislation in 1931, the System became operational in 1932 for the purpose of providing a secure retirement to State employees who dedicate their careers to public service. In 1939, new legislation allowed public agency and classified school employees to join the System for retirement benefits. CalPERS began administering health benefits for State employees in 1962, and 5 years later, public agencies joined the Health Program on a contract basis.

A defined benefit retirement plan, CalPERS provides benefits based on a member's years of service, age, and highest compensation. In addition, benefits are provided for disability and death.

Today CalPERS offers additional programs, including a deferred compensation retirement savings plan, member education services, and an employer trust for post-retirement benefits. Learn more at our website at [www.calpers.ca.gov](http://www.calpers.ca.gov).



California Public Employees' Retirement System

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