



Mr. Michael Bilbrey, Chair
Performance, Compensation & Talent Management Committee
California Public Employees' Retirement System
Lincoln Plaza North
400 P Street
Sacramento, California, 95814

RE: Opinion letter PC&TM Committee Agenda Items 5 and 6 (Grant Thornton LLP Recommendation)

This brief letter provides The Performance, Compensation and Talent Management Committee ("PCTMC") with Pension Consulting Alliance (PCA)'s opinion 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 the updated recommendations included in the Grant Thornton Study.

Discussion

Subsequent to The Committee's last meeting where The Committee provided direction to consultants and The Staff, a series of drafts and conference calls took place. In PCA's opinion that process was very productive and addressed the concerns expressed by The Committee and those of the staff.

The proposal before you today incorporates performance metrics designed to align compensation with the System's multiple 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. The back and forth between all parties produced a compensation scheme that will provide a consistent and integrated template understandable to The Board, The Staff and stakeholders.

The Committee's efforts to address the complexities of Investment Office compensation and the recognition that there are complexities and competing interests that need to 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,

A handwritten signature in black ink, appearing to read "Allan Emkin", written over a light blue horizontal line.

Allan Emkin, Managing Director
Pension Consulting Alliance, LLC