



# WILSHIRE ASSOCIATES INCORPORATED



## Update to Selected Request for Proposal Questions Related to Wilshire Organization and Conflict Management

*Prepared for  
California Public Employees' Retirement System*

*October 2020*



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## SECTION I

### A. ORGANIZATION AND STRUCTURE

Please provide a brief overview of your firm including:

1. The year the firm was founded,

Wilshire Associates Incorporated was founded in 1972.

2. The number of years your organization has been providing pension consulting services to tax exempt organizations,

39 years. Wilshire has been providing pension consulting services to tax exempt organizations since 1981 and began working with CalPERS in 1984.

3. Brief description of the ownership structure of your firm,

As previously disclosed, Wilshire has entered into a purchase agreement with Monica Holdco (US) Inc. (the "Buyer"), a newly created entity and an affiliate of two investment firms, Motive Partners and CC Capital (together with their co-investors, the "Investor Group"), pursuant to which Wilshire will be sold to the Buyer and the Investor Group will acquire a controlling interest in Wilshire (the "Transaction"). The Transaction is anticipated to close in December of 2020. Upon closing of the Transaction, Wilshire's founder, Dennis Tito, will step down from his role as Chief Executive Officer and Chairman of Wilshire's board of directors (the "Wilshire Board"). John Hindman will also step down from his role as President and member of the Wilshire Board. Mr. Tito and Mr. Hindman will be replaced on the Wilshire Board prior to closing. Jason Schwarz, who has been with Wilshire for over 12 years and is currently Chief Operating Officer, will maintain his current role and assume the additional responsibility of President. Mr. Schwarz and the other current Wilshire Board members will continue to serve in the same capacity as before the Transaction. The parent of the Buyer, which is controlled by Motive Partners and CC Capital, will control and set the strategic direction of Wilshire. Many Wilshire employees are being given the opportunity to exchange a portion of their existing Wilshire stock for equity interests in the ultimate parent entity of the Buyer, and such parent entity also intends to offer equity options to select Wilshire employees. Following the Transaction, it is expected that Wilshire employees will own a material equity stake in Wilshire.

Additionally, and as part of the Transaction, Ares Management Corporation will become a lender to the Buyer pursuant to the terms of a customary senior secured term loan, and Ares will have no rights beyond those typical for a secured lender. More specifically, Ares does not have board or observer rights nor does Ares have any ability to influence day-to-day control over Wilshire's business or investment activities. As we previously noted, we do not believe that this relationship creates a material conflict of interest. Nonetheless, in the interest of transparency, we will be disclosing this relationship as part of our normal procedures. This means that we will be including Ares in our conflicts disclosure reports and disclosing the relationship on any Ares evaluations or relevant communications with clients.

4. Identify affiliated or subsidiary organization(s),

Please see attached.

5. Brief description of compensation structure, including equity ownership, and other details on how employees are incentivized,

Wilshire recognizes that the firm's greatest assets are its employees, and therefore must ensure they are engaged, motivated and appropriately incentivized. Currently, Wilshire compensates its employees with a competitive base salary and an annual bonus. The base salary is commensurate with industry standards. The annual bonus is based on a combination of performance against personal targets and the success of the company. It is currently contemplated that this structure will be unchanged following the close of the Transaction. In addition, many Wilshire employees are being given the opportunity to exchange a portion of their existing Wilshire stock for equity interests in the ultimate parent entity of the Buyer, and such parent entity also intends to offer equity options to select Wilshire employees to increase the retention element of the overall compensation structure. Following the Transaction, it is expected that Wilshire employees will own a material equity stake in Wilshire. Finally, Wilshire will seek to enhance benefits for employees to maintain Wilshire's position as a top-tier California employer.

6. Detail any significant developments in your organization in the past two years (ex. Changes in ownership, personnel reorganization, new business ventures, etc.).

