August 14, 2026

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

Re: Consultant Global Fixed Income Program Review

Wilshire's annual review of the CalPERS Global Fixed Income (GFI) Program is based on ongoing discussions with the Managing Investment Director and key staff throughout the year. These meetings provide insights into the team's structure, how portfolios are built and managed, and recent performance. This letter highlights our assessment and conclusions on the Global Fixed Income Program, drawing on current data and recent developments, and concludes with an appendix outlining Wilshire's evaluation scores, consistent with our previous reviews.

Global Fixed Income

The CalPERS Global Fixed Income Program has been designed to diversify equity risk for the Total Fund and to provide current income and liquidity. The review process included discussions with senior Staff members of each fixed income segment within the Program. Review topics included Program investment process, personnel and resource management, as well as investment and risk management procedures.

This year's review occurs at a meaningful inflection point for the management of the PERF. Effective July 1, 2026, the Total Portfolio Approach (TPA) replaced the strategic asset allocation framework that had governed portfolio construction through the prior review cycles, with the Board adopting a single reference portfolio of 75% global public equity and 25% U.S. Treasuries, and an active risk limit of 400 basis points. The management of the GFI program, like other internal programs, will shift meaningfully. The Program's segments no longer carry standalone allocation targets, and the Treasury component is part of the Board's reference portfolio itself. Moving forward, GFI should be evaluated less as a set of benchmark-relative segments and more as a contributor of defensive duration and liquidity, financing capacity for total portfolio leverage, and credit and sovereign risk premiums that must exceed their cost of capital thresholds versus other investment alternatives.

As of June 30, 2026, the total GFI portfolio managed approximately $195.6 billion in assets across three component buckets, with roughly 75% managed in-house and the balance handled by external managers and 73% managed actively versus 27% passively. Global Fixed Income Active Strategies held $125.3 billion, of which 66% is internally managed, and comprises securitized, investment grade credit, high yield, and emerging market debt. The U.S. Treasury Reference Portfolio passive strategy held $52.8 billion and the Short-Term Investment Fund held $17.5

billion, both entirely internally managed. On an absolute basis for the fiscal year, the Active Strategy returned 6.90%, with securitized at 6.15%, high yield at 6.06%, investment grade credit at 5.03%, and emerging market debt at 10.59%; the U.S. Treasury strategy returned 2.85% and the Short-Term Investment Fund 4.24%. The Total Fund returned a preliminary 14.8% for fiscal year 2026, with fixed income contributing a net 5.9%.

The market backdrop was less accommodating than the prior fiscal year. The Federal Reserve delivered three quarter-point cuts in late calendar 2025 and has held the funds rate at 3.50%–3.75% since December, and markets expect the policy rate to potentially move back toward 4% by year-end as core inflation has proven sticky. Yields rose across the entire curve over the fiscal year, but the move was led by the front end with short and intermediate term rates up to a greater degree than long rates. Spread sectors benefited from resilient corporate fundamentals, with spreads tightening in every major sector. Staff identified tight credit spreads, persistent inflation, and fiscal deficit pressures as principal concerns for the coming year, set against yield opportunities and an increase in market volatility giving rise to potential global relative value trades.

Team

We believe the Global Fixed Income Program continues to be managed in an effective and risk-conscious manner, and the Program retains depth below its senior leadership. That said, this was a year of substantial leadership turnover, and the Team assessment must weigh demonstrated bench strength against the loss of two long-tenured senior investors. Wilshire has modestly reduced the GFI team rating to take this dynamic into account.

The MID of Fixed Income, who led the Program since 2019, retired at the end of June 2026. An internal promotion was used to fill the role effective at the start of the new fiscal year. Wilshire views this appointment favorably. The new MID has spent nearly two decades at CalPERS, previously led structured securities and U.S. Treasuries within GFI, and most recently worked with the Private Debt group with responsibility for asset-based finance, direct lending, and specialty lending. That combination of internal public fixed income credibility paired with recent private credit underwriting experience is well suited to a TPA framework in which the relevant comparison for a public credit position can be a private credit position. The promotion also signals that CalPERS can fill its most senior fixed income seat internally, which is evidence of succession planning we have encouraged in prior reviews.

