



Steven J. Foresti
Chief Investment Officer, Wilshire Consulting

Thomas Toth, CFA
Managing Director

August 30, 2019

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

Re: Review of Global Equity and Global Fixed Income Program Policy Revisions

Dear Mr. Feckner:

You requested Wilshire's opinion as it relates to the first reading of the Public Asset Class Program Policy Revisions for Global Equity (GE) and Global Fixed Income (GFI). These public asset class policy changes are associated with and support the Total Fund Investment Policy (Total Fund Policy) changes Staff brought to the Committee for first reading last month (during the August 2019 IC meeting). Wilshire has reviewed both documents and is comfortable with the proposed changes. We briefly summarize the nature of each Program's modifications below and note that the primary necessity for revisions results from each Program's shift to asset class segmentation. Other embedded modifications are generally ministerial in nature.

Global Equity

As part of the latest asset liability cycle, the board approved a segmentation approach within the GE portfolio that includes both Capitalization Weighted and Factor Weighted segments. Prior to adoption of the current strategic asset allocation portfolio, the GE asset class was structured through a single, capitalization weighted approach. Aside from modifying the GE policy to specifically describe the two segments and their general investment objectives, the policy describes active risk levels around each segment's respective benchmark. The proposed policy applies the current 0 – 50 basis points of tracking error range that is in place across the



entire GE portfolio to each of the two asset class segments. Wilshire is comfortable with this proposed change and notes that, when combining across the two segments, the GE portfolio's overall risk ranges will be the same or tighter than those defined in the current policy.

Global Fixed Income

Similarly, the GFI program has been segmented into Treasuries, Spread, and High Yield. These replace the prior fixed income policy language around dollar denominated, international, and credit enhancement programs. The revised policy outlines the strategic objectives of each of the three segments along with the concomitant investment constraints. The policy revision does eliminate the total Program duration constraint, but adds specified duration constraints either in policy (for Treasuries) or in the attendant IPG (for Spread and High Yield) for the three segments. Wilshire believes that the revised policy defines appropriate risk controls necessary for delivering on the investment objectives set out for GFI.

As noted above, Wilshire is comfortable with the changes proposed within both the GE and GFI policy documents. Please do not hesitate to contact us should you require anything further or have any questions.

Sincerely,

Handwritten signature of Peter J. Fenty in cursive.

Handwritten signature of T. B. in cursive.