As noted in question 3 above, Wilshire has entered into a Transaction pursuant to which a controlling stake in Wilshire will be sold to Buyer. Upon closing of the Transaction, Wilshire's founder, Dennis Tito, will step down from his role as Chief Executive Officer and Chairman of Wilshire's board of directors (the "Wilshire Board"). John Hindman will also step down from his role as President and member of the Wilshire Board. Mr. Tito and Mr. Hindman will be replaced on the Wilshire Board prior to closing. Jason Schwarz, who has been with Wilshire for over 12 years and is currently Chief Operating Officer, will maintain his current role and assume the additional responsibility of President. Mr. Schwarz and the other current Wilshire Board members will continue to serve in the same capacity as before the Transaction. The day-to-day management of Wilshire will remain vested in the Wilshire Board and Wilshire's management team. Wilshire will continue to have the following governing bodies and associated mandates:

**MANAGEMENT COMMITTEE** – among other things, responsible for evaluating and monitoring risks and conflicts of interest; for the avoidance of doubt, any member of the Wilshire Board also affiliated with a member of the Investor Group will not participate in conflict of interest decisions related to such member.

**INVESTMENT COMMITTEE** – among other things, responsible for ensuring the separation of duties and independence of Wilshire's investment processes; for the avoidance of doubt, this committee will not include any Wilshire employee that is also affiliated with the Investor Group.

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE, AND DIVERSITY COMMITTEE** – responsible for overseeing Wilshire's diversity and ESG initiatives, policies and practices.

The parent of the Buyer, which is controlled by Motive Partners and CC Capital, will control and set the strategic direction of Wilshire. The Investor Group will not participate in Wilshire's investment processes; investment recommendations and decisions will continue to be made by the Wilshire team. Specifically, Wilshire does not advise CalPERS with respect to selection of funds and managers, and our mandate with CalPERS will not change in connection with the Transaction whereby we will not make recommendations with respect to the selection of funds and managers (including those managed by CC Capital or Motive Partners). More generally, Wilshire's investment mandates will continue to be subject to strict internal controls, independent evaluation of investment opportunities, fiduciary duties and our most important guiding principle: that any investment

opportunities must be in the best interests of our clients. Additionally, to the extent CC Capital or Motive Partners holds a controlling interest in a public company (including a SPAC), that entity will be put on Wilshire's restricted list of securities and Wilshire employees will be prohibited from trading such securities in a manner consistent with Wilshire's restricted security policies and procedures.

7. Detail significant developments in your organization anticipated in the near future.

Please see information above.

8. Brief explanation of any major plans for your firm's future business plans in the pension consulting area.

As we reflected on nearly 50 years in business and look forward to the next 50, Wilshire sought ways to help drive the continued evolution of our business. Our future vision is built on the firm's solid foundation and strong commitment to delivering world-class investment solutions, decision support tools, and indexes to clients globally. The partnership with Motive Partners and CC Capital will enable us to enhance the firm's consulting, private markets and funds management offerings while thoughtfully fast-tracking the evolution of its index, benchmark, and analytics businesses. Motive Partners and CC Capital were natural partners for Wilshire. Culturally, strategically and philosophically, we are aligned and share the same vision for the firm's future and approach to client-oriented innovations. We believe their expertise and resources will allow us to enhance our infrastructure and offerings while maintaining the high-quality service our clients know to expect from Wilshire. More specifically, we anticipate the following benefits for clients:

- Significant access to the capital and the network necessary to support our focus on innovation and enhanced/expanded capabilities within Wilshire's offering while maintaining a client-focused operating model
- Easier and more frequent access to the breadth of Wilshire's capabilities, including expertise throughout the firm
- The ability for Wilshire to be a complete and more holistic partner to all clients
- More customized and differentiated offerings to meet clients' evolving needs
- Innovative new products and services to enrich our clients' capabilities
- Enhanced technology, data and analytics to ensure better insights and smoother service
- New talent to support our evolving business
- New partnerships to ensure the strongest coverage and capabilities
- International expansion to service Wilshire clients with global footprints

We also believe that the Transaction will help us be a leader in providing exposure to and promoting emerging managers. And finally, we want to continue to be a thought leader in ESG (as exemplified by our recent award of a grant from the Hewlett Foundation to do research into climate-friendly passive asset management).

