

August 14, 2026

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

Re: Consultant Trust Level Review

Wilshire's 2026 Trust Level opinion letter covers the Firm review that accompanies the individual program reviews provided under separate cover. This opinion letter focuses on a qualitative assessment of INVO's activities this fiscal year to supplement the quantitative performance information provided by both Staff and Wilshire in the Trust Level Review agenda item. In evaluating the quality of an asset management organization, Wilshire assesses factors contributing to the stability of the organization and the alignment of incentives between the team and the organization's long-term objectives. Prior Wilshire reviews have highlighted our concerns over Staff stability, as a successful investment program requires a true long term investment horizon that comes from a consistent and enduring investment philosophy. The organization recognizes this importance given Investment Belief #2, that a long investment horizon is a responsibility and an advantage. Driving strong portfolio returns requires consistency, deep resources, a thorough understanding of the opportunity set, and accountability.

The overall Firm evaluation was increased for this fiscal year. This reflects the successful launch of the Total Portfolio Approach (TPA) on July 1, 2026, meaningful progress in filling senior investment leadership positions, and continued advancement of the leadership development and cultural priorities identified in prior letters. Over the course of the fiscal year, the Board and CIO addressed each of the senior team gaps flagged in the prior Wilshire letter. Both Deputy Chief Investment Officer roles (Capital Markets and Private Markets) were filled following a thorough search process; the previously announced retirement of the MID of Total Fund Portfolio Management was addressed through an external appointment effective July 2026; and the MID for Private Debt hired early in FY 2026 is now settled into role. Additionally, an internal promotion to MID of Global Fixed Income following the retirement of a long time, valued team member highlights a strong bench of internal investment talent. Turnover at senior investment positions remains a risk factor in the portfolio management process, and the current CIO's second full fiscal year in the role has provided additional operating stability needed to implement TPA. Stability in leadership is critical to successfully executing the Reference Portfolio and active risk framework approved by the Board, and Wilshire will continue to monitor senior team continuity as the operating model matures.

The recruitment of the Deputy CIO for Capital Markets brings deep public markets and portfolio construction experience to a role that will be central to executing the Reference Portfolio and active risk framework under TPA. The internal promotion to fill the Deputy CIO for Private Markets role preserves

institutional knowledge across private equity, private credit, real estate, and infrastructure at a time when the private markets portfolio is being reframed as a set of return seeking and diversifying building blocks within the TPA Reference Portfolio. The new Deputy CIO for Private Markets has led the Private Equity program's multi-year strategy reset toward greater emphasis on manager selection, lower cost structures, and diversification across venture, growth, and middle market buyout, and that program has been a meaningful contributor to Total Fund returns. Continuity of that leadership through the TPA transition, combined with the new Deputy CIO for Capital Markets, gives the CIO a full and complementary senior team.

The Board's adoption of TPA at the November 2025 Investment Committee meeting was the defining event of the fiscal year. The approved framework replaced the prior strategic asset allocation with a 75/25 global equity and fixed income Reference Portfolio and a 400 basis point active risk limit, with an expected operating range of 250 to 350 basis points. The Board updated its delegation resolution to explicitly authorize the Committee to set the Reference Portfolio and the active risk appetite and approved the Reference Portfolio benchmark recommendation. The Committee reviewed the Reference Portfolio benchmark transition and approved the restructuring of the Total Fund Investment Policy after meaningful discussion over both 1st and 2nd readings. The TPA framework went live at the beginning of fiscal year 2027 as scheduled. At launch, portfolio active risk and portfolio equity equivalent risk were both consistent with the expected operating ranges.

Wilshire believes the sequencing and pacing of these actions was appropriate. The staged approach moved from adoption to delegation to the policy rewrite and then to benchmark transition. This progression allowed each stage of governance to inform the next, while giving Staff time to complete the internal transition workstreams across governance, portfolio construction, Treasury management, policy and controls, communication and engagement, reporting, and implementation.

