APPENDIX 5

Correspondence From California State Joint Legislative Audit Committee to California Public Employees Retirement System

STATE CAPITOL
SACRAMENTO, CA 95814
(916) 319-3500
FAX (916) 319-3543

COMMITTEE SECRETARY
MELISSA CORTEZ

California Legislature

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January 10, 2000

Mr. James Burton
Chief Executive Officer
California Public Employees Retirement System
400 P Street, Lincoln Plaza
Sacramento, CA 95814

Dear Mr. Burton:

Below you will find several questions regarding investment policy and procedures of the California Public Employees Retirement System (CalPERS). This request for information is a result of the January 5, 2000, meeting of the Joint Legislative Audit Committee (JLAC) and is made under the authority of Government Code Section 10500 et Seq. In order to have time to review your answers before the next meeting of the JLAC, I respectfully request that this information be forwarded to my office no later that January 21, 2000.

1. Please explain in detail CalPERS' existing policies and procedures for making purchasing decisions with respect to international equity and debt holdings.

2. Please explain in detail the fund's policy regarding any "non-financial" review taken into account prior to purchasing decisions. This would include what steps, if any, are taken to review human rights, environmental, national security, existing employee disputes and other social concerns which could be material to the performance of the debt or equity issue.

3. Please explain in detail the review process of CalPERS' nine global fund managers and the names of these managers.

4. Please explain in detail all information known to CalPERS and its investment managers regarding the following companies, prior to the time CalPERS invested pension funds in these companies: Cosco Pacific Ltd., CITIC Pacific Ltd., CITIC Ka Wah Bank, China Resource Holdings (CRS), Talisman Energy, Inc., Wells Fargo Bank, Oregon Steel and Kaiser Aluminum.

5. Please provide a detailed account of the history of CalPERS' investments, if any, in each of the above-mentioned companies, including the dates that shares were purchased, the number of shares bought, the price per share on those dates, the price per share today, and the return on such investments.

6. Please explain in detail the reasons why CalPERS or its investment managers decided to buy or sell shares of the above-mentioned companies, on each occasion that a transaction occurred.

7. Please explain in detail CalPERS' investigation, if any, which followed the July 27 Investor's Business Daily piece regarding the fund's holdings in four Hong Kong-based Chinese entities: Cosco Pacific, CITIC Pacific, CITIC Ka Wah Bank, and China [illegible]

8. What precise steps, if any, will be undertaken to review the prospective purchase of "Petro China" which has recently come under substantial scrutiny and criticism due to the relationship between its affiliate, China National Petroleum Company and the Khartoum regime?

9. Please explain in detail the process by which holdings are sold (i.e., the portfolio rotation process and/or indexing "kick outs"). Specifically, is it standard operating procedure to sell entire holdings at one time when rotating CalPERS' International portfolio?

10. What policies or procedures might be enacted to ensure that the pension funds of California's public employees and retirees will not be used to support actions of foreign governments that may threaten U.S. national security, fund serious violations of human rights, or compromise the rights of American workers?

Thank you for your prompt attention to this request. Should you have any questions regarding this matter, please feel free to contact me at (916) 319-2043.

Sincerely,

SCOTT WILDMAN
Chairman, Joint Legislative Audit Committee

cc: Members, Joint Legislative Audit Committee