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September 10, 2018

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

Re: Annual Review of Investment Policies – First Reading

Dear Mr. Jones:

Overview

As part of the annual effort to review policies, Staff is bringing forward revisions to the Total Fund and Real Assets policy for a first reading. Wilshire encourages the Investment Committee to provide feedback, but regards this draft as having addressed the appropriate issues for this proposed revision.

The proposed changes to the Total Fund policy document are concentrated within areas devoted to risk management and asset allocation strategy. Some of the language regarding the organizational structure needed to be updated to reflect the shifting of responsibilities from TLPM to the Investment Risk and Performance team. In addition to those changes, language in the policy was modified to remove unnecessary specificity for some of the risk reporting and allow reporting requirements to be somewhat flexible to stay in line with industry standards, as those evolve. For example within Appendix 2, responsibility 11 was initially edited to remove language on the usage of a three year rolling window for monitoring total fund tracking error. Wilshire viewed the spirit of the change as being correct. However there was no specific language as to what was an appropriate risk horizon to use. In the final reviewed version that language was modified

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to use a 5 year rolling window for historical tracking error and an industry-accepted model to measure forward looking tracking error.

The proposed changes to the Real Assets policy redefine the use of the net asset value threshold in determining when key parameters related to geographic exposure and leverage are applied. In addition to that change there are some minor edits to clarify some points and remove redundant wording that does not add value to the overall document.

Investment Beliefs

As we have noted in our other policy reviews, Wilshire believes that CalPERS' Investment Belief #9 – Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error; and Belief # 4 – Long term value creation requires effective management of three forms of capital: financial, physical and human; require strong governance in the form of robust policies and procedures. In addition, the more streamlined Policies support Belief #5 - CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution. The policy changes proposed in this reading furthers these beliefs, as well as Belief #10 outlined in Staff's memo.

Conclusion

Wilshire supports the changes in both policy documents. With regards to the Total Fund policy changes it was important that if specificity is removed, that the new language is still clear with regards to what is appropriate level of reporting. Tying that to industry standards is good practice from a policy standpoint and allows for appropriate flexibility. This work further enhances CalPERS' operational processes through a reduction in duplicative and potentially conflicting language across policies.

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 'M. K.', written over a horizontal line.

Managing Director

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