

Rose Dean
Vice President, Wilshire Consulting

March 1, 2017

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

Re: Annual Review of the Global Governance Principles

Dear Mr. Jones:

Overview

Staff has proposed revisions to the Global Governance Principles as part of the Annual Review and requested Wilshire's opinion. As you will recall, Staff along with the Ad Hoc Committee has worked to streamline and clarify CalPERS positions on a variety of issues related to the success and sustainability of the plan. During the 2016 Principles review, Staff compiled a list of areas to consider for future development. As part of that process, Staff is proposing in this revision to change the title of the Principles to "CalPERS' Governance & Sustainability Principles" in alignment with the new strategic plan. Staff also proposes incorporating a detailed Capital Allocation Discipline section within the Board Responsibility Principle.

The proposed changes expand the language on "Board Responsibilities – Corporate Strategy" of the Principles to provide clarity on the Board's role with respect to capital allocation decisions. Specifically, the language addresses the need for Board oversight and transparency in capital allocation process, including use of leverage and assessment of project success. A disciplined approach to capital allocation is critical to long term shareholder value creation, and this Principle further clarifies the process through which corporate governance can better align incentives. This issue is particularly germane at this time, given CalPERS' current efforts to address corporate governance practices in Japan, the plan's second largest investment market.

The Governance and Sustainability Principles address the multi-faceted nature of the risks faced by CalPERS as a global investor, and thoughtful considerations of corporate governance issues as reflected in this revision are indispensable to the success of the plan.

Conclusion and Recommendation

Wilshire Associates

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As we have noted in the past, this document will continue to evolve over time as markets and governance practices continue to evolve. Wilshire believes that the evolutionary changes proposed in this revision are appropriate in providing additional clarity on CalPERS' Principles with respect to the corporate governance framework for capital allocation decisions. Wilshire also agrees that the proposed title better reflects the alignment of the Principles with the new strategic plan and recommends that the Investment Committee approve these changes.

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 the initials 'TW' followed by a long horizontal stroke.