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Andrew Junkin, CFA, CAIA
Managing Director & Principal

July 8, 2014

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

Re: Administrative Changes to Various Investment Policies

Dear Mr. Jones:

As part of our duties as the General Pension Consultant to the Investment Committee, Wilshire opines on and approves "administrative" changes to investment policies that are being made by Staff. Generally, these are not significant changes and Wilshire reviews them to ensure they are truly administrative and further for accuracy and reasonableness.

Recently, there have been a number of policy violations that were caused by some conflict between actual reporting frequency and that which is specified in various investment policies. In these cases, the Investment Committee, through its agenda-setting process, had established reporting frequencies that did not match with the specified reporting timelines established by policy. Staff proposed making administrative changes to 37 investment policies to standardize reporting frequencies to "no less frequently than annually." Wilshire reviewed the proposed changes and approved, with the caveat that Wilshire would inform the Investment Committee of these changes in writing. Hence, this letter.

In most cases where the change was to a reporting frequency of "no less frequently than annually," the change created a less onerous reporting cycle. Wilshire's view is that this does not create a control issue for CalPERS, as it might seem at first. Our view is largely based on two factors: 1) the current CalPERS compliance environment (controls and systems) is significant and robust and 2) many of the regular reports the Investment Committee receives serve to report critical information in a timely fashion. In many cases, this information now has a stated reporting frequency of "no less than annually," but the Investment Committee receives the information on a monthly basis.

For example, open session Items 4C (Monthly Update – Performance and Risk) and 4D (Monthly Update – Investment Compliance) in the consent agenda in the monthly Investment Committee agenda provide significant and timely reporting of critical information about the fund (asset allocation versus targets, ongoing risk management measures, policy violations, etc.). These monthly reports contain much of the significant information that is now required “no less frequently than annually.”

In addition, Wilshire notes that the Investment Committee has the ability to request reporting on a more frequent basis via control of the Investment Committee calendar and agendas. If the Investment Committee desires an interim report, an ad hoc report, or more frequent reporting, it can simply adjust the agenda to accommodate its own desires.

In conclusion, Wilshire has reviewed and approved of all the administrative policy changes of which Staff is informing the Investment Committee. We believe that these are reasonable and appropriate but wish to point out that there are additional controls that are currently in place in terms of frequency of reporting; and that the Investment Committee is in control of its own agendas.

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. ...'.