Rewrite of the Total Fund Investment Policy Statement

The rewrite of the Total Fund Investment Policy Statement was a meaningful policy workstream during the fiscal year and was completed in the second half of FY 2026. The rewrite was necessary because the prior policy suite was constructed around a strategic asset allocation with fixed asset class targets and ranges, and did not accommodate a Reference Portfolio, an active risk limit, and delegated construction of the operating portfolio within that limit. Rather than amending the existing document in place, Staff, with consultant input, repealed the prior Total Fund Investment Policy and replaced it with a coherent new policy suite drafted around Reference Portfolio and active risk language.

The new policy suite includes modest updates to CalPERS' Investment Beliefs, a new Statement of Investment Policy for the Total Fund, a rewritten Public Employees' Retirement Fund Investment Policy that incorporates the Reference Portfolio benchmarks, and refreshed investment policies for each of the Affiliate Funds. The Governance and Sustainability Principles and the Divestment Policy were incorporated by reference and remained unchanged. Finally, the Absolute Return Strategies Policy and

the Inflation Assets Program Policy were repealed as their contents were folded into the broader framework. In response to Committee feedback between the first and second readings, Staff added pension sustainability language to the Statement of Investment Policy, clarified the active risk definitions and how they interact with the operating range, and incorporated the reference benchmarks directly into the Public Employees' Retirement Fund policy.

Wilshire supports the rewrite as adopted. Grounding the entire policy stack in the Reference Portfolio and active risk limit ensures that the Board's risk decisions flow through to Staff authority in a consistent way. The Affiliate Fund policies were updated on the same cadence, though those policies retain a strategic asset allocation structure. We expect the policy suite to evolve as ongoing implementation illustrates the value of potential adjustments. Wilshire will provide input on those changes through the regular policy review process.

The cost of capital framework referenced in last year's letter has continued to develop through the fiscal year, and Wilshire's independent estimation, using our capital market assumptions, has generally aligned with INVO's modeling. As anticipated, the initial framework will evolve as investment teams gain experience developing integrated investment plans under TPA. Wilshire supports this continual improvement and expects the framework to remain a working document. Through this process, Wilshire will play an integral role in the governance of the risk-taking framework on behalf of the Board.

Active return targets should reflect both portfolio strategy and the Board's risk tolerance. If set too low, the portfolio may closely follow the Reference Portfolio and miss active opportunities. If set too high, it can promote excessive risk-taking or unrealistic expectations. Balancing these targets is essential for consistent performance over time and in volatile markets. The 400 basis point active risk limit and the 250 to 350 basis point expected operating range provide appropriate bounds. The cost of capital framework, applied consistently across proposals originating across INVO, is the mechanism to deliver disciplined portfolio construction decisions.

The CIO's actions around culture, engagement, and leadership development continue to advance. The cultural shift needed to sustain TPA requires alignment across investment teams, and while it is still early to fully assess buy in across INVO, Wilshire has seen evidence of collaboration in our discussions with the various teams over the past year, particularly in the coordinated work required to move the Reference Portfolio, delegation update, and Total Fund Policy package through the Board on the intended timeline. A collaborative culture should be inclusive, with openness across teams to consider investment proposals originating from any part of INVO, and to focus on Total Fund performance rather than individual benchmarks.

These initiatives are in line with Investment Beliefs #4, that long term value creation requires effective management of three forms of capital: financial, physical, and human; and #10, that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives. Active risk

management is a strategic priority, and the CIO has significant experience in driving value add activities in institutional portfolios. These opportunities should be measured relative to expectations established as part of a risk budget, further increasing Staff accountability for results.

Investment governance within INVO continues to run through committees made up of the most senior investment professionals across multiple market segments, including the Total Fund Management Committee, the Investment Underwriting Committee, and the Portfolio Integration Committee. The CIO has adjusted these structures to align with a holistic view of the PERF in which investments compete for capital. We will continue to monitor their evolution under live TPA, particularly reporting lines and responsibilities that could affect Staff stability.

