

Michael C. Schlachter, CFA
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October 24, 2013

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

Re: Global Derivatives and Counterparty Risk Policy

Dear Mr. Jones,

You requested our comments regarding the new Global Derivatives and Counterparty Risk Policy.

Recommendation

Since the changes requested by the Investment Committee during the first reading at the October Investment Committee meeting were incorporated into this document, Wilshire recommends that the Investment Committee approve these policy changes.

Discussion

The new policy prepared by Staff replaces and consolidates the current derivatives and counterparty policies. We have reviewed all of the new policies and the policies that they replace and have spoken to several members of Staff regarding this new policy.

A good deal of procedural language has been removed, such as specifics about things like counterparty ratings and limits. While those types of items have previously been decided by the board, the governance changes made over the past few years have delegated this to the Staff and the new policy has therefore eliminated all of these specifics. Going forward, a Staff committee will determine all risk limits instead of the Investment Committee.

In light of these procedural changes and the decreased role of the Investment Committee in overseeing changes to derivative and counterparty risks, we recommend that the Investment Committee continue to require Staff to periodically report on any changes made to

counterparty and derivative risk limits and the aggregate levels of counterparty risk. Over the last several quarters, these reports have become less of a focus of the Investment Committee. Given these changes in the policy, we suggest that reviewing these risk reports should be of greater interest to the Investment Committee.

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

Best regards,