9. Advise whether or not, within the past two (2) years, if your firm, or any officer or principal, has been involved in any litigation or other legal proceedings relating to your consulting activities. If so, please provide a brief explanation on the current status, and,

No, in the last two years Wilshire has not been engaged in any litigation or other legal proceeding relating to our consulting activities.

10. Using the table format below, please list your firm's lines of business and contribution to your organization's total revenue on a percentage basis, for the past three (3) years, and a projection for 2019.

Wilshire's principal lines of business encompass a diverse range of investment solutions for institutional and financial intermediary clients that include discretionary and non-discretionary implementations spanning the public and private markets, a wide range of multi asset class analytics solutions, and the Wilshire indices, including the Wilshire 5000 Total Market Index<sup>SM</sup>.

- **Solutions for Institutional Investors** (29% of firm wide revenue in 2019)
- **Private Markets Solutions** (18% of firm wide revenue in 2019)
- **Solutions for Financial Intermediaries** (40% of firm wide revenue in 2019)
- **Analytics Solutions** (13% of firm wide revenue in 2019)

Our revenue by business unit over the past three years is provided in the table below:

DIVISION	2017	2018	2019
	% OF TOTAL	% OF TOTAL	
<i>Wilshire Analytics</i>	20%	15%	13%
<i>Wilshire Consulting</i>	31%	31%	29%
<i>Wilshire Funds Management</i>	35%	38%	40%
<i>Wilshire Private Markets</i>	14%	16%	18%
<i>Total</i>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## B. CONFLICTS AND DISCLOSURES

11. Is your firm, its parent or affiliate, registered with the SEC or a state securities regulator as an investment adviser? If so, please include your firm's ADV Disclosure Parts 1 and 2, in your firm's RFP response (if included as an exhibit or attachment, the ADV disclosure(s) will not be considered part of the twenty (20) page maximum). If your firm is not registered with the SEC or a state securities regulator as an investment adviser, please provide your firm's fiduciary classification.

Yes. Wilshire Associates is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940.

Motive Partners is registered with the SEC under the name Motive Capital Management, LLC.

CC Capital is currently in the process of becoming registered with the SEC; it does not currently have an ADV.

Form ADVs are available online at <http://www.adviserinfo.sec.gov/iapdf>.

12. Does your firm or a related company, or any principal or officer of your firm, have relationships with asset managers that you recommend, consider for recommendation, or otherwise mention to your tax-exempt clients, for consideration? If so, describe those relationships.

Yes, Wilshire has business relationships with, and may provide services to, investment managers and other financial services providers that may be evaluated or recommended by us. However, Wilshire maintains the integrity of its investment advice and the independence of its advisers through oversight, controls and transparency. This includes clear and relevant policies, a well-defined investment and advisory process, appropriate information barriers, senior management engagement in oversight, and clear and transparent communications with our clients.

13. Does your firm or a related company, or any principal or officer of your firm (you) receive any payments from asset managers, that you recommend to your tax-exempt clients for consideration? If so, what is the extent of these payments in relation to your other income?

Wilshire Associates receives a portion of its total revenues from the sale of analytics services including business generated from investment management firms, many of which are among the largest organizations in the investment industry. Wilshire Funds Management also receives compensation from investment managers or institutions for discretionary and non-discretionary “manager-of-managers” services, as well as outsourcing solutions to financial institutions, commingled funds, and mutual fund complexes.

The total firm revenues received from the sale of analytics services to asset managers is 13%. While it is difficult to segregate the share of income received by Wilshire Funds Management from asset managers, Wilshire Funds Management represented 40% of Wilshire’s revenue in 2019.

14. Does your firm have policies and procedures to address conflicts of interest or to prevent payments or relationships described above, from being considered when you provide advice and/or recommendations to your tax-exempt clients?

Yes. While Wilshire’s mandate with CalPERS does not include manager recommendations or evaluations, Wilshire has adopted a robust set of policies and procedures that are designed to promote the independence of our consultants and the advice they provide clients and to mitigate conflicts of interest. The policies and procedures are built upon the foundations of appropriate oversight, transparency and controls.

