



*Rose Dean
Vice President, Wilshire Consulting*

April 6, 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:

Overview

You requested Wilshire's opinion with respect to the second reading of the Total Fund Investment Policy revisions. This reading incorporates the proposed changes to the Global Governance Principles presented at the March Investment Committee (IC) meeting, as well as a change to the Liquidity Program investment constraints.

Discussion

This reading of the Total Fund Policy revision reflects the changes proposed to the Global Governance Principles as a result of the 2016 Principles review. In order to better align CalPERS principles with the new strategic plan, Staff proposed changing the title to "Governance & Sustainability Principles." These principles were also updated to further detail board responsibilities with respect to capital allocation decisions and incentive alignment. Wilshire believes these changes provide additional clarity on CalPERS' position with respect to a corporate governance framework necessary for the long-term sustainability of the plan.

In addition, this revision incorporates a change to the Investment Constraints and Limitations for the Liquidity Program. Currently, all securities in the program are limited to a long term minimum credit rating of A-/A3/A1 by the rating agencies. Staff is proposing changing this constraint to allow sovereign securities with a minimum credit rating of Baa1/BBB+/BBB+ in the program. Based on the historical defaults of sovereign-issued securities, inclusion of investment grade short-term non-dollar securities is not expected to increase the credit risk of



the portfolio. Allowing the inclusion of these securities will increase portfolio diversification, and can potentially improve the risk/return profile of the Liquidity Program.

The other changes in the policy are fairly straightforward. Wilshire has reviewed all of the proposed revisions and recommends the changes be approved, with the understanding that the Total Fund Investment Policy is an evolving document to be reviewed on a regular basis.

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 'TWD'.