

June 10, 2016

Mr. Michael Bilbrey, Chairman
Performance, Compensation & Talent Management Committee
California Public Employees' Retirement System
Sacramento, California 95814

Re: Grant Thornton Compensation Study

Dear Mr. Bilbrey,

This brief letter provides The Performance, Compensation and Talent Management Committee ("PCTMC") with Pension Consulting Alliance's (PCA's) opinion(s) regarding the above-referenced study/presentation. Our comments are limited to the Study's recommendations regarding the Investment Office. It is also important to acknowledge that PCA is an Investment Consultant and not a Compensation Consultant and, as such, our comments should be viewed in that context. In summary, PCA recommends that the Committee adopt, in concept, the findings and recommendations included in the Grant Thornton Study. This is in recognition that there are significant matters yet to be considered and, until those matters are fully understood, no final action should be taken.

Discussion

The presentation addresses a number of key performance metrics designed to better align compensation with the System's overall objectives. Those objectives include but are not limited to: cost control/management, risk control/management, investment performance, staff retention, incentives and disincentives and, the System's ability to attract talent in a very competitive job market.

To state that these issues are complex and challenging is an understatement. If there was an "easy" solution it would have been found long ago. Adding to the challenge is the fact that compensation levels and responsibilities in most of the investment community (private and public sector) are high by any standard and attract scrutiny. The Committee's efforts to address the complexities and the recognition that there are legitimate competing interests that must be balanced is reflected in the Study's finding and recommendations.

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

Respectfully,



Allan Emkin, Managing Director
Pension Consulting Alliance, LLC