



**Michael C. Schlachter, CFA**  
**Managing Director & Principal**

June 4, 2012

Mr. Dan Dunmoyer  
Chair, Performance and Compensation Committee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: 2012-2013 Performance Plans for Investment Management Positions

Mr. Dunmoyer,

You requested our comments regarding the report from Staff detailing the changes to the incentive compensation plans for fiscal year 2013.

Two years ago, the incentive compensation plans were generally simplified and some steps were taken to increase consistency across the plans. The biggest change to the quantitative section of the incentive compensation plans at that time was an increase in most plans to the Total Fund investment performance factor, especially for the CIO.

The changes presented by Staff in this agenda item reduce the weighting to Total Fund investment performance for most individuals and increase the overall weighting of qualitative factors in the calculation of incentive compensation awards.

We view these changes neither positively nor negatively and recognize that they will serve to change the focus of individuals subject to incentive compensation slightly away from portfolio performance and more toward enterprise business management objectives. To the extent that this is desired by the Performance and Compensation Committee and Investment Committee, these changes help to accomplish that goal. If the Committees prefer that investment personnel remain focused purely on investment performance, then these changes dilute that focus.

Wilshire does not commonly review or calculate the qualitative portion of incentive compensation, however we do note that the changes presented by Staff that increase consistency across qualitative evaluations and improve clarity regarding what constitutes "outstanding" versus lesser performance are welcome improvements. As outside observers, past scoring of the qualitative portion of incentive compensation has been more opaque than the quantitative section and has appeared to be subject to

outside pressures. The changes presented by Staff should help to increase the objectiveness of this part of employee reviews and incentive compensation awards.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

