

Thomas Toth, CFA
Managing Director, Wilshire Consulting

February 29, 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 – Second 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 second reading. We did not receive additional changes from the Investment Committee at the February meeting, and as such, Wilshire's opinion letter is unchanged.

The proposed revised policies remain consistent with past 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 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. Any changes, such as the realignment of the Affiliate Funds asset allocation review timeline, work to increase efficiency in the management of 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.

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