



Andrew Junkin, CFA, CAIA
Managing Director & Principal

March 5, 2012

Mr. Henry Jones
Chair of the Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Securities Lending – Policy Violations

Dear Mr. Jones:

As part of Wilshire's duties to the Investment Committee, we are required to opine on Securities Lending Policy violations and actions taken by Staff to rectify the violations. We were recently notified of a violation stemming from a rating agency downgrade.

In February, S&P downgraded a Sallie Mae student loan asset backed security from AAA to AA+, effectively matching the downgrade to U.S. Treasuries and government backed securities. The security is still AAA-rated by Moody's and Fitch. Staff notes that the underlying loans are approximately 97% guaranteed by the government, making default or significant impairment highly unlikely. Staff requested pricing from outside brokers and are recommending that PERS continue to hold the security. CalPERS currently has approximately \$160 million of remaining face value.

We believe that Staff has taken appropriate actions and recommend that the asset backed security continue to be held at Staff's recommendation.

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

Best regards,

A handwritten signature in black ink, appearing to read 'Andrew Junkin'.