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Managing Director & Principal

August 3, 2015

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

Re: Investment Policy and Delegated Authority

Dear Mr. Jones:

Overview

As part of the ongoing policy review project, Staff is proposing (conceptually) moving the limits/size of the current delegated authority to the appropriate sections of CalPERS' investment policies. This change would not impact the size or intent of the delegations, they would simply be relocated.

Investment Beliefs and Discussion

Wilshire believes that CalPERS' Investment Belief #9 – Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error; and Belief # 4 – Long term value creation requires effective management of three forms of capital: financial, physical and human; directly influence the delegation of authority from the Investment Committee to CalPERS Staff. Appropriate delegations help CalPERS manage certain risks by placing decision-making authority in the proper hands and help frame out strong risk-controlled processes for Staff to use as they manage the CalPERS' portfolios.

Wilshire has discussed the proposed changes with Staff. Because there is no material change in how the delegations will function, we discussed the rationale for the change. It should be noted that the Investment Committee will still have control over the delegated authority through their ability to control the investment policy documents. Additionally, the proposed change will result in delegations through the CEO to the Investment Office that are more consistent with other areas of CalPERS.

The ultimate intent of this transition is to have all of the specific limits of the delegated authority residing in the policy documents. Logically, this would lead to removing those specific limits from the delegated authority, although that is the Board's decision. If the Investment Committee agrees to proceed with moving the limits to the investment policies, the limits will exist both in policy and in the delegated authority resolution. Ideally, for simplicity these limits would only exist in a single location. However, to be sure the proper limits remain in effect throughout this policy review project process, they will exist in both places until the Board decides to modify the delegated authority resolution to remove the limits at a future point.

Conclusion

Wilshire believes that moving the limits of delegated authority to the investment policies is sensible and given the complexity of the CalPERS portfolio and organization, should lead to greater clarity with respect to Investment Committee-approved roles and responsibilities.

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. ...'.