

Michael C. Schlachter, CFA
Managing Director & Principal

November 26, 2012

Mr. Henry Jones
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Change in Total Fund Benchmark Policy to Accommodate Multi-Asset Class Partners Program

You requested our opinion regarding the revisions to the Total Fund Benchmarks Policy as presented by Staff.

Recommendation

We recommend that the Investment Committee adopt the revision to the benchmarks policy as an interim change until the completion of the asset liability modeling process in late 2013.

Discussion

As discussed at the October Investment Committee meeting, Staff wishes to proceed with the funding of the first investments in the Multi Asset Class portfolio and therefore needs to modify the benchmark for the Total Fund to accommodate this new program. The benchmark revisions proposed to the Investment Committee resulted from a suggestion made by Wilshire Associates and we are therefore in agreement with Staff's recommendation.

We do note, however, that the asset allocation workshop will be forthcoming in 2013, and that any modification to the long term Total Fund asset allocation should be made by the Investment Committee through that venue. As a result, we suggest that the Investment Committee should note that this is an interim asset allocation change and that the final and permanent allocation to the MAC program should be determined by the Investment Committee in November 2013.

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

Best regards,

A handwritten signature in black ink, appearing to read 'Michael C. Schlachter'.