In addition, the Investment Director and head of credit announced his retirement after more than 20 years with CalPERS. The ID's responsibilities spanned the investment grade corporate portfolio, and cross-functional governance and sustainability committees. Two senior retirements in a fiscal year increase the risk of institutional knowledge loss and bandwidth constraints for the team as they strive to continue delivering strong risk-adjusted returns. Wilshire understands that Staff is moving to backfill the credit leadership role as well as the ID role opened with the internal promotion of the MID. At this time, one ID in the securitized team and one IO II position also remain open, while GFI has successfully filled an AIM role with an internal hire.

The new MID is evaluating the structure of the team and the existing active strategies in an effort to continue delivering strong results for the portfolio. Staff has identified team structure design, evolution of the existing active strategies, and research into a new strategy addition as priorities for the coming year. Staffing levels overall remain broadly stable, with an average CalPERS' tenure of 13 years across the traders, credit research analysts, portfolio managers, and data analysts, which provides a meaningful base of continuity beneath the two senior departures. The Program continued to invest in professional development through training and industry participation, and Staff remain engaged in cross-functional initiatives that provide valuable perspective and reflect commitment to the Total Fund's success, including due diligence contributions to strategies outside of public fixed income markets, the data and technology modernization initiative, and portfolio implementation work with the Sustainable Investments team. The demands on Staff time reinforce the importance of resource management, particularly recruiting and retention. The length of the State recruiting process and compensation constraints relative to the private sector remain persistent challenges, though Staff again reported improved applicant quality. Given the promotion of an experienced internal successor to lead the Program, offset by the loss of two long-tenured senior professionals and open positions in credit, Wilshire has reduced the "Stability" component within the overall Team score.

Portfolio

The Global Fixed Income portfolio has three components: 1) Global Fixed Income Active Strategies, 2) the U.S. Treasury Reference Portfolio passive strategy, and 3) the Short-Term Investment Fund. Within the Active Strategies, exposure is expressed through four components: securitized, investment grade credit, high yield, and emerging market debt. Under TPA these strategies and components function as building blocks for implementation rather than expressed policy targets, which increases both the flexibility and the accountability for Staff portfolio management decisions.

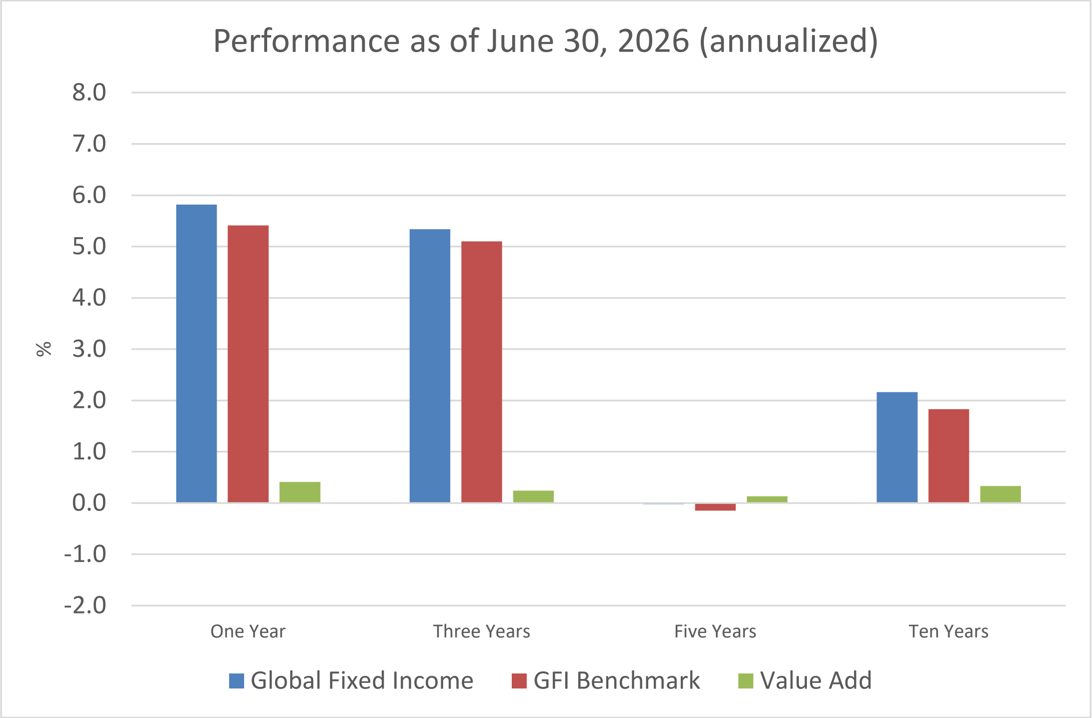
Treasuries offer very high levels of liquidity and remain the Program's most reliable source of equity drawdown protection, while carrying direct sensitivity to interest rate changes. Their role is now more prominent in one respect: Treasuries constitute the 25% fixed income component of the Board's reference portfolio and staff manages the exposure explicitly as a passive strategy. Securitized assets, including residential, consumer, and commercial debt, are similarly liquid and, together with Treasuries, provide the high-quality collateral that supports the total portfolio leverage permitted under policy and PERF's strong liquidity position. Investment grade corporate bonds balance interest rate sensitivity with higher quality credit risk for additional income. Sovereign EMD offers enhanced yields along with diversification across different economies globally. High yield bonds behave more like equities in bear markets but offer a significant pickup in yield versus other instruments and provide some diversification in more typical markets.

