



**Steven J. Foresti**  
**Chief Investment Officer, Wilshire Consulting**

June 2, 2017

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

Re: Adoption of 2017 Capital Market Assumptions

Dear Mr. Jones:

You requested Wilshire's opinion with respect to adoption of the proposed 2017 capital market assumptions (CMAs) for use in CalPERS' 2017-2018 Asset Liability Management (ALM) process. The importance of the ALM process is clearly articulated by CalPERS Investment Belief 6, which recognizes that **strategic asset allocation is the dominant determinant of portfolio risk and return**. The CMAs represent key inputs into that process and serve to establish baseline expectations to define the characteristics of investable asset classes (i.e. the "A" in "ALM").

#### *The Process*

Staff coordinated an open, collaborative and robust process for developing the proposed capital market assumptions. The process collected and compared market forecasts and modeling methodologies from Wilshire, other Board consultants, external investment managers/advisors and directly from the various CalPERS INVO asset class teams. This initial set of views was further refined through open meetings and deliberation between Staff, Wilshire, PCA and Meketa. While recognizing the inherent imprecision in forward-looking market views, the process was transparent, rigorous and facilitated critical analysis of the final recommended assumptions suite.

#### *The Results*

Wilshire believes that Staff's recommended 2017 Capital Market Assumptions represent an appropriate reflection of the potential return, risk and diversification properties across CalPERS' asset class universe. The results are guided by sound methodologies and reflective of current market conditions. Though they contain input from a variety of sources, Staff's



recommended CMAs are generally consistent with Wilshire's standard assumptions in these asset classes.

*Recommendation*

**Wilshire is comfortable with both the process followed and the results produced through that process and, therefore, believes that the Investment Committee should approve use of the 2017 capital market assumptions as proposed by Staff.** In addition to being appropriate for the current market environment, the proposed assumptions remain consistent with the market views recently used to support CalPERS discount rate adjustments.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink that reads "Peter J. Forti".