Permissible Public Equity Markets Investment Analysis

Prepared for

The California Public Employees' Retirement System

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Permissible Public Equity Markets
Investment Analysis and Recommendations

Introduction

The purpose of this report is to review the various constraints, opportunities, and risks associated with investing in foreign capital markets. The specific goal of this analysis is to establish a framework for evaluating individual non-US public stock markets to assess their ability to support institutional investment. It is not intended to evaluate the current attractiveness of any individual market; that decision is delegated to the appropriate investment manager(s).

This analysis focuses on the emerging markets. An emerging country/market is classified by the World Bank as having a low or middle-income economy, regardless of its particular stage of development. Low and middle-income economies are currently defined as those with a 2005 gross national income ("GNI") per capita below $10,726. While all countries that fit this economic profile are considered emerging, not all are considered investable. This analysis evaluates the markets' investability. For the purpose of this analysis, American Depository Receipts (ADRs) or Global Depository Receipts (GDRs), which are traded in approved markets, are permissible investments, provided that the issuer's home market is permissible[1] as required by the CalPERS' Investment Committee action in 2002.

In 2006, CalPERS Investment Committee passed a supplement to the current permissible public equity policy where CalPERS' emerging markets managers may invest in countries that are not on the permissible public equity list as long as the managers are able to document that the individual companies met the following condition. The condition is that the individual company overcomes country factors and market factors that scored below Wilshire's score of 2.0 for the country in which the company is domiciled. For example, if the country failed its labor standards, the report must address why the particular company's labor practices meet acceptable global standards.

The Appeal of Emerging Markets Investing

Economic growth is the reason for investing in the emerging markets, including possible superior relative expected returns and an expanding opportunity set for investment. Last year the emerging markets collectively out-performed their developed markets counterparts globally. Over time, many emerging markets have also undertaken wide-ranging institutional reforms, which have increased their appeal to foreign investors. These have included: stock exchange modernization; establishment of central clearing and settlement

[1] ADRs and GDRs are "receipts" for securities of companies domiciled outside of the country where the securities are traded; i.e. Royal Dutch Shell, a Netherlands-based company, trades in the U.S. in ADR Form.

corporations and central depositories; establishment and empowerment of securities regulatory agencies; decreases in commission rates and other transaction charges; stricter accounting, auditing and information disclosure requirements; and establishment of insider trading rules.

Progress towards political openness in many countries has created governments that are more receptive to free market policies and increased foreign investment. Government officials realize that for the capital markets to develop, they must create an environment attractive to both domestic and foreign investors with safeguards in place to guarantee property rights and proficient settlement arrangements. Further, these countries and markets have developed more enlightened labor practices. A productive workforce, the CalPERS' Investment Committee believes, is a critical factor in economic growth and, ultimately, public equity market success.

Wilshire believes that these markets provide an expanded opportunity set for investment and diversification. However, not all countries present meaningful opportunities for institutional investors. The potential for rapid growth is often offset by a high degree of risk associated with investing in developing countries[2].

Developed and Emerging Markets

The developed and emerging markets are listed in Exhibits I and II, respectively. The list of developed countries has remained relatively stable over time. The most recent addition to this list is Greece, which was moved to "developed" status in 2001 after its inclusion in the European Monetary Union. Markets that are classified as developed are also deemed to be permissible for the purposes of this analysis and are not discussed further.

Exhibit I
Developed Global Equity Markets

Australia	Japan
Austria	Luxembourg
Belgium	Netherlands
Canada	New Zealand
Denmark	Norway
Finland	Portugal
France	Singapore
Germany	Spain
Greece	Sweden
Hong Kong	Switzerland
Ireland	United Kingdom
Italy	United States

[2] Wilshire made every effort to obtain current information, though this report is being prepared during a period of rapid change in many emerging markets.

Emerging Markets

The list of emerging markets/countries reviewed in this report was drawn from the countries included in the emerging market indices produced by the three major international public equity market index publishers: Morgan Stanley Capital International, Standard & Poor's, and Financial Times. While all three publishers use some form of the World Bank definition of an emerging market, their emerging market country lists vary from each other slightly. Exhibit II shows the complete list of emerging market countries analyzed in this report, which is an amalgamation of the three publishers' 2006 country lists.

Exhibit II
Emerging Global Equity Markets

Argentina	Israel	Russia
Brazil	Jordan	South Africa
Chile	Korea (South)	Sri Lanka
China	Mexico	Taiwan
Colombia	Malaysia	Thailand
Czech Republic	Morocco	Turkey
Egypt	Pakistan	Venezuela
Hungary	Peru	
India	Philippines	
Indonesia	Poland	

Evaluation Methodology

The permissible public markets analysis has been conducted by Wilshire specifically for CalPERS since 1987 and has been periodically updated. The updates have reflected more recent data and changes in relevant factors as these markets have continued to evolve. In 1999, the CalPERS Investment Committee commenced a complete review of the analysis and looked to expand it since more information regarding countries and markets had become available. The analysis still reflects the fact that many factors contribute to the opportunities and risks of investing in the emerging markets.

The most significant change made in 1999 from previous years was that the CalPERS Investment Committee has delineated two broad sources from which risks in the emerging markets derive: Country factors and market factors. This change was first reflected in the 2002 report. Country factors pertain to the specific country as opposed to its capital markets. However, without strong country infrastructures to support the capital markets, the markets cannot truly be viable in the Investment Committee's view. The market factors pertain to market specific risks that determine whether the markets, themselves, can support institutional investment.

In the report produced in 2002, the number of factors was increased to eight from the seven used in previous years. The past analyses contained two of what would now be categorized as country factors: country development and a very narrowly-defined political risk factor. After its review, the CalPERS Investment Committee eliminated country development as a relevant factor and instead included a *Transparency* factor and a *Productive Labor Practices* factor, which are defined later in this report. The CalPERS Investment Committee also expanded the political risk factor to encompass overall political stability of which political risk is a part. Collectively, these factors are designed to evaluate the investability of these markets for institutional investors. The CalPERS Investment Committee, in recognition of the fast pace of change shall have this analysis completed annually.

The 2003 report reflected further changes. Specifically, the number of macro-factors was reduced back to seven from eight as two market factors in the 2002 report, Settlement Proficiency and Transactions Costs, were combined into one macro factor. While the equal weighting of country factors and market factors was preserved, the reduction in the number of market factors from five to four meant that the remaining four factors each received proportionally more weight.

The seven broad categories of factors (macro-factors) used from 2003 on to evaluate the risks of each country and its public equity markets are shown in Exhibit III.

Exhibit III
Country and Market Macro-Factors

Country	Market
Political Stability	Market Liquidity and Volatility
Transparency	Market Regulation/Legal System/Investor Protection
Productive Labor Practices	Capital Market Openness
	Settlement Proficiency/ Transaction Costs

Based on the factor definitions, Wilshire sought to identify credible third party sources that provided an evaluation of all or a specific part of a factor. In some cases, where appropriate, several sub-factors were identified and evaluated when the review of the third party sources indicated such to be most reflective of the intent of the factor definition.

To address the new or expanded country factors, CalPERS in two cases commissioned original research in 2001. This original research was conducted to determine the extent of monetary and fiscal transparency and productive labor practices. Oxford Analytica, Ltd. of Oxford, England was selected to conduct the research on monetary and fiscal transparency, which is included as part of the broader *Transparency* factor. Verite of Amherst, MA, a non-profit research organization, was selected to conduct the research on *Productive Labor Practices.* These organizations shall also routinely update their research for CalPERS.

In 2002, Oxford Analytica's commission was expanded by CalPERS to update a portion of the *Market Regulation/Legal System/Investment Protection* macro-factor pertaining to *Shareholder and Creditor Rights* sub-factors. This information was reflected in the 2003 report.

Similar to previous years, we have continued to refer to the websites of all of the individual stock exchanges of the emerging market countries for the *Stock Exchange Listing Requirements* sub-factor, and the major master custodial banks and their respective securities dealers for the *Transactions Costs* sub-factor. We also e-mailed the respective local stock markets to verify Wilshire's findings for these sub-factors since these areas are rapidly changing. While we have received varying degrees of responses from the stock exchanges, our response rate increased in 2006, as the majority of the stock markets have responded and are providing us with detailed explanations.

Factor Descriptions

The definitions of the seven current macro-factors are provided in this section of the report along with the sub-factors used to further refine and evaluate each macro-factor, where appropriate.

Country Factors

1. *Political Stability:* Political stability, including progress towards the development of basic democratic institutions and principles, such as guaranteed elimination of human rights violations (such as torture), and a strong and impartial legal system, all of which are necessary to ensure political stability, support free market development, and attract and retain long-term sources of capital. This macro-factor shall include the following sub-factors:

   a) Civil Liberties: The extent to which countries permit freedom of expression, association and organizational rights, rule of law and human rights, free trade unions and effective collective bargaining, personal autonomy and economic rights. A score of 3.0 (highest) means that a country has relatively good civil liberties and a score of 1.0 (lowest) means they are poor.

   b) Independent Judiciary and Legal Protection: The extent to which countries have independent judiciaries, the degree to which or the absence of irregular payments made to the judiciary and the extent to which there is a trusted legal framework that honors contracts and clearly delineates ownership of and protects financial assets. A score of: 1.0 (lowest) to 3.0 (highest) is used where the higher score indicates greater overall legal protection.

   c) Political Risk: The extent to which there exists government stability, a high quality of socioeconomic conditions, and a positive investment profile. Toward these ends, this sub-factor evaluates the extent of internal and external conflict, corruption, the military and religion in politics, law and order, ethnic tensions, democratic accountability and bureaucratic quality. A score of 1.0 (lowest) to 3.0 (highest) is used where the highest score means less overall political risk exists in that country.

2. *Transparency:* Financial transparency, including elements of a free press necessary for investors to have truthful, accurate and relevant information on the conditions in the countries and companies in which they are investing. This macro-factor shall include the following sub-factors:

   a) Freedom of the Press: The structure of the news delivery system in a country and the laws and their promulgation with respect to their influence of the news, the degree of political influence and control, economic influences on the news and the degree to which there are violations against the media with respect to physical violations and censorship. A score of 3.0 means the press in a country is free and a score 1.0 means it is not free[3].

b) Monetary and Fiscal Transparency: The extent to which governmental monetary and fiscal policies and implementation are publicly available in a clear and timely manner, in accordance with international standards. A score of 1.0 (lowest) to 3.0 (highest) is used where the higher score indicates the greatest transparency.

c) Stock Exchange Listing Requirements: This sub-factor evaluates the stringency of stock exchange listing requirements for public companies with respect to frequency of financial reporting, the requirement of annual independent audits and minimum financial viability. A score of 3.0 means the listing requirements are most stringent, and a score of 1.0 means they are the least stringent.

d) Accounting Standards: The extent to which publicly traded companies in the country utilize either US GAAP (Generally Accepted Accounting Principles) or IAS (International Accounting Standards) in financial reporting, and whether the country is a member of the International Accounting Standards Council. A score of 1.0 to 3.0 is used where 1.0 means IAS or US GAAP standards are not used and 3.0 (highest) means either IAS or US GAAP is used for financial reporting.

3. *Productive Labor Practices*: To facilitate economically-productive labor practices, markets shall be evaluated based on their ratification of and adherence to the International Labor Organization's (ILO) principles, which cover labor rights and prohibitions on abusive labor practices, and the degree of effectiveness of implementation through relevant laws, enabling regulations and their degree of enforcement through the judiciary process. This macro-factor shall have the following sub-factors[4]:

a) ILO Ratification: The extent to which the country has ILO ratification for the eight core conventions. Each country will be graded on:

1) Ratified	2) Pending ratification
3) Not ratified	4) Denounced

b) Quality of Enabling Legislation: Countries shall be evaluated on whether laws exist that explicitly protect the right described in the ILO

[3] Freedom House.
[4] Verite.

Convention, or portions of it, or whether laws exist that explicitly prohibit the Convention right, or portions of it. The objective is to evaluate fundamentally, how well the right described in the convention is protected by the law. For each law, in addition to identifying if the law exists, any shortcomings in its adequacy or completeness with reference to the relevant ILO convention shall be evaluated, along with information about the regulations that implement the relevant laws.

c) Institutional Capacity: The governmental administrative bodies with enforcement responsibility for enforcing labor law that exists at the national, regional and local level.

d) Effectiveness of Implementation: The procedures that exist for enforcement and monitoring of enforcement of laws in the convention areas and evidence that exists that these procedures are working effectively; the existence of a clear grievance process; evidence that workers and/or unions utilize this grievance process; the extent to which penalties provided for in the laws are levied; and the evidence that penalties have deterrence value.

The sub-factor scores total to a maximum of 40 points per country. The sub-factors are more heavily-weighted toward the quality of enabling legislation and the effectiveness of implementation. The *Productive Labor Practices* factor scores have been rescaled on a 1.0 (lowest) to 3.0 (highest) basis, where a score of 3.0 indicates the most effective labor practices.

Market Factors

4. *Market Liquidity and Volatility:* This segment measures the ability to buy or sell assets in a country in a timely manner without adversely affecting security prices. Also included in this category is an analysis of each country's stock market return volatility, including currency risk. Sub-factors under consideration for this category are listed below.

a) Market Capitalization: Market capitalization represents the overall size of a country's stock market. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of market capitalization (i.e., larger market).

b) Change in Market Capitalization: This factor represents the growth of a country's stock market over the last five years. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of market capitalization growth.

c) Average Monthly Trading Value: This factor represents the average dollar value of shares traded, relative to the size of each market (i.e., market capitalization). A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of trading.

d) Growth in Listed Companies: This factor represents the number of companies in each country that are publicly traded and are listed on a local stock exchange and their growth over the last five years. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting the growth of listed companies.

e) Market Volatility (as measured by standard deviation): This factor represents the level of return volatility (risk) over the last five years in each country's stock market, attributable to both currency volatility and local market volatility. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a lower level of volatility.

f) Return/Risk Ratio: This factor represents the percentage of total return achieved per percentage of risk in each market[5]. This category was created so as not to penalize those markets that display a high level of positive volatility. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher return/risk ratio.

5. *Market Regulation/Legal System/Investor Protection:* This category analyzes a broad set of factors that together comprise a large portion of the investment climate within a country. This category attempts to identify the degree of legal protection for foreign investors within a country, as well as shareholder and creditors' rights. The following sub-factors are analyzed:

a) Adequacy of Financial Regulation: A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting greater financial regulatory and supervisory stringency.

b) Bankruptcy/Creditors' Rights: This segment reflects the adequacy of creditors' rights in each market, in the case of bankruptcy proceedings/reorganization. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of creditors' rights.

c) Shareholders' Rights: This segment reflects the adequacy of shareholders rights in each market. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting stronger regulations regarding shareholders' rights.

[5] Risk is defined as the standard deviation of returns.

6. *Capital Market Openness:* Openness to foreign investment is a critical barometer of a government's commitment to free market policies. Markets are viable if they have the ability to attract and retain long-term sources of capital. Further, markets are evaluated based on the level of restriction imposed on foreign investors. The following sub-factors are evaluated:

   a) Trade Policy: This sub-factor measures the degree to which there is oppressive government interference in free trade through deterrents such as trade barriers and punitive tariffs.

   b) Foreign Investment: This sub-factor examines governmental barriers to the free flow of capital from foreign sources through the imposition of restrictions on foreign ownership of local assets, repatriation restrictions and un-equal treatment of foreigners and locals under the law.

   c) Banking and Finance: This sub-factor looks at undue government control of banks and financial institutions and measures such factors as government ownership of banks and allocation of credit and the degree of freedom financial institutions have to offer all types of financial services, securities and insurance policies. Protectionist banking regulations against foreigners are also evaluated.

   d) Stock Market Foreign Ownership Restrictions: This sub-factor examines the extent to which the local stock market restricts share ownership of public companies by foreigners. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of market openness.

7. *Settlement Proficiency/Transaction Costs:* Cost effective, efficient settlement of securities transactions is critical as the world moves to one-day settlement. This factor measures the degree of efficiency and the cost effectiveness of transacting in the markets included in this analysis.

   a) Settlement Proficiency: This segment illustrates whether a country's trading and settlement is automated and measures the success of the market in settling transactions in a timely, efficient manner. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting an automated, efficient operational process.

   b) Transaction Costs: This segment measures the costs associated with trading in a particular market and includes stamp taxes and duties, amount of dividends and income taxed, and capital gains taxes. High trading costs tax the returns and increase the hurdle rate of managers investing in these markets. Markets that impose a high level of taxes, or have a high level of trading costs, receive a low score. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a lower level of transaction costs. *Please note that transaction costs* *relating to market impact associated with liquidity is reflected in the first category: Market Liquidity/Volatility.*

Scoring & Scoring Changes

The analysis has been conducted on a "relative" basis with a goal toward sorting the countries from the most able to support institutional investment to the least. In most cases the third party source utilized a specific scoring methodology that, too, yielded a relative rank. Where needed, Wilshire rescaled third party scores to a three point system, where a score of 1.0 represents the least established, least able to support institutional investment and a score of 3.0 represents the most established, most able to support institutional investment. In this manner, factor scores were then comparable and ultimately combinable for weighting to a total country/market score.

