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### California Teachers' Pension Fund Mulls Commodity Investment

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By Michael B. Marois and Millie Munshi

Feb. 4 (Bloomberg) -- The California State Teachers' Retirement System, the second-biggest U.S. public pension, is considering investments in commodities to boost returns and provide a hedge against inflation and slumping equities.

The governing board of the fund, with \$134 billion under management, is scheduled to hear today a staff report in Sacramento that recommends its first-ever commodity investment. The board will decide whether to seek additional research on strategies and portfolio weightings.

"Commodities historically exhibited low correlation to equities and bonds and produced double-digit returns when equities fell," Innovation and Risk Director Steven Tong and Investment Officer Carrie Lo said in a report to the board. "In effect, commodities may act as an insurance policy, realizing low single-digit returns over the long run but generating large double-digit payoffs in the event of a negative shock."

Commodity prices have surged since 2001 as global economic growth led by China, the fastest-growing consumer of raw materials, spurred demand for metals, energy and grains. Copper prices have quadrupled in the past eight years, and crude oil has more than doubled. Higher prices have attracted increased interest from hedge-fund managers and pension funds.

Investors poured about \$60 billion into commodities through index-tracking and exchange-traded funds and medium-term notes last year, and should add at least that much in 2010, according to a December survey of 250 investors by Barclays Capital.

#### Fund Losses

Calstrs, as the Sacramento-based fund is known, lost 25 percent in the fiscal year that ended June 30, led by a 43 percent decline in its real-estate portfolio and a 27.6 percent drop in private equity holdings. A possible move into commodities comes three years after the California Public Employees' Retirement System, the largest public pension fund in the U.S. with \$202 billion of assets under management, made its first push into commodities, including oil and metals.

Before today, the Reuters/Jefferies CRB index of 19 commodities was up 42 percent since Dec. 31, 2001. That compares with a drop of 4.4 percent for the Standard & Poor's 500 Index.

Calstrs currently has 55.5 percent of its money invested in stocks, 20.6 percent in bonds, 9.5 percent in real estate, 12.6 percent in private equity, and 1.9 percent in cash, according to data on the fund's Web site.

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