

May 26, 2026

Mr. Kevin Palkki
Chair of the Performance, Compensation, and Talent Management Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: FY 2026-2027 Incentive Compensation Performance Targets and Thresholds

Dear Mr. Palkki:

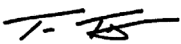
As CalPERS transitions to a Total Portfolio Approach, the Board's compensation consultant Global Governance Advisors (GGA) provided updated performance hurdle recommendations for the incentive compensation program. The shift from measuring relative performance versus the Reference Portfolio rather than the Total Fund benchmark necessitated a re-underwriting of the performance thresholds for incentive compensation purposes. GGA is recommending that the relative performance thresholds under a Total Portfolio Approach increase from a target of 10 bps with a maximum at 20 bps to a target of 40 bps with a maximum at 80 bps. The results for the next fiscal year will represent a blend of the performance of the portfolio for 1 year relative to the Reference Portfolio (RP) and 4 years relative to the Total Fund benchmark to generate a full 5-year relative performance record. Mechanically, this will be calculated by multiplying the weight of the TPA comparison (20% this year) with the RP payout ratio plus the weight of the SAA comparison (80% this year) with the SAA payout ratio to establish a blended payout ratio. That weighted blend will shift each year until the full 5-year evaluation period is versus the Reference Portfolio.

GGA provided the Committee with their probability framework for evaluating historical results. The recommendations tend to align better with the framework over longer term time periods (5 years), while being more volatile over shorter term horizons (1 year). As an additional lens, the Committee can also consider how well the target performance aligns with the performance objective of the portfolio. Given the long-term capital market assumptions used in the 2025 PERF ALM, a Reference Portfolio consisting solely of public equities and U.S. Treasuries is expected to return 6.32%. The 40-bps return target above the Reference Portfolio would get very close to the 6.8% discount rate, while the maximum of 80 bps would handily outpace the discount rate. Taken together, **Wilshire believes that the performance hurdles recommended by Global Governance Advisors are reasonable.**

The ability to incentivize strong teamwork, transparent communication, and other intangible actions through qualitative assessment is also a valuable tool for managing human capital. As such, Wilshire believes that the inclusion of qualitative measures allows for meaningful compensation tied to other significant organizational activities critical to the success of a TPA investment process.

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

Regards,



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