

Michael C. Schlachter, CFA
Managing Director & Principal

January 28, 2013

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

Re: Global Fixed Income Program Policy

You requested our opinion regarding the agenda item from Staff concerning the Global Fixed Income policy.

Recommendation

Wilshire recommends that the Investment Committee approve the policy changes as presented by Staff.

Discussion

This is the second reading for this item, which was first presented in December 2012. At that time, the Investment Committee did not request any changes to the item.

Passage of this agenda item will enable Staff to collateralize derivative positions with investment grade fixed income investments other than cash. This will have the potential for slightly more yield in the portfolio, but also may add some risk due to the riskier nature of investment grade assets as compared to cash investments.

As this agenda item does not change Staff's tracking error target for the asset class and specifically prohibits gross leverage (market exposure greater than 100% of allocated capital), we do not believe that this will significantly alter the current return and risk profile of the Global Fixed Income asset class. As a result, we see no reason to object to adding one more way for Staff to increase yield in the portfolio as they deem appropriate within the current risk parameters that have been approved by the Investment Committee.

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 'Michael A. ...'.