The team has periodically tactically adjusted allocations in response to market shifts and has maintained a disciplined approach to realizing gains when markets revert or reducing a position when the investment conviction changes. This cross-asset relative value expertise is precisely the capability TPA is designed to monetize, and we would expect GFI to be a net beneficiary under the framework. Staff will continue to evaluate how much of the Fund's active risk budget is ultimately allocated to fixed income and how it is reallocated when relative value shifts. Staff has identified strategy design changes to build active risk capacity as a challenge, and intends to report strategy-level funding mix versus the reference portfolio, equity equivalent exposure, and active risk composition under TPA. Wilshire views that reporting framework as the right foundation for the Board to monitor how fixed income consumes its share of the Fund's active risk budget.

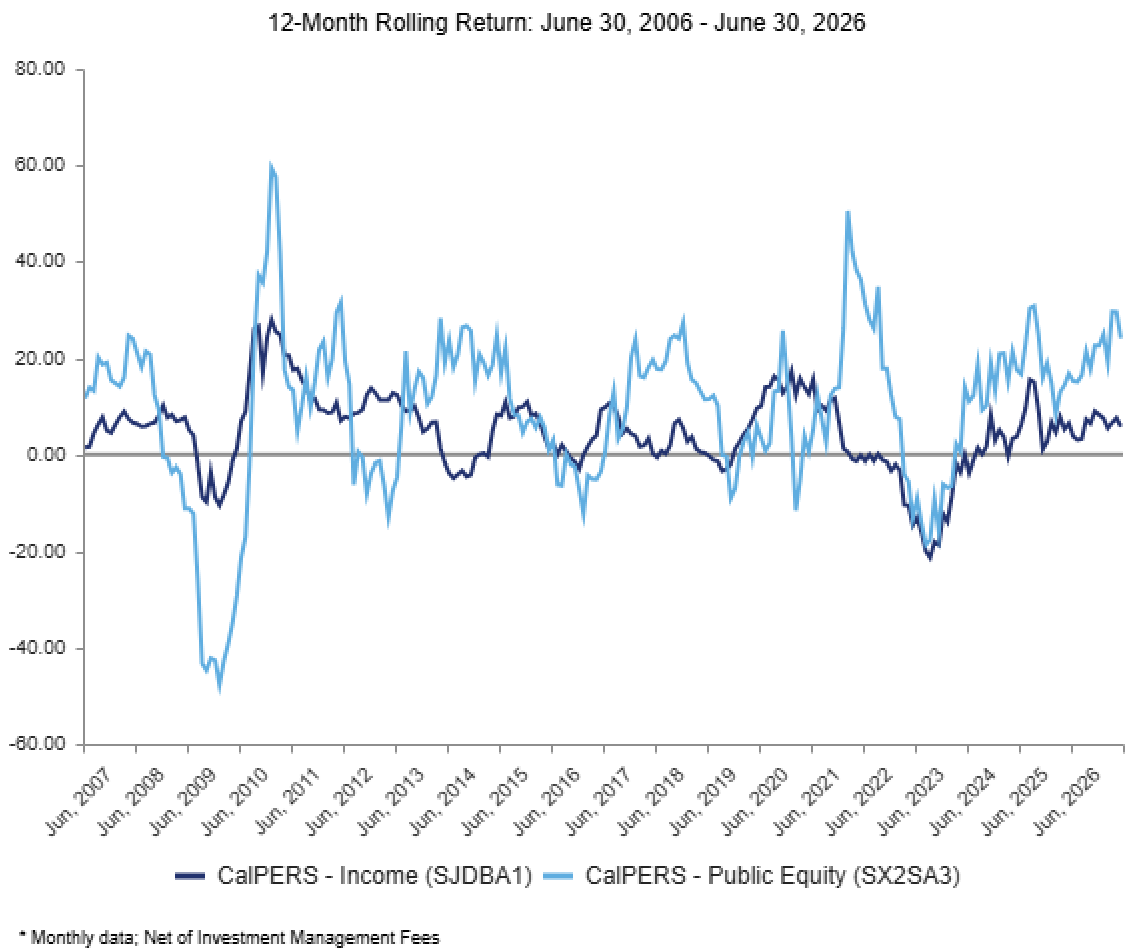
The team has continued to improve implementation through collaboration with the Treasury Group, including leverage deployment and balance sheet opportunity implementation, strengthened counterparty relationships, and expanded the active manager roster in emerging markets. Going forward, the Program will continue to explore relative value opportunities across strategies and, increasingly, between public and private credit.

