May 25, 2022

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

Re: Agenda Item 5a: Asset Liability Management – Affiliate Funds: Supplemental Income Plans

Dear Mr. Miller:

You requested Wilshire's opinion as it relates to Staff's recommended asset allocation glidepath for the Supplemental Income Plans (SIP). The CalPERS SIP represents retirement savings of approximately $2.4B in assets, which includes the Public Employees' Deferred Compensation Fund ($2.3B) and the Supplemental Contributions Program ($126M).

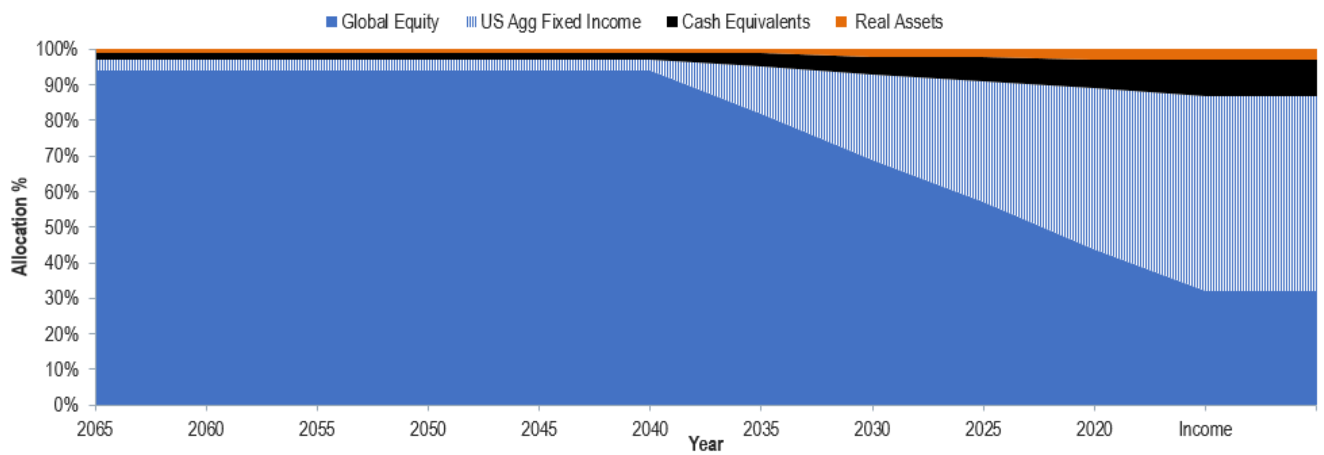
The Process

Staff engaged an external consultant to conduct glidepath analysis for the SIP program. Wilshire believes that the methods, inputs, and data used to perform the evaluation are appropriate and reasonable. For example, the menu of asset classes included in the analysis provide ample flexibility to identify well-diversified portfolios and the assumptions used for these investments were consistent with those approved and utilized within the PERF's ALM cycle and as supplemented in informing the recently approved asset allocation recommendations for other plans within the broader Affiliate Investment Programs. Demographic and participant behavior data were incorporated through the modeling and/or gathering of elements such as salary growth, contribution rates, income replacement goals, sources of household income, plan distributions, and life expectancies. The importance of including liability estimates within the analysis is consistent with Investment Belief 1 (i.e., liabilities must influence the asset structure).

In evaluating the appropriateness of various glidepath options, Staff and the external consultant primarily focused on trade-offs between the competing goals of minimizing expected retirement shortfall risk and minimizing expected portfolio volatility. However, as can be seen on slide 16 of Staff's presentation deck, other estimates such as expected return, ending balance, replacement rate, years before drawdown, median additional contribution, etc. were also assessed within the glidepath analysis. The consideration of this wide variety of risk metrics is both important to understanding glidepath characteristics and consistent with Investment Belief 9 (i.e., Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error).

Glidepath Selection

The proposed glidepath, which is presented on slide 15 of Staff's presentation deck and is pasted below, reflects Staff's and their external consultant's recommended glidepath based on their assessment of the various risk trade-offs referenced above.



2065	2060	2055	2050	2045	2040	2035	2030	2025	2020	Income	Asset Classes
94%	94%	94%	94%	94%	94%	82%	69%	57%	44%	32%	Global Equity
1%	1%	1%	1%	1%	1%	1%	2%	2%	3%	3%	Real Assets
3%	3%	3%	3%	3%	3%	13%	24%	34%	45%	55%	U.S. Fixed Income
2%	2%	2%	2%	2%	2%	4%	5%	7%	8%	10%	Cash Equivalents

Wilshire is comfortable with the recommended glidepath, which is very similar to the SIP's current glidepath. Reflective of the modest implied changes, the proposed glidepath improves the expected return from 6.0% to 6.1%, reduces the expected probability of shortfall from 85% to 83%, and increases the expected replacement rate from 70.0% to 70.9%. Consistent with these modest changes, the recommended glidepath maintains the general increase in portfolio volatility approved in the previous SIP glidepath review with a small incremental expected increase from 13.5% to 13.6%.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

Steven J. Foresti

Chief Investment Officer, Asset Allocation & Research

Thomas Toth, CFA

Managing Director