The country factors comprise a 50% total weighting and the market factors comprise the other 50%. Since there are only three country factors proportionally, each of them receives greater weight in the total analysis than the market factors, of which there are four. Within the country segment, the three macro-factors were exactly equal-weighted, as were the market factors. The weighted average sum of the macro-factor scores represents the overall evaluation of the country/market. This weighting scheme was adopted by the Investment Committee and codified in the investment policy document included herein. The macro-factors and weights are listed in Exhibit IV.

Exhibit IV
Macro-Factor Weights

	Category	**Assigned Weight**
1	Political Stability	16.7%
2	Transparency	16.7
3	Productive Labor Practices	16.7
4	Market Liquidity and Volatility	12.5
5	Market Regulation/ Legal System/ Investor Protection	12.5
6	Capital Market Openness	12.5
7	Settlement Proficiency/Transaction Costs	12.5

In 2006 there were two changes relating to the scoring methodology that the CalPERS Investment Committee approved in 2005. The first change affected the macro- and sub-factors, while the second affected the total country scores. Previous to 2006, all of the macro- and sub-factors were evaluated on a whole-number rating scale, where a country was assigned scores of 1, 2, or 3. However, starting with the 2006 analysis, all of the macro- and sub-factors were evaluated on a 1-decimal place rating system, where a specific sub-factor for a country could be assigned a score of 3.0, 2.7, 2.5, etc. To implement this methodology change, Wilshire had to define more narrowly the scoring breakpoints for most macro- and sub-factors, while some factors (such as Sub-factor 2a – Freedom of the

Press, where countries are Free, Partially Free or Not Free) were not affected. In addition, the country factors, which were originally rounded to 2 decimal places in previous reports, are now rounded to 1 decimal place.

The Appendix provides the raw evaluations used by the third party sources for each sub-factor. The countries were each scored based on their relative attractiveness for that sub-factor. The sub-factors were then aggregated into macro-factor scores, which were then weighted to total scores for the countries in the analysis. Exhibit VI ranks the markets separately on their country scores and their market scores.

Exhibit V
Overall Summary

		Country Factors			Market Factors					
	Factors	(1)	(2)	(3)	(4)	(5)	(6)	(7)		
	Weights	16.7%	16.7%	16.7%	12.5%	12.5%	12.5%	12.5%	100%	
	Subtotal Weights			50%				50%	100%	
		Political Stability Score	Transparency Score	Productive Labor Practices Score	Market Liquidity and Volatility Score	Market Regulation/ Legal System/ Investor Protection Score	Capital Market Openness Score	Settlement Proficiency/ Transaction Costs Score	2007 Score	Cumulative Mkt Cap as a % of Total Mkt Cap*
1	Hungary	2.7	2.7	3.0	2.7	2.3	2.7	2.3	2.7	1.09%
2	Chile	3.0	2.7	2.3	3.0	2.7	2.7	2.0	2.6	2.77%
3	South Korea	2.3	3.0	2.3	3.0	3.0	2.3	2.0	2.6	20.34%
4	Czech Republic	2.7	2.7	2.7	2.7	1.7	2.7	2.3	2.5	21.06%
5	Poland	2.3	2.7	2.7	3.0	2.3	2.3	2.3	2.5	22.47%
6	Israel	2.0	2.7	2.7	2.7	2.7	2.7	2.0	2.5	24.48%
7	Taiwan	2.7	2.7	2.0	3.0	2.3	2.7	2.0	2.5	38.76%
8	South Africa	2.0	3.0	2.3	3.0	2.7	2.3	1.7	2.4	49.34%
9	Brazil	1.7	2.7	1.7	2.7	2.3	2.0	3.0	2.3	61.03%
10	Philippines	1.7	2.7	1.7	2.7	3.0	2.0	2.3	2.3	61.38%
11	Mexico	2.0	2.7	1.7	2.7	2.0	2.0	2.7	2.2	69.73%
12	Jordan	2.0	2.3	1.7	3.0	1.0	2.3	3.0	2.2	70.20%
13	Thailand	1.7	2.0	1.7	3.0	2.3	2.0	2.7	2.2	71.50%
14	Turkey	1.7	2.3	2.0	2.7	1.7	2.3	2.3	2.1	72.86%
15	India	2.0	2.7	1.0	3.0	2.3	1.3	2.7	2.1	81.33%
16	Peru	1.3	2.3	2.0	2.7	1.7	2.3	2.7	2.1	81.53%
17	Indonesia	1.7	2.3	1.3	3.0	2.3	2.0	2.3	2.1	82.90%
18	Malaysia	2.3	2.7	1.0	3.0	2.3	1.3	2.0	2.1	86.20%
19	Morocco	2.0	2.0	1.3	2.7	2.0	2.3	2.0	2.0	86.50%
20	Argentina	1.7	2.3	2.3	2.0	2.0	2.3	1.3	2.0	87.11%
21	Pakistan	1.0	1.7	1.0	3.0	2.7	1.7	3.0	1.9	87.29%
22	Egypt	1.3	1.7	1.7	2.7	1.3	2.0	3.0	1.9	88.03%
23	Russia	1.0	2.0	1.7	3.0	2.0	1.7	2.3	1.9	97.06%
24	Sri Lanka	1.3	2.3	2.0	2.7	1.3	1.7	2.0	1.9	97.11%
25	Colombia	1.7	1.7	1.7	2.7	2.0	2.3	1.0	1.9	97.74%
26	China	1.3	1.3	1.3	3.0	1.7	1.3	2.3	1.7	99.89%
27	Venezuela	1.0	1.7	2.0	1.7	1.0	1.7	2.0	1.6	100.00%

* FTSE was the source of the market capitalization values used in this column for most of the countries in this analysis. IFC's market capitalization values were used for Jordan, Sri Lanka, and Venezuela, as these countries are not included in the FTSE All World All Emerging Markets Index. All values are as of December 31, 2006.

Exhibit VI
Separate Country Factor and Market Factor Ranks

Country Factor Ranks		Market Factor Ranks	
1	Hungary	1	Chile
2	Czech Republic	2	Pakistan
3	Chile	3	South Korea
4	Poland	4	Israel
5	South Korea	5	Brazil
6	Taiwan	6	Hungary
7	Israel	7	Philippines
8	South Africa	8	Taiwan
9	Mexico	9	Thailand
10	Argentina	10	Poland
11	Philippines	11	South Africa
12	Brazil	12	Indonesia
13	Turkey	13	Czech Republic
14	Malaysia	14	Mexico
15	Jordan	15	Peru
16	India	16	India
17	Sri Lanka	17	Jordan
18	Peru	18	Egypt
19	Thailand	19	Morocco
20	Morocco	20	Russia
21	Indonesia	21	Turkey
22	Colombia	22	Malaysia
23	Russia	23	China
24	Egypt	24	Colombia
25	Venezuela	25	Sri Lanka
26	China	26	Argentina
27	Pakistan	27	Venezuela

Exhibit VI shows that the markets rank differently on their total country factor scores versus their total market factor scores.

Impact from Last Year

To assess the changes from last year, Exhibit VII provides a comparison of this year's scores versus those from 2006. As in previous reports, Wilshire highlighted those scores that changed from the previous year (with blue indicating an increase in score and yellow indicating a decrease). Please note that the 2007 total country scores are calculated to more than 1-decimal place, but merely rounded that way. Therefore, subtracting the 2007 1-decimal place scores from the 2006 1-decimal place scores as shown in Exhibit VII will not always equal the "Difference" figures because of rounding.

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Exhibit VII
Macro-Factor Comparison

	Country Factors						Market Factors										
Factors	*(1)*		*(2)*		*(3)*		*(4)*		*(5)*		*(6)*		*(7)*				
Weights	*16.7%*		*16.7%*		*16.7%*		*12.5%*		*12.5%*		*12.5%*		*12.5%*		*100%*		
Subtotal Weights					*50%*								*50%*				
	Political Stability		Transparency		Productive Labor Practices		Market Liquidity and Volatility		Market Regulation/ Legal System/ Investor Protection		Capital Market Openness		Settlement Proficiency/ Transaction Costs		Wilshire Score		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	Difference
1 Argentina	1.7	1.7	2.3	2.3	2.3	2.7	2.0	1.7	2.0	2.0	2.3	2.0	1.3	1.3	2.0	2.0	0.0
2 Brazil	1.7	1.7	2.7	2.7	1.7	1.7	2.7	2.7	2.3	2.3	2.0	1.7	3.0	3.0	2.3	2.2	0.0
3 Chile	3.0	3.0	2.7	2.7	2.3	2.3	3.0	2.7	2.7	2.7	2.7	2.7	2.0	2.0	2.6	2.6	0.0
4 China	1.3	1.3	1.3	1.3	1.3	1.0	3.0	3.0	1.7	1.7	1.3	1.3	2.3	2.0	1.7	1.6	0.1
5 Colombia	1.7	1.3	1.7	1.7	1.7	1.7	2.7	2.7	2.0	2.0	2.3	2.3	1.0	1.0	1.9	1.8	0.1
6 Czech Republic	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	1.7	1.7	2.7	3.0	2.3	2.3	2.5	2.6	0.0
7 Egypt	1.3	1.3	1.7	1.7	1.7	1.7	2.7	2.3	1.3	1.3	2.0	1.7	3.0	3.0	1.9	1.8	0.1
8 Hungary	2.7	2.7	2.7	2.7	3.0	3.0	2.7	2.7	2.3	2.3	2.7	2.7	2.3	3.0	2.7	2.7	-0.1
9 India	2.0	1.7	2.7	2.7	1.0	1.0	3.0	3.0	2.3	2.3	1.3	1.0	2.7	2.3	2.1	2.0	0.1
10 Indonesia	1.7	1.7	2.3	2.3	1.3	1.3	3.0	2.7	2.3	2.3	2.0	2.0	2.3	2.3	2.1	2.0	0.0
11 Israel	2.0	2.0	2.7	2.7	2.7	2.7	2.7	2.3	2.7	2.7	2.7	2.7	2.0	2.3	2.5	2.5	0.0
12 Jordan	2.0	2.0	2.3	2.3	1.7	1.7	3.0	3.0	1.0	1.0	2.3	2.3	3.0	3.0	2.2	2.2	0.0
13 Malaysia	2.3	2.3	2.7	2.3	1.0	1.0	3.0	3.0	2.3	2.0	1.3	1.3	2.0	2.0	2.1	2.0	0.1
14 Mexico	2.0	2.0	2.7	2.3	1.7	2.0	2.7	2.7	2.0	2.0	2.0	2.0	2.7	2.7	2.2	2.2	0.0
15 Morocco	2.0	1.7	2.0	2.0	1.3	1.3	2.7	2.7	2.0	2.0	2.3	2.0	2.0	2.0	2.0	1.9	0.1
16 Pakistan	1.0	1.0	1.7	1.7	1.0	1.0	3.0	3.0	2.7	2.3	1.7	1.7	3.0	2.7	1.9	1.8	0.1
17 Peru	1.3	1.3	2.3	2.3	2.0	2.3	2.7	2.7	1.7	1.7	2.3	2.3	2.7	2.7	2.1	2.2	0.0
18 Philippines	1.7	1.3	2.7	2.7	1.7	2.0	2.7	2.0	3.0	3.0	2.0	1.7	2.3	2.3	2.3	2.1	0.1
19 Poland	2.3	2.7	2.7	2.7	2.7	3.0	3.0	2.7	2.3	2.3	2.3	2.7	2.3	2.0	2.5	2.6	-0.1
20 Russia	1.0	1.0	2.0	2.0	1.7	1.7	3.0	3.0	2.0	2.0	1.7	1.3	2.3	2.3	1.9	1.9	0.0
21 South Africa	2.0	2.0	3.0	3.0	2.3	2.3	3.0	2.7	2.7	2.7	2.3	2.3	1.7	1.7	2.4	2.4	0.0
22 South Korea	2.3	2.3	3.0	3.0	2.3	2.3	3.0	3.0	3.0	3.0	2.3	2.0	2.0	2.0	2.6	2.5	0.0
23 Sri Lanka	1.3	1.3	2.3	2.0	2.0	1.7	2.7	2.3	1.3	1.7	1.7	1.7	2.0	2.0	1.9	1.8	0.1
24 Taiwan	2.7	3.0	2.7	2.7	2.0	2.0	3.0	3.0	2.3	2.3	2.7	2.7	2.0	2.0	2.5	2.5	0.0
25 Thailand	1.7	1.7	2.0	2.3	1.7	1.7	3.0	3.0	2.3	2.3	2.0	1.7	2.7	2.7	2.2	2.2	0.0
26 Turkey	1.7	1.7	2.3	2.3	2.0	1.7	2.7	2.0	1.7	1.7	2.3	2.3	2.3	2.3	2.1	2.0	0.1
27 Venezuela	1.0	1.0	1.7	1.7	2.0	2.0	1.7	1.3	1.0	1.0	1.7	1.7	2.0	2.0	1.6	1.5	0.0

Generally countries' scores have improved over the last five years. In the 2002 report, the final scoring ranged from a high of 2.63 out of a possible 3.00 to a low of 1.15. The 2003 scores ranged from a high of 2.75 to a low of 1.25. The 2004, 2005, and 2006 scores were in a similar range. The final 2004 scores ranged from a high of 2.83 to a low of 1.50, while the 2005 scores ranged from a high of 2.88 to a low of 1.46. The 2006 scores ranged from a high of 2.7 to a low of 1.5, and the 2007 scores range from a high of 2.7 to a low of 1.6.

Exhibit VIII below shows the change in total scores from 2006 to 2007, ranked by the degree of change over the year. Of the 27 countries, 10 countries had higher scores, 2 countries had lower scores and 15 countries had scores that stayed the same. Philippines and India had the biggest improvements during the year, while Hungary and Poland fell the most precipitously.

Exhibit VIII[6]
Total Score Comparison

		Total Score		
		2007	2006	Difference
1	Philippines	2.3	2.1	0.1
2	India	2.1	2.0	0.1
3	Turkey	2.1	2.0	0.1
4	Malaysia	2.1	2.0	0.1
5	Sri Lanka	1.9	1.8	0.1
6	Egypt	1.9	1.8	0.1
7	China	1.7	1.6	0.1
8	Morocco	2.0	1.9	0.1
9	Pakistan	1.9	1.8	0.1
10	Colombia	1.9	1.8	0.1
11	Russia	1.9	1.9	0.0
12	Venezuela	1.6	1.5	0.0
13	Brazil	2.3	2.2	0.0
14	Chile	2.6	2.6	0.0
15	Indonesia	2.1	2.0	0.0
16	South Africa	2.4	2.4	0.0
17	South Korea	2.6	2.5	0.0
18	Mexico	2.2	2.2	0.0
19	Israel	2.5	2.5	0.0
20	Argentina	2.0	2.0	0.0
21	Jordan	2.2	2.2	0.0
22	Thailand	2.2	2.2	0.0
23	Czech Republic	2.5	2.6	0.0
24	Peru	2.1	2.2	0.0
25	Taiwan	2.5	2.5	0.0
26	Hungary	2.7	2.7	-0.1
27	Poland	2.5	2.6	-0.1

[6] The total country scores are calculated to more than 1-decimal place, but are merely rounded that way. Numbers may not sum evenly due to rounding.

The most significant improvement in country development was in the *Political Stability Factor*. Within this macro-factor, we saw the biggest improvement in independent judiciary and legal protection across countries. This change is an indication of the further development of these markets.

Impact to Performance and Sector Weights

Since the implementation of the new emerging markets' permissible public country policy, the impact to performance and other characteristics can now be assessed. Exhibit IX shows the impact to sector weights between the full complement of countries contained in the unconstrained Financial Times Stock Exchange (FTSE) All Emerging Markets Equity Index and the Custom CalPERS FTSE All Emerging Markets Index, which is limited to those countries that scored above the 2.0 threshold in the 2006 analysis. The remaining countries, which totaled roughly 15% of the available market capitalization[7] of the emerging public equity markets, were not permitted.

