

August 31, 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 Policy

Dear Mr. Miller:

You requested Wilshire's opinion on Staff's presentation of the Total Fund Investment Policies. As the Board's consultant, Wilshire reviews and discusses potential revisions with Staff given an overarching goal of enhancing Board governance. This opinion letter is limited to the Private Debt and Opportunistic Program changes as comments on Real Assets and Private Equity will be provided by the appropriate consultant under separate cover. **Wilshire is comfortable that the proposed changes are aligned with a strong governance framework and shift policy consistent with managing the portfolio towards the new asset allocation targets.**

These specific policy revisions should be read in the context of the private market allocation changes adopted during the most recent ALM. Specifically, private equity has increased from 8% to 13%, real assets from 13% to 15%, and private debt was introduced at a 5% weight. Managing towards these higher target allocations will require higher commitment levels and therefore a review of the Staff Authority Limits in policy is appropriate.

Specific to Private Debt and Opportunistic, the Staff Authority Limits are unchanged with the exception of removing a "fiscal year limit" for the MID. This policy limitation is redundant given the establishment of a new governance committee – Investment Underwriting. Previously, if an MID fiscal year limit were reached, additional commitments would need approval by the CIO and/or DCIO. Functionally, this new committee of senior investment professionals will be regularly reviewing the full pipeline of potential opportunities, obviating the need for the MID fiscal year limit in policy.

Private Debt Program Related Responsibilities, including thresholds for Prudent Person Opinions (PPOs) and Board opinion letters from private asset consultants (PACBIC), have been added to the policy. The limits align with the proposed Real Asset transaction size limits. Wilshire is comfortable that these limits are appropriate given the increase in the size of the CalPERS portfolio and the new allocation for Private Debt.

It is worth noting that the policy does not specify PPO requirements within Opportunistic Strategies. This does not represent a change in policy, which has never incorporated that requirement for this mandate. Wilshire has discussed this point with Staff. We are comfortable that the policy balances investment decision making nimbleness with oversight from multiple sets of eyes (Investment Underwriting, Management, Operations, Board General Consultant) evaluating opportunities within this portion of the portfolio without a PPO requirement.

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 #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 revisions in detail. We are comfortable that the changes proposed within the policies promote effective governance and enable an appropriate level of portfolio management flexibility to meet the long term strategic objectives of the PERF. Please do not hesitate to contact us should you require anything further or have any questions.

Regards,



Thomas Toth, CFA

Managing Director, Wilshire Advisors