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June 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

As a follow up to the May agenda item, Staff has prepared a second reading of proposed revisions to the CalPERS' Total Fund Investment Policy. The second reading includes feedback given by the Investment Committee at the May meeting and also includes a few other minor changes. Wilshire has reviewed the proposed revisions and reviewed our understanding of the Investment Committee's intentions based on prior meetings. Based on Wilshire's review, we believe the changes are appropriate, address the Investment Committee's wishes, and should be adopted by the Committee.

Investment Beliefs

Wilshire believes 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

As we noted in our May opinion letter, the proposed changes accomplish three 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.

Included in the changes since May, is more clarity around revisiting the Investment Beliefs of the organization. One part of this section that Wilshire feels the Investment Committee should clarify is the role of Staff in the Investment Beliefs review. During the Investment Committee meeting, it was noted that the original creation of the Investment Beliefs was a collaborative process with input from the Investment Committee, Staff, consultants, and other stakeholders. The language as currently drafted leaves the responsibility with the Investment Committee (Wilshire views the Investment Committee as the "owner" of the Investment Beliefs, so this seem appropriate), while Staff will "facilitate" as requested.

Another change is an update to the use of Prudent Person Opinions (PPOs) within Private Equity. PPOs would also be required for certain transactions within the Private Equity program – co-investments and customized separate accounts. There have been other clarifications within this section that provide additional clarification around the use of PPOs.

One other significant change is the inclusion of the new asset allocation targets and ranges and new benchmarks (including a new, lower "hurdle" rate for Private Equity). These have all previously been communicated to the Investment Committee and are being written into the Policy to formally adopt what has previously been approved.

Conclusion

Wilshire believes that the proposed policy continues to push CalPERS towards better governance. We recommend that the Investment Committee adopt the policy.

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. ...'.