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September 3, 2019

Mr. Rob Feckner  
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. Feckner:

### **Summary**

As a follow up to the August agenda item, Staff has prepared a second reading of proposed revisions to the Total Fund policy. The second reading includes two additional changes that Wilshire reviewed with Staff. After a revision to the proposed additional changes, Wilshire is comfortable with all modifications made to the policy as presented in this second reading.

### **Additional Changes**

1. The first change centralizes the reporting responsibility within the total fund policy concerning any problems, material changes, or violations. This is in line with the focus on total fund that serves as the basis for many of the changes in the policy, and will allow some duplicate language to be lifted out of the individual asset class policies. Wilshire reviewed and has no issues with the proposed change.
2. The second change is related to the handling of policy exceptions when violations occur that could be deemed "false positives", because they result from a transition to a new allocation approved by the Committee. Rather than to continue to report these violations repeatedly during the transition period, language was first proposed to eliminate the reporting requirement to the Committee. In discussion with staff, Wilshire agreed with the spirit of the change, but the language was deemed too open-ended.



Staff revised the language to provide more clarity that that type of exceptions would only be *“attributable to temporary mis-weights arising from the Committee’s adoption of new program and/or subprogram asset allocation targets...”*, as well as specifying that staff would have to provide a reasonable estimate for the transition to complete. If that estimate is provided to the Committee, no violations will be reported based on the new language. With this revision in place, Wilshire believes the appropriate specificity has been provided to ensure a narrow enough corridor to balance the need for the board to be kept aware of violations of policy, but not to be inundated with non-material violations.

### **Investment Beliefs**

Wilshire believes the changes support CalPERS’ Investment Beliefs:

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...”*

Investment Belief #5 – *“CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution.”*

In addition, Wilshire agrees as stated in the Staff memo that the more streamlined Policies support:

Investment Belief #10 (sub-belief C) - *“CalPERS will be best positioned for success if it 1) has strong governance, 2) operates with effective, clear processes...”*

### **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,

Two handwritten signatures in black ink. The first signature is cursive and appears to read 'Ann J...' and the second is more stylized, possibly 'M.K.'.