Exhibit IX
Index Sector Allocation Comparison
December 31, 2006

Sector	CalPERS-FTSE All Emerging Index	Standard FTSE All Emerging Index	Difference
BASIC MATERIALS	13.97	12.94	1.03
CONSUMER GOODS	8.51	7.25	1.26
CYCLICAL SERVICES	5.65	4.77	0.88
FINANCIALS	20.96	22.68	-1.72
HEALTH CARE	2.18	1.78	0.40
INDUSTRIALS	11.09	10.18	0.91
OIL & GAS	7.35	14.11	-6.76
TECHNOLOGY	15.96	13.06	2.90
TELECOMMUNICATIONS	10.96	9.81	1.15
UTILITIES	3.38	3.43	-0.05
Totals	100.00	100.00	

The effect on sector weights is significant as the CalPERS' benchmark has had and will have greater sensitivity to stock market swings. There was a definite reduction in exposure to the non-discretionary areas of the economy such as the oil & gas sector and financials sector, with an increased exposure to the technology and telecommunications sectors.

Exhibit X below shows the impact to performance for the period the permissible public country policy has been in effect (April 1, 2002 to December 31, 2006). During this period, the Custom CalPERS FTSE All Emerging Markets Index underperformed the

[7] Source: Wilshire Associates, FTSE, MSCI, IFC.

Standard FTSE Index by 2.9% on an annualized basis. In addition, this policy had an overall negative impact on performance of 2.6% when comparing CalPERS' external emerging market managers to each one's fully discretionary investment results on a gross-of-fees basis.

Exhibit X
Impact to Performance Results
Custom CalPERS vs. Standard FTSE All Emerging Markets Index

	4/02 - 12/02	1/03 - 12/03	1/04 - 12/04	1/05 - 12/05	1/06 - 12/06	Inception*
Custom CalPERS Index	-19.8%	47.3%	31.9%	33.6%	27.4%	22.8%
Standard Index	-16.4%	54.0%	27.9%	35.1%	33.1%	25.7%
Difference	-3.4%	-6.7%	4.0%	-1.5%	-5.7%	-2.9%

* Cumulative annualized return from April 1, 2002 - December 31, 2006.

Impact on External Managers

	CalPERS Annualized Gross Return*	Unconstrained Portfolio Annualized Return*	Difference
AllianceBernstein	36.4%	39.6%	-3.3%
Dimensional Fund Advisors	33.6%	32.6%	1.0%
Genesis	30.7%	36.9%	-6.2%
Asset Weighted Return Difference			-2.6%

* From July 31, 2002 - December 31, 2006.

Conclusion

Until the 2006 CalPERS Permissible Public Equity Report, the CalPERS Board previously included countries that score 2.00 or above. With the 1-decimal place rounding methodology that started in 2006, the 2.0 demarcation includes the countries shown in Exhibit XI as follows.

Exhibit XI
Markets Meeting the 2.0 Score Threshold

Argentina
Brazil
Chile
Czech Republic
Hungary
India
Indonesia
Israel
Jordan
Malaysia
Mexico
Morocco
Peru
Philippines
Poland
South Africa
South Korea
Taiwan
Thailand
Turkey

There are 20 countries that meet the 2.0 threshold in the 2007 analysis. There are 19 countries from 2006 that remained above the CalPERS threshold and one new addition. The one country that was below the 2.0 threshold in 2006 and is now above the 2.0 threshold is Morocco and it will be added to the Custom CalPERS FTSE Emerging Markets Index. Last year, Sri Lanka fell below the 2.0 threshold and was granted a one-year "cure period" to improve its score before exclusion from the universe. While Sri Lanka's 2007 score improved, it is still below the 2.0 threshold and will now be excluded from the universe.

APPENDIX

Country and Market Factor Evaluations
By Country

COUNTRY FACTORS

Factor 1: Political Stability

#	Country	(1a) Civil Liberties Score	(1b) Independent Judiciary and Legal Protection Score	(1c) Political Risk Score	Total Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	2.5	1.3	2.0	5.8	1.7	1.7
2	Brazil	2.5	1.7	1.3	5.5	1.7	1.7
3	Chile	3.0	3.0	3.0	9.0	3.0	3.0
4	China	1.0	1.7	1.3	4.0	1.3	1.3
5	Colombia	2.0	2.0	1.0	5.0	1.7	1.3
6	Czech Republic	3.0	2.3	3.0	8.3	2.7	2.7
7	Egypt	1.0	2.7	1.0	4.7	1.3	1.3
8	Hungary	3.0	2.7	3.0	8.7	2.7	2.7
9	India	2.0	3.0	1.0	6.0	2.0	1.7
10	Indonesia	2.0	2.0	1.0	5.0	1.7	1.7
11	Israel	2.5	3.0	1.0	6.5	2.0	2.0
12	Jordan	1.5	3.0	2.3	6.8	2.0	2.0
13	Malaysia	1.5	3.0	2.7	7.2	2.3	2.3
14	Mexico	2.0	1.7	2.3	6.0	2.0	2.0
15	Morocco	1.5	2.3	2.3	6.1	2.0	1.7
16	Pakistan	1.0	1.7	1.0	3.7	1.0	1.0
17	Peru	2.0	1.3	1.0	4.3	1.3	1.3
18	Philippines	2.0	2.0	1.0	5.0	1.7	1.3
19	Poland	3.0	1.7	2.3	7.0	2.3	2.7
20	Russia	1.0	1.3	1.3	3.6	1.0	1.0
21	South Africa	2.5	2.7	1.7	6.9	2.0	2.0
22	South Korea	2.5	2.7	2.3	7.5	2.3	2.3
23	Sri Lanka	1.5	2.0	1.0	4.5	1.3	1.3
24	Taiwan	3.0	2.7	2.3	8.0	2.7	3.0
25	Thailand	1.5	2.7	1.0	5.2	1.7	1.7
26	Turkey	2.0	2.3	1.0	5.3	1.7	1.7
27	Venezuela	1.5	1.0	1.0	3.5	1.0	1.0

Scoring Breakpoints:
3.0 = 9.0
2.7 = 8.0 - 8.9
2.3 = 7.0 - 7.9
2.0 = 6.0 - 6.9
1.7 = 5.0 - 5.9
1.3 = 4.0 - 4.9
1.0 = 3.9 and below

* Total Score = sum of 3 sub-factor scores.
** Wilshire Score based on Total Score.

WILSHIRE CONSULTING

Factor 1A: Civil Liberties

Source: Freedom House

		Civil Liberties Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	2	2.5	2.5
2	Brazil	2	2.5	2.5
3	Chile	1	3.0	3.0
4	China	6	1.0	1.0
5	Colombia	3	2.0	2.0
6	Czech Republic	1	3.0	3.0
7	Egypt	5	1.0	1.0
8	Hungary	1	3.0	3.0
9	India	3	2.0	2.0
10	Indonesia	3	2.0	2.0
11	Israel	2	2.5	2.5
12	Jordan	4	1.5	1.5
13	Malaysia	4	1.5	1.5
14	Mexico	3	2.0	2.5
15	Morocco	4	1.5	1.5
16	Pakistan	5	1.0	1.0
17	Peru	3	2.0	2.0
18	Philippines	3	2.0	2.0
19	Poland	1	3.0	3.0
20	Russia	5	1.0	1.0
21	South Africa	2	2.5	2.5
22	South Korea	2	2.5	2.5
23	Sri Lanka	4	1.5	2.0
24	Taiwan	1	3.0	3.0
25	Thailand	4	1.5	2.0
26	Turkey	3	2.0	2.0
27	Venezuela	4	1.5	1.5

Scoring Breakpoints:
3.0 = 1
2.5 = 2
2.0 = 3
1.5 = 4
1.0 = 5 and above

* 1 = free (good civil liberties); 7 = not free (poor civil liberties).
** Wilshire Score based on Civil Liberties Score.

WILSHIRE CONSULTING

Factor 1B: Independent Judiciary and Legal Protection

Source: Global Competitiveness Report 2006-2007

		Judicial Independence*	Property Rights*	Favoritism in Decisions of Govt. Officials*	Organized Crime*	Contracts and Law Subindex**	**Wilshire Score*** **	2006 Wilshire Score
1	Argentina	2.2	2.9	2.2	4.0	2.81	1.3	1.3
2	Brazil	2.8	4.6	2.7	3.3	3.35	1.7	1.7
3	Chile	3.9	5.5	4.0	6.2	4.88	3.0	3.0
4	China	3.4	4.0	3.0	3.8	3.54	1.7	2.0
5	Colombia	3.7	4.7	2.9	3.2	3.62	2.0	1.7
6	Czech Republic	3.8	4.6	3.0	5.1	4.14	2.3	2.3
7	Egypt	4.8	4.7	3.2	5.8	4.64	2.7	2.3
8	Hungary	4.2	5.5	2.7	5.2	4.40	2.7	2.7
9	India	5.9	5.7	3.6	5.4	5.14	3.0	2.7
10	Indonesia	2.8	3.8	3.7	5.5	3.92	2.0	2.0
11	Israel	6.3	5.8	3.5	5.6	5.29	3.0	3.0
12	Jordan	4.9	5.0	3.3	6.5	4.93	3.0	3.0
13	Malaysia	5.3	5.8	4.1	5.6	5.22	3.0	3.0
14	Mexico	3.6	4.6	2.7	3.1	3.52	1.7	1.7
15	Morocco	3.4	4.8	3.2	5.3	4.17	2.3	2.0
16	Pakistan	3.3	3.7	3.1	3.8	3.48	1.7	1.7
17	Peru	2.0	3.5	3.0	3.6	3.01	1.3	1.3
18	Philippines	3.4	4.4	2.6	4.1	3.63	2.0	1.7
19	Poland	3.5	3.7	3.4	3.7	3.58	1.7	2.0
20	Russia	2.3	3.2	2.2	3.8	2.88	1.3	1.0
21	South Africa	5.6	5.8	3.1	3.8	4.58	2.7	2.3
22	South Korea	4.1	5.4	3.3	5.0	4.47	2.7	2.7
23	Sri Lanka	3.5	4.6	2.7	3.9	3.68	2.0	1.7
24	Taiwan	4.0	5.3	3.9	5.1	4.59	2.7	3.0
25	Thailand	4.4	5.3	3.4	4.8	4.46	2.7	2.7
26	Turkey	4.2	4.8	3.2	4.6	4.19	2.3	2.0
27	Venezuela	1.2	2.4	1.7	2.8	2.00	1.0	1.0

Scoring Breakpoints:

3.0 = 4.80 and up
2.7 = 4.40 - 4.79
2.3 = 4.00 - 4.39
2.0 = 3.60 - 3.99
1.7 = 3.20 - 3.59
1.3 = 2.80 - 3.19
1.0 = 2.79 and below

* 1 = Lower level of judicial independence/legal protection; 7 = Higher level of judicial independence/legal protection.
** Contracts and Law Subindex is an equal-weighted average of its four sub-components.
*** Wilshire Score based on Contracts and Law Subindex.

WILSHIRE CONSULTING

Factor 1C: Political Risk

Source: International Country Risk Guide- December 2006

		Current Rating*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	71.0	2.0	2.0
2	Brazil	66.0	1.3	1.3
3	Chile	80.5	3.0	3.0
4	China	67.0	1.3	1.7
5	Colombia	57.0	1.0	1.0
6	Czech Republic	78.5	3.0	3.0
7	Egypt	62.5	1.0	1.0
8	Hungary	78.0	3.0	3.0
9	India	62.0	1.0	1.0
10	Indonesia	60.5	1.0	1.0
11	Israel	62.5	1.0	1.0
12	Jordan	73.5	2.3	2.3
13	Malaysia	76.0	2.7	2.7
14	Mexico	74.5	2.3	2.3
15	Morocco	72.5	2.3	2.0
16	Pakistan	47.0	1.0	1.0
17	Peru	63.0	1.0	1.0
18	Philippines	61.0	1.0	1.0
19	Poland	74.5	2.3	3.0
20	Russia	65.5	1.3	1.7
21	South Africa	69.5	1.7	2.0
22	South Korea	72.5	2.3	2.7
23	Sri Lanka	54.0	1.0	1.0
24	Taiwan	74.5	2.3	3.0
25	Thailand	61.0	1.0	1.0
26	Turkey	64.0	1.0	1.7
27	Venezuela	51.0	1.0	1.0

Scoring Breakpoints:
3.0 = 77.5 and up
2.7 = 75.0 - 77.4
2.3 = 72.5 - 74.9
2.0 = 70.0 - 72.4
1.7 = 67.5 - 69.9
1.3 = 65.0 - 67.4
1.0 = 64.9 and below

* 0 = Politically unstable; 100 = Politically stable.
** Wilshire Score based on Current Rating.

Factor 2: Transparency

#	Country	(2a) Freedom of the Press Score	(2b) Monetary and Fiscal Transparency Score	(2c) Stock Exchange Listing Requirements Score	(2d) Accounting Standards Score	Total Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	3.0	2.0	2.0	1.5	8.5	2.3	2.3
2	Brazil	3.0	2.7	2.3	1.5	9.5	2.7	2.7
3	Chile	3.0	3.0	2.0	1.5	9.5	2.7	2.7
4	China	1.0	1.0	2.3	1.5	5.8	1.3	1.3
5	Colombia	2.0	2.3	1.3	1.0	6.6	1.7	1.7
6	Czech Republic	3.0	3.0	2.3	1.0	9.3	2.7	2.7
7	Egypt	1.0	1.7	2.7	1.0	6.4	1.7	1.7
8	Hungary	3.0	2.7	2.3	1.5	9.5	2.7	2.7
9	India	3.0	2.3	2.7	1.0	9.0	2.7	2.7
10	Indonesia	3.0	2.3	2.3	1.0	8.6	2.3	2.3
11	Israel	3.0	2.3	2.3	1.5	9.1	2.7	2.7
12	Jordan	2.0	2.0	3.0	1.5	8.5	2.3	2.3
13	Malaysia	2.0	2.7	3.0	1.5	9.2	2.7	2.3
14	Mexico	3.0	2.7	2.7	1.5	9.9	2.7	2.3
15	Morocco	2.0	2.0	2.3	1.0	7.3	2.0	2.0
16	Pakistan	1.0	1.7	2.3	1.5	6.5	1.7	1.7
17	Peru	3.0	2.7	1.7	1.0	8.4	2.3	2.3
18	Philippines	2.0	2.7	3.0	2.0	9.7	2.7	2.7
19	Poland	3.0	3.0	2.3	1.0	9.3	2.7	2.7
20	Russia	1.0	2.0	2.7	1.5	7.2	2.0	2.0
21	South Africa	3.0	2.7	2.3	2.0	10.0	3.0	3.0
22	South Korea	3.0	3.0	2.7	1.5	10.2	3.0	3.0
23	Sri Lanka	2.0	2.0	2.7	1.5	8.2	2.3	2.0
24	Taiwan	3.0	2.3	3.0	1.5	9.8	2.7	2.7
25	Thailand	1.0	2.3	3.0	1.5	7.8	2.0	2.3
26	Turkey	2.0	2.3	2.7	1.0	8.0	2.3	2.3
27	Venezuela	2.0	1.3	2.0	1.5	6.8	1.7	1.7

Scoring Breakpoints:
3.0 = 10.0 and above
2.7 = 9.0 - 9.9
2.3 = 8.0 - 8.9
2.0 = 7.0 - 7.9
1.7 = 6.0 - 6.9
1.3 = 5.0 - 5.9
1.0 = 4.9 and below

* Total Score = sum of 4 sub-factor scores.
** Wilshire Score based on Total Score.

Factor 2A: Freedom of the Press

Source: Freedom House

		Freedom Rating*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	F	3.0	3.0
2	Brazil	F	3.0	3.0
3	Chile	F	3.0	3.0
4	China	NF	1.0	1.0
5	Colombia	PF	2.0	2.0
6	Czech Republic	F	3.0	3.0
7	Egypt	NF	1.0	1.0
8	Hungary	F	3.0	3.0
9	India	F	3.0	3.0
10	Indonesia	F	3.0	3.0
11	Israel	F	3.0	3.0
12	Jordan	PF	2.0	2.0
13	Malaysia	PF	2.0	2.0
14	Mexico	F	3.0	3.0
15	Morocco	PF	2.0	2.0
16	Pakistan	NF	1.0	1.0
17	Peru	F	3.0	3.0
18	Philippines	PF	2.0	2.0
19	Poland	F	3.0	3.0
20	Russia	NF	1.0	1.0
21	South Africa	F	3.0	3.0
22	South Korea	F	3.0	3.0
23	Sri Lanka	PF	2.0	2.0
24	Taiwan	F	3.0	3.0
25	Thailand	NF	1.0	2.0
26	Turkey	PF	2.0	2.0
27	Venezuela	PF	2.0	2.0

Scoring Breakpoints:
3.0 = F
2.0 = PF
1.0 = NF

* F = Free; PF = Partially Free; NF = Not Free.
** Wilshire Score based on Freedom Rating.

