

***Michael C. Schlachter, CFA
Managing Director & Principal***

April 20, 2013

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

Re: New Opportunistic Program Delegation Resolution

Dear Mr. Jones,

You requested our opinion regarding the agenda item from Staff that presents the newly created Delegation Resolution for the Opportunistic Program.

Recommendation

Wilshire recommends that the Investment Committee adopt the Delegation Resolution as presented by Staff.

Discussion

In 2009, at the request of Staff, the Investment Committee agreed to allocate a maximum of 3% of Total Fund assets to Opportunistic investments as determined by Staff. These are investments that are shorter term in nature than is typical of CalPERS investments, may be made in concentrated positions, and may fall outside of traditional asset classes. Many Opportunistic investments result from market dislocations and cannot be capitalized on during the typical triennial asset liability process. Due to the possibility that Opportunistic Investments may provide unique sources of value added for CalPERS, we supported the creation of this portfolio at the time. Given that no Delegated Authority accompanied the adoption of the policy in 2009, and the nature of Opportunistic investments often requires quick action that makes it impractical to always seek Investment Committee approval, Delegated Authority to manage this program is appropriate.

While it does not lessen our support of the Delegation Resolution, we do note, however, that the risks associated with this item are more extensive than, and not as one-sided as, the agenda item implies. While failure to approve this item may result in operational confusion as Staff notes, approval of the item also could result in Staff investing in



opportunities that lose money, investments that pose non-investment risks for CalPERS (headline risk), or investments which the Investment Committee might not approve were they subject to debate and vote.

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. ...'.