

June 13, 2022

Mr. David Miller
Chair of the Investment Committee
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Re: Agenda Item 5b Revisions to the Total Fund and Global Fixed Income Policies – 2nd Reading

Dear Mr. Miller:

You requested Wilshire's opinion on Staff's presentation of the Total Fund and Global Fixed Income, Investment Policies. As the Board's consultant, Wilshire has been closely involved in the drafting of the policy revisions with the overarching goal of enhancing Board governance and ensuring the appropriate tools and reporting are in place to move the portfolio towards the adopted asset allocation targets. **In aggregate, Wilshire is comfortable that the proposed changes are consistent with a strong governance framework and appropriately adjust policy to align with the approved asset allocation.**

The Investment Committee provided input and suggestions after the 1st reading, which have been incorporated into the revisions. The Total Fund Policy now incorporates the policies previously reserved in separate governance documents (Private Equity, Global Fixed Income, etc.) into the Total Fund Policy. This increases the consistency, readability and usability of the documents without loss of governance oversight.

Wilshire feels the Private Debt policy language covers the appropriate governance items for the new asset class. A table delineating program responsibilities for the new Private Debt allocation covering parameters around prudent person opinions are under discussion and will be presented as part of a review of the other private asset class policies at a future Investment Committee meeting. Wilshire is comfortable with that timeline. Wilshire worked with Staff to narrow the strategy ranges in the Investment Parameters table to ensure a certain level of diversification. Wilshire believes the revised strategy ranges are appropriate as the program ramps up. Further, it is Wilshire's understanding that specific targets for each strategy will be established once the new program has sufficiently increased in size. Staff authority limits remain consistent with those previously found for Opportunistic Strategies, which were primarily focused on private debt commitments.

The PERF policy benchmark is defined to align with the new asset allocation in Appendix 5, Table 1; with no changes from the 1st reading. It incorporates benchmarks for the new asset classes along with a benchmark to measure strategic leverage implementation. Of note, the policy benchmark for Strategic Leverage utilizes the ICE BofA US 3-month Treasury Bill Index, net of transactions costs. This is the standard index provider offering and Wilshire is comfortable that it provides a reasonable basis for comparing the impact of leverage in the policy benchmark. Additionally, it aligns with the benchmark used in the Affiliate Funds policy benchmarks. In summary, **Wilshire reiterates that these benchmarks**

broadly meet best practices in benchmarking, align with the investment expectations of the portfolio segments, and are appropriate for measuring the effectiveness of Total Fund portfolio management.

Investment Beliefs

Wilshire believes the proposed revisions continue to support a number of CalPERS' Investment Beliefs:

Investment Belief 4: "Long term value creation requires effective management of three forms of capital: financial, physical and human; Governance is the primary tool to align interests between CalPERS and managers of its capital"

Investment Belief #5 – "CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution."

Investment Belief #10 (sub-belief C) - "CalPERS will be best positioned for success if it 1) has strong governance, 2) operates with effective, clear processes..."

Conclusion

Wilshire has reviewed the proposed 2nd reading revisions in detail. We are comfortable that the changes proposed within the policies promote more effective governance. Please do not hesitate to contact us should you require anything further or have any questions.

Regards,



Thomas Toth, CFA

Managing Director, Wilshire Advisors