Performance

Fiscal year 2026 represented a reasonably strong period for fixed income asset returns, building off the improvement seen in fiscal years 2024 and 2025. Performance across strategies was positive on an absolute basis, with the Active Strategies in aggregate, at 6.90%, exceeding the 6.8% actuarial discount rate. The chart below shows the full Program's historical performance relative to its benchmark. Global Fixed Income was buffeted by a historically difficult period for interest rate markets in fiscal year 2022, which continues to weigh on 5-year returns. The 3-year time horizon returns, at 5.34%, have recovered to generate positive results. Importantly, the Global Fixed Income team has delivered positive active value-add versus the index over all horizons, which is the strongest evidence that the team has successfully implemented the strategy as directed over long periods of time.

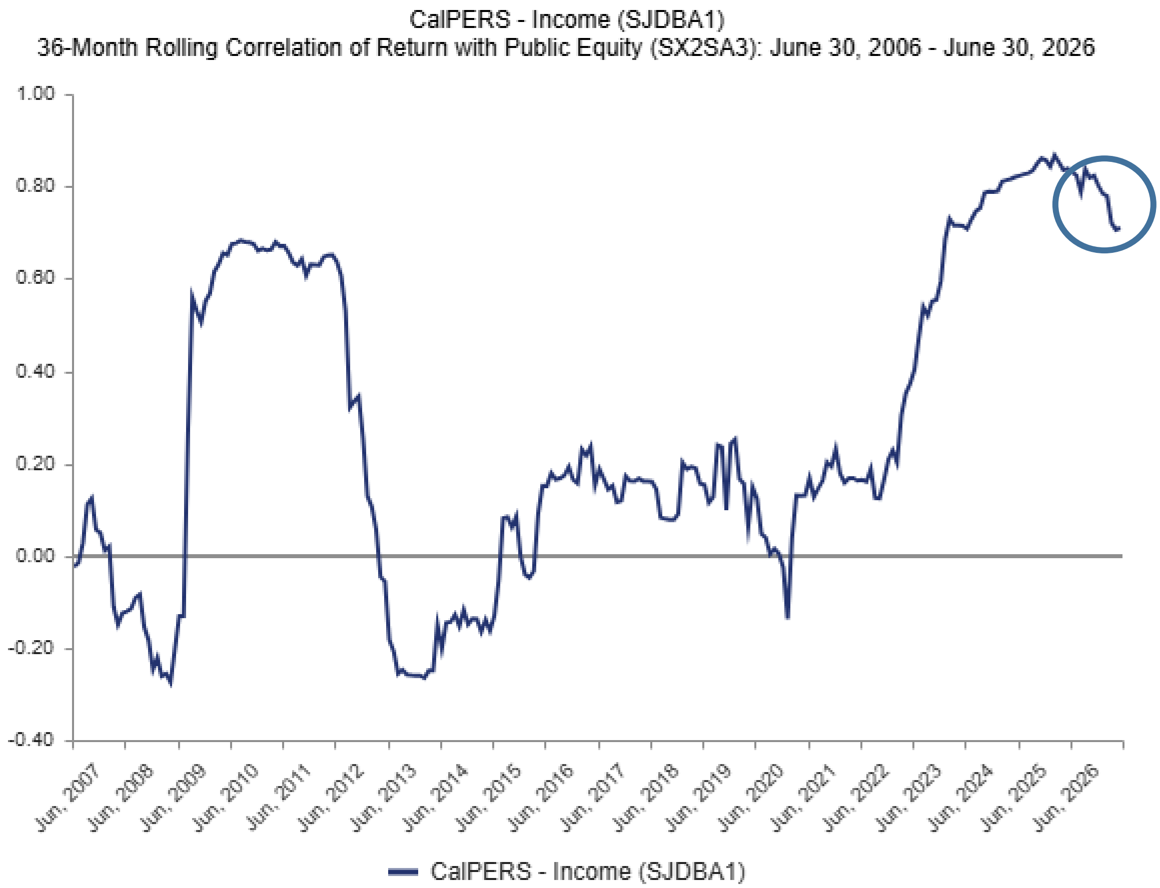


The 12-month rolling returns and 3-year rolling correlation with Global Equity are shown in the following charts. Together, these demonstrate the strategic role the GFI portfolio plays in diversifying equity returns over the past 20+ years. This relationship was tested during recent fiscal years, however. Fiscal year 2026 continued to show higher than average levels of correlation, as both equity and fixed income markets again moved higher this year.