Factor 2B: Monetary and Fiscal Transparency

Source: Oxford Analytica

		Monetary Transparency Score*	Fiscal Transparency Score*	Total Score**	**Wilshire Score*****	2006 Wilshire Score
1	Argentina	3.50	3.00	6.50	2.0	2.3
2	Brazil	4.00	4.00	8.00	2.7	2.7
3	Chile	4.75	4.25	9.00	3.0	3.0
4	China	2.25	1.75	4.00	1.0	1.0
5	Colombia	4.00	3.50	7.50	2.3	2.3
6	Czech Republic	4.75	4.00	8.75	3.0	3.0
7	Egypt	2.75	2.75	5.50	1.7	1.3
8	Hungary	4.25	4.00	8.25	2.7	2.7
9	India	3.75	3.50	7.25	2.3	2.3
10	Indonesia	3.75	3.25	7.00	2.3	2.3
11	Israel	3.75	3.25	7.00	2.3	2.3
12	Jordan	3.25	3.00	6.25	2.0	1.7
13	Malaysia	4.00	3.75	7.75	2.7	2.7
14	Mexico	4.25	4.00	8.25	2.7	2.7
15	Morocco	3.25	3.50	6.75	2.0	2.0
16	Pakistan	3.00	2.50	5.50	1.7	1.7
17	Peru	4.25	3.50	7.75	2.7	2.7
18	Philippines	4.00	3.75	7.75	2.7	2.7
19	Poland	4.50	4.00	8.50	3.0	3.0
20	Russia	3.50	3.00	6.50	2.0	2.0
21	South Africa	4.25	4.00	8.25	2.7	2.7
22	South Korea	4.50	4.25	8.75	3.0	3.0
23	Sri Lanka	3.50	3.00	6.50	2.0	2.0
24	Taiwan	3.75	3.25	7.00	2.3	2.3
25	Thailand	4.00	3.50	7.50	2.3	2.3
26	Turkey	4.25	3.00	7.25	2.3	2.3
27	Venezuela	2.50	2.25	4.75	1.3	1.3

<u>Scoring Breakpoints:</u>

3.0 = 8.50 and up
2.7 = 7.75 - 8.25
2.3 = 7.00 - 7.50
2.0 = 6.25 - 6.75
1.7 = 5.50 - 6.00
1.3 = 4.75 - 5.25
1.0 = 4.50 and below

* 1 = least transparent; 5 = most transparent.
** Total Score = sum of 2 sub-components.
*** Wilshire Score based on Total Score.

Factor 2C: Stock Exchange Listing Requirements

Source: Individual Stock Exchanges*

		Annual**	Audited**	Semi-Annual**	Quarterly**	Periodic**	Material Events**	MinimumValue of Assets/ Equity**	Cash Flow/ Revenue/ Profitability**	Shareholder Distribution**	Total Score***	**Wilshire Score********	2006 Wilshire Score
1	Argentina	1	1	1	1	0	1	0	0	1	6	2.0	2.0
2	Brazil	1	1	1	1	1	1	0	0	1	7	2.3	2.3
3	Chile	1	1	1	1	0	1	0	0	1	6	2.0	2.0
4	China	1	1	1	0	0	1	1	1	1	7	2.3	2.3
5	Colombia	1	1	0	0	1	1	0	0	0	4	1.3	1.3
6	Czech Republic	1	1	1	1	0	1	1	0	1	7	2.3	2.3
7	Egypt	1	1	1	1	0	1	1	1	1	8	2.7	2.7
8	Hungary	1	1	1	1	0	1	1	0	1	7	2.3	2.3
9	India	1	1	1	1	0	1	1	1	1	8	2.7	2.7
10	Indonesia	1	1	1	1	0	1	1	0	1	7	2.3	2.0
11	Israel	1	1	1	1	0	1	1	0	1	7	2.3	2.3
12	Jordan	1	1	1	1	1	1	1	1	1	9	3.0	3.0
13	Malaysia	1	1	1	1	1	1	1	1	1	9	3.0	2.7
14	Mexico	1	1	1	1	0	1	1	1	1	8	2.7	1.7
15	Morocco	1	1	1	0	0	1	1	1	1	7	2.3	2.0
16	Pakistan	1	1	1	1	0	1	1	0	1	7	2.3	2.3
17	Peru	1	1	1	1	0	1	0	0	0	5	1.7	1.3
18	Philippines	1	1	1	1	1	1	1	1	1	9	3.0	3.0
19	Poland	1	1	1	1	0	1	1	0	1	7	2.3	2.3
20	Russia	1	1	1	1	0	1	1	1	1	8	2.7	2.7
21	South Africa	1	1	1	0	0	1	1	1	1	7	2.3	2.3
22	South Korea	1	1	1	1	0	1	1	1	1	8	2.7	2.7
23	Sri Lanka	1	1	1	1	0	1	1	1	1	8	2.7	2.7
24	Taiwan	1	1	1	1	1	1	1	1	1	9	3.0	3.0
25	Thailand	1	1	1	1	1	1	1	1	1	9	3.0	2.7
26	Turkey	1	1	1	1	0	1	1	1	1	8	2.7	2.7
27	Venezuela	1	1	1	1	0	1	1	0	0	6	2.0	2.0

Scoring Breakpoints:
3.0 = 9
2.7 = 8
2.3 = 7
2.0 = 6
1.7 = 5
1.3 = 4
1.0 = 3 and below

* Wilshire referred to the websites of the individual stock exchanges for this information. Wilshire also sent out the listing requirements to the stock exchanges for verification.

** 0 = not required or source does not specifically enumerate; 1 = required. "Annual", "Semi-annual", and "Quarterly" indicate the frequency at which publicly-listed companies are required to supply financial statements to their respective stock exchange. "Audited" indicates whether the annual financial statements are required to be independently audited. "Periodic" indicates whether the stock exchange requires more frequent reporting than every three months. "Material events" indicates whether the stock exchange requires companies to disclose significant events that may affect a company's stock price. "Minimum value of assets/equity", "Cash flow/revenue/profitability", and "Shareholder distribution" indicate whether the stock exchanges require publicly-listed companies to have a minimum value of assets, equity, and/or assets/equity, a minimum level of cash flow, revenue, and/or profitability, and a minimum level of shareholder distribution, respectively, in order to be listed.

*** Total Score = sum of 9 sub-components.

**** Wilshire Score based on Total Score.

Factor 2D: Accounting Standards

Source: eStandards Forum

		Accounting Standards*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	ID	1.5	1.5
2	Brazil	ID	1.5	1.0
3	Chile	ID	1.5	1.5
4	China	ID	1.5	1.5
5	Colombia	NC	1.0	1.0
6	Czech Republic	NC	1.0	1.0
7	Egypt	NC	1.0	1.0
8	Hungary	ID	1.5	1.5
9	India	NC	1.0	1.0
10	Indonesia	NC	1.0	1.0
11	Israel	ID	1.5	1.5
12	Jordan	ID	1.5	1.5
13	Malaysia	ID	1.5	1.5
14	Mexico	ID	1.5	1.5
15	Morocco	NC	1.0	1.0
16	Pakistan	ID	1.5	1.5
17	Peru	NC	1.0	1.0
18	Philippines	EN	2.0	2.0
19	Poland	NC	1.0	1.0
20	Russia	ID	1.5	1.5
21	South Africa	EN	2.0	2.0
22	South Korea	ID	1.5	1.5
23	Sri Lanka	ID	1.5	1.0
24	Taiwan	ID	1.5	1.0
25	Thailand	ID	1.5	1.5
26	Turkey	NC	1.0	1.0
27	Venezuela	ID	1.5	1.5

Scoring Breakpoints:
- 3.0 = FC
- 2.5 = CP
- 2.0 = EN
- 1.5 = ID
- 1.0 = NC and II

* FC = Full Compliance; CP = Compliance in Progress; EN = Enacted; ID = Intent Declared; NC = No Compliance; II = Insufficient Information.

** Wilshire Score based on Accounting Standards.

Factor 3: Productive Labor Practices

Source: Verite

#	Country	(3a) ILO Convention Ratification*	(3b) Laws*	(3c) Institutional Capacity*	(3d) Effectiveness of Implementation*	(3e) Contract Labor*	Total Score**	**Wilshire Score******	2006 Wilshire Score
1	Argentina	4.0	8.0	2.8	14.0	-1	27.8	2.3	2.7
2	Brazil	3.5	7.9	1.2	9.9	-1	21.5	1.7	1.7
3	Chile	4.0	6.8	2.8	13.9	0	27.5	2.3	2.3
4	China	1.5	7.1	1.6	7.1	0	17.3	1.3	1.0
5	Colombia	4.0	7.3	0.4	9.3	0	20.9	1.7	1.7
6	Czech Republic	3.5	8.4	2.8	17.6	-1	31.3	2.7	2.7
7	Egypt	4.0	6.9	2.0	8.8	0	21.6	1.7	1.7
8	Hungary	4.0	7.8	4.4	17.8	0	33.9	3.0	3.0
9	India	2.0	7.2	0.8	4.8	-1	13.8	1.0	1.0
10	Indonesia	4.0	7.1	0.4	5.7	0	17.1	1.3	1.3
11	Israel	4.0	8.2	2.4	16.9	-1	30.4	2.7	2.7
12	Jordan	3.5	6.8	2.0	10.2	-1	21.4	1.7	1.7
13	Malaysia	2.5	4.5	0.4	9.5	-1	15.9	1.0	1.0
14	Mexico	3.0	8.7	0.8	10.0	-1	21.6	1.7	2.0
15	Morocco	3.5	7.1	0.8	6.0	0	17.4	1.3	1.3
16	Pakistan	3.5	3.6	0.8	4.0	0	11.9	1.0	1.0
17	Peru	4.0	6.5	2.8	11.1	0	24.5	2.0	2.3
18	Philippines	4.0	6.8	2.4	9.2	0	22.4	1.7	2.0
19	Poland	4.0	8.0	2.8	17.1	0	31.8	2.7	3.0
20	Russia	4.0	7.4	0.4	11.1	0	22.9	1.7	1.7
21	South Africa	4.0	8.2	2.8	13.0	-1	27.0	2.3	2.3
22	South Korea	2.0	7.2	2.8	15.4	-1	26.4	2.3	2.3
23	Sri Lanka	4.0	5.3	2.8	11.0	0	23.2	2.0	1.7
24	Taiwan	NA***	7.2	2.8	16.3	-1	25.3	2.0	2.0
25	Thailand	2.5	7.9	2.4	9.7	-1	21.5	1.7	1.7
26	Turkey	4.0	6.7	2.0	11.2	0	23.8	2.0	1.7
27	Venezuela	4.0	8.2	2.0	11.3	0	25.6	2.0	2.0

Scoring Breakpoints:
3.0 = 32.0 and above
2.7 = 29.0 - 31.9
2.3 = 26.0 - 28.9
2.0 = 23.0 - 25.9
1.7 = 20.0 - 22.9
1.3 = 17.0 - 19.9
1.0 = 16.9 and below

* Higher score = more productive labor practices.
** Total Score = sum of 4 sub-factor scores and a deduction factor; Total Score is out of 40; 10% weighting to ILO Convention Ratification, 25% weighting to Laws, 15% weighting to Institutional Capacity, and 50% weighting to Effectiveness of Implementation. Contract Labor reflects a one-point deduction if a country does not extend labor protections to foreign contract workers.
*** Taiwan is not eligible to ratify ILO conventions; not a member of U.N.; score based on 36 possible points.
**** Wilshire Score based on Total Score.

MARKET FACTORS
Factor 4: Market Liquidity and Volatility

		(4a) Market Cap Score	(4b) Change in Mkt Cap Score	(4c) Avg Monthly Trading Value Score	(4d) Growth in Listed Companies Score	(4e) Market Volatility Score	(4f) Return/Risk Ratio Score	Total Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	2.0	1.0	1.3	1.0	2.0	3.0	10.3	2.0	1.7
2	Brazil	3.0	3.0	1.3	1.3	2.0	3.0	13.6	2.7	2.7
3	Chile	2.7	3.0	1.3	1.3	3.0	3.0	14.3	3.0	2.7
4	China	3.0	2.3	1.7	2.7	2.7	3.0	15.4	3.0	3.0
5	Colombia	2.0	3.0	1.3	1.3	2.3	3.0	12.9	2.7	2.7
6	Czech Republic	1.7	3.0	2.0	1.0	2.7	3.0	13.4	2.7	2.7
7	Egypt	2.3	3.0	1.3	1.0	2.3	3.0	12.9	2.7	2.3
8	Hungary	1.7	3.0	1.7	1.0	2.7	3.0	13.1	2.7	2.7
9	India	3.0	3.0	1.7	1.3	2.7	3.0	14.7	3.0	3.0
10	Indonesia	2.3	3.0	1.3	2.3	2.3	3.0	14.2	3.0	2.7
11	Israel	2.7	2.7	1.3	1.3	2.7	3.0	13.7	2.7	2.3
12	Jordan	1.7	3.0	1.7	2.7	2.7	3.0	14.8	3.0	3.0
13	Malaysia	2.7	2.7	1.3	2.7	3.0	3.0	15.4	3.0	3.0
14	Mexico	2.7	2.7	1.3	1.3	2.7	3.0	13.7	2.7	2.7
15	Morocco	1.7	3.0	1.3	2.0	2.7	3.0	13.7	2.7	2.7
16	Pakistan	2.0	3.0	3.0	1.3	2.3	3.0	14.6	3.0	3.0
17	Peru	1.7	3.0	1.0	1.3	2.7	3.0	12.7	2.7	2.7
18	Philippines	2.0	2.7	1.3	1.7	2.7	3.0	13.4	2.7	2.0
19	Poland	2.3	3.0	1.3	2.3	2.7	3.0	14.6	3.0	2.7
20	Russia	3.0	3.0	1.3	2.3	2.7	3.0	15.3	3.0	3.0
21	South Africa	3.0	3.0	1.3	1.0	2.7	3.0	14.0	3.0	2.7
22	South Korea	3.0	3.0	2.3	2.7	2.7	3.0	16.7	3.0	3.0
23	Sri Lanka	1.3	3.0	1.3	1.7	2.3	3.0	12.6	2.7	2.3
24	Taiwan	3.0	2.7	2.3	3.0	2.7	3.0	16.7	3.0	3.0
25	Thailand	2.7	3.0	1.7	2.7	2.7	3.0	15.8	3.0	3.0
26	Turkey	2.7	3.0	2.3	1.3	1.3	3.0	13.6	2.7	2.0
27	Venezuela	1.3	1.0	1.0	1.0	1.7	3.0	9.0	1.7	1.3

Scoring Breakpoints:
3.0 = 14.0 and above
2.7 = 12.0 - 13.9
2.3 = 11.0 - 11.9
2.0 = 10.0 - 10.9
1.7 = 9.0 - 9.9
1.3 = 8.0 - 8.9
1.0 = 7.9 and below

* Total Score = sum of 6 sub-factor scores.
** Wilshire Score based on Total Score.

Factor 4A: Market Capitalization

Source: S&P Global Stock Markets Factbook 2006

		2005 Mkt Cap ($ mil)	**Wilshire Score***	2006 Wilshire Score
1	Argentina	61,478	2.0	2.0
2	Brazil	474,647	3.0	3.0
3	Chile	136,446	2.7	2.7
4	China	780,763	3.0	3.0
5	Colombia	46,016	2.0	1.7
6	Czech Republic	38,345	1.7	1.7
7	Egypt	79,672	2.3	1.7
8	Hungary	32,576	1.7	1.7
9	India	553,074	3.0	3.0
10	Indonesia	81,428	2.3	2.3
11	Israel	120,114	2.7	2.3
12	Jordan	37,639	1.7	1.7
13	Malaysia	181,236	2.7	2.7
14	Mexico	239,128	2.7	2.7
15	Morocco	27,220	1.7	1.7
16	Pakistan	45,937	2.0	1.7
17	Peru	35,995	1.7	1.7
18	Philippines	40,153	2.0	1.7
19	Poland	93,873	2.3	2.3
20	Russia	548,579	3.0	2.7
21	South Africa	565,408	3.0	3.0
22	South Korea	718,180	3.0	3.0
23	Sri Lanka	5,720	1.3	1.0
24	Taiwan	485,617	3.0	3.0
25	Thailand	123,539	2.7	2.7
26	Turkey	161,537	2.7	2.3
27	Venezuela	5,017	1.3	1.3

Scoring Breakpoints:
3.0 = 300,000 and above
2.7 = 100,000 - 299,999
2.3 = 70,000 - 99,999
2.0 = 40,000 - 69,999
1.7 = 10,000 - 39,999
1.3 = 5,000 - 9,999
1.0 = 4,999 and below

* Wilshire Score based on 2005 Mkt Cap.

