Wilshire

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August 22, 2014

Mr. Henry Jones
Chairman of the Investment Committee
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Affiliate Funds Strategic Asset Allocation Proposed Policy Modifications – Initial Review

Dear Mr. Jones:

At the August 2014 Investment Committee meeting, Staff presented analysis supporting the proposed asset class allocation target recommendations for the following Affiliate Funds:

- California Employers' Retiree Benefit Trust (CERBT)
- Legislators' Retirement Fund (LRS)
- Judges' Retirement Fund (JRS)
- Judges' Retirement II Fund (JRS II).

Wilshire supports the proposed changes to the current asset allocation targets and agrees with the proposed investment policy modifications for the Affiliate Funds.

Recommendation

CalPERS' staff has established ranges around the proposed policy targets for the Affiliate Funds. Wilshire agrees that the proposed ranges are consistent with the *Asset Allocation Policy* approved for the PERF in May of 2014 and that the narrower ranges proposed for CERBT 1, 2 &3 are appropriate given the objective to maintain lower tracking error around the proposed asset class targets.

Wilshire worked with CalPERS' staff to narrow the rebalancing ranges for LRS and JRS II for the Global Equity asset class and agrees with the recommendation to implement a maximum tracking error budget. The proposed tracking error budget for permitted total asset allocation variances (target weights differing from actual weights) is 75 basis points. The proposed total tracking error allocated to the total fund versus the policy benchmark is 150 basis points. These targets are based on existing practice for the PERF. It is unlikely that

the Affiliate Funds will experience tracking error of 75 basis points due to variation in asset allocation weights because the portfolios hold no private asset classes, which make rebalancing the portfolio back to target more challenging.

Wilshire believes that the proposed rebalancing ranges for the remaining Affiliate Funds are appropriate as are the corresponding changes to the Investment Policies for each of the Affiliate Funds as proposed.

We are always available to answer any questions you may have or receive comments.

Sincerely,

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