

November 17, 2025

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

Re: Consultant TFPM Program Review

Executive Summary: Total Fund Portfolio Management (TFPM)

TFPM remains central to CalPERS' efforts in supporting Asset Liability Management and Total Fund Allocation decision-making. The team has continued to refine its approach to portfolio allocation management, portfolio completion, and liquidity and financing management while providing ongoing support towards the migration to a Total Portfolio Approach (TPA).

Key Achievements:

- TFPM executed \$73 billion in portfolio allocation adjustments to maintain a stable risk profile across private asset flows, pension flows, and plan rebalancing.
- Realized allocation management tracking error remained below 5 basis points, demonstrating disciplined implementation.
- \$45 billion in financing helped support strategic and active exposures, underscoring TFPM's role in funding stability and cost minimization.
- Significant contributions to TPA development include:
 - Board education
 - Reference Portfolio development
 - Cost of Capital model
 - TPA Risk Model
 - TPA Reporting
- Supporting implementation related to the Investment Data & Technology Modernization Initiative

Team Resources

Last year, we observed a correlation between personnel turnover and changes in TFPM's functional responsibilities. Over the past 12 months, the group's FTE count has remained relatively stable; however, the departure of the Managing Investment Director (MID) is a significant development, and the search for a successor is ongoing. TFPM currently comprises 39 FTEs with 3 open positions, including the MID role—a slight decrease from 41 FTEs last year.

With TPA's INVO-wide integration, the team must build relevant expertise, as TFPM will be central to distributing tools and frameworks for informed portfolio decision-making.

Our Team score remains unchanged this year, currently rated in the 5th decile.

While senior leadership turnover would typically warrant a scoring downgrade, we believe the group is being effectively managed in the interim, with strong leadership at the Investment Director level. We remain confident in the count and quality of personnel supporting TFPM's functions and in the strategic partnerships the team leverages outside the organization. Continued stability, clear role definitions within the TPA framework, and successful recruitment of an MID who can embrace the culture change would support an upward revision of this score in the future.

Areas of Responsibility

As of 2025, Total Fund Portfolio Management (TFPM) continues to focus on three primary areas that are essential for maintaining portfolio balance, supporting informed investment decisions, and ensuring efficient liquidity and financing:

- Portfolio Implementation
- Portfolio Construction
- Strategy Development

Portfolio Implementation manages financing, liquidity, and the overall risk profile to meet both external and internal funding needs. The team's disciplined approach to allocation management resulted in \$73 billion in portfolio allocation adjustments over the past year, maintaining a stable risk profile while considering private asset flows, pension flows, and plan rebalancing. TFPM also managed \$45 billion in financing for strategic and active exposures, with a focus on funding stability, cost minimization, and balance sheet monetization. The team continues to expand funding channels and diversify liquidity management across asset classes, instruments, and counterparties, which is vital for navigating market volatility and supporting long-term strategic objectives. The efforts by the team in managing liquidity have been impressive and we have noted that coverage in areas related to operations are improved. **Given these developments we have increased our overall Implementation score from fourth decile to third decile.**

Portfolio Construction has been a major focus of the TFPM team over the last year, particularly as it relates to supporting the Total Portfolio Approach (TPA). Contributions have been made across the board (Research, Design, Strategy) and are good examples of the depth of talent within those areas. The TPA support encompasses economic and

market research, capital market assumption development, allocation and risk budgeting, and portfolio analytics. The team continues to develop tools to provide a unified view across asset classes, conduct scenario analysis, and supports allocation framework development. These activities are critical for informed decision-making and risk oversight, ensuring that portfolio design aligns with both current and forward-looking market conditions. **Our scoring for Portfolio Construction remains unchanged with a 2nd Decile (Grade: A).** While we see many positive contributions over the last year in terms of some of the TPA workstreams related to risk budgeting and cost of capital modeling, we would like to observe the portfolio performance impact of these work products before moving up scoring further. **Our Information Gathering score has also increased slightly (6th to 5th decile) to reflect the improvement of the teams' resources both internally and externally, with room to improve further as we see the depth and breadth of information continue to evolve additively.**

Strategy Development has been defined as the functional area that is focused on development of cross-portfolio / multi asset investment strategies. These are strategies that can complement the existing portfolio and add excess returns through downside risk protection or additional forms of diversification. While there has been less emphasis in this functional area over the last year given the focus on TPA initiatives, the work to educate senior leadership on the team's internal capabilities and potential paths to deployment of capital should result in more tangible portfolio impact with the introduction of TPA. We should also note that while the Portfolio Strategy team is focused on efforts in this area they have also participated in efforts related to TPA (within Portfolio Construction) and highlight the level of collaboration already mentioned in this letter.

Using Wilshire's standard manager research scoring framework, the Program is currently assessed in the 4th decile, consistent with last year's ranking. Notably, the score has increased slightly this year, reflecting improvements in portfolio implementation and information gathering. As TFPM continues to adapt to a TPA-driven culture, our largely unchanged score acknowledges the need for the existing team—and a new MID—to work together over time. This will allow us to better evaluate the program's impact both qualitatively and quantitatively in future assessments.

CalPERS Total Fund Portfolio Management	Tier	Letter
TFPM Program Independent Score (ex-Firm)	4th	B
Overall Score (including Firm)	4th	B

Organization

FIRM

Quality and Stability of Senior Management

Quality of Organization

Ownership/Incentives

TEAM

Stability of Investment Professionals

Quality of Team

Commitment to Improvement

Weight	Tier	Letter
30%	6th	C
50%	7th	D

Information Gathering

Information Resources

Depth of Information

Breadth of Information

50%	5th	C
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18%	5th	C
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Forecasting

Clear & Intuitive Forecasting Approach

Repeatable Process

Strength, Clarity, and Intuitiveness of Valuation Methodology

Forecasting Success

Unique Forecasting Approach

18%	4th	B
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Portfolio Construction

Risk Budgeting/Control

Defined Buy/Sell Discipline

Consistency of Portfolio Characteristics

18%	2nd	A
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Implementation

Resources

Liquidity

Compliance/Trading/Monitoring

9%	3rd	B
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Attribution

Depth of Attribution

Integration of Attribution

9%	3rd	B
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