WILSHIRE CONSULTING

Factor 4B: Change in Market Capitalization

Source: S&P Global Stock Markets Factbook 2006

		2005 Mkt Cap ($ mil)	2000 Mkt Cap ($ mil)	5-year % Change in Mtk Cap	**Wilshire Score***	2006 Wilshire Score
1	Argentina	61,478	166,068	-63.0%	1.0	1.0
2	Brazil	474,647	226,152	109.9%	3.0	2.3
3	Chile	136,446	60,401	125.9%	3.0	2.7
4	China	780,763	580,991	34.4%	2.3	2.7
5	Colombia	46,016	9,560	381.3%	3.0	3.0
6	Czech Republic	38,345	11,002	248.5%	3.0	3.0
7	Egypt	79,672	28,741	177.2%	3.0	2.0
8	Hungary	32,576	12,021	171.0%	3.0	2.7
9	India	553,074	148,064	273.5%	3.0	3.0
10	Indonesia	81,428	26,834	203.5%	3.0	2.0
11	Israel	120,114	64,081	87.4%	2.7	2.3
12	Jordan	37,639	4,943	661.5%	3.0	3.0
13	Malaysia	181,236	116,935	55.0%	2.7	2.3
14	Mexico	239,128	125,204	91.0%	2.7	2.0
15	Morocco	27,220	10,899	149.7%	3.0	2.7
16	Pakistan	45,937	6,581	598.0%	3.0	3.0
17	Peru	35,995	10,562	240.8%	3.0	2.7
18	Philippines	40,153	25,957	54.7%	2.7	1.0
19	Poland	93,873	31,279	200.1%	3.0	3.0
20	Russia	548,579	38,922	1309.4%	3.0	3.0
21	South Africa	565,408	204,952	175.9%	3.0	2.7
22	South Korea	718,180	171,587	318.6%	3.0	1.7
23	Sri Lanka	5,720	1,074	432.6%	3.0	3.0
24	Taiwan	485,617	247,602	96.1%	2.7	2.0
25	Thailand	123,539	29,489	318.9%	3.0	2.7
26	Turkey	161,537	69,659	131.9%	3.0	1.3
27	Venezuela	5,017	8,128	-38.3%	1.0	1.3

Scoring Breakpoints:
- 3.0 = 100.0 and above
- 2.7 = 50.0 - 99.9
- 2.3 = 30.0 - 49.9
- 2.0 = 10.0 - 29.9
- 1.7 = 0.0 - 9.9
- 1.3 = -0.1 - -20.0
- 1.0 = -20.1 and below

* Wilshire Score based on 5-year % Change in Mkt Cap.

WILSHIRE CONSULTING

Factor 4C: Average Monthly Trading Value

Source: S&P Global Stock Markets Factbook 2006

#	Country	Avg Monthly Trading Value ($ mil)	2005 Mkt Cap ($mil)	Avg Monthly Trading Value as % of Mkt Cap	**Wilshire Score***	2006 Wilshire Score
1	Argentina	1,369	61,478	2.2%	1.3	1.3
2	Brazil	12,853	474,647	2.7%	1.3	1.3
3	Chile	1,572	136,446	1.2%	1.3	1.0
4	China	48,858	780,763	6.3%	1.7	2.0
5	Colombia	530	46,016	1.2%	1.3	1.0
6	Czech Republic	3,420	38,345	8.9%	2.0	1.3
7	Egypt	2,116	79,672	2.7%	1.3	1.3
8	Hungary	1,993	32,576	6.1%	1.7	1.3
9	India	36,931	553,074	6.7%	1.7	2.0
10	Indonesia	3,492	81,428	4.3%	1.3	1.3
11	Israel	4,991	120,114	4.2%	1.3	1.3
12	Jordan	1,984	37,639	5.3%	1.7	1.3
13	Malaysia	4,157	181,236	2.3%	1.3	1.3
14	Mexico	4,395	239,128	1.8%	1.3	1.3
15	Morocco	346	27,220	1.3%	1.3	1.0
16	Pakistan	11,750	45,937	25.6%	3.0	3.0
17	Peru	168	35,995	0.5%	1.0	1.0
18	Philippines	579	40,153	1.4%	1.3	1.3
19	Poland	2,498	93,873	2.7%	1.3	1.3
20	Russia	13,278	548,579	2.4%	1.3	1.3
21	South Africa	16,727	565,408	3.0%	1.3	1.3
22	South Korea	100,248	718,180	14.0%	2.3	2.3
23	Sri Lanka	95	5,720	1.7%	1.3	1.3
24	Taiwan	51,517	485,617	10.6%	2.3	2.3
25	Thailand	7,441	123,539	6.0%	1.7	2.0
26	Turkey	16,772	161,537	10.4%	2.3	2.3
27	Venezuela	21	5,017	0.4%	1.0	1.0

Scoring Breakpoints:
3.0 = 20.0 and above
2.7 = 15.0 - 19.9
2.3 = 10.0 - 14.9
2.0 = 7.5 - 9.9
1.7 = 5.0 - 7.4
1.3 = 1.0 - 4.9
1.0 = 0.9 and below

* Wilshire Score based on Avg Monthly Trading Value as % of Mkt Cap.

Factor 4D: Growth in Listed Companies

Source: S&P Global Stock Markets Factbook 2006

		2005 Listed Companies	2000 Listed Companies	5-year % Change in Listed Companies	**Wilshire Score***	2006 Wilshire Score
1	Argentina	101	127	-20.5%	1.0	1.3
2	Brazil	381	459	-17.0%	1.3	1.0
3	Chile	245	258	-5.0%	1.3	1.3
4	China	1,387	1,086	27.7%	2.7	3.0
5	Colombia	114	126	-9.5%	1.3	1.0
6	Czech Republic	36	131	-72.5%	1.0	1.0
7	Egypt	744	1,076	-30.9%	1.0	1.0
8	Hungary	44	60	-26.7%	1.0	1.0
9	India	4,763	5,937	-19.8%	1.3	1.3
10	Indonesia	335	290	15.5%	2.3	2.3
11	Israel	572	654	-12.5%	1.3	1.3
12	Jordan	201	163	23.3%	2.7	2.7
13	Malaysia	1,020	795	28.3%	2.7	2.7
14	Mexico	151	179	-15.6%	1.3	1.3
15	Morocco	56	53	5.7%	2.0	1.3
16	Pakistan	661	762	-13.3%	1.3	1.3
17	Peru	196	230	-14.8%	1.3	1.3
18	Philippines	235	228	3.1%	1.7	1.7
19	Poland	248	225	10.2%	2.3	1.7
20	Russia	296	249	18.9%	2.3	1.7
21	South Africa	388	616	-37.0%	1.0	1.0
22	South Korea	1,620	1,308	23.9%	2.7	3.0
23	Sri Lanka	239	239	0.0%	1.7	1.7
24	Taiwan	698	531	31.5%	3.0	3.0
25	Thailand	468	381	22.8%	2.7	2.3
26	Turkey	302	315	-4.1%	1.3	1.7
27	Venezuela	50	85	-41.2%	1.0	1.0

Scoring Breakpoints:
3.0 = 30.0 and above
2.7 = 20.0 - 29.9
2.3 = 10.0 - 19.9
2.0 = 5.0 - 9.9
1.7 = 0.0 - 4.9
1.3 = -0.1 - -20.0
1.0 = -20.1 and below

* Wilshire Score based on 5-year % Change in Listed Companies.

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Factor 4E: Market Volatility

Source: Wilshire Compass (MSCI Indices)

		Risk*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	39.2%	2.0	1.3
2	Brazil	39.0%	2.0	2.0
3	Chile	19.4%	3.0	2.7
4	China	21.8%	2.7	2.7
5	Colombia	30.3%	2.3	2.3
6	Czech Republic	20.2%	2.7	2.7
7	Egypt	34.2%	2.3	2.3
8	Hungary	26.3%	2.7	2.7
9	India	23.4%	2.7	2.7
10	Indonesia	30.6%	2.3	2.0
11	Israel	21.5%	2.7	2.7
12	Jordan	22.3%	2.7	3.0
13	Malaysia	14.9%	3.0	3.0
14	Mexico	20.4%	2.7	2.7
15	Morocco	20.3%	2.7	3.0
16	Pakistan	31.2%	2.3	2.0
17	Peru	25.6%	2.7	2.7
18	Philippines	23.5%	2.7	2.7
19	Poland	29.2%	2.7	2.3
20	Russia	29.0%	2.7	2.3
21	South Africa	24.3%	2.7	2.7
22	South Korea	24.2%	2.7	2.3
23	Sri Lanka	34.2%	2.3	1.7
24	Taiwan	22.2%	2.7	2.3
25	Thailand	25.6%	2.7	2.3
26	Turkey	48.0%	1.3	1.0
27	Venezuela	43.7%	1.7	1.7

Scoring Breakpoints:
3.0 = 20.0 and below
2.7 = 20.1 - 30.0
2.3 = 30.1 - 35.0
2.0 = 35.1 - 40.0
1.7 = 40.1 - 45.0
1.3 = 45.1 - 50.0
1.0 = 50.1 and above

* Risk as measured by standard deviation of return on a US dollar basis over the five-year period ended December 31, 2006.
** Wilshire Score based on Risk.

WILSHIRE CONSULTING

Factor 4F: Return/Risk Ratio

Source: Wilshire Compass (MSCI Indices)

		Return	Risk*	Return/Risk Ratio	**Wilshire Score****	2006 Wilshire Score
1	Argentina	28.0%	39.2%	0.71	3.0	2.3
2	Brazil	36.0%	39.0%	0.92	3.0	3.0
3	Chile	24.6%	19.4%	1.27	3.0	3.0
4	China	29.2%	21.8%	1.34	3.0	2.7
5	Colombia	63.0%	30.3%	2.08	3.0	3.0
6	Czech Republic	54.6%	20.2%	2.70	3.0	3.0
7	Egypt	68.3%	34.2%	1.99	3.0	3.0
8	Hungary	39.5%	26.3%	1.50	3.0	3.0
9	India	36.8%	23.4%	1.57	3.0	3.0
10	Indonesia	51.0%	30.6%	1.67	3.0	3.0
11	Israel	9.6%	21.5%	0.45	3.0	2.0
12	Jordan	26.2%	22.3%	1.17	3.0	3.0
13	Malaysia	15.2%	14.9%	1.03	3.0	3.0
14	Mexico	29.2%	20.4%	1.43	3.0	3.0
15	Morocco	26.3%	20.3%	1.30	3.0	3.0
16	Pakistan	49.0%	31.2%	1.57	3.0	3.0
17	Peru	41.8%	25.6%	1.64	3.0	3.0
18	Philippines	20.5%	23.5%	0.87	3.0	2.3
19	Poland	31.5%	29.2%	1.08	3.0	3.0
20	Russia	42.3%	29.0%	1.46	3.0	3.0
21	South Africa	33.1%	24.3%	1.37	3.0	3.0
22	South Korea	26.5%	24.2%	1.10	3.0	3.0
23	Sri Lanka	33.7%	34.2%	0.99	3.0	3.0
24	Taiwan	8.9%	22.2%	0.40	3.0	2.3
25	Thailand	30.4%	25.6%	1.19	3.0	3.0
26	Turkey	24.7%	48.0%	0.51	3.0	2.3
27	Venezuela	20.7%	43.7%	0.47	3.0	2.0

<u>Scoring Breakpoints:</u>
3.0 = 0.40 and above
2.7 = 0.30 - 0.39
2.3 = 0.20 - 0.29
2.0 = 0.10 - 0.19
1.7 = 0.00 - 0.09
1.3 = -0.01 - -0.20
1.0 = -0.21 and below

* Risk as measured by standard deviation of return on a US dollar basis over the five-year period ended December 31, 2006.
** Wilshire Score based on Return/Risk Ratio.

Factor 5: Market Regulation/Legal System/Investor Protection

		(5a) Adequacy of Financial Regulation Score	(5b) Creditors' Rights Score	(5c) Shareholders' Rights Score	Total Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	1.5	2.0	2.0	5.5	2.0	2.0
2	Brazil	1.5	2.0	2.7	6.2	2.3	2.3
3	Chile	2.5	2.0	2.7	7.2	2.7	2.7
4	China	1.0	2.0	2.3	5.3	1.7	1.7
5	Colombia	1.5	2.0	2.0	5.5	2.0	2.0
6	Czech Republic	2.5	1.0	1.7	5.2	1.7	1.7
7	Egypt	1.5	1.5	1.7	4.7	1.3	1.3
8	Hungary	2.5	1.5	2.0	6.0	2.3	2.3
9	India	1.5	2.5	2.7	6.7	2.3	2.3
10	Indonesia	1.5	3.0	2.3	6.8	2.3	2.3
11	Israel	2.5	2.5	2.0	7.0	2.7	2.7
12	Jordan	1.5	1.5	1.3	4.3	1.0	1.0
13	Malaysia	1.5	2.5	2.3	6.3	2.3	2.0
14	Mexico	1.5	1.5	2.7	5.7	2.0	2.0
15	Morocco	1.0	2.5	2.0	5.5	2.0	2.0
16	Pakistan	2.5	2.5	2.3	7.3	2.7	2.3
17	Peru	1.0	2.0	2.3	5.3	1.7	1.7
18	Philippines	2.5	3.0	3.0	8.5	3.0	3.0
19	Poland	2.5	1.0	2.7	6.2	2.3	2.3
20	Russia	1.5	1.5	2.7	5.7	2.0	2.0
21	South Africa	2.5	2.5	2.3	7.3	2.7	2.7
22	South Korea	2.5	3.0	3.0	8.5	3.0	3.0
23	Sri Lanka	1.0	2.0	1.7	4.7	1.3	1.7
24	Taiwan	1.0	2.5	3.0	6.5	2.3	2.3
25	Thailand	1.5	2.5	2.3	6.3	2.3	2.3
26	Turkey	1.5	1.5	2.0	5.0	1.7	1.7
27	Venezuela	1.0	1.0	1.0	3.0	1.0	1.0

Scoring Breakpoints:
3.0 = 8.0 and up
2.7 = 7.0 - 7.9
2.3 = 6.0 - 6.9
2.0 = 5.5 - 5.9
1.7 = 5.0 - 5.4
1.3 = 4.5 - 4.9
1.0 = 4.4 and below

* Total Score = sum of 3 sub-factor scores.
** Wilshire Score based on Total Score.

WILSHIRE CONSULTING

Factor 5A: Adequacy of Financial Regulation

Source: eStandards Forum

		Banking Supervision*	Banking Supervision Score	Securities Regulation*	Securities Regulation Score	Total Score**	**Wilshire Score*** **	2006 Wilshire Score
1	Argentina	II	1.0	EN	2.0	3.0	1.5	1.5
2	Brazil	CP	2.5	II	1.0	3.5	1.5	1.5
3	Chile	CP	2.5	EN	2.0	4.5	2.5	2.5
4	China	ID	1.5	II	1.0	2.5	1.0	1.0
5	Colombia	ID	1.5	EN	2.0	3.5	1.5	1.5
6	Czech Republic	CP	2.5	EN	2.0	4.5	2.5	2.5
7	Egypt	EN	2.0	II	1.0	3.0	1.5	1.5
8	Hungary	EN	2.0	CP	2.5	4.5	2.5	2.5
9	India	EN	2.0	II	1.0	3.0	1.5	1.5
10	Indonesia	CP	2.5	II	1.0	3.5	1.5	1.5
11	Israel	CP	2.5	CP	2.5	5.0	2.5	2.5
12	Jordan	ID	1.5	ID	1.5	3.0	1.5	1.5
13	Malaysia	II	1.0	EN	2.0	3.0	1.5	1.0
14	Mexico	ID	1.5	EN	2.0	3.5	1.5	1.5
15	Morocco	ID	1.5	NC	1.0	2.5	1.0	1.0
16	Pakistan	CP	2.5	EN	2.0	4.5	2.5	2.0
17	Peru	ID	1.5	II	1.0	2.5	1.0	1.0
18	Philippines	EN	2.0	CP	2.5	4.5	2.5	2.5
19	Poland	EN	2.0	CP	2.5	4.5	2.5	2.5
20	Russia	EN	2.0	ID	1.5	3.5	1.5	1.5
21	South Africa	CP	2.5	EN	2.0	4.5	2.5	2.5
22	South Korea	EN	2.0	CP	2.5	4.5	2.5	2.5
23	Sri Lanka	II	1.0	ID	1.5	2.5	1.0	1.5
24	Taiwan	II	1.0	II	1.0	2.0	1.0	1.0
25	Thailand	II	1.0	EN	2.0	3.0	1.5	1.5
26	Turkey	ID	1.5	EN	2.0	3.5	1.5	1.5
27	Venezuela	II	1.0	II	1.0	2.0	1.0	2.0

BS and SR Scoring Breakpoints:
3.0 = FC
2.5 = CP
2.0 = EN
1.5 = ID
1.0 = NC and II

Total Scoring Breakpoints:
3.0 = 5.5 and above
2.5 = 4.5 - 5.0
2.0 = 4.0
1.5 = 3.0 - 3.5
1.0 = 2.5 and below

* FC = Full Compliance; CP = Compliance in Progress; EN = Enacted; ID = Intent Declared; NC = No Compliance; II = Insufficient Information.
** Total Score = sum of two sub-component scores.
*** Wilshire Score based on Total Score.

