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President, Wilshire Consulting

October 27, 2015

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

Re: Global Fixed Income Policies Revisions

Dear Mr. Jones:

Overview

As part of the ongoing policy review project, Staff is bringing forward revisions to the Global Fixed Income Policies. These policies include revisions made at the Investment Committee's request following the presentation of the proposed Global Equity and Global Fixed Income Policies in October.

Investment Beliefs and Discussion

As we have noted in the past, 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; speak directly to the need for strong governance in the form of robust policies and procedures.

Staff has made a number of changes from the prior iteration of these proposed policies. The language in the Introduction reflects the changes that are being proposed for the Global Equity Policy, which was discussed during the October Investment Committee meeting. Staff has added a section on the responsibilities of external managers located in Appendix 2. Appendix 3, which reflects guidelines by program, has also been updated for the Credit Enhancement Program, the Inflation Assets Program, the Low Duration Program, and the Securities Lending Policy. Wilshire has reviewed each of these changes and believe they are appropriate updates.

Conclusion

Wilshire judges that the proposed Policies, when combined with Staff procedures documents and regular testing by Compliance, provides a robust, holistic approach to governance for the Global Fixed Income Program. Staff has made revisions to comply with the suggestions and requests of the Investment Committee. Naturally, these policies will evolve over time and as the markets and CalPERS investments mandate.

Wilshire recommends that the Investment Committee adopt the Global Fixed Income policies as proposed.

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. ...'.