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***Managing Director & Principal***

January 28, 2015

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

Re: Investment Policy Revision Project

Dear Mr. Jones:

### **Overview and Recommendation**

As noted in the November 2014 Investment Committee, Staff has undertaken a project to review and revamp all of CalPERS investment policies. This item is a first reading of the proposed revised Total Fund Investment Policy, which is the first policy to be brought back to the Investment Committee. Wilshire believes that this revised policy, which consolidates and simplifies several existing policies, is a good step forward and that the Investment Committee should provide input to Staff and Wilshire as the process progresses towards adoption. Our specific comments are noted below.

### **Investment Beliefs**

Wilshire believes that CalPERS' Investment Policies bridge across many of CalPERS' Investment Beliefs. The Total Fund Investment Policy helps articulate to all parties Belief #9 – Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error. Furthermore, Belief # 4 – Long term value creation requires effective management of three forms of capital: financial, physical and human speaks to the value of strong governance, which is never more clearly expressed than in the Total Fund Investment Policy Statement. Last, as we noted in our November 2014 opinion letter, this Policy revision project brings a tangible set of documents that supports Belief # 10 - Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives. Robust investment policies will help CalPERS manage certain risks and will help frame out strong process for Staff to use as they manage the CalPERS' portfolios.

## Discussion

Staff has built a process for examining all investment policies throughout the span of this project. In addition to having clear and concise policies, Staff is planning on evaluating each based on the “Guiding Principles” laid out: 1) Clarity of Roles, 2) Testable, and 3) Appropriate Level of Detail. Wilshire has reviewed this process with Staff and provided input and feedback, as these Principles will shape the investment policies across the organization going forward. In many ways, the determination of appropriate Principles drives the effectiveness of the policies. Wilshire believes that the Guiding Principles are appropriate tools to direct the policy review project.

With specific regard to the proposed Total Fund Investment Policy, Wilshire has reviewed the proposed policy and believes it achieves a number of good outcomes. First, the consolidated policy will help simplify CalPERS’ overall suite of investment policies, which currently number forty six. Second, using Staff’s process, some language has been removed: duplicative language (as occurs when consolidating a number of policies), aspirational language (which should be more accurately reflected in Investment Beliefs or in Portfolio Priorities, as that project progresses), and any editorial language. Additionally, procedural language has been redirected to appropriate procedures documentation. It is fair to note that there has been debate about what constitutes “aspirational”, “editorial”, and “procedural.” However, after those discussions, Staff and Wilshire have concluded that the appropriate language remains in the policies.

In light of the Investment Committee’s ongoing interest in the incorporation of the Investment Beliefs, Wilshire and Staff discussed the appropriate location of the Investment Beliefs in the Total Fund Investment Policy. Wilshire and Staff decided to bring the Investment Beliefs to a prominent location in order to highlight their importance to the organization and the investment process.

Additionally, Staff and Wilshire have discussed appropriate ways for Wilshire to be meaningfully involved in the ongoing monitoring, testing, and maintenance of CalPERS’ investment policies. While the specific details of those interactions are still being determined, Wilshire – serving as the Investment Committee’s eyes and ears – will have a significant role.

Last, Wilshire would note that there are likely to be ongoing revisions to this policy throughout the year as the rest of the policy review project progresses through the investment office, according to the timetable laid out by Staff. Wilshire fundamentally believes that CalPERS’ investment policies should be evolutionary documents that change to reflect the changing nature of the global economy and investment marketplace and CalPERS’ role in both.

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. ...'.