



Steven J. Foresti
Chief Investment Officer, Wilshire Consulting

May 22, 2019

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

Re: CEPPT Affiliate Trust Asset Allocation Review

Dear Mr. Feckner:

You requested Wilshire's opinion as it relates to Staff's recommended asset allocation for the California Employers' Pension Prefunding Trust (CEPPT). Established by law in 2018, the CEPPT is the newest fund within CalPERS' Affiliate Investment Program (AIP) and provides prefunding flexibility to state and local public agency employers that sponsor a defined benefit pension plan. The Trust was established to provide diversified investment options that benefit from the scale and cost structure of CalPERS' AIP platform.

The Process

In preparing the CEPPT's asset allocation recommendations, Staff followed the same well-established process that was utilized when updating existing AIP fund asset allocations in 2018. As such, Wilshire believes that the methods, inputs and data used to perform the CEPPT's inaugural asset allocation study are appropriate and reasonable. While updated from a year earlier to reflect the current economic and market environment, the asset class assumptions used in the process (summarized on slide 8 of Staff's deck) are comparable to those developed and currently used by Wilshire in conducting asset-liability studies. The proposed asset class benchmarks/indexes (slide 11) are appropriate and representative of the intended risk characteristics within each investment segment.

Minimum constraints were included for TIPS and REITs to achieve a certain level of diversification in the alternative portfolios that might otherwise be underappreciated in

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a pure optimized framework. Wilshire is comfortable with these constraints given the instability of the underlying optimization assumptions, particularly as they relate to the inherent limitations of correlation estimates. This viewpoint also is consistent with Investment Belief 9 (i.e. Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error).

Selection of Asset Allocation Target Portfolios

As a result of its intended role, assets invested within the CEPPT are expected to be deployed over a short to intermediate investment horizon. Consistent with the objectives mandated by such a horizon, and as summarized on slide 7 of Staff's presentation deck, Staff has recommended a low and medium risk allocation mix to serve as the CEPPT's two investment options.

Wilshire believes that the recommended asset allocations with expected return/risk of 5.0%/8.2% for the medium risk option (CEPPT Strategy 1) and 4.0%/5.2% for the lower risk option (CEPPT Strategy 2) are appropriate for each fund's general objective. Staff's recommended rebalancing ranges, provided on slide 12, are also reasonable and accommodate an appropriate level of flexibility in managing market volatility while ensuring that asset class allocations remain consistent with strategy targets.

CEPPT Investment Policy

Wilshire has reviewed the Investment Policy for the CEPPT and believes that it is comprehensive and consistent with the established principles governing other related AIP funds (i.e. CERBT).

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 'Steven J. Foresti'.

Steven J. Foresti