













Organization: Firm (Score Increased – More Stability of Senior Management)

In evaluating the quality of a manager's organization, Wilshire assesses factors contributing to the stability of the organization and the alignment of incentives between the team and the organization's long-term objectives. The score reflects the recent hiring of the new CIO (positive), as well the departure of the COIO (negative). The COIO position has been assumed on interim basis by the MID of Global Equities. We believe that the new CIO has brought a fresh perspective to improving the fund performance, and have seen early evidence of breaking down the silos to focus on Total Fund performance. We view this as a constructive step and will focus on the effectiveness of this Total Fund mind-set across the asset class teams in future reviews.

CalPERS still faces some unique organizational risks that for-profit enterprises have greater flexibility in managing, such as inability to provide employees direct ownership opportunities. Ensuring that CalPERS as an organization has the tools necessary to recruit and retain qualified, diverse candidates should be a strong focus in line with Investment Belief #10 - Resources and Process. In addition, given that there are some changes that are taking place across the organization according to the new initiatives of the CIO, the impact from potential changes in the structure of the investment teams and the resulting compensations is still largely uncertain. We will note that the organization has made strides to adjust pay scales to be more competitive in the marketplace, as well as aligning incentive compensation with the Total Fund performance objectives.

Organization: Team (No change in Score)

The TLPM team includes 56 (up from 19 last year) individuals including a dedicated Managing Investment Director, with 62 approved positions. The increase in staff was primarily driven by the transitioning of the Investment Manager Engagement Program (IMEP) from reporting to the COIO to TLPM, as well as centralizing support services into one team - Total Fund business & Analytical Services (TFBAS) within TLPM. The MID is a member of the Asset Liability Management Advisory Committee (ALMAC) as well as the chairperson of the Investment Strategy Group (ISG). The ISG includes four subcommittees on portfolio allocation, risk & attribution, investment review, and governance & sustainability, which draw from the collective expertise of senior INVO staff. Wilshire believes the MID's role in the cross-asset class committees is a strong positive for better integration of INVO staff views on total fund portfolio positioning.

The MID is supported by two Investment Directors, seven Investment Managers, three Associate Investment Manager and fifteen Investment Officers of varying seniority. The



increase in resources dedicated to TLPM is significant. Wilshire views the increase in the size of the team as continued recognition of the importance that decision-making at the Total Fund level can have on overall investment performance, as well as consistent with some of the expanded functions of TLPM. At this point, the TLPM team is appropriately resourced for the work they are tasked to accomplish.

There are currently six open positions (2 Investment Officer and 4 Support Staff) within TLPM. While the team continues to look for outstanding candidates for open positions, compensation bands constrain its ability to attract candidates especially with competition from both local and national financial organizations.

#### Information & Forecasting (No change in score)

Research activities have continued to expand over the last year, with a centralized review of all the active risks in the portfolio as one of the new initiatives that has been taken on by the research function within TLPM. Wilshire views this as a positive step from a risk management point of view and makes sense to be handled within TLPM; accordingly, we have increased our grade with respect to depth of information.

The business philosophy laid out by staff that is focused on People, Operational Effectiveness, Performance, and Collaboration is a positive one and highlights that human capital management and planning is a priority for CALPERS internal programs.

Forecasting success was somewhat challenging for TLPM over the last fiscal year as some external strategies underperformed and highlighted the challenges in identifying skillful managers in the area of tactical asset allocation. We have downgraded the score for forecasting success because of this, but the overall forecasting score was not affected.

#### Portfolio Construction (No change in score)

TLPM's role in both strategic and dynamic asset allocation work means that portfolio construction considerations will be a dominant driver of results moving forward. Wilshire believes the TLPM team has demonstrated the expertise and experience necessary to properly plan and execute this process to help CalPERS meet its long-term commitments.

The team has long experience managing the strategic asset allocation process, from setting capital market expectations with input from various market participants to modeling alternative policy portfolios for discussion.



Dynamic asset allocation is another key area of responsibility, one where there has been progress made, and which is expected to evolve and advance over time. Over the last year, an evaluation of external TAA strategies has highlighted that skill in that area is challenging to identify and is not likely to have a meaningful impact to the total fund. An area that has been identified that can have more impact is leverage management. Currently work is underway to update the policy statement so that leverage implementation can be handled at the total fund level. Wilshire views this shift in identifying strategies that have more impact to the risk profile of the total fund is consistent with the long-term goals of the plan.

Further, dynamic asset allocation also encompasses the strategic relationships with outside partners. Information-sharing and knowledge transfer is a key benefit of the strategic relationships as the team works to implement repeatable and scalable dynamic portfolio construction strategies. TLPM is now tasked with the next evolution of that external program which could focus on cross asset risk premiums and trend following strategies.

#### Implementation (Score increased – Successful transition to new Asset Allocation)

TLPM is responsible for planning and overseeing the implementation of the approved asset allocation targets. Staff have been very vigilant in providing a roadmap for this implementation and utilizing the expertise of INVO Staff across asset classes. Over the last year staff has been able to successfully complete the strategic asset allocation transition and this is reflected as an improvement in the implementation score. With the mid-cycle review planned for next year staff communicated to us that automation work involving the capital market assumptions should further improve some of the operational efficiencies of the process.

Investment manager engagement including the CalPERS Emerging and Transition manager program is a new function for TLPM. The view is that TLPM is better situated to handle some of these initiatives from the perspective of the total fund and to implement from a common framework perspective in collaboration with the asset classes. Wilshire agrees that this type of engagement is best suited from a total fund perspective especially as part of the broader review of active risk taking within the total fund.

#### Attribution (Score Increased – Depth and Integration of Attribution)

The use of attribution has been repeatedly stated by the new CIO and echoed by staff as a major focus of evaluating all decisions across the total fund. Wilshire has increased our score of TLPM as reflection of this enhanced desire to use attribution, but also to examine





the active risks taken throughout the portfolio. Wilshire also reiterates that impact of TLPM extends beyond just its contribution to excess return.

*Conclusion*

Two years in to the process, Wilshire views the continued build out of the Trust Level Portfolio Management team in a positive light. The roles, strategies, and processes have evolved over the last year, consistent with the overall plans for the total fund. Going forward, continued strong and clear communication to staff about their roles should help alleviate any short-term uncertainty brought about during the implementation of a new culture focused on total fund performance. This has the potential to improve outcomes when looked at through the lenses of both risk and return over time.

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 'AK'.

Ali Kazemi  
Managing Director

A handwritten signature in black ink, appearing to be 'T. Toth'.

Thomas Toth, CFA  
Managing Director