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## CalPERS says may broaden hunt for commod returns

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By Barani Krishnan

NEW YORK (Reuters) - The California Public Employee Retirement System has hired consultants to help boost returns from commodities investments, and may consider investment strategies beyond sticking to the S&P GSCI Index .SPGSCITR, a spokesman for the largest U.S. pension fund said on Tuesday.

CalPERS reported a net loss of 2.9 percent for the first year of its inflation-linked asset class which includes commodities. The retirement fund on Monday said it has hired three consultants to boost those returns to the target of at least 4 percent above inflation.

"I think it's fair to say that we will look at other potential opportunities," Brad Pacheco, a CalPERS spokesman, told Reuters. The fund's pilot program in commodities is tied to tracking the S&P GSCI Index.

The tendency among pensions, university endowments and other institutional funds to consider long-only commodity indexes like S&P GSCI as their main source of commodities exposure has come under scrutiny after oil, metals and grains prices fell along with stocks in recent months.

Until this year's credit crisis, there had been little correlation between commodities and equities earnings. So, many institutions like CalPERS expected to benefit from investing in a basket of futures tied to indexes like the S&P GSCI, which basically required them to be bullish about commodities over the long-term.

But the credit crisis showed the flaw to that approach, with long-only commodity indexes down 40 percent or more for the year.

Commodity strategists say the best performers in the asset class this year were trend-followers. These investors combined long and "short" strategies, enabling them to quickly adopt a bearish strategy during market downturns.

"Definitely, the long-only approach is not as attractive in these volatile type of market conditions," said Emanuel Balarie, managing director at Chicago's Balarie Capital Management.

CalPERS, a \$182 billion pension fund, voted at a board meeting on Monday to widen ranges for its asset allocation in equities, fixed-income, real estate and cash investments. It left unchanged the allocation range for inflation-linked assets, which currently stand at 2 percent against its long-term target of 5 percent.

In a statement after the board meeting, the pension fund named 14 consultants to help oversee its investments. The commodities consultants were identified as Cliffwater LLC, R.V. Kuhns & Associates Inc. and Wilshire Associates Inc.

Spokesman Pacheco said it was premature to say what sort of new strategies in commodities the fund was likely to consider and whether it would include a long/short play.

Aside from the S&P GSCI, CalPERS inflation-linked asset class is also exposed to infrastructure, forestland and inflation-linked bonds. Its investments in the asset class were valued at \$3.7 billion as of October.

"Right now, this pool is there as a resource for our staff to look at other opportunities," Pacheco said, referring to the three commodities consultants.

"If something has merits, then they would take that to our board and talk about it."

(Reporting by Barani Krishnan; Editing by David Gregorio)

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