

February 16, 2024

Mr. David Miller
Chair of the Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95811

Re: Agenda Item 7d: Total Fund Policy Review – First Reading

Dear Mr. Miller:

You requested Wilshire's opinion on Staff's presentation of the revisions to the Total Fund Investment Policy. This is part of the regular annual review of policy undertaken by Staff. As this is a first reading of the proposed policy changes, we welcome input from the Investment Committee.

As the Board's consultant, Wilshire examines proposed policy changes through the lens of enhancing Board governance and ensuring the appropriate tools and reporting are in place to drive strong portfolio results. **In aggregate, Wilshire is comfortable that the proposed changes are consistent with a strong governance framework and allow an appropriate level of flexibility around portfolio implementation.**

There are two sets of changes being proposed in this reading. First, Staff consolidates the risk classifications in the Real Assets program from three to two categories. Value-add and opportunistic investments would be classified into a single "Non-Core" category. Importantly, this has limited impact on the Real Estate portfolio which is the largest component of Real Assets, as the range for Core Real Estate does not change. On the margin, the proposed change provides portfolio construction flexibility within Infrastructure to add exposure to higher return/risk opportunities. Taken together, Wilshire does not believe these change the overall risk/return attributes of the Real Assets program.

Second, Staff proposes consolidating Private Debt sub-strategies and standardizing the ranges for strategies outside of direct lending. The consolidation of the strategies aligns with the market opportunity set as well as the underlying lending collateral within each sub-strategy. Further, it is important to point out that the proposed changes do no diminish the high level of diversification within the private debt portfolio, with potentially hundreds of loans to different counterparties. These loans are backed by multiple types of collateral to help dampen idiosyncratic credit risk. Wilshire is comfortable that the proposed changes align with the evolving private debt market, without changing the established risk profile of the asset class.

Investment Beliefs

Wilshire believes the proposed revisions 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 #6 – CalPERS will take risk only where we have a strong belief we will be rewarded for it.

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

While this is a first reading of the proposed Policies and we welcome Investment Committee feedback, Wilshire has reviewed the proposed revisions in detail. We are comfortable that the changes promote effective governance and further the implementation of the approved asset allocation targets. Please do not hesitate to contact us should you require anything further or have any questions.

Regards,



Thomas Toth, CFA
Managing Director, Wilshire Advisors