Andrew Junkin, CFA, CAIA
Managing Director & Principal

May 27, 2015

Mr. Rob Feckner
Board President
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Incentive Compensation – Corrections for 2011-2012 Fiscal Year

Dear Mr. Feckner:

As the Committee is aware, the performance of the Total Fund was modestly understated for a period of time due to securities lending income not being recognized in the Total Fund performance. Wilshire has independently calculated the effects of the performance restatement and has verified those calculations with calculations performed by FINO staff.

Background

As was previously noted, this performance restatement affected only the Total Fund composite portion of incentive compensation calculations. Further, because of the limits on the ranges for incentive compensation, many of the revisions had zero effect on prior payouts as the performance was sufficiently above or below the range such that the modest restatement caused no change to those payouts. The only individuals affected were impacted in FY 2011-2012 only, and just because those individuals had less than a 3-year period for the Total Fund payout factor due to timing of their entrance into the incentive compensation plan.

Prior year returns have been restated and the revised performance will be used in any future performance calculations.

Discussion

The CalPERS Compensation Policies and Procedures for Executive and Investment Management Positions notes that, "If at any time the Board determines the criteria used to

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determine an employee’s performance award were, with hindsight, improperly designed or otherwise mistaken, the Board may correct those criteria in any way, even if correction reduces or eliminates the performance award the employee would otherwise receive.” Wilshire believes that this language gives the Board the right, but not the obligation, to correct the payments made in prior periods. In the recent past, the Board has chosen to correct mistakes in incentive compensation payouts. We believe that precedent should be followed in this case.

Recommendation

Wilshire recommends that the Board correct the prior year underpayments to the individuals affected due to the error in capturing the securities lending revenue for the total fund.

Further, Wilshire recommends that the Board adopt the proposed modification to the CEO’s Incentive Compensation plan to reflect the correct Total Fund portfolio identifier for FY 2014-2015. All other affected Staff members will subsequently have similar changes made upon this approval.

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

Best regards,

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