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Ms. Anne Simpson  
Senior Portfolio Manager – Corporate Governance  
California Public Employees’ Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: Corporate Governance Engagement Analysis

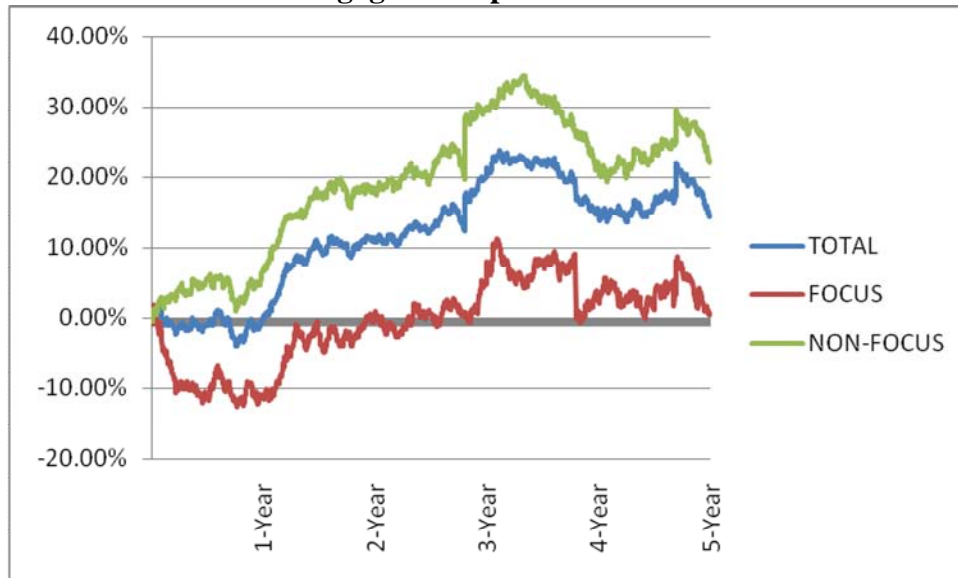
Dear Anne:

At your request, Wilshire has studied the performance of the full corporate governance equity list – those companies CalPERS has engaged on some level (both Focus List and Non-Focus List companies) over the last ten years. The letter summarizes our findings.

Over the last ten cohort years (1999-2008), CalPERS has engaged a total of 155 companies, 59 of which became Focus List companies and 96 which did not. To conduct this analysis, Wilshire examined the daily returns for each company post-initiative date (the initiative dates were provided by CalPERS) and calculated excess returns for each company relative to an appropriate benchmark (S&P 500 companies were benchmarked to the S&P 500; all others were benchmarked to the Wilshire 4500 – this is the same methodology used in the annual “CalPERS Effect” paper) and to the appropriate sector of the Wilshire 5000 (e.g., technology companies were compared to the technology sector of the Wilshire 5000, etc.).

The following graph depicts the average cumulative excess returns for the total sample, the Focus List companies, and the Non-Focus List companies versus the appropriate benchmarks.

