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Managing Director & Principal

April 28, 2013

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

Re: Proposed Changes to the Global Fixed Income Program Policy

Dear Mr. Jones:

You requested Wilshire's opinion with respect to Staff's proposed changes to the Global Fixed Income (GFI) Policy. These proposed changes accompany the agenda item with respect to changes in the policy benchmarks for the international components of the GFI program and the Inflation Assets (IA) program.

The majority of the substantive changes in the Policy deal with the inclusion of the new benchmark and changes the language throughout the policy to address the change. The proposed policy establishes ranges for U.S. and non-U.S. weights in the portfolio (+/- 10%, relative to a 10% target to non-U.S. holdings) and establishes a limit on the use of non-investment grade securities in the non-U.S. portion of the portfolio. Limits relative to Emerging Markets are now captured by "Other Benchmark Countries" or "Non-Benchmark Countries." The proposed Policy also changes the requirement that emerging market countries be part of the Barclays Capital Global Aggregate index, which would no longer be the policy index for the non-U.S fixed income portfolio, depending on the Investment Committee's views with respect to the proposed benchmark changes proposed in a different agenda item.

Additionally, a significant change has been proposed that would allow Staff to shorten the duration of the portfolio to half of the duration of the benchmark. If Staff foresaw a period of significantly rising rates, this would allow them to position the portfolio conservatively to protect against declines driven by interest rate changes. The upper limit on duration remains unchanged at 110% of the benchmark's duration. This change addresses the concerns of many Investment Committee members about rising interest rates.



Summary

This is a first reading, so no approval is requested from the Investment Committee at this time. However, Wilshire believes that the proposed changes are appropriate and provide reasonable guidelines with sufficient flexibility to allow Staff to effectively implement the GFI Program.

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 'Ann J. ...'.