



***Julia Bonafede, CFA***  
***President of Wilshire Consulting***

September 2, 2015

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

Re: Proposed Revision of the Global Equity Policies – Initial Review

Dear Mr. Jones:

In conjunction with the ongoing project to streamline all of CalPERS' investment policies, staff is proposing a review and update of the Investment Policy for Global Equity (Policy).

The goal of this update is to better align the policies with the CalPERS' Investment Beliefs and provide consistency with the Total Fund Policy and current management guidelines for the Global Equity Program.

The Policy is being streamlined into the new policy format. All language considered duplicative, aspirational or editorial has been removed and procedural language has been moved to the Policy Procedure document. In addition to the reformatting of the Policy, there are two clarifications to the Policy that better reflect the actual management practices of the Global Equity Program.

During the update of all of the policies there will be a period of time where limits to the portfolio management process will be duplicated in both the Global Equity Delegations and the Policy. Wilshire has identified the duplication to staff and they are confident that the policy revision project does not subvert the authority of the current delegations as the delegation language currently in place does not specify locations in the Policy even though they are referenced. Staff has requested that the Legal department provide an opinion to the IC.

According to the Policy's Strategic Objective section (B) "The Program seeks to utilize active management in an effort to earn a rate of return in excess of the benchmark. The degree of active management deployed is constrained by various risk limits for the asset class to manage



volatility.” The statement translates to a mandate for the Global Equity program to deliver the CalPERS Custom FTSE Benchmark plus 15 basis points.

The first change in the Policy is in the Investment Approaches and Parameters section (A,) Approach. The Global Equity team has previously described the Index-Oriented strategies as closely replicating the benchmark index. In actuality the Index-Oriented strategies are managed according to a tracking error constraint of less than 50 basis points which means that active management tools may be employed when executing trading decisions. The Index-Oriented portfolios will still closely track the designated benchmark but these strategies are not index funds according to the traditional definition of near total replication.

The second change is located in Appendix 3 – Investment Constraints/Limitations under specific Risk Parameters. The Asset Class Tracking error has been modified from 25 to 50 basis points of Predicted Tracking Error (PTE) as measured by the CalPERS Risk Management System to 0 to 50 basis points of PTE. While the chance of achieving zero tracking error to the benchmark is remote it is no less arbitrary than a minimum PTE of 25 basis points. However, without a lower limit of zero, it is conceivable that the Global Equity Program might have to take on additional tracking error under certain scenarios to comply with the Policy. Therefore, Wilshire agrees that a looser definition of PTE is sufficient.

A final noteworthy change to the Policy is the moving of the language defining limits to the use of leverage in the Global Equity portfolio to the Total Fund Investment Policy in accordance with the procedures planned for changes to the other programs. The original language has been preserved.

In conclusion, Wilshire agrees with the transformation of the Global Equity Investment Policy into the new format and with the clarification of language concerning the investment management practices and risk limit definition for the Global Equity portfolio. The streamlined policies reflect Investment Belief #10: Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in blue ink that reads "Julieak Brinkley".