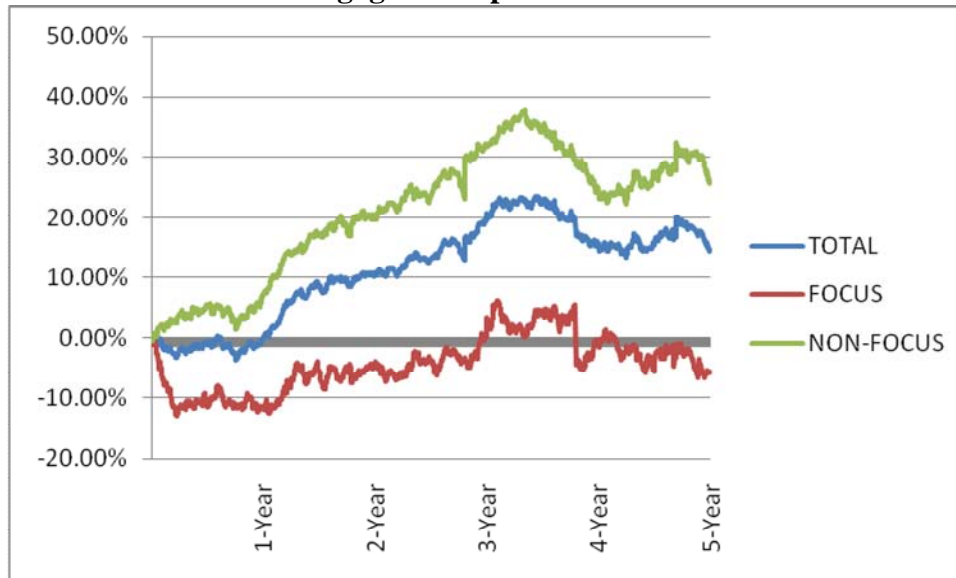
**Performance of Engaged Companies Relative to Benchmark**



As you can see, Non-Focus List companies outperformed the Focus List companies in this analysis. This is perhaps intuitive, in that only the “worst” offenders are those that are “named and shamed” on the Focus List. Others that are contacted and are receptive to or already engaged in some measure of reform (the Non-Focus List) move more quickly to better governance standards, improving the performance of those stocks more and more rapidly.

The following graph depicts the average cumulative excess returns for the total sample, the Focus List companies, and the Non-Focus List companies versus the relevant sectors of the Wilshire 5000.

**Performance of Engaged Companies Relative to Benchmark**



Again, the Non-Focus List companies outperformed the Focus List companies relative to their respective sectors. Interestingly, the Focus List companies, on average, underperformed their respective sectors. Using the “CalPERS Effect” methodology (prior chart), the Focus List companies had provided positive, albeit marginal, excess returns.

An alternative view would be that the individual companies should not be equally weighted, but that the yearly cohorts should be. This logic would be supported by the fact that Staff spends a certain amount of time each year on engagement activities and that one year’s efforts should not count more than another simply because there were more companies engaged during a particular year. The table below presents the average of the yearly cohort performance.

	<b>All Engaged Companies Average of Yearly Cohorts</b>		<b>Focus List Companies Average of Yearly Cohorts</b>		<b>Non-Focus List Companies Average of Yearly Cohorts</b>	
	Cumulative		Cumulative		Cumulative	
	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM
1 Year	-0.27%	-0.43%	-10.66%	-9.07%	6.74%	5.86%
3 Years	15.23%	15.83%	-5.29%	-1.02%	25.41%	24.46%
5 Years	9.20%	9.43%	-7.65%	-3.67%	15.93%	14.62%

Again, the Non-Focus List companies that did not need to be fully engaged outperformed the Focus List companies.

Additionally, we've examined various characteristics of the performance, which are presented below.

	Versus Sector	Versus Benchmark
Maximum	389.01%	321.27%
Minimum	-156.70%	-183.93%
Median	-0.06%	0.68%
# Underperforming	47	46
# Outperforming	46	47
# w/o 5 Years of Returns	62	62

Attached to this letter is a summary of performance for each of the yearly cohorts that also includes the average company composite returns and the yearly cohort average returns.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,



