

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

January 28, 2013

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

Re: Interim PERF Asset Allocation Targets

You requested our opinion regarding the agenda item from Staff concerning the interim asset allocation targets.

### **Recommendation**

**Wilshire recommends that the Investment Committee approve the extension of the existing interim asset allocation targets, for use January 1, 2013 to June 30, 2014, as presented by Staff.**

### **Discussion**

Given the dislocation in the Real Estate market since 2007-2008 crisis, as well as the impact of significant demand for real estate by institutional investors on pricing for transactions, Staff has been unable to invest CalPERS' assets in accordance with the policy asset allocation targets since 2010 and has used interim asset allocation targets that more closely match the actual investment amounts. This has reduced the amount of tracking risk in the PERF that would result from the asset allocation mismatch.

Given that it is highly unlikely that Staff will be able to reach the policy targets in the next few quarters, we support Staff's request to continue to use the interim targets until a new policy target is selected at the Asset Allocation workshop this fall.

As we move through the asset allocation process in 2013, we furthermore recommend that the Investment Committee discuss the slow pace of Real Estate and Infrastructure investing with Staff and the potential for greater exposure over the next few years. If the inability to invest in Real Estate in the size required continues, this should be considered by the Investment Committee when selecting the new policy targets. It may be appropriate to make the interim targets permanent or even reduce the target allocation to Real Estate in recognition of market reality.

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 A. ...'.