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October 26, 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 – Second Reading

Dear Mr. Jones:

Summary

As a follow up to the September agenda item, Staff has prepared a second reading of proposed revisions to the Real Asset and Total Fund policies. The second reading includes feedback given by the Investment Committee at the September meeting and includes a few other minor changes. Based on Wilshire's review we believe the changes are appropriate and address the Investment Committee's feedback.

Discussion

After the September board meeting, staff incorporated feedback from the Committee into the updated policies. All changes made were relative to the versions provided in the first reading.

Within the Real Asset Policy, the primary revisions relate to changing wording regarding leverage "limits" and instead use the term "parameters". There were also a handful of ministerial changes.

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The Total Fund Policy is **completely unchanged** from the first reading version.

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
- CalPERS' Investment 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
- CalPERS Investment 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 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 be 'M. K.' with a long horizontal stroke extending to the right.

Managing Director