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Calpers to Boost Commodity Investments Through 2010 (Update2)

By Saijel Kishan

Feb. 28 (Bloomberg) -- The California Public Employees' Retirement System, the largest U.S. pension fund, may increase its commodities investments 16-fold to \$7.2 billion through 2010 as raw materials prices surge to records.

Calpers, which has about \$240 billion in assets, agreed at a Feb. 19 board meeting to hold between 0.5 percent and 3 percent of its assets in commodities, spokesman Clark McKinley said. The Sacramento, California-based fund last year put \$450 million into commodities, its first such investment.

Pension funds, hedge funds and other money managers are increasing investments in raw materials as energy, metals and agriculture assets outperform stocks and bonds. Oil has risen above \$100 a barrel, wheat breached \$13 a bushel for the first time, and gold and platinum climbed to the highest ever.

"We plan on ramping up the program by hiring additional staff," McKinley said by phone yesterday. "We are excited about commodities, which have performed exceptionally well for us."

The fund's commodity investments track the Standard & Poor's GSCI index of 24 commodities, which has returned 10 percent so far this year, adding to a 33 percent gain in 2007. In comparison, the Standard & Poor's 500 Index of stocks has fallen 6 percent this year, while U.S. Treasuries returned 2 percent, according to Merrill Lynch & Co. indexes.

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Calpers, which covers the benefits of more than 1.5 million California state and local government employees, said in December that it planned to transfer about 11 percent of its portfolio from stocks and bonds into other assets including investments linked to inflation.

"The burgeoning demand for energy and materials is also creating numerous opportunities in each of our major asset classes for long-term investment, including our new inflation-linked asset class," Chief Investment Officer Russell Read said in a Feb 21. report to the Calpers board.

The fund's commodity program will come under the inflation-linked asset class, McKinley said. Calpers will decide on the proportion of assets invested in commodities "depending on market opportunities," he added.

Calpers plans to allow its staff to actively manage some of its commodity investments this year, he said.

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