There are two portfolio-level risks Wilshire will continue to highlight for the Board. First, as GFI takes additional active risk in spread sectors to generate higher risk-adjusted returns, the excess return of the Program will become more positively correlated with equity outcomes such that when equities do well, riskier segments of global fixed income are likely to benefit at the same time. This is a reasonable trade to make when done deliberately and monitored as part of the broader portfolio construction process rather than solely at the segment level. Second, the persistence of elevated equity/fixed income correlation means the diversification the Board expects with the 25% Treasury reference weight is currently delivering less protection than the historical record would suggest. The offset is that higher starting yields have materially improved the expected return of fixed income assets, which increases their utility in a diversified portfolio even as their hedging properties are reduced.

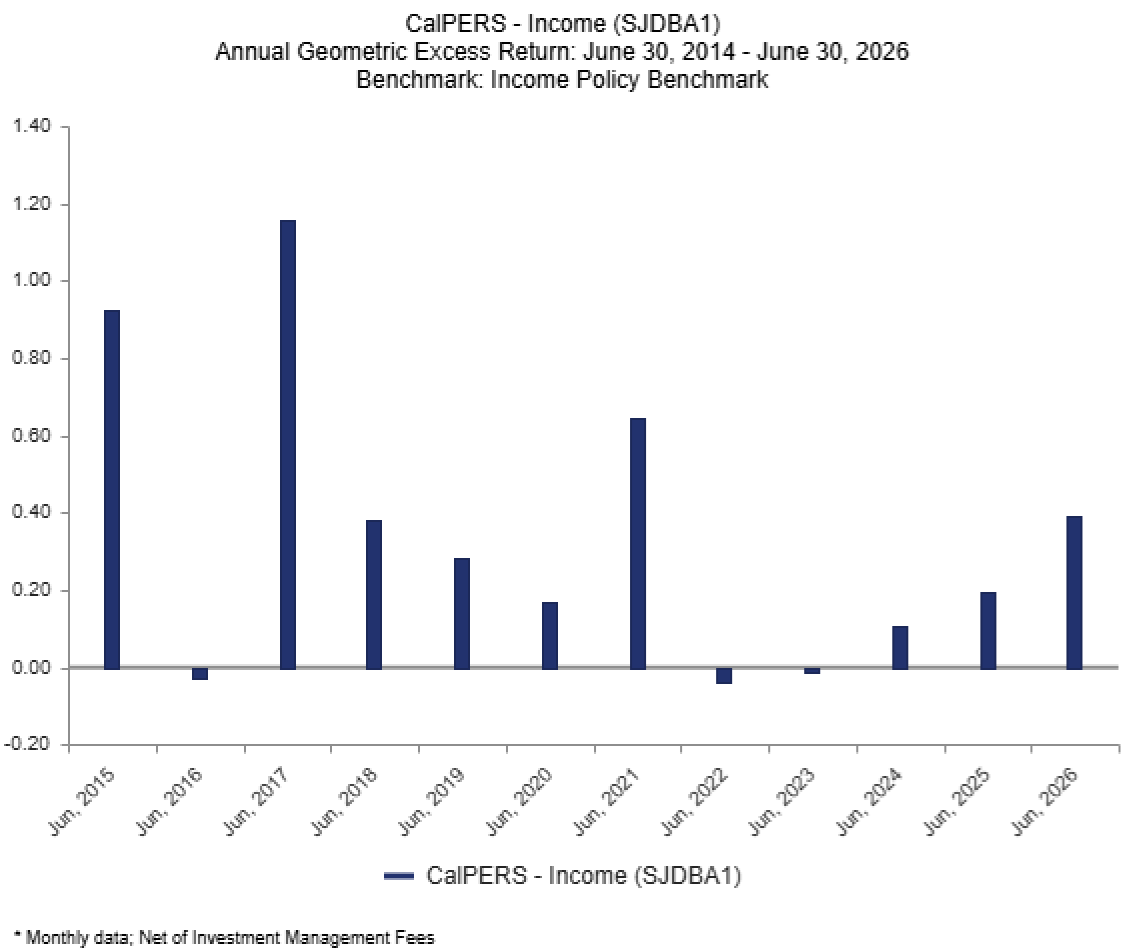
The Board will note that the recent correlation between fixed income and equity moderated over the last year from its fiscal 2025 peak, but remains higher than before the inflationary period of 2022. This highlights a risk Wilshire communicated in previous discussions. With market expectations shifting away from near-term Federal Reserve easing and now pricing a modestly higher policy rate, the elevated correlation between fixed income and equities is likely to persist longer than previously anticipated, potentially limiting fixed income's diversification benefits relative to historical experience.



