

February 20, 2026

Mr. David Miller  
Chair of the Investment Committee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95811

## Re: Agenda Item 6b: Total Fund Policy Review – First Reading

---

Dear Mr. Miller:

You requested Wilshire's opinion on the project to restructure the Total Fund Investment Policy to align with the Total Portfolio Approach (TPA). As it currently stands, the Investment Policy is more than one hundred pages long. The recommended modular approach to policy aims to enhance readability and useability by streamlining content and reducing redundancy. This includes introducing a central umbrella **CalPERS Board of Administration Statement of Investment Policy** that will link to other fund investment policies, governance and sustainability principles, and investment beliefs.

### Impactful Policy Changes

In many cases, content from the current Total Fund policy has been moved to the central Investment Policy with no changes. These include the Governance & Sustainability Principles, Responsible Contractor Program, Private Equity Outsourcers, and Divestment policies. The Board should be confident that the governance established in these policies remains firmly in place as articulated in Investment Belief 3: "CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with the fiduciary duty to members and beneficiaries;" and Investment Belief 9: "Risk is multifaceted . . . As a long-term investor CalPERS must consider risk factors . . . that emerge slowly over long time periods, but could have a material impact on company or portfolio returns."

Investment Belief #6 has been edited to reflect a broader view of the importance of asset allocation and align it with TPA. The primacy of asset allocation as the dominant determinant of portfolio risk and return remains consistent.

Staff recommend standing up a new **PERF Investment Policy** to codify the investment governance around TPA. Strategically, the Investment Committee continues to set the PERF target level of market risk by establishing a Reference Portfolio, along with a limit on active risk. Board consultant roles are embedded in fund-level governance and tied to specific tools/procedures around active risk modeling, leverage calculations, and benchmark oversight. Wilshire has reviewed the investment responsibilities for Staff and the Board Consultants and confirms that changes were focused on those related to maintaining prudent governance within a TPA framework.

The policy also continues to incorporate investment constraints on leverage, securities lending collateral, and Staff authority limits for Real Assets, Private Equity, Private Debt, and Opportunistic & Innovation

strategies. Specifically, the proposed leverage constraint of 20% is consistent with the current combined leverage limit of 5% strategic leverage and 15% active leverage. Liquidity governance is explicitly integrated into total-portfolio governance for the PERF through the Investment Treasury Management team rather than being a standalone program section within the current version of policy.

As part of putting this policy structure in place, rescissions are required for the current Total Fund Investment Policy; and legacy policies for Absolute Return and Inflation Linked Assets, neither of which covered current investments. Wilshire does not believe that the rescissions will reduce the effectiveness of Board oversight.

The **Affiliate Program** policies should be read in conjunction with the Board Statement of Investment Policy umbrella document. Edits to the policies have been made to improve consistency where appropriate. Each policy has delineated the responsibilities of the Investment Committee, Staff, and Consultants that are consistent across the Affiliate programs. They each incorporate investment constraints/limits, allocations and benchmarks specific to each plan. Guidelines around securities lending collateral have also been included in each policy. The additions provide specificity for each Affiliate, but do not fundamentally change the governance oversight of the Affiliates. High level investment decision making remains wedded to strategic asset allocation as the determinant of risk and return across portfolios.

## Discussion

As the Board's general consultant, Wilshire examines proposed policy changes through the lens of reinforcing Board governance and ensuring the appropriate tools and reporting are in place to drive strong portfolio results. This policy project codifies the governance structure and guardrails necessary to successfully implement the Board approved change to TPA for the PERF, while continuing to manage the Affiliate Funds under the strategic asset allocation framework. Wilshire has provided regular input during this project to ensure a high level of Board governance is maintained under the new structure. **Overall, Wilshire affirms that the revised policy structure aligns with a robust governance framework.**

Fundamentally, TPA governance focuses on a unified view of portfolio risk. The Board can focus on evaluating how all investments build up to meet the total portfolio objectives, rather than whether the portfolio asset class weights are within range of approved targets. This improves accountability because all deviations from the Reference Portfolio are explicitly decisions controlled by Staff. As the Board consultant, Wilshire will provide oversight for the framework that translates the risks of all underlying investment strategies to Total Fund risk.

Importantly, while TPA does increase implementation flexibility, it does not follow that this flexibility is unlimited. The PERF policy explicitly includes a limit on the allowable amount of active risk, which is the primary governance restriction on deviating from the approved Total Fund risk level. This increases the importance of monitoring how active risk evolves over time. Wilshire is actively involved in ongoing discussions around this risk modeling and will continue to provide oversight on behalf of the Board. Given that, Wilshire would highlight two key things:

- Active risk governance is underpinned by forward looking active risk models. These models are meant to provide a look-through estimate of true economic volatility, accounting for the lower frequency valuations for illiquid assets.
- Realized active risk can look quite different from forward looking active risk estimates. These variances are driven primarily by the valuation lags inherent in private asset markets. Oftentimes, the realized volatility of private assets is substantially lower than public assets. For example, realized volatility for private equity can be almost half that of public equity (9% vs. 17%).

Wilshire supports using forward-looking risk modeling as the primary active risk governance tool, as laid out in the new PERF policy. This approach to controlling active risk is more robust than approaches that measure risk adherence after the fact.

The process of updating the investment policies supports a number of CalPERS' Investment Beliefs:

Investment Belief 4: "Long term value creation requires effective management of three forms of capital: financial, physical and human; Governance is the primary tool to align interests between CalPERS and managers of its capital . . . ."

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

Investment Belief #6 – CalPERS will take risk only where we have a strong belief we will be rewarded for it.

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

While this is a first reading of the proposed Policies and we welcome Investment Committee feedback, Wilshire has reviewed the proposed revisions in detail. We believe that the changes promote effective governance and further implementation effectiveness under TPA. Please do not hesitate to contact us should you require anything further or have any questions.

Regards,



Thomas Toth, CFA

Managing Director, Wilshire Advisors