February 23, 2026

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

Re: Agenda Item 6c: ALM First Reading – Affiliate Funds Recommendation

Dear Mr. Miller:

You requested Wilshire's opinion as it relates to Staff's recommended asset allocation for the Affiliate Funds listed below. As of December 2025, these funds held approximately $36B in invested assets. This year's Affiliate Funds ALM study reflects adherence to the regular four-year asset allocation cycle, as the last full study was conducted in 2022 with a mid-cycle review occurring two years ago. Recommendations for the Supplemental Income Plans (SIP) Defined Contribution Funds are scheduled to be presented during the June Investment Committee meeting.

- Long-Term Care Fund (LTC): $4.9B
- Legislators' Retirement System Fund (LRS): $91M
- Judges' Retirement System Fund (JRS): $56M
- Judges' Retirement System II Fund (JRSII): $3.2B
- CA Employers' Retiree Benefit Trust Fund (CERBT): $27.3B (3 strategies)
- CA Employers' Pension Prefunding Trust Fund (CEPPT): $351M (2 strategies)
- Health Care Fund (HCF): $79M

The Process

Wilshire believes that the methods, inputs, and data used to perform the asset allocation study are appropriate and reasonable. The asset class assumptions used in the analysis were derived from the same survey process approved by the IC during the PERF's recent ALM cycle. From this broad set of assumptions, Staff utilized CMA horizons (i.e., 5, 20, 30-year) consistent with each fund's investment circumstance.

Where included in the asset class opportunity set, minimum constraints were established for TIPS (5%), Global REITs (8%), and Commodities (3%) to force a minimum level of diversification into the candidate portfolios that might otherwise be underappreciated in a pure mathematically optimized framework. The constraints are unchanged from those used in the latest mid-cycle review. Wilshire remains comfortable with these constraints given the instability of the underlying optimization assumptions, particularly as they relate to the inherent limitations of correlation estimates. This viewpoint is consistent with Investment Belief 9 (i.e., Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error).

In evaluating the candidate target policy portfolios, Staff followed the same quantitative approach of maximizing projected return at various levels of expected downside risk as was used in the previous full-cycle review. As such, the proposed allocation mixes do not follow the PERF's recently adopted Total Portfolio Approach (TPA), with its reliance on establishing a Reference Portfolio for setting asset allocation policy. Staff will review the adoption of TPA in future AIP ALM cycles once its implementation has been fully integrated into the PERF.

Specific to JRSII, Staff has recommended incubating Private Equity (PE) exposure in the fund through an Opportunistic & Innovation program. Such an approach would be consistent with the process the PERF recently followed when establishing its Private Debt allocation. To control its impact during the incubation period, Staff's proposal calls for capping the maximum allocation to the Opportunistic & Innovation program to 5% of JRSII fund assets. Wilshire agrees that, as an open, relatively young (i.e., cash-flow positive) plan, the JRSII portfolio is well suited for the return, risk and liquidity profile of PE investments.

Selection of Asset Allocation Target Portfolios

In total, there are ten allocation recommendations (one each for HCF, LTC, LRS, JRS & JRSII, three for the CERBT and two for the CEPPT). Wilshire believes that Staff's candidate asset mixes are appropriately specified for each Fund and take into account relevant decision factors such as, for example, funding status and contribution rates where applicable. Consistent with the general stability seen in CMAs versus the 2024 mid-cycle review (pages 5, 8 & 25 of Attachment 1) Staff has recommended maintaining current allocations for 9 of the 10 portfolios (for all but the LRS fund).

Wilshire is generally comfortable with these proposals and believes that Staff's recommendations appropriately balance the tradeoffs of return and risk within the current environment. We do note that in some cases, there are lower-risk options that are projected to deliver comparable levels of expected return. For example, in the case of CEPPT Strategy 2 candidate portfolio B is expected to deliver the same 5.3% return as Staff's recommended portfolio with 0.5% lower expected volatility. Wilshire credits Staff for presenting the Investment Committee with several viable candidate portfolios so that it has flexibility to identify preferred asset mixes should its risk appetite differ slightly from Staff's recommendations. We would encourage the Committee to probe Staff's recommendation rationales across these options to fully appreciate the factors driving the allocation recommendations and specifically note viable alternative options for JRSII, the three CERBT strategies, and the two CEPPT strategies.

Should you require anything further or have any questions, please do not hesitate to contact us.

Regards,

Steven Foresti
CIO Emeritus, Wilshire Advisors

