

Thomas Toth, CFA
Managing Director, Wilshire Consulting

February 2, 2016

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

Re: Revision of Affiliate Fund Policies and Repeal of Legacy Policies – First Reading

Dear Mr. Jones:

Overview

As part of the ongoing policy review project, Staff is bringing forward revisions to the Affiliate Fund Policies for a first reading. Wilshire encourages the Investment Committee to provide feedback, but regards this draft as having addressed the appropriate issues for this proposed revision.

The proposed revised policies remain consistent with other policy revisions and have been simplified to reflect the policy template and content methodology outlined in Staff's memo. The repeal of the TIPS and SIP Target Date Fund Policies works to consolidate direction and controls within internal staff guidelines and does not increase constraints or decrease controls in a manner that would affect overall portfolio risks. In addition, the roles and responsibilities as well as investment objectives remain delineated in consolidated form. Many changes, such as the realignment of the Affiliate Funds asset allocation review timeline, work to increase efficiency in the management of the Affiliate Funds.

Notably, there are no proposed changes in the delegation of authority for the Affiliate Funds. Additionally, the Investment Committee is still charged with asset allocation – the primary risk and return decision for the Affiliate Funds.



Investment Beliefs

As we have noted in our other policy reviews, 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; require strong governance in the form of robust policies and procedures. In addition, the more streamlined Policies support Belief #5 - CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution. The policy revision project furthers these beliefs, as well as Belief #10 outlined in Staff's memo.

Conclusion

Wilshire supports the continued consolidation and streamlining of policies in-line with those previously brought forward to the Investment Committee. The work further enhances CalPERS' operational processes through a reduction in duplicative and potentially conflicting language across policies. While this is a first reading, Wilshire believes that it address the significant issues that have arisen in the transformation of other policies throughout the organization and incorporates those experiences.

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 be 'T. B.', enclosed in a rectangular box.

Managing Director