



June 1, 2016

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

Re: Review of Interim Asset Allocation Targets

Dear Mr. Jones,

The purpose of this letter is to provide the Investment Committee (IC) with Pension Consulting Alliance's (PCA's) opinion regarding Agenda Item 5a for the June Investment Committee meeting. In summary, PCA supports the staff's recommendations to maintain the interim asset allocation targets at their current levels. As staff indicates, these levels are appropriate as preparation for the 2017 Asset-Liability Study is about to begin. The results of the 2017 Asset-Liability Study could have material impact upon future allocation levels and it is prudent and reasonable to maintain the current interim target levels pending results from the upcoming Asset-Liability Study.

Discussion

Item 5a is a procedural request to set or affirm interim proportional target allocation levels for each of CalPERS' major strategic investment classes. The interim targets are designed so that CalPERS is progressing toward its long-term target allocation levels in a prudent and timely manner, taking into account key factors that may impact specific investment classes. As discussed in the cover memo and staff presentation materials, the interim targets for the private markets classes (in particular Private Equity) are essential for CalPERS to continue to meet its long-term objectives. PCA concurs with these findings.

In relation to return expectations, staff has included information that touches on the theme that future long-term returns will likely be lower than what CalPERS has experienced in the past. PCA concurs with this viewpoint.

We look forward to addressing any questions or comments on these matters at the Investment Committee meeting.

Respectfully,

A handwritten signature in black ink, appearing to read "Allan Emkin".

Allan Emkin