**All Companies Engaged**

	All Companies Engaged																								Average of Yearly Cohorts									
	1999			2000			2001			2002			2003			2004			2005			2006			2007			2008		Total Composite		Average of Yearly Cohorts		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	
1-Yr	-11.95%	-18.94%	-30.35%	-2.48%	11.24%	28.99%	-18.52%	-1.53%	-7.05%	55.63%	21.51%	25.99%	13.27%	4.37%	5.84%	10.06%	1.12%	0.33%	24.85%	6.42%	7.76%	5.83%	-7.75%	-10.62%	-36.44%	-18.15%	-24.06%	-9.64%	-0.99%	-1.11%	0.01%	-0.05%	-0.27%	-0.43%
3-Yr	7.06%	22.47%	35.75%	14.30%	21.89%	40.65%	17.52%	0.91%	-8.00%	92.71%	48.99%	34.67%	54.84%	15.57%	17.36%	67.35%	20.42%	20.90%	-24.81%	-5.65%	-10.68%	19.90%	27.67%	27.67%	-	-	-	-	-	-	19.59%	20.03%	15.23%	15.83%
5-Yr	49.11%	36.05%	52.27%	61.84%	51.45%	71.83%	47.05%	4.04%	-13.71%	81.91%	-1.46%	-27.71%	25.20%	6.94%	13.02%	10.88%	-5.05%	-1.45%	-	-	-	-	-	-	-	-	-	-	-	-	14.47%	14.46%	9.20%	9.43%
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized		Annualized		Annualized					
1-Yr	-11.95%	-18.94%	-30.35%	-2.48%	11.24%	28.99%	-18.52%	-1.53%	-7.05%	55.63%	21.51%	25.99%	13.27%	4.37%	5.84%	10.06%	1.12%	0.33%	24.85%	6.42%	7.76%	5.83%	-7.75%	-10.62%	-36.44%	-18.15%	-24.06%	-9.64%	-0.99%	-1.11%	0.01%	-0.05%	-0.27%	-0.43%
3-Yr	2.30%	6.99%	10.72%	4.56%	6.82%	12.04%	5.53%	0.30%	-2.74%	24.44%	14.21%	10.43%	15.69%	4.94%	5.48%	18.72%	6.39%	6.53%	-9.07%	-1.92%	-3.70%	6.24%	8.48%	8.48%	-	-	-	-	-	-	6.14%	6.28%	4.88%	4.88%
5-Yr	8.32%	6.35%	8.77%	10.11%	8.66%	11.43%	8.02%	0.80%	-2.91%	12.71%	-0.29%	-6.28%	4.60%	1.35%	2.48%	2.09%	-1.03%	-0.29%	-	-	-	-	-	-	-	-	-	-	-	-	2.74%	2.74%	2.74%	2.74%

**Focus List Companies**

	Focus List Companies																								Average of Yearly Cohorts									
	1999			2000			2001			2002			2003			2004			2005			2006			2007			2008		Total Composite		Average of Yearly Cohorts		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	
1-Yr	-23.15%	-29.80%	-42.68%	-22.39%	-16.00%	12.49%	-64.59%	-41.12%	-48.73%	49.93%	5.28%	20.61%	3.58%	-13.63%	-3.73%	-18.86%	-22.48%	-27.37%	39.86%	22.63%	22.80%	0.78%	-13.40%	-15.60%	-15.45%	0.82%	-3.57%	-12.62%	1.08%	-4.89%	-11.75%	-11.20%	-10.66%	-9.07%
3-Yr	7.00%	25.60%	37.79%	-18.73%	-20.39%	7.33%	-42.23%	-50.98%	-50.95%	91.90%	41.69%	32.85%	38.25%	-17.62%	0.80%	2.71%	-42.93%	-40.25%	-29.49%	-7.34%	-18.48%	13.18%	19.05%	20.73%	-	-	-	-	-	-	0.08%	4.67%	-5.29%	-1.02%
5-Yr	60.30%	48.98%	62.96%	38.00%	21.30%	46.27%	-41.55%	-73.23%	-72.01%	75.31%	-18.85%	-35.03%	13.98%	-10.92%	6.44%	-37.71%	-43.81%	-45.33%	-	-	-	-	-	-	-	-	-	-	-	-	-5.72%	0.79%	-7.65%	-3.67%
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized		Annualized		Annualized					
1-Yr	-23.15%	-29.80%	-42.68%	-22.39%	-16.00%	12.49%	-64.59%	-41.12%	-48.73%	49.93%	5.28%	20.61%	3.58%	-13.63%	-3.73%	-18.86%	-22.48%	-27.37%	39.86%	22.63%	22.80%	0.78%	-13.40%	-15.60%	-15.45%	0.82%	-3.57%	-12.62%	1.08%	-4.89%	-11.75%	-11.20%	-10.66%	-9.07%
3-Yr	2.28%	7.89%	11.28%	-6.68%	-7.32%	2.39%	-16.72%	-21.15%	-21.14%	24.27%	12.32%	9.93%	11.40%	-6.26%	0.27%	0.89%	-17.05%	-15.77%	-11.00%	-2.51%	-6.58%	4.21%	5.99%	6.48%	-	-	-	-	-	-	0.03%	1.53%	0.03%	1.53%
5-Yr	9.90%	8.30%	10.26%	6.65%	3.94%	7.90%	-10.18%	-23.17%	-22.48%	11.88%	-4.09%	-8.26%	2.65%	-2.29%	1.26%	-9.03%	-10.89%	-11.38%	-	-	-	-	-	-	-	-	-	-	-	-	-1.17%	0.16%	-1.17%	0.16%

