



July 31, 2014

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

Re: Strategic Asset Allocation Recommendations for Affiliate Funds

Dear Mr. Jones,

The purpose of this letter is to provide the Investment Committee with Pension Consulting Alliance's (PCA's) opinion regarding Agenda Item 7c for the August Investment Committee meeting. In summary, PCA (1) supports the staff's recommendations for the respective policy portfolios for each of the four affiliate funds under review, and (2) believes that the staff has (a) examined a reasonable number of portfolio options for each affiliate fund and (b) has conducted a thorough process and applied assumptions that have been consistent with the process and assumptions utilized under the earlier comprehensive policy review of the PERF portfolio. The final set of recommended policy portfolios provides appropriate risk/return profiles for each of the respective affiliate funds.

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 for the PERF portfolio. This ALM process has now been extended to cover the four affiliate funds: LRS, CERBT, JRS, and JRS II. Staff has engaged PCA and others to participate in several meetings analyzing the strategic allocation policies of each of these affiliate fund portfolios. During these meetings, staff reviewed the unique characteristics of the affiliate funds, developed initial recommendations for the allocation policies, and provided follow-up analyses on issues related to specific funds. In summary, while there was significant deliberation on certain assumptions and allocation choices, PCA believes the process was analogous to that utilized recently to determine the recommended policy for the PERF.

The final recommendations for the affiliated fund policy portfolios presented in staff's August 18, 2014 memo to the Investment Committee are reasonable and prudent. PCA notes that the allocation policies can vary widely due to the unique objectives and risk tolerances of each respective fund.

Given the above context and the various tradeoffs the affiliated funds face, PCA believes that the Committee can make an informed decision on the basis of the information provided in the agenda item.



As with the deliberations revolving around the PERF policy portfolio recommendations, there should be recognition that these final choices represent longer-term strategies. In this context, PCA believes prudent and cost-effective implementation approaches to achieve the new policy allocation levels warrant serious consideration.

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 be "A. Emkin".

Allan Emkin