



May 5, 2014

Mr. Henry Jones, Chairman  
Investment Committee  
California Public Employees' Retirement System  
Sacramento, California 95814

Re: Implementation Recommendations for Recently-Approved Long-Term Policy

Dear Mr. Jones,

The purpose of this letter is to provide the Investment Committee with Pension Consulting Alliance's (PCA's) opinion regarding revisions of the asset allocation strategy policy. In summary, PCA supports staff's recommendations:

1. To utilize an interim strategic allocation framework in pursuit of the long-term policy target approved earlier by the Investment Committee. Under this framework, the Investment Committee should approve the first interim target as described in staff's memo (see Table A). The interim target will be reviewed on at least an annual basis or when changes to market conditions and/or capital market assumptions warrant such a review. Shifting CalPERS' sizable actual portfolio to the long-term policy should take place in a deliberate and prudent manner. In this context, PCA believes the interim-target approach laid out in staff's memo and codified in the proposed policy revisions allows the implementation process to meet these objectives.
2. Begin a formal review of strategic benchmarks utilized by the Investment Committee, staff, and the Investment Committee's consultants. The objective of this review is to ensure that existing and possibly new benchmarks help align implementation activities with long-term policy intentions.

PCA believes these recommendations are reasonable and prudent and help to solidify and memorialize the Investment Committee's selection of the policy portfolio approved during the most recent ALM process.

As we have stated in prior opinions, viewed through a macroeconomic risk factor allocation prism, we note that both the approved policy portfolio and interim target portfolio exhibit biases toward economic growth. In other words, the success of these portfolios will be dictated largely by global economic growth trends – if economic growth is generally favorable, the portfolios will likely perform well over time; if economic growth falters, the portfolios may underperform expectations, possibly by a material amount.

Over the last year or so, CalPERS' staff and consultants have engaged in a rigorous process to assist the Investment Committee in the consideration of a new/alternative strategic investment



policy. The ALM process has covered a wide array of topics, from risk allocation to liquidity management to sustainable investing and benchmarking. PCA supports this final outcome of the ALM process and believes the staff should be commended for their work and efforts during this complex project.

We look forward to addressing any questions or clarifications on this matter at the Investment Committee meeting.

Respectfully,

A handwritten signature in black ink, appearing to read "Allan Emkin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Allan Emkin