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May 1, 2018

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

Re: Revisions to Total Fund Investment Policy

Dear Mr. Jones:

Overview and Recommendation

Staff has prepared a thorough set of proposed revisions to the CalPERS' Total Fund Investment Policy. Wilshire has reviewed the proposed revisions, had extensive back and forth communications with Staff clarifying a number of topics, and reviewed our understanding of the Investment Committee's intentions based on prior meetings. This is a first reading of the proposed policy changes and the Investment Committee's input is sought. Based on Wilshire's review, we believe the changes are appropriate and address the Investment Committee's wishes.

Investment Beliefs

Wilshire notes that CalPERS' Investment Belief # 4 – Long term value creation requires effective management of three forms of capital: financial, physical and human addresses the need for clear governance structures, such as this Policy. The governance provided by the policy helps CalPERS manage certain risks in a very complex investment/operating environment.

Discussion

Broadly, the proposed changes accomplish 3 things: 1) the ongoing streamlining and simplification of all CalPERS' Investment Policies; 2) reflecting the latest intentions of the Investment Committee; and 3) reflecting organizational changes.

Streamlining the Policy will help CalPERS strengthen the governance process. For example, some things would properly be governed in an investment management contract and including it in a policy would be duplicative and could cause confusion. Wilshire has reviewed these changes to ensure that the effectiveness of the existing Policy language is not reduced by the streamlining and simplifying efforts – we deem that to be true.

The proposed Policy does reflect recent discussions with the Investment Committee. Notably, Wilshire has confirmed that the proposed changes to the Governance and Sustainability Principles properly includes topics that the Investment Committee had discussed in 2018.

Last, the proposed Policy is updated to reflect the ongoing evolution of CalPERS as an organization. For example, the role of the Trust Level Portfolio Management (TLPM) team has evolved and the proposed language more accurately captures the roles and responsibilities of that part of the organization.

Additionally, Wilshire conducted a “what’s missing?” review comparing the CalPERS' Policy to other Investment Policy Statements and did not identify any omissions that should be included in the CalPERS Policy. Certainly, each organization has its own way of addressing a particular aspect of a policy, but Wilshire regards CalPERS' Policy as comprehensive and appropriate for the unique circumstances of the CalPERS portfolio and organization.

Conclusion

While this is a first reading of the proposed Policy and Wilshire and Staff expect feedback from the Investment Committee, Wilshire has reviewed the proposed changes in detail and supports the proposed Policy.

Best regards,

A handwritten signature in black ink, appearing to read 'Ann J. ...'.