



August 21, 2014

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

Re: September IC Agenda Item 6a - Strategic Asset Allocation Target 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 6a for the September 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. This opinion follows our review of the predecessor topic, Item 7c, on the August 2014 IC agenda.

The final recommendations for the affiliated fund policy portfolios presented in staff's 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 and has made an informed decision on the basis of the information provided in this agenda item and in subsequent IC agendas.

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 read "Allan Emkin".

Allan Emkin