Ensuring that CalPERS has the tools necessary to recruit and retain qualified, diverse candidates remains a strong focus for the CIO. It is critical that sufficient resources are in place to execute on the Board's strategic investment direction. As a governmental entity, CalPERS continues to face some unique organizational risks that for profit enterprises have greater flexibility in managing, including the inability to provide employees with direct or indirect ownership opportunities. These long-term forms of incentives are common within private sector investment organizations and can serve as significant retention tools. This can expose the organization to the increased risk of losing intellectual capital at the INVO Senior Staff level to asset managers and other financial institutions. We reiterate that the organization has made strides to adjust pay scales to be more competitive in the marketplace, align incentive compensation with TPA active return objectives, and structure long term incentive opportunities in line with Total Fund performance objectives.

Specifically, the alignment between incentive structure and TPA was addressed directly during the fiscal year. The Board approved a phased transition of the Total Fund Performance metric in the Annual Incentive Plan from the prior strategic asset allocation benchmark to the Reference Portfolio, blended over a five year window with the Reference Portfolio weighting increasing each year. The Reference Portfolio measured portion established higher performance to reflect the greater tracking error inherent in a Reference Portfolio benchmark, and Wilshire believes the approved hurdles are reasonable. These changes translate the Board's TPA governance decisions into a compensation framework that drives Staff behavior.

FY 2026 Total Fund performance was strong during the fiscal year. The net return for the full fiscal year was 14.8 percent, with assets of \$635.4 billion and **funded status improving to 85%**. Regular liquidity reporting showed PERF liquidity coverage ratios comfortably above policy minimums, providing a stable portfolio management base under Treasury management. Liquidity management will continue to be a substantial focus as TPA progresses. The fiscal year outcome supports the CIO's emphasis on reinforcing a culture of investment risk taking to improve Total Fund performance, and they occurred in a fiscal year with a significant operational lift to prepare for TPA.

Sustainable Investments Highlights

The Sustainable Investments (SI) team continues to operate as an integrated part of INVO, reporting directly to the CIO, and completed its Annual Program Review in November 2025. Under the leadership of the MID for Sustainable Investments and the supporting Investment Directors, the team is implementing the Board approved SI 2030 Strategy, with its five objectives of generating portfolio alpha, improving portfolio resilience, implementing a Net Zero plan, promoting greater inclusion and representation, and building efficient and equitable financial markets. Outside of the SI 2030 Strategy, the SI team remains focused on financial markets advocacy, human capital management, stakeholder engagement, sustainability research, sustainability-related investment support and reporting, and the emerging and diverse manager program.

Progress continued this fiscal year in a few key areas, including but not limited to, the Responsible Contractor Policy refresh initiated last year, the onboarding of a new data provider to enhance climate-related reporting capabilities, ongoing recruitment to build out and fill vacant roles within SI, and the active deployment of asset class specific plans developed under the SI 2030 Strategy. Additionally, the team continues to collaborate across INVO to diligence and invest in climate solutions, particularly within private markets where the pipeline of climate-related opportunities remains robust. The CalPERS FTSE Climate Transition Index has continued to perform in line with expectations on both return and tracking error. The SI team is actively evaluating adjustments to the methodology to improve risk-adjusted results for the CTI as an express active strategy in the Reference Portfolio framework.

In an environment where sustainability practices remain politicized, we continue to encourage arguments that are financial and data driven, and we expect the SI team to enhance its tracking and reporting capabilities and to serve as a voice for asset owners in industry initiatives.

Conclusion

In summary, the successful adoption and launch of the Total Portfolio Approach, combined with the completion of the policy rewrite, the filling of two Deputy CIO positions, and onboarding of a new MID for Total Fund Portfolio Management represents significant governance and organizational change for CalPERS. Wilshire's focus over the coming year will turn to the operational reality of managing the PERF under the Reference Portfolio and active risk limit, the maturation of the cost of capital framework, and the continued progress of the CIO led initiatives on culture, data and technology, and people. We remain optimistic that the CIO's experience in driving strong portfolio results in large institutional portfolios, combined with a deep governance foundation, will continue to push the Total Fund in a positive direction.