

May 26, 2026

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

Re: Agenda Item 6b: Asset Liability Management: First Reading - Supplemental Income Plans Recommendations

Dear Mr. Palkki:

You requested Wilshire's opinion as it relates to Staff's recommended asset allocation glidepath for the Supplemental Income Plans (SIP). As of December 2025, the CalPERS SIP had approximately \$3.2B in assets. Staff engaged an external consultant to conduct glidepath analysis for the SIP program. Wilshire believes that the methods, inputs and data used to perform the evaluation 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. Demographic and participant behavior data were incorporated through the modeling and/or gathering of elements such as salary growth, participant contribution rates, income replacement goals, household income sources, plan distributions, household life expectancies, and income shortfall. The importance of liability information within the analysis is consistent with Investment Belief 1 (i.e. liabilities must influence the asset structure).

In evaluating the appropriateness of various glidepath options, Staff and the external consultant primarily focused on trade-offs between the competing goals of maximizing expected income replacement, while adhering to defined risk limits. As can be seen on slide 18 of Staff's presentation deck (attachment 1 of this agenda item), estimates such as ending balance, probability of shortfall, years before drawdown, additional contribution, probability of negative returns near retirement, and worst-case annual return at retirement were factored into the glidepath analysis. The consideration of this wide variety of risk metrics is important to understanding glidepath characteristics and 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).

Glidepath Selection

The proposed glidepath, which is reflected on slides 16 and 17 of attachment 1, reflects Staff's and their external consultant's recommended glidepath based on their assessment of the various risk trade-offs referenced above. This cycle's analysis included the addition of Treasury Inflation-Protected Securities (TIPS) as a standalone asset class. Wilshire views the introduction of a dedicated TIPS allocation as a

prudent enhancement, as their unique return characteristics can provide meaningful inflation protection without materially increasing overall volatility.

As can be seen on slide 18 of Staff's presentation materials and as noted in Staff's letter, though expected return and income replacement are slightly lower and the probability of shortfall is slightly higher, the recommended glidepath improves expected risk-adjusted returns with lower expected volatility and reduced probability of negative outcomes, while adding structural inflation protection. Wilshire believes the recommended glidepath strikes an appropriate balance of these expected return and risk metrics.

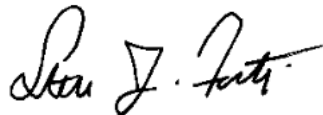
Summary of Recommendations

Wilshire is comfortable with our review of Staff's materials and believes the Committee can take the following actions with confidence:

1. Adopt the updated Capital Market Assumptions (CMAs)
2. Approve the addition of Treasury Inflation-Protected Securities (TIPS) as a distinct asset class within the target date funds (and approve Wilshire's associated benchmark recommendation of the Bloomberg US Government Inflation-Linked 1-10 Year Bond Index for this asset class segment).
3. Adopt the recommended 2026 Target Date Fund glide path, which incorporates modest shifts in allocations across asset classes.

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

Regards,



Steven Foresti

CIO Emeritus, Wilshire Advisors