

Ali Kazemi
Managing Director

September 13, 2021

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

Re: Agenda Item 6a: Total Fund and Affiliate Fund Policies Updates – Second Read

Dear Ms. Taylor:

You requested Wilshire's opinion as it relates to the second reading of the Total Fund and Affiliate Fund Policies Updates. Wilshire has reviewed the documents and remains comfortable with the changes discussed during the first reading.

The changes in the PERF policy are summarized as:

Item 1) Formally reference that TE will be measured versus the "Total Fund Actionable Tracking Error Metric"

Item 2) Lower the overall limit for TE from 1.5% to 1.0%

Item 3) Eliminate a limit on the contribution to TE coming from asset allocations which is currently 0.75%

As a response to board feedback during the initial reading of the changes, Staff and Wilshire have compiled some peer data on total fund tracking error limits used for similar plans. In our view the data below helps confirm that the proposed actionable tracking error limit of 1% is a reasonable target for the portfolio.

Peer Information on Active Risk Limits and Targets*

Institution	Active Risk Limit/Target	Comment
State of Wisconsin Investment Board (SWIB)	TE Target = 120 bps ± 60 bps (Core Fund)	Leverage (15%) incorporated in the SAA
Norway Government Pension Fund Global (GPF)	CVaR@97.5% (expected shortfall) = 375 bps TE Limit = 125 bps	95%+ public assets Measured relative to all public portfolio
Teacher Retirement System of Texas (TRS)	Neutral TE target = 100 bps Max=300 bps	Defined for Public portfolio
New Zealand's Superannuation Fund	Active Risk ≤ 800 bps	Relative to Reference Portfolio (publics only)
CalSTRS	No Total Fund active risk limit 10-50 bps risk budget for Global Equity	
Iowa Public Employees Retirement System (IPERS)	Total Fund TE Target of 1.5% with upper limit of 3% with sub-limits for external and internal staff with team target of 1% each and upper limit of 2.5%	
New Mexico Public Employees Retirement Association	TE Target of 1.5% with a limit of 2%	



*Not a comprehensive list and includes peers that have relevant active risk metrics and disclose them externally; information is interpreted from publicly available documents. Staff and Wilshire compiled the following information.

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There was one additional change to the policy after the initial reading to clarify that currency overlay portfolio risk would also be governed by the new actionable metric rather than the asset allocation metric which is being removed (item 3 above). We have no issue with this additional change.

With regards to the affiliates, the proposed policy changes for the Judges and Legislators tracking error targets are more consistent with the passive nature of those portfolios. There were no additional changes to the affiliate fund policies.

Wilshire is comfortable with all policy changes proposed.

Best regards,

Ali Kazemi
Managing Director