

# Wilshire

**Thomas Toth, CFA**  
**Managing Director**

May 24, 2021

Ms. Theresa Taylor  
Chair of the Investment Committee  
California Public Employees' Retirement System  
400 P Street  
Sacramento, CA 95814

Re: Agenda Item 6a: Long-Term Care Investment Policy Update

Dear Ms. Taylor:

You requested Wilshire's opinion regarding the Long-Term Care (LTC) asset allocation policy update presented by Staff. The policy update is meant to align with the asset allocation adopted by the Investment Committee earlier this year. There are three specific points to highlight.

First, there are two modifications to the LTC asset class categorizations. U.S. Treasury Inflation Protected Securities (TIPS) were originally a line item in the approved target allocation. In discussion with the manager, the Policy incorporates U.S. TIPS as a sub-asset class within Global Fixed Income given that portion of LTC will be managed as one portfolio. This allows for some flexibility in structuring the fixed income exposure, and is not expected to change the overall strategic return or risk profile of the LTC portfolio as the sub-asset class weight matches the previously approved target allocation. Staff also proposes adding a Liquidity asset class at a 0% target to account for operational cash flows. Wilshire is comfortable with both adjustments.

Second, the constituent benchmarks align with the asset allocation modeling, which was the basis for the recommendation and subsequent adoption of the new target allocation. The granularity and transparency around the sub-asset classes should provide the Investment Committee with a clear understanding of the asset class make up and provide an appropriate basis to measure the relative performance. Active management within asset classes is expected to generate above-benchmark returns over time, and an accurate benchmark provides clear accountability for active results. Further, Wilshire provides independent benchmarking oversight and will elevate issues to the Committee's attention if necessary to maintain a strong control environment.

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Third, the revised Policy is more explicit around the portfolio's active risk (tracking error) limit by specifying a 1% tracking error threshold. In addition, the Policy incorporates an expectation to communicate violations to the Board along with a plan of action, which Wilshire feels enhances the oversight provided by the Investment Committee for the LTC portfolio.

## **Conclusion**

It is Wilshire's opinion that the Policy update aligns with the adopted asset allocation and maintains an appropriate level of oversight for the Investment Committee.

Sincerely,

A handwritten signature in black ink, appearing to be 'T. B.', written over a light gray rectangular background.