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Managing Director & Principal

February 24, 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 was discussed in the February Investment Committee meeting, Staff has undertaken a project to review and revamp all of CalPERS investment policies. This item is the second 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. This policy will be subject to further revision as the policy review project progresses and Wilshire will work with Staff to take a holistic approach to any substantive changes to accurately reflect any particular policy items that are ideated from the Investment Beliefs. Our specific comments are noted below.

Investment Beliefs

Wilshire believes that CalPERS' Investment Policies serve as a bridge to 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

As we previously noted, 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.

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.

Importantly, Wilshire notes that there will be additional, substantive revisions to this policy 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. ...'.