WILSHIRE CONSULTING

Factor 5B: Creditors' Rights

Source: Oxford Analytica

		Creditor Rights Index*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	2	2.0	2.0
2	Brazil	2	2.0	2.0
3	Chile	2	2.0	2.0
4	China	2	2.0	2.0
5	Colombia	2	2.0	2.0
6	Czech Republic	0	1.0	1.0
7	Egypt	1	1.5	1.5
8	Hungary	1	1.5	1.5
9	India	3	2.5	2.5
10	Indonesia	4	3.0	3.0
11	Israel	3	2.5	2.5
12	Jordan	1	1.5	1.5
13	Malaysia	3	2.5	2.5
14	Mexico	1	1.5	1.5
15	Morocco	3	2.5	2.5
16	Pakistan	3	2.5	2.5
17	Peru	2	2.0	2.0
18	Philippines	4	3.0	3.0
19	Poland	0	1.0	1.0
20	Russia	1	1.5	1.5
21	South Africa	3	2.5	2.5
22	South Korea	4	3.0	3.0
23	Sri Lanka	2	2.0	2.0
24	Taiwan	3	2.5	2.5
25	Thailand	3	2.5	2.5
26	Turkey	1	1.5	1.5
27	Venezuela	0	1.0	1.0

Scoring Breakpoints
3.0 = 4
2.5 = 3
2.0 = 2
1.5 = 1
1.0 = 0

* 0 = weaker rights; 4 = stronger rights.

** Wilshire Score based on Creditor Rights Index.

Factor 5C: Shareholders' Rights

Source: Oxford Analytica

		Shareholder Rights Index*	**Wilshire Score****	2006 Wilshire Score	Scoring Breakpoints
1	Argentina	4	2.0	2.0	3.0 = 7
2	Brazil	6	2.7	2.7	2.7 = 6
3	Chile	6	2.7	2.7	2.3 = 5
4	China	5	2.3	2.3	2.0 = 4
5	Colombia	4	2.0	2.0	1.7 = 3
6	Czech Republic	3	1.7	1.7	1.3 = 2
7	Egypt	3	1.7	1.7	1.0 = 1 and 0
8	Hungary	4	2.0	2.0	
9	India	6	2.7	2.7	
10	Indonesia	5	2.3	2.3	
11	Israel	4	2.0	2.0	
12	Jordan	2	1.3	1.3	
13	Malaysia	5	2.3	2.3	
14	Mexico	6	2.7	2.7	
15	Morocco	4	2.0	2.0	
16	Pakistan	5	2.3	2.3	
17	Peru	5	2.3	2.3	
18	Philippines	7	3.0	3.0	
19	Poland	6	2.7	2.7	
20	Russia	6	2.7	2.7	
21	South Africa	5	2.3	2.3	
22	South Korea	7	3.0	3.0	
23	Sri Lanka	3	1.7	1.7	
24	Taiwan	7	3.0	2.7	
25	Thailand	5	2.3	2.3	
26	Turkey	4	2.0	2.0	
27	Venezuela	1	1.0	1.0	

* 0 = weaker rights; 7 = stronger rights.
** Wilshire Score based on Shareholder Rights Index.

Factor 6: Capital Market Openness

#	Country	(6a) Trade Policy Score	(6b) Foreign Investment Score	(6c) Banking/ Finance Score	(6d) Stock Market Openness Score	Total Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	2.5	2.0	1.5	3.0	9.0	2.3	2.0
2	Brazil	2.5	2.0	1.5	2.0	8.0	2.0	1.7
3	Chile	2.5	2.5	2.5	3.0	10.5	2.7	2.7
4	China	2.5	1.5	1.5	1.0	6.5	1.3	1.3
5	Colombia	2.5	2.0	2.0	3.0	9.5	2.3	2.3
6	Czech Republic	2.5	2.5	2.5	3.0	10.5	2.7	3.0
7	Egypt	2.0	2.0	1.5	3.0	8.5	2.0	1.7
8	Hungary	2.5	2.5	2.0	3.0	10.0	2.7	2.7
9	India	2.0	1.5	1.5	1.0	6.0	1.3	1.0
10	Indonesia	2.5	1.5	1.5	3.0	8.5	2.0	2.0
11	Israel	2.5	2.5	2.0	3.0	10.0	2.7	2.7
12	Jordan	2.5	2.0	2.0	3.0	9.5	2.3	2.3
13	Malaysia	2.5	1.5	1.5	1.0	6.5	1.3	1.3
14	Mexico	2.5	2.0	2.0	2.0	8.5	2.0	2.0
15	Morocco	2.0	2.5	1.5	3.0	9.0	2.3	2.0
16	Pakistan	2.0	2.0	1.5	2.0	7.5	1.7	1.7
17	Peru	2.5	2.0	2.0	3.0	9.5	2.3	2.3
18	Philippines	2.5	1.5	2.0	2.0	8.0	2.0	1.7
19	Poland	2.5	2.0	2.0	3.0	9.5	2.3	2.7
20	Russia	2.5	1.5	1.5	2.0	7.5	1.7	1.3
21	South Africa	2.5	2.0	2.0	3.0	9.5	2.3	2.3
22	South Korea	2.5	2.5	2.0	2.0	9.0	2.3	2.0
23	Sri Lanka	2.5	1.5	1.5	2.0	7.5	1.7	1.7
24	Taiwan	2.5	2.5	2.0	3.0	10.0	2.7	2.7
25	Thailand	2.5	1.5	2.0	2.0	8.0	2.0	1.7
26	Turkey	2.5	2.0	2.0	3.0	9.5	2.3	2.3
27	Venezuela	2.0	1.0	1.5	3.0	7.5	1.7	1.7

Scoring Breakpoints:
3.0 = 11.0 and above
2.7 = 10.0 - 10.5
2.3 = 9.0 - 9.5
2.0 = 8.0 - 8.5
1.7 = 7.0 - 7.5
1.3 = 6.0 - 6.5
1.0 = 5.5 and below

* Total Score = sum of 4 sub-factor scores.
** Wilshire Score based on Total Score.

WILSHIRE CONSULTING

Factor 6A: Trade Policy

Source: The Heritage Foundation's Index of Economic Freedom (WSJ)

		Trade Policy Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	61.4	2.5	2.0
2	Brazil	64.8	2.5	1.5
3	Chile	72.4	2.5	2.5
4	China	68.0	2.5	2.0
5	Colombia	61.4	2.5	1.5
6	Czech Republic	76.6	2.5	2.5
7	Egypt	52.2	2.0	1.0
8	Hungary	76.6	2.5	2.5
9	India	51.2	2.0	1.0
10	Indonesia	69.0	2.5	2.0
11	Israel	75.2	2.5	2.5
12	Jordan	64.2	2.5	1.5
13	Malaysia	71.8	2.5	2.0
14	Mexico	72.6	2.5	2.0
15	Morocco	51.0	2.0	1.0
16	Pakistan	53.6	2.0	1.0
17	Peru	62.6	2.5	1.5
18	Philippines	74.8	2.5	2.0
19	Poland	76.6	2.5	2.5
20	Russia	62.6	2.5	1.5
21	South Africa	68.8	2.5	2.0
22	South Korea	64.2	2.5	1.5
23	Sri Lanka	66.6	2.5	2.0
24	Taiwan	76.7	2.5	2.5
25	Thailand	69.2	2.5	1.5
26	Turkey	76.0	2.5	2.5
27	Venezuela	56.2	2.0	1.5

Scoring Breakpoints:
3.0 = 81.0 - 100
2.5 = 61.0 - 80.0
2.0 = 41.0 - 60.0
1.5 = 21.0 - 40.0
1.0 = 0.0 - 20.0

* 99 = policies most conducive to economic freedom; 1 = policies least conducive to economic freedom.
** Wilshire Score based on Trade Policy Score.

WILSHIRE CONSULTING

Factor 6B: Foreign Investment

Source: The Heritage Foundation's Index of Economic Freedom (WSJ)

		Foreign Investment Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	50.0	2.0	2.0
2	Brazil	50.0	2.0	2.0
3	Chile	70.0	2.5	2.5
4	China	30.0	1.5	1.5
5	Colombia	50.0	2.0	2.0
6	Czech Republic	70.0	2.5	2.5
7	Egypt	50.0	2.0	2.0
8	Hungary	70.0	2.5	2.5
9	India	40.0	1.5	2.0
10	Indonesia	30.0	1.5	1.5
11	Israel	70.0	2.5	2.5
12	Jordan	50.0	2.0	2.0
13	Malaysia	40.0	1.5	1.5
14	Mexico	50.0	2.0	2.0
15	Morocco	70.0	2.5	2.5
16	Pakistan	50.0	2.0	2.0
17	Peru	50.0	2.0	2.0
18	Philippines	30.0	1.5	1.5
19	Poland	50.0	2.0	2.0
20	Russia	30.0	1.5	1.5
21	South Africa	50.0	2.0	2.0
22	South Korea	70.0	2.5	2.5
23	Sri Lanka	30.0	1.5	1.5
24	Taiwan	70.0	2.5	2.5
25	Thailand	30.0	1.5	1.5
26	Turkey	50.0	2.0	2.0
27	Venezuela	20.0	1.0	1.0

Scoring Breakpoints:
3.0 = 81.0 - 100
2.5 = 61.0 - 80.0
2.0 = 41.0 - 60.0
1.5 = 21.0 - 40.0
1.0 = 0.0 - 20.0

* 99 = policies most conducive to economic freedom; 1 = policies least conducive to economic freedom.
** Wilshire Score based on Foreign Investment Score.

Factor 6C: Banking/Finance

Source: The Heritage Foundation's Index of Economic Freedom (WSJ)

		Banking/ Finance Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	40.0	1.5	1.5
2	Brazil	40.0	1.5	2.0
3	Chile	70.0	2.5	2.5
4	China	30.0	1.5	1.5
5	Colombia	60.0	2.0	2.5
6	Czech Republic	80.0	2.5	3.0
7	Egypt	30.0	1.5	1.5
8	Hungary	60.0	2.0	2.5
9	India	30.0	1.5	1.5
10	Indonesia	40.0	1.5	1.5
11	Israel	50.0	2.0	2.0
12	Jordan	60.0	2.0	2.5
13	Malaysia	40.0	1.5	1.5
14	Mexico	60.0	2.0	2.5
15	Morocco	40.0	1.5	1.5
16	Pakistan	40.0	1.5	2.0
17	Peru	60.0	2.0	2.5
18	Philippines	50.0	2.0	2.0
19	Poland	50.0	2.0	2.5
20	Russia	40.0	1.5	1.5
21	South Africa	60.0	2.0	2.0
22	South Korea	50.0	2.0	2.0
23	Sri Lanka	40.0	1.5	1.5
24	Taiwan	50.0	2.0	2.0
25	Thailand	50.0	2.0	2.0
26	Turkey	50.0	2.0	2.0
27	Venezuela	40.0	1.5	1.5

Scoring Breakpoints:
3.0 = 81.0 - 100
2.5 = 61.0 - 80.0
2.0 = 41.0 - 60.0
1.5 = 21.0 - 40.0
1.0 = 0.0 - 20.0

* 99 = policies most conducive to economic freedom; 1 = policies least conducive to economic freedom.
** Wilshire Score based on Banking/Finance Score.

Factor 6D: Stock Market Openness
Source: S&P Global Stock Markets Factbook 2006

		Description - Foreign Investment Ceiling	Wilshire Score*	2006 Wilshire Score
1	Argentina	100% in general	3.0	3.0
2	Brazil	100% for preferred stocks in general; 100% for common stocks in general, except in certain sectors: foreign investment in financial institutions requires government authorization; 49% for cable television; 30% for media companies for both common and preferred shares and 20% for highway cargo transport and air transportation.	2.0	2.0
3	Chile	100% in general	3.0	3.0
4	China	B- and H-class shares and red chip stocks: 100%; A-class share: QFII's (Qualified Foreign Institutional Investors) only; 10% of a company for an individual QFII, 20% in aggregate in a individual company. QFII's overall investment in A class of shares are also restricted to specific USD amount permitted by China Securities Regulatory Commission.	1.0	1.0
5	Colombia	100% in general	3.0	3.0
6	Czech Republic	100% in general	3.0	3.0
7	Egypt	100% in general	3.0	3.0
8	Hungary	100% in general	3.0	3.0
9	India	24% in general, 20% for banks. Some sectors may be higher; Individual company limits can be raised to sectoral cap subject to board and Reserve Bank of India approval.	1.0	1.0
10	Indonesia	100% in general	3.0	3.0
11	Israel	100% in general	3.0	3.0
12	Jordan	100% in general	3.0	3.0
13	Malaysia	Telecommunications 61% for the first five years, 49% thereafter; insurance 51%; banking 30%; stockbroking 49%; Foreign investments of over 30% in aggregate in the voting stock of a company may require Foreign Investment Committee approval.	1.0	1.0
14	Mexico	100% in general; some restrictions on energy and oil sectors, according to Foreign Investment Law.	2.0	2.0
15	Morocco	100% in general	3.0	3.0
16	Pakistan	100% in general, except in life insurance companies	2.0	2.0
17	Peru	100% in general	3.0	3.0
18	Philippines	100% in general; with some restrictions in specific sectors. The Philippine Stock Exchange reports all restrictions at the company level.	2.0	2.0
19	Poland	100% in general	3.0	3.0
20	Russia	100% in general; 25% for UES; 8% for banks	2.0	2.0
21	South Africa	100% in general	3.0	3.0
22	South Korea	100% in general; telecommunications 49%; home shopping 33%; 30% for Korea Gas Corp; 40% for KEPCO; 49.99% for Korean Air; 0% for Seoul Broadcasting	2.0	2.0
23	Sri Lanka	100% in general; 49% for shipping agency services; 40% for timber based industries; 49% for plantations.	2.0	2.0
24	Taiwan	100% in general	3.0	3.0
25	Thailand	In general 100% via the presence of non voting depositary receipts, underlying share classes may have 49% foreign investment restrictions. Some sector restrictions may also apply.	2.0	2.0
26	Turkey	100% in general	3.0	3.0
27	Venezuela	100% in general	3.0	3.0

Scoring Breakpoints:
3.0 = 100% in general
2.0 = 100% in general w/ some restrictions
1.0 = not 100% in general

* 1 = lower level of market openness to foreigners; 3 = higher level of market openness to foreigners.

Factor 7: Settlement Proficiency/Transaction Costs

#	Country	(7a) Settlement Proficiency Score	(7b) Transaction Costs Score	Total Score*	**Wilshire Score****	2006 Wilshire Score
1	Argentina	2.0	1.0	3.0	1.3	1.3
2	Brazil	3.0	3.0	6.0	3.0	3.0
3	Chile	3.0	1.0	4.0	2.0	2.0
4	China	3.0	1.5	4.5	2.3	2.0
5	Colombia	1.5	1.0	2.5	1.0	1.0
6	Czech Republic	3.0	1.5	4.5	2.3	2.3
7	Egypt	3.0	2.5	5.5	3.0	3.0
8	Hungary	3.0	1.5	4.5	2.3	3.0
9	India	3.0	2.0	5.0	2.7	2.3
10	Indonesia	3.0	1.5	4.5	2.3	2.3
11	Israel	3.0	1.0	4.0	2.0	2.3
12	Jordan	3.0	2.5	5.5	3.0	3.0
13	Malaysia	3.0	1.0	4.0	2.0	2.0
14	Mexico	3.0	2.0	5.0	2.7	2.7
15	Morocco	3.0	1.0	4.0	2.0	2.0
16	Pakistan	3.0	2.5	5.5	3.0	2.7
17	Peru	3.0	2.0	5.0	2.7	2.7
18	Philippines	3.0	1.5	4.5	2.3	2.3
19	Poland	3.0	1.5	4.5	2.3	2.0
20	Russia	3.0	1.5	4.5	2.3	2.3
21	South Africa	1.0	2.5	3.5	1.7	1.7
22	South Korea	3.0	1.0	4.0	2.0	2.0
23	Sri Lanka	2.5	1.5	4.0	2.0	2.0
24	Taiwan	3.0	1.0	4.0	2.0	2.0
25	Thailand	3.0	2.0	5.0	2.7	2.7
26	Turkey	3.0	1.5	4.5	2.3	2.3
27	Venezuela	3.0	1.0	4.0	2.0	2.0

Scoring Breakpoints:
3.0 = 5.5 and above
2.7 = 5.0
2.3 = 4.5
2.0 = 4.0
1.7 = 3.5
1.3 = 3.0
1.0 = 2.5 and below

* Total Score = sum of 2 sub-factor scores.
** Wilshire Score based on Total Score.

