Wilshire

Michael C. Schlachter, CFA
Managing Director & Principal

September 24, 2013

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

Re: Adoption of Investment Beliefs Policy

Dear Mr. Jones,

You requested our opinion regarding this agenda item adopting the investment beliefs.

Recommendation

As the Investment Beliefs are the result of an exhaustive body of work by the Board and Staff and reflect the best thinking of both, and based on the observation that there was near-unanimous consensus on these beliefs at the July off-site, we recommend approval of the policy for the Investment Beliefs.

Discussion

Given the number of opportunities that the Board has had to contribute to the development of these beliefs, as well as the aforementioned near-consensus on the beliefs in their present form, we believe that they reflect the thinking of the majority of the Board and should be approved.

We believe that the policy presented fairly represents the Beliefs at this time and we do not recommend any changes to the specifics contained within the beliefs as stated in the policy.

We do recommend, however, that the policy be altered, or some other statement made on the record, to more clearly reflect the nature of the "periodic review" of the beliefs. Will this be a simple re-ratification of the existing beliefs or will the Board spend six months to a year every three years (as is does with the asset allocation process) to review and adopt a new set of beliefs? While we do allow for circumstances to change over time, we believe there is value in establishing the scope of the review process up front.

Second, while it may not be appropriate to contain in the actual policy, more direction from Staff regarding the extent and periodicity of the reporting to the Investment Committee regarding the compliance with these beliefs is also appropriate to discuss before these beliefs are set in place.

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

Best regards,

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