**Non - Focus List Companies**

	Non - Focus List Companies																								Average of Yearly Cohorts									
	1999			2000			2001			2002			2003			2004			2005			2006			2007			2008		Total Composite		Average of Yearly Cohorts		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	
1-Yr	8.20%	0.59%	-8.15%	7.47%	24.86%	37.24%	7.07%	20.47%	16.12%	58.74%	30.37%	28.92%	16.25%	9.91%	8.79%	23.21%	11.84%	12.92%	15.85%	-3.30%	-1.27%	13.75%	1.12%	-2.79%	-45.99%	-26.78%	-33.37%	-8.65%	-1.68%	0.15%	7.16%	6.73%	6.74%	5.86%
3-Yr	7.19%	16.83%	32.07%	30.82%	43.02%	57.32%	50.71%	29.74%	15.86%	93.16%	52.96%	35.66%	59.94%	25.78%	22.45%	96.73%	49.22%	48.70%	-22.00%	-4.64%	-6.01%	30.45%	41.22%	38.58%	-	-	-	-	-	-	32.25%	29.95%	25.41%	24.46%
5-Yr	28.97%	12.78%	33.03%	73.76%	66.53%	84.61%	96.28%	46.98%	18.68%	85.50%	8.02%	-23.71%	28.65%	12.44%	15.05%	32.96%	12.57%	18.49%	-	-	-	-	-	-	-	-	-	-	-	-	25.67%	21.96%	15.93%	14.62%
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized		Annualized		Annualized					
1-Yr	8.20%	0.59%	-8.15%	7.47%	24.86%	37.24%	7.07%	20.47%	16.12%	58.74%	30.37%	28.92%	16.25%	9.91%	8.79%	23.21%	11.84%	12.92%	15.85%	-3.30%	-1.27%	13.75%	1.12%	-2.79%	-45.99%	-26.78%	-33.37%	-8.65%	-1.68%	0.15%	7.16%	6.73%	6.74%	5.86%
3-Yr	2.34%	5.32%	9.71%	9.37%	12.67%	16.30%	14.65%	9.07%	5.03%	24.54%	15.22%	10.70%	16.95%	7.94%	6.98%	25.30%	14.27%	14.14%	-7.95%	-1.57%	-2.04%	9.27%	12.19%	11.49%	-	-	-	-	-	-	9.77%	9.12%	9.77%	9.12%
5-Yr	5.22%	2.43%	5.87%	11.68%	10.74%	13.05%	14.44%	8.01%	3.49%	13.15%	1.55%	-5.27%	5.17%	2.37%	2.84%	5.86%	2.40%	3.45%	-	-	-	-	-	-	-	-	-	-	-	-	4.68%	4.05%	4.68%	4.05%