

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

February 1, 2017

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

Re: Proposed Total Fund Investment Policy Revisions

Dear Mr. Jones:

You requested Wilshire's opinion with respect to the proposed Total Fund Investment Policy (the Policy) revisions. Wilshire has worked with Staff to review the proposed changes and has provided feedback, which was integrated in the proposed revisions. **While this is a first reading of the proposed Policy, Wilshire supports the proposed changes.**

Background

The proposed changes to the Policy incorporate a number of significant items which the Investment Committee has taken up over the past year. First, the Investment Committee has held numerous, detailed discussions about CalPERS' existing divestments and CalPERS' general approach to divesting. The Investment Committee has thoroughly reviewed the existing tobacco-related divestment and affirmed the decision to divest. Additionally, included in this month's materials is Wilshire's update to our regular report on the financial effects of the various divestments which CalPERS has had or currently has in effect. The Investment Committee's direction with respect to divestments has been captured in the revised Divestment section of the proposed Policy. Wilshire suggested that the language from the California Constitution with respect to the fiduciary duty of the Board and Staff be included in the Policy, which is now included in the proposed changes.

Next, the proposed Policy strengthens the focus on CalPERS' role as a proponent of proper governance by including the Global Governance Policy as a section of the Total Fund Investment Policy, including the Global Governance Principles. By including the Global Governance Policy and Principles in the Total Fund Investment Policy, CalPERS is "headlining" the importance of governance and recognizing that positive effects of good governance cross

asset classes and are best practiced in a holistic manner. This change would necessitate the repeal of the stand-alone Global Governance Policy.

Additionally, the revised Policy includes the updated target asset allocation that the Investment Committee adopted in 2016. Wilshire notes that if the Funding Risk Mitigation plan is formally changed (as has been discussed), that change should be captured in this Policy as appropriate.

Conclusion

As this is a first reading of the proposed Policy, the Investment Committee may have suggestions about language or approaches. Wilshire has reviewed all of the proposed revisions and believe that the proposed revisions successfully capture the critical issues that the Investment Committee has addressed of late.

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. ...'.