

Michael C. Schlachter, CFA
Managing Director & Principal

November 21, 2012

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

Re: Annual Review of Absolute Return Strategies

You requested our comment regarding the presentation by Staff of the annual review of the Absolute Return Strategies.

Staff's presentation contains a review of the returns for the Absolute Return Strategies program, as well as information about hedge fund investing in general. The presentation concludes by raising several questions about the ARS program which will be addressed at the February Investment Committee meeting when the strategic plan for ARS will be presented. As we have discussed with the Investment Committee on several occasions over the last few years, the key question that should be answered regards the role of ARS in the Total Fund. Depending on the long-term return and risk assumptions that are developed for ARS, as well as the allocation to ARS as a share of total CalPERS assets, whether ARS is treated as a separate stand-alone allocation or as an equity-like investment program with overlaid equity exposure will have a meaningful impact on the total asset allocation. We are pleased to see that Staff has reopened this topic for discussion. We look forward to further conversations about this during the February meeting as well as the Asset Allocation process throughout 2013.

At the February Investment Committee meeting, Wilshire will present its annual review of the entire ARS program, including the external advisors and managers. Once Staff has completed its annual plan, we will have more comments for the Investment Committee. At this time, we believe that the program is being managed within the bounds imposed on it by policy and we continue to review the compliance with policy whenever Staff wishes to commit capital to new or existing managers.

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

Best regards,

Wilshire Associates



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