Factor 7A: Settlement Proficiency

Source: Individual Stock Exchanges

		Trading Technology Description	Trading Technology Score*	Days to Settle Trades (T + _) Description	Days to Settle Score**	Total Score***	**Wilshire Score******	2006 Wilshire Score
1	Argentina	Partially Automated - Two systems: Open outcry/Screen-based system (SINAC) and Continuous Trading Session	2.0	3	3.0	5.0	2.0	2.0
2	Brazil	Fully Automated - Mega Bolsa trading system is fully electronic	3.0	3	3.0	6.0	3.0	3.0
3	Chile	Fully Automated - Electronic order-driven matching system (Telepregon)	3.0	2	3.0	6.0	3.0	3.0
4	China	Fully Automated - Computerized order matching system	3.0	3	3.0	6.0	3.0	3.0
5	Colombia	Fully Automated - Order-driven electronic, screen-based system (CACCIONES)	3.0	3 to 6	1.5	4.5	1.5	1.5
6	Czech Republic	Fully Automated - Market-making system (SPAD), automatic trading, and block trading	3.0	3	3.0	6.0	3.0	3.0
7	Egypt	Fully Automated - Electronic order-driven trading system	3.0	0 to 3	3.0	6.0	3.0	3.0
8	Hungary	Fully Automated - Electronic order-driven trading system	3.0	3	3.0	6.0	3.0	3.0
9	India	Fully Automated - BSE on-line trading (BOLT) system and National Exchange for Automated Trading (NEAT)	3.0	2	3.0	6.0	3.0	3.0
10	Indonesia	Fully Automated - Jakarta Automated Trading System (JATS) and Surabaya Market information and Automated Remote Trading (S-MART)	3.0	3	3.0	6.0	3.0	3.0
11	Israel	Fully Automated - Tel Aviv Continuous Trading (TACT)	3.0	1	3.0	6.0	3.0	3.0
12	Jordan	Fully Automated - Automated, order-driven system	3.0	2	3.0	6.0	3.0	3.0
13	Malaysia	Fully Automated - Continuous auction screen based system (SCORE/WinSCORE)	3.0	3	3.0	6.0	3.0	3.0
14	Mexico	Fully Automated - Electronic board (BMV-SENTRA Capitals)	3.0	2	3.0	6.0	3.0	3.0
15	Morocco	Fully Automated - Computerized trading system NSC (ATOS-EURONET)	3.0	3	3.0	6.0	3.0	3.0
16	Pakistan	Fully Automated - Karachi Automated Trading System (KATS)	3.0	3	3.0	6.0	3.0	3.0
17	Peru	Fully Automated - Electronic Trading System (ELEX)	3.0	3	3.0	6.0	3.0	3.0
18	Philippines	Fully Automated - Screen-based system (MAKTRADE)	3.0	3	3.0	6.0	3.0	3.0
19	Poland	Fully Automated - WARsaw Stock Exchange Trading System (WARSET)	3.0	3	3.0	6.0	3.0	3.0
20	Russia	Fully Automated - RTS Trading System	3.0	3	3.0	6.0	3.0	3.0
21	South Africa	Fully Automated - SETS trading engine	3.0	5	1.0	4.0	1.0	1.0
22	South Korea	Fully Automated - Order-routing System, Matching System, and Information System	3.0	2	3.0	6.0	3.0	3.0
23	Sri Lanka	Fully Automated - Continous auction screen based system	3.0	3 to 4	2.5	5.5	2.5	2.5
24	Taiwan	Fully Automated - Fully Automated Trading System (FAST)	3.0	2	3.0	6.0	3.0	3.0
25	Thailand	Fully Automated - Automated System for the Stock Exchange of Thailand (ASSET)	3.0	3	3.0	6.0	3.0	3.0
26	Turkey	Fully Automated - Fully computerized trading system	3.0	2	3.0	6.0	3.0	3.0
27	Venezuela	Fully Automated - Screen-based trading system (SIBE)	3.0	3	3.0	6.0	3.0	3.0

* 1 = not automated; 2 = partially automated; 3 = fully automated.
** 1 = slower trade settlement; 3 = quicker trade settlement.
*** Total Score = sum of two sub-component scores.
**** Wilshire Score based on Total Score.

Scoring Breakpoints

Trading Technology:	Days to Settle:	Total Score:
3 = Fully Automated	3 = 3 and below	3.0 = 6
2 = Partially Automated	2.5 = 3 to 4	2.5 = 5.5
1 = Not Automated	2 = 4	2.0 = 5
	1.5 = 4 to 5	1.5 = 4.5
	1.0 = 5 and above	1.0 = 4.0 and below

Factor 7B: Transaction Costs

Source: Individual Stock Exchanges and S&P Global Stock Markets Factbook 2006

		Capital Gains Tax	Capital Gains Tax Score*	Dividend Tax	Dividend Tax Score*	Stamp Duty**	Stamp Duty Score*	Other Charges Description**	Other Charges Score*	Total Score***	Wilshire Score****	2006 Wilshire Score
1	Argentina	35%	1.0	0%	3.0	0%	3.0	21%-VAT on broker commission; 0.06%-securities market fee; 0.0351%-exchange fee	1.0	8.0	1.0	1.0
2	Brazil	0%	3.0	0%	3.0	0%	3.0	0.035%-transaction and clearing fee	2.5	11.5	3.0	3.0
3	Chile	0%	3.0	18%	1.0	0%	3.0	18%-VAT on broker commission; 0.05%-0.50%-exchange fee	1.0	8.0	1.0	1.0
4	China	33%	1.0	0%	3.0	0.2%	2.5	0.03%-trading tax	2.5	9.0	1.5	1.0
5	Colombia	5.0%	2.5	7%	2.0	1.5% on subcustodian fees	1.0	$591 per month fixed charges; 0.015%-0.025%-variable charge per month	2.0	7.5	1.0	1.0
6	Czech Republic	24%	1.0	15%	1.5	0%	3.0	none	3.0	8.5	1.5	1.5
7	Egypt	0%	3.0	0%	3.0	L.E. 0.4 per invoice	2.5	0.0125%-bourse levy; 0.0125%-settlement fee per transaction; 0.00625% per transaction as a CMA (Capital Market Authority) fees with a minimum of L.E. 1 and a maximum of L.E. 250 per transaction	2.5	11.0	2.5	2.5
8	Hungary	20%	1.0	10%	2.0	0%	3.0	none	3.0	9.0	1.5	2.5
9	India	10%	2.0	0%	3.0	0.5% on physical share purchases	1.5	none	3.0	9.5	2.0	1.5
10	Indonesia	0.1%	2.5	15%	1.5	0%	3.0	0.04%-0.12%-trading fee	2.0	9.0	1.5	1.5
11	Israel	20%	1.0	25%	1.0	0%	3.0	none	3.0	8.0	1.0	1.5
12	Jordan	0%	3.0	0%	3.0	0%	3.0	0.14%-exchange fee	1.5	10.5	2.5	2.5
13	Malaysia	0%	3.0	27%	1.0	RM 1.00 for every RM 1,0000.00 (or fractional part of securities) with a max MYR200.00 per contract	2.5	0.04%-clearing fee payable by both buyer and seller with a maximum of RM500 per contract(on-market); brokerage rates for institutions are fully negotiable (maximum of 0.7% of contract value)	1.0	7.5	1.0	1.0
14	Mexico	28%	1.0	0%	3.0	0%	3.0	none	3.0	10.0	2.0	2.0
15	Morocco	10%	2.0	10%	2.0	0%	3.0	10%-VAT; 0.6%-brokerage tax; 0.2%-settlement tax; 0.1%-stock exchange tax	1.0	8.0	1.0	1.0
16	Pakistan	0%	3.0	10%	2.0	0.01 PKR on deposits; 0.15 PKR on withdrawals	2.5	none	3.0	10.5	2.5	2.0
17	Peru	0%	3.0	4%	2.5	0%	3.0	19%-sales tax applied to sum of brokerage fees and other fees; 0.0825%-Bolsa fee; 0.065%- clearing and settlement fee; 0.05% securities regulator fee; 0.0075%-guarantee fund fee; 0.005% settlement fund fee	1.0	9.5	2.0	2.0
18	Philippines	0%	3.0	15%	1.5	0%	3.0	0.5%-transaction tax (for sells- in lieu of capital gains); 1 basis point p.a. or 0.000008333 per month based on market value of holdings – PDTC Depository Maintenance Fee (inclusive of VAT); 0.0001 or 1 basis point based on gross trade value – SCCP Clearing Fee (inclusive of VAT)	1.0	8.5	1.5	1.5
19	Poland	19%	1.0	15%	1.5	0%	3.0	none	3.0	8.5	1.5	1.0
20	Russia	24%	1.0	10%	2.0	0%	3.0	none	3.0	9.0	1.5	1.5
21	South Africa	0%	3.0	0%	3.0	0.25%	2.0	0.0002%-insider protection levy	2.5	10.5	2.5	2.5
22	South Korea	10%	2.0	16.5%	1.0	0%	3.0	0.30%-trading fee	1.0	7.0	1.0	1.0
23	Sri Lanka	0%	3.0	10%	2.0	0%	3.0	1.025%-1.225%-commisions on brokerage; 0.2%-share transaction levy	1.0	9.0	1.5	1.5
24	Taiwan	0%	3.0	20%	1.0	0%	3.0	Neogtiable commision (Maximum of 0.1425%); 0.3%-transaction tax on sell side	1.0	8.0	1.0	1.0
25	Thailand	15%	1.5	10%	2.0	0%	3.0	none	3.0	9.5	2.0	2.0
26	Turkey	20%	1.0	15%	1.5	0%	3.0	none	3.0	8.5	1.5	1.5
27	Venezuela	34%	1.0	15%	1.5	0%	3.0	1%-sales tax; 0.096875%-VAT	1.0	6.5	1.0	1.0

* 1 = higher taxes/costs; 3 = lower taxes/costs.
** Unless otherwise noted, percentages are as of price*shares; VAT = value added tax.
*** Total Score = sum of 4 sub-component scores.
**** Wilshire Score based on Total Score.

Scoring Breakpoints

Total Score:	CG & Dividend Tax:	Stamp Duty:	Other Charges:
3.0 = 11.5 - 12.0	3.0 = 0%	3.0 = 0%	3.0 = none
2.5 = 10.5 - 11.0	2.5 = 0.01% - 5%	2.5 = 0.01% - 0.24%	2.5 = 0.0001% - 0.04%
2.0 = 9.5 - 10.0	2.0 = 6% - 10%	2.0 = 0.25% - 0.49%	2.0 = 0.05% - 0.09%
1.5 = 8.5 - 9.0	1.5 = 11% - 15%	1.5 = 0.50% - 0.74%	1.5 = 0.10% - 0.14%
1.0 = 8.0 and less	1.0 = 16% and greater	1.0 = 0.75% and greater	1.0 = 0.15% and greater

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CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
PERMISSIBLE EQUITY FOR EMERGING EQUITY MARKETS

March 12, 2007

This Policy is effective immediately upon adoption and supersedes all previous permissible equity for emerging equity markets policies.

I. PURPOSE

This document sets forth the investment policy ("the Policy") for the permitted standards and parameters for the inclusion of country markets permitted for investment.

II. STRATEGIC OBJECTIVE

The strategic objective is to set minimum acceptable standards of investibility for emerging country equity markets to be permissible for investment by CalPERS to control risk and enhance return.

III. RESPONSIBILITIES AND DELEGATIONS

A. The **System's Investment Committee** ("Investment Committee") is responsible for approving and amending the Policy and delegated responsibility for administering the Policy to the System's Investment Staff (Delegation Nos. 89-13 and 06-03 INV).

B. The **System's Investment Staff** ("the Staff") shall review written policies and procedures of the Managers concerning compliance with the Policy. The Staff shall monitor reports from the Managers and the System's custodian to ensure the equity markets program is in compliance with this Policy.

C. The **General Pension Consultant** shall review each country equity market's comparison to the requirements of this Policy for the purposes of establishing which markets meet the minimum thresholds of acceptability in accordance with this Policy.

D. The **External Managers** shall be delegated the responsibility of country market and stock selection in accordance with this Policy and their guidelines that shall require minimum stock selection standards and reporting requirements on how individual companies meet minimum acceptable standards, including the Global Sullivan Principles of

Corporate Social Responsibility and the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work.

IV. BENCHMARK

Not applicable.

V. MASTER LIST OF COUNTRIES

A. The master list of emerging country markets shall derive from those included in the country lists of the major emerging equity markets index providers.

B. Each country included for review must meet the World Bank definition of an emerging country based on its per capita GNI (Gross National Income). The World Bank revisits this per capita standard annually.

VI. FACTORS OF EVALUATION

A. The factors of evaluation shall include those that can be generalized to the entire country and those that pertain specifically to the public equity market within each country. The CalPERS Board reserves the right to add, remove, revise or define factors in its sole discretion. Factors, known as the macro-factors, may be further sub-divided into sub-factors to better focus the full intent of the macro-factor.

B. Country Factors

1. ***Political Stability****:* Political stability, including progress towards the development of basic democratic institutions and principles, such as guaranteed elimination of human rights violations (such as torture), and a strong and impartial legal system, all of which are necessary to ensure political stability, support free market development, and attract and retain long-term sources of capital. This macro-factor shall include the following sub-factors:

a. Civil Liberties: The extent to which countries permit freedom of expression, association and organizational rights, rule of law and human rights, free trade unions and effective collective bargaining, personal autonomy and economic rights. A score of three (highest) means that a country has relatively good civil liberties and a score of one (lowest) means they are poor.

b. Independent Judiciary and Legal Protection: The extent to which countries have independent judiciaries, the degree to which or the absence of irregular payments made to the judiciary and the extent to which there is a trusted legal framework that honors contracts and clearly delineates ownership of and protects financial assets. A score of one (lowest) to three (highest) is used where the higher score indicates greater overall legal protection.

c. *Political Risk:* The extent to which there exists government stability, a high quality of socioeconomic conditions, and a positive investment profile. Toward these ends this sub-factor evaluates the extent of internal and external conflict, corruption, the military and religion in politics, law and order, ethnic tensions, democratic accountability and bureaucratic quality. A score of one (lowest) to three (highest) is used where the highest score means less overall political risk exists in that country.

2. ***Transparency****:* Financial transparency, including elements of a free press necessary for investors to have truthful, accurate and relevant information on the conditions in the countries and companies in which they are investing. This macro-factor shall include the following sub-factors:

a. *Freedom of the Press:* The structure of the news delivery system in a country and the laws and their promulgation with respect to their influence of the news, the degree of political influence and control, economic influences on the news and the degree to which there are violations against the media with respect to physical violations and censorship. A score of three means the press in a country is free and a score one means it is not free.

b. *Accounting Standards:* The extent to which publicly traded companies in the country utilize either US GAAP (Generally Accepted Accounting Principles) or IAS (International Accounting Standards) in financial reporting, and whether the country is a member of the International Accounting Standards Council. A score of one to three is used where one means IAS or US GAAP standards are not used and three (highest) means either IAS or US GAAP is used for financial reporting.

c. *Monetary and Fiscal Transparency:* The extent to which governmental monetary and fiscal policies and implementation are publicly available in a clear and timely manner, in accordance with international standards. A score of one (lowest) to three (highest) is used where the higher score indicates the greatest transparency.

d. *Stock Exchange Listing Requirements:* This sub-factor evaluates the stringency of stock exchange listing requirements for public companies with respect to frequency of financial reporting, the requirement of annual independent audits and minimum financial viability. A score of three means the listing requirements are most stringent, and a score of one means they are the least stringent.