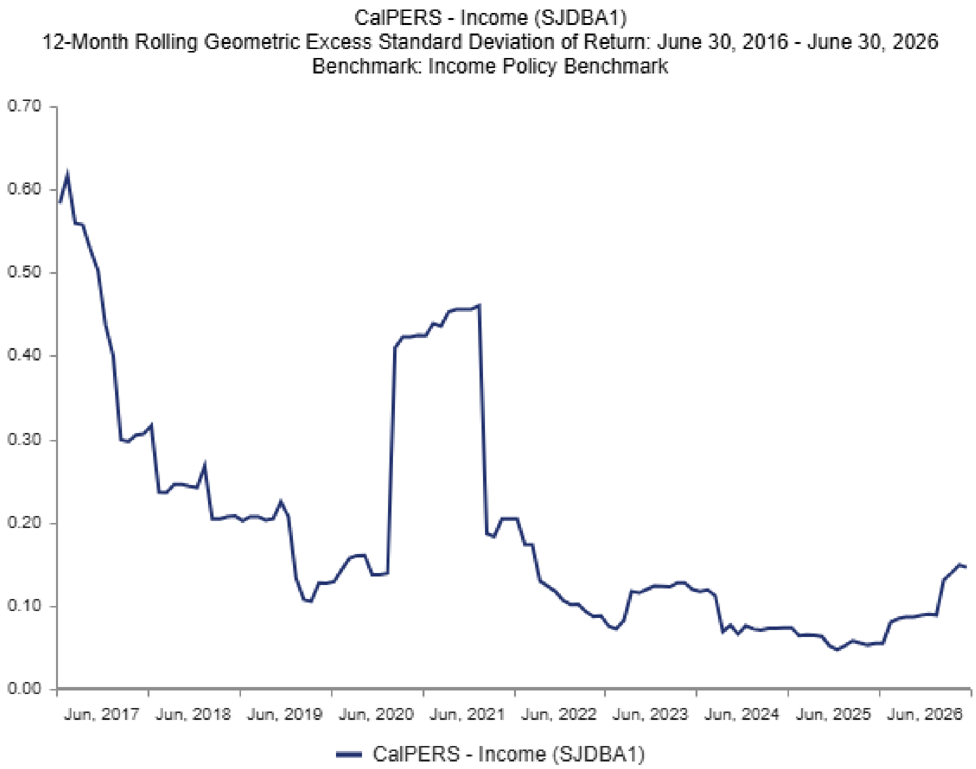
* Monthly data; Net of Investment Management Fees

