

***Andrew Junkin, CFA, CAIA
President, Wilshire Consulting***

February 28, 2016

Mr. Henry Jones
Chair of the Global Governance Ad Hoc Subcommittee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Proposed Total Fund Policy Revisions

Dear Mr. Jones:

Overview

Staff is bringing back the second reading of the Total Fund Investment Policy. This reading incorporates comments from the Investment Committee (IC) at the February IC meeting and makes substantial changes to the Divestment section of the Policy, in particular. Additionally, there have been other changes made to clarify the policy throughout, with more considerable changes in the Terminated Agency Pool section.

Discussion

After discussion with the IC, Staff and Wilshire have collaborated closely on the Divestment section of the Policy. Using one of the approaches Wilshire has historically used to measure the impact of CalPERS prior divestments, Wilshire will estimate on a quarterly basis the effect of each divestment and the total effect of all divestments on a quarterly basis, which will be reported to Staff for monitoring to see if any "unwind" provisions are met. Staff will report to the Board prior to commencing any unwind transactions. Wilshire will report to the IC annually on the state of all divestments.

Note that there are several nuances about the levels that prompt unwinding transactions. Any individual divestment must have a \$750 million loss for 12 consecutive quarters to trigger unwinding transactions. Collectively, total losses from all divestments (including gains and losses) exceed a net loss of \$2.5 billion at any measurement period will trigger unwinding transactions (except for divestments that are at a gain). While these time periods do not



“match,” Wilshire believes this is an appropriate way to evaluate individual divestments and divestments collectively. Individual divestments may need time to prove effective (or ineffective) and it should be expected that any individual divestment’s performance will vary with specific movements of each market segment. However, if a collection of divestments were to reach a significant loss threshold– in this case, \$2.5 billion – it would be difficult to assert that divesting was an effective investment strategy. Note that this total divestment measurement would include losses from any prior divestment transactions that were unwound.

The other changes in the policy are fairly straightforward and we believe they are appropriate. As we noted in our prior opinion letter, Wilshire recommends, and Staff intends, for the Total Fund Policy to be reviewed on an annual basis. CalPERS Investment Policies must evolve to be effective over time.

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 'Alan J. ...'.