3. ***Productive Labor Practices:*** To facilitate economically-productive labor practices, markets shall be evaluated based on their ratification of and adherence to the International Labor Organization's principles, which cover labor rights and prohibitions on abusive labor practices, and the degree of effectiveness of implementation through relevant laws, enabling regulations and their degree of enforcement through the judiciary process. This macro-factor shall have the following sub-factors:

a. The extent to which the country has ILO ratification for the eight core conventions. Each country will be graded on:

1) Ratified 2) Pending ratification
3) Not ratified 4) Denounced

b. *Quality of Enabling Legislation:* Countries shall be evaluated on whether laws exist that explicitly protect the right described in the ILO Convention, or portions of it, or whether laws exist that explicitly prohibit the Convention right, or portions of it. The objective is to evaluate fundamentally, how well the right described in the Convention is protected by the law. For each law, in addition to identifying if the law exists, any shortcomings in its adequacy or completeness with reference to the relevant ILO Convention shall be evaluated, along with information about the regulations that implement the relevant laws.

c. *Institutional Capacity:* The governmental administrative bodies with enforcement responsibility for enforcing labor law that exists at the national, regional and local level.

d. *Effectiveness of Implementation*: The procedures that exist for enforcement and monitoring of enforcement of laws in the Convention areas and evidence that exists that these procedures are working effectively; the existence of a clear grievance process; evidence that workers and/or unions utilize this grievance process; the extent to which penalties provided for in the laws are levied; and the evidence that penalties have deterrence value.

The sub-factor scores total to a maximum of 40 points per country. The sub-factors are more heavily-weighted toward the quality of enabling legislation and the effectiveness of implementation. The *Productive Labor Practices* factor scores have been rescaled on a one (lowest) to three (highest) basis, where a score of three indicates the most effective labor practices.

C. Market Factors

1. ***Market Liquidity and Volatility**:* This segment measures the ability to buy or sell assets in a country in a timely manner without adversely affecting security prices. Also included in this category is an analysis of each country's stock market return volatility, including currency risk. Sub-factors under consideration for this category are listed below.

   a. Ma*rket Capitalization:* Market capitalization represents the overall size of a country's stock market. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of market capitalization (i.e., larger market).

   b. *Change in Market Capitalization:* This factor represents the growth of a country's stock market over the last five years. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of market capitalization growth.

   c. *Average Monthly Trading Value:* This factor represents the average dollar value of shares traded, relative to the size of each market (i.e., market capitalization). A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of trading.

   d. *Growth in Listed Companies:* This factor represents the number of companies in each country that are publicly traded and are listed on a local stock exchange and their growth over the last five years. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting the growth of listed companies.

e. *Market Volatility (as measured by standard deviation)*: This factor represents the level of return volatility (risk) over the last five years in each country's stock market, attributable to both currency volatility and local market volatility. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a lower level of volatility.

f. *Return/Risk Ratio:* This factor represents the percentage of total return achieved per percentage of risk in each market. This category was created so as not to penalize those markets that display a high level of positive volatility. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher return/risk ratio.

2. ***Market Regulation/Legal System/Investor Protection:*** This category analyzes a broad set of factors that together comprise a large portion of the investment climate within a country. This category attempts to identify the degree of legal protection for foreign investors within a country, as well as shareowner and creditors' rights. The following sub-factors are analyzed:

a. *Adequacy of Financial Regulation*: A score of one (lowest) to three (highest) is assigned, with higher scores reflecting greater financial regulatory and supervisory stringency.

b. *Bankruptcy/Creditors' Rights*: This segment reflects the adequacy of creditors' rights in each market, in the case of bankruptcy proceedings/reorganization. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of creditors' rights.

c. *Shareowners' Rights*: This segment reflects the Adequacy of shareowners rights in each market. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting stronger regulations regarding shareowners' rights.

3. ***Capital Market Openness****:* Openness to foreign investment is a critical barometer of a government's commitment to free market policies. Markets are viable if they have the ability to attract and retain long-term sources of capital. Further, markets are evaluated based on the level of restriction imposed on foreign investors. The following sub-factors are evaluated:

a. *Trade Policy:* This sub-factor measures the degree to which there is oppressive government interference in free trade through deterrents such as trade barriers and punitive tariffs.

b. *Foreign Investment:* This sub-factor examines governmental barriers to the free flow of capital from foreign sources through the imposition of restrictions on foreign ownership of local assets, repatriation restrictions and un-equal treatment of foreigners and locals under the law.

c. *Banking and Finance*: This sub-factor looks at undue government control of banks and financial institutions and measures such factors as government ownership of banks and allocation of credit and the degree of freedom financial institutions have to offer all types of financial services, securities and insurance policies. Protectionist banking regulations against foreigners are also evaluated.

d. *Stock Market Foreign Ownership Restrictions*: This sub-factor examines the extent to which the local stock market restricts share ownership of public companies by foreigners.

A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of market openness.

4. ***Settlement Proficiency/Transaction Costs*:** Cost effective, efficient settlement of securities transactions is critical as the world moves to one-day settlement. This factor measures the degree of efficiency and the cost effectiveness of transacting in the markets included in this analysis.

a. *Settlement Proficiency:* This segment illustrates whether a country's trading and settlement is automated and measures the success of the market in settling transactions in a timely, efficient manner. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting an automated, efficient operational process.

b. *Transaction Costs:* This segment measures the costs associated with trading in a particular market and includes stamp taxes and duties, amount of dividends and income taxed, and capital gains taxes. High trading costs tax the returns and increase the hurdle rate of managers investing in these markets. Markets that impose a high level of taxes, or have a high level of trading costs, receive a low score. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a lower level of transaction costs.

Please note that transaction costs relating to market impact associated with liquidity are reflected in the first category: Market Liquidity/Volatility.

VII. EVALUATION METHODOLOGY

A. *Frequency of Evaluation* –Annually

B. S*ource of Evaluation* – Third party expert sources shall be used to evaluate macro-factors and sub-factors. These third party sources where possible shall be readily available public sources recognized as having expert insight into the macro-factor or sub-factor subject to evaluation. Each source shall evaluate each country or market comparatively across the macro-factor or sub-factor for which it is being utilized. In the event there is no public or readily available third party source, the CalPERS Board, in its sole discretion, may contract with a source, consultant or other vendor for a custom evaluation for CalPERS according to its specifications. If a custom evaluation is utilized, CalPERS shall make the evaluation available for public inspection. All third party sources utilized are subject to the review and approval of the CalPERS Board in its sole discretion. The CalPERS Board reserves the right to make changes in the third party sources from one annual evaluation period to the next without notice.

C. *Aggregating the Individual Evaluations* – The General Pension Consultant shall collect the third party source evaluations and shall aggregate them according to a three-point scale: three points for a superior evaluation, two points for an acceptable evaluation and one point for an unacceptable evaluation. Each sub-factor shall be scored according to this three point scale, and where necessary, rescaling the scoring methodology of the third party source. The sub-factors of each macro-factor shall be weighted to derive a score for the macro-factor of which the sub-factors are part. The macro-factors shall be weighted to derive a score for each country that also shall be evaluated on a three point scale. The three point scale shall be calculated to a whole number for the 2005 evaluation, and shall be calculated to one decimal place beginning with the 2006 evaluation, for both sub-factors and macro-factors. At the country level, the calculation of scores shall be carried out to three decimal places and rounded to two decimal places for the 2005 evaluation, and shall be calculated to two decimal places and rounded to one decimal place beginning with the 2006 evaluation.

D. Weighting Scheme for Factors

1. The sub-factors, unless otherwise determined by the CalPERS Board, shall be equal-weighted, or weighted in accordance with the weights used by the third party source in the event one third party source is used for the evaluation of all sub-factors within a macro-factor.

2. The macro-factors shall be divided into Country Factors and Market Factors with country and market factors each receiving in aggregate a weight of 50% of a country market's total score. Within the country factors and market factors the macro-factors shall be equal-weighted.

3. The CalPERS Board reserves the right to modify the weighting of any macro-factor or sub-factor in its sole discretion from one annual evaluation period to the next.

E. Ranking and Scoring Thresholds of Permissibility

1. The CalPERS Board reserves the right to establish the threshold of minimum acceptability for a country market in its sole discretion and change it from one evaluation period to the next at its discretion. A country market currently shall receive a total weighted score of at least 2.00 on a three point scale for a determination of permissibility.

2. Scoring thresholds based on the three point scale outlined in Section VII. C. for the factors shall be established at levels that are reasonably comparable from one evaluation period to the next to determine the degree to which a country market is improving or deteriorating relative to the standards of evaluation set by the CalPERS Board, and shall be disclosed in the supporting tables for the sub-factors. In the case where a new factor is introduced or is significantly modified the thresholds from one year to the next may not be comparable, but shall be reviewed and approved by the CalPERS Board.

3. The country markets shall be ranked from the highest score to the lowest score for the purposes of determining the threshold for permissibility.

4. For the purposes of this Policy, American Depository Receipts and Global Depository Receipts that are traded in approved markets are permissible provided that the issuer's home market, based on the country where it is headquartered, is permissible.

VIII. REPORTING PROCEDURES

A. Annually the General Pension Consultant shall prepare a report with the evaluations of the country markets in accordance with the Policy. This report shall include at a minimum:

1. This list of countries subject to evaluation and the index publishers used to develop that list.

2. A description of the evaluation methodology.

3. The list of factors on which country markets are evaluated with their descriptions or definitions.

4. The weighting scheme for macro and sub-factors.

5. The scores for each country market with a comparison to the previous year.

6. Identification of the third party sources used for evaluation with complete contact information provided to facilitate direct contact by countries with those sources.

7. A copy of this Policy with procedures and a timetable for how countries or interested parties can bring forth comments or new information.

B. The CalPERS Board shall make this annual report available for public inspection through the CalPERS web site or its own direct distribution at its discretion.

C. Annual Timetable for Reporting and Public Comment

1. An exposure draft of the annual report shall be provided for submission to CalPERS by January 31st, or the first business day after January 31st if that date should fall on a weekend.

2. The draft report shall be placed on CalPERS' web site and a copy of said draft report shall be sent to the Washington, DC embassy of each evaluated country and to the head of each country's primary stock exchange.

3. Countries and other interested parties shall have 30 days to review the report and provide feedback or additional information to be considered.

4. CalPERS' third party sources shall then have 30 days to review any new information that has been submitted in a timely manner for independent verification and vetting.

5. At the February Investment Committee meeting, the draft report shall be presented as an information item. An interim posting at the March Investment Committee meeting shall be provided, and formal adoption of final recommendation shall occur at the April Investment Committee meeting of each calendar year.

6. The CalPERS Board reserves the right to modify this timetable in its sole discretion from one annual evaluation to the next.

IX. PERMISSIBLE EQUITY LIST

A. Country markets can only be included on the list of permissible countries for investment after an adoption of a resolution by the CalPERS Board at a publicly-noticed Investment Committee meeting. Inclusion on the list of permissible countries does not compel CalPERS actually to commit assets to that country's equity market if in its sole discretion it is not considered economically attractive to do so. CalPERS may at its discretion delegate that decision to either its Staff or external money managers as they may be employed.

B. Countries, conversely, can only be removed from the list of permissible countries in a similar manner, by adoption of a resolution. If investments in a country's public equity market exist at the time of a resolution to eliminate that country from investment the CalPERS Board shall direct the manner of divestment in its sole discretion, which may include the acceptance of a recommendation from its Staff or General Pension Consultant on the best approach to divestment.

X. CURE PERIOD

A. Cure Period – The CalPERS Board in its discretion may grant a country a cure period of up to one year before a decision to remove that country from the permissible list of investments is made. In the event that the CalPERS Board in its sole discretion grants a cure period, the following procedures shall apply:

1. Countries that are granted a cure period by resolution of the CalPERS Board at a publicly-noticed Investment Committee meeting, shall be notified formally by the General Pension Consultant after the Investment Committee meeting in April of the year in question. Notification will be sent to the Washington DC embassy of the affected country and the head of its principal stock exchange.

B. The notification shall include a procedure document that must be followed. The procedures shall include:

1. A referral to the third party sources CalPERS uses for the analysis.

2. The timeline that is to be strictly adhered to for the country's response.

3. The need to formally notify the General Pension Consultant and CalPERS of the intent to challenge or comment on the preliminary report.

4. The requirement to include written evidence or support to back up the claim made that challenges the preliminary report that shall be sent simultaneously to the General Pension Consultant and the appropriate third party sources.

5. The requirement of the challenger or commenter or its agents to meet with any appropriate third party source before the end of the cure period, i.e. before February 28th of the following year of the year in question, allowing sufficient time for the third party source to

vet the information that is provided from the meeting(s) by the February 28th deadline. In the event a third party source believes that it has insufficient time to vet the challenge or the new information provided, it shall immediately notify the General Pension Consultant who shall inform CalPERS at its March Investment Committee meeting. The CalPERS' Investment Committee can determine in its discretion to grant more time or adhere to the stated schedule.

6. The cure period shall end as of March 31st of the following calendar year for the resubmission to and vote of the Investment Committee at its April meeting.

Adopted by the Investment Committee:	October 18, 2004
Revised by the Policy Subcommittee:	September 16, 2005
Adopted by the Investment Committee:	October 17, 2005
Revised by the Policy Subcommittee:	February 20, 2007
Adopted by the Investment Committee:	March 12, 2007

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SUPPLEMENT TO
STATEMENT OF INVESTMENT POLICY

FOR
PERMISSIBLE EQUITY FOR EMERGING EQUITY MARKETS

EQUITIES IN NON-PERMISSIBLE MARKETS

External Managers may invest in select public equities in non-permissible markets in accordance with the following requirements:

A. Only External Managers who manage equity emerging markets only portfolios for CalPERS are eligible to invest in equities in non-permissible markets.

B. Investments in securities of companies that conduct business in Sudan are prohibited, consistent with other CalPERS policy and California state legislation. A list of such companies will be provided by CalPERS staff.

C. Eligible External Managers who wish to invest in public equity securities in a non-permissible market, whether locally traded shares, shares traded on a developed market exchange, or American or Global Depository Receipts, must provide a report for each such security, as follows:

   1. The report must address those country factors and market factors where the country of domicile possesses a score below 2.0. The report must explain why the particulars of the individual company investment overcame the factors for which the country failed.

   2. The report must address each geopolitical and investability factor used for CalPERS investments in permissible equity markets.

D. The External Manager shall provide each report to Staff and the General Pension Consultant on a quarterly basis, six weeks after each calendar quarter end.

E. The External Manager shall provide each report to the Investment Committee annually, coincident with the annual company reporting by the emerging markets managers. The Manager shall address questions from the Investment Committee during the meeting at which the reports are presented.

This policy is consistent with CalPERS' commitment to the United Nations Principles for Responsible Investment. It shows that CalPERS is acting in the best interest of our beneficiaries by incorporating environment, social and related issues into investment analysis and decision-making processes, when consistent with CalPERS' fiduciary duty.

REMONSTRATION PROCEDURES

1. Remonstration procedures shall be governed by the "Statement of Investment Policy for Permissible Equity Policy of Emerging Equity Markets", March 12, 2007, approved by the Investment Committee of CalPERS, a copy of which is included in this report.
2. Remonstrations shall pertain solely to the factors evaluated in this analysis and shall pertain only to the presentation of new or more correct information that is, or shall be made as part of this remonstration process, publicly available.
3. Physical documentation of evidence to support the remonstrator's assertion or position shall absolutely be provided, without exception.
4. Suggestions regarding the methodology employed or other considerations that would require a change in the subject investment policy or a third party source can be submitted in writing, but shall be considered outside of this remonstration process as such consideration is the sole purview of the CalPERS Investment Committee. Remonstrations of points of fact or judgment pertaining to the factors in this report are the purview of the independent third party sources used in the preparation of this report, the contacts for which are also included herein.
5. Governments or interested parties may submit a notice to remonstrate by email to permissiblemarkets@wilshire.com and the appropriate third party source by March 2, 2007 by 7:00 am Pacific Standard Time in the United States, with "Notice of Remonstration" clearly indicated in the subject line of the email. The Notice of Remonstration shall clearly:

a. Identify the macro-factor or sub-factor subject to remonstration.
b. Provide a description of the nature of the remonstration.
c. Provide a copy of the physical documentation as evidence to support the remonstrator's position. If proof of the remonstrator's position is not provided with the Notice to Remonstrate, the Notice will be rejected. Merely indicating a desire to remonstrate without having the full documentation to support the remonstrator's position accompanying the Notice to Remonstrate is insufficient.
d. Provide submission of same in 5. (c) above to the appropriate third party source by March 2, 2007 at 7:00 AM, Pacific Standard Time.
e. Provide all information in English.

6. The remonstrator shall bear the responsibility, at its own expense, to convince the third party source to change its evaluation of the affected factor(s) for the country that is the subject of the remonstration, and shall convince the third party source to notify permissiblemarkets@wilshire.com of its decision to revise its evaluation.
7. The third party source(s) shall have until April 3, 2007 to vet the information provided by the remonstrator and to make any decision regarding revising its evaluation, and submit that change to permissiblemarkets@wilshire.com.
8. If a remonstrator finds that a third party source is non-responsive, permissiblemarkets@wilshire.com shall be notified immediately. However, non-responsive does not mean disagreement with the remonstrator's position. If the remonstrator cannot convince the third party source of its position, neither CalPERS nor Wilshire Associates will interfere with the third party source's independent sole judgment