From an active return perspective, the CalPERS active strategies program exceeded the benchmark during the most recent one-year period by 57 bps. Over longer-term periods, active Global Fixed Income strategies have been a consistent source of value-add for the portfolio, generating $1.2 billion of active value added over the trailing five years at an information ratio of 1.3. In the last fiscal year, all the active program segments outperformed their relevant indexes, while Treasuries matched the index. Emerging market debt had the highest absolute return with securitized debt performing strongly as well; emerging market debt and securitized also added more than 1% in excess return, while investment grade credit and high yield each had more modest active impact. Over the long-term 5 and 10-year periods, the underlying active strategies have generally matched or exceeded benchmark performance. Wilshire notes that high yield and emerging market debt do not yet have ten-year track records, and emerging market debt has been reported only since its inception on January 1, 2023, so the longer-horizon comparisons are necessarily weighted toward securitized and investment grade credit.

The GFI portfolio has consistently demonstrated a level of forecasting success as evidenced by the positive relative returns for the aggregate portfolio over longer term time periods. FY26 performance was again positive on a relative basis, continuing the positive momentum from the last two years. As such, Wilshire has increased the forecasting score. Given the consistent level of active return generated by the team and the more flexible framework of the total portfolio approach, the GFI portfolio is gravitating to taking additional active risk. As additional active risk is utilized to drive higher levels of relative returns, Wilshire will adjust the forecasting score based on demonstrated success. That said, the forecasting score remains high given consistency on average over the last 10 years.



The portfolio construction approach remains well aligned with Investment Beliefs #1 – Liabilities, #2 – Long-Term Horizon, and #7 – Risk vs. Reward. The high portfolio construction score reflects the dynamic approach to active risk positioning, with an intentional increase in the portfolio's overall tracking error over the last fiscal year. This indicates a well-defined risk budgeting process as the team looks to produce more accretive returns under TPA. Moving forward, the GFI team will continue to explore relative value opportunities across different segments.



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The investment approach of the total GFI Program remains consistent with its key strategic objective of providing income, stability, and equity risk diversification within the Total Fund. The Program enters the total portfolio approach era with an experienced internally promoted leader, a demonstrated record of sub-sector relative value and tactical positioning, and relatively tight active risk positioning over time. The principal risks we would flag for the Board are the concentration of senior turnover within the credit function and the need to monitor how fixed income's share of the Total Fund active risk budget is adjusted under the new framework.

Utilizing our standard manager research scoring framework, Wilshire's qualitative assessment of the Program places it in the 3rd decile overall and 2nd decile when evaluating the GFI Program in isolation. The score reflects an increase in the overall Firm score, a moderate reduction in the Team rating, that balances strong internal succession against the senior departures, and continued strong scores in portfolio construction and implementation. Overall, the score highlights an experienced team and their success in managing the portfolio with a focus on risk control over extended time horizons.

Appendix - Evaluation Scores for Global Fixed Income Program

CalPERS Global Fixed Income	Tier	Letter
GFI Program Independent Score (ex-Firm)	**2nd**	**A**
Overall Score (including Firm)	**3rd**	**B**

	Weight	Tier	Letter
Organization	**20%**	**4th**	**B**
FIRM	***50%***	**5th**	**C**
Quality and Stability of Senior Management			
Quality of Organization			
Ownership/Incentives			
TEAM	***50%***	**4th**	**B**
Stability of Investment Professionals			
Quality of Team			
Commitment to Improvement			
Information Gathering	**20%**	**3rd**	**B**
Information Resources			
Depth of Information			
Breadth of Information			
Forecasting	**20%**	**2nd**	**A**
Clear & Intuitive Forecasting Approach			
Repeatable Process			
Strength, Clarity, and Intuitiveness of Valuation Methodology			
Forecasting Success			
Unique Forecasting Approach			
Portfolio Construction	**20%**	**2nd**	**A**
Risk Budgeting/Control			
Defined Buy/Sell Discipline			
Consistency of Portfolio Characteristics			
Implementation	**10%**	**2nd**	**A**
Resources			
Liquidity			
Compliance/Trading/Monitoring			
Attribution	**10%**	**2nd**	**A**
Depth of Attribution			
Integration of Attribution			