First and foremost, it is Wilshire’s policy to make evaluations, recommendations and decisions based solely upon the best interests of the client and without regard to any benefit (economic or otherwise) that Wilshire receives or might receive, in fulfillment of our fiduciary obligation. Wilshire is committed to ensuring that it does not consider an investment manager’s or financial service provider’s business relationship with Wilshire, or lack thereof, in performing evaluations for or making recommendations to its advisory clients. Details regarding Wilshire’s policy and procedures are in Wilshire’s ADV part 2a. In summary:

**Oversight**

Wilshire has charged the Wilshire Management Committee (WMC), made up of the most senior members of Wilshire’s executive team, including the President, Chief Operating Officer, Chief Financial Officer, General Counsel, Chief Compliance Officer and other members of senior management, to identify, evaluate and oversee conflicts of interest and develop and execute appropriate policies. When appropriate the WMC may delegate issues to other Wilshire committees,

such as the Wilshire Investment Committee (WIC), to provide oversight or an independent assessment of an investment issue where a conflict of interest is present.

### **Transparency**

Wilshire's policy is to disclose material conflicts of interest to its clients and prospective clients. Wilshire provides existing and prospective investment advisory clients with a Conflicts Disclosure Report ("Disclosure Report"), providing a summary of relevant conflicts identified by Wilshire and listing all relationships that Wilshire has with investment managers and other relevant financial services providers along with a summary of the types of services that Wilshire may provide to those entities. Wilshire also provides advisory clients with a Disclosure Report when making a manager recommendation or when otherwise determined appropriate. Clients receiving a Disclosure Report may request more detailed information about managers or service providers with which the client has or is considering a relationship by contacting Compliance or their client service representative.

### **Controls**

Wilshire has implemented relevant controls to mitigate conflicts. Controls include managing processes by which we deliver services to clients, assuring relevant and necessary personnel are engaged in appropriate activities at Wilshire and managing the exposure parties within Wilshire may have to sensitive information. Where reasonable and appropriate, Wilshire has erected ethical walls around business activities where sharing information may create a conflict of interest. Going forward, there will be relevant ethical walls between Wilshire and the Investor Group. The ethical walls seek to prevent members of one group from accessing information that may influence the service they provide to a client or providing information to a party that may usurp the use of such information for their personal benefit.

Wilshire recognizes that the Transaction and Wilshire's new ownership structure present both actual and potential conflicts of interest or the appearance thereof. There is a risk that the Investor Group will attempt to benefit from Wilshire's access to pools of capital, relations with large institutional investors and market influence. There is also a risk that the Investor Group could seek to influence Wilshire's advice to its clients. Wilshire has updated its policies to mitigate these specific risks:

1. Enhanced disclosure: Wilshire will provide disclosure regarding the Transaction and Wilshire's new ownership and organizational structure. This will include disclosure regarding the existence of the lending arrangement with Ares Management Corporation.
2. Restricted access: CC Capital, Motive Partners and their public affiliates will be added to Wilshire's restricted list. This means that Wilshire and its employees will not be able to invest themselves, evaluate or recommend investments in any of these entities.
3. Information barriers: There will be information barriers that prohibit or prevent the Investor Group from having access to client investment information include portfolio holdings and recommendations.

Generally, our investment mandates will continue to be subject to Wilshire's stringent investment process, strict internal controls, independent evaluation of investment opportunities, fiduciary duties and our most important guiding principle: that any investment opportunities must be in the best interests of our clients. Wilshire has committed itself to a culture of compliance and ethical business practices since its foundation in 1972 and this commitment is unchanged.

15. If your firm is awarded the contract, will your firm and its principal(s) and/or officer(s) acknowledge in writing that you have a fiduciary obligation as an investment adviser to CalPERS Board of Administration, the System, and the beneficiaries of the System, while providing the consulting services detailed in this RFP?

Yes. With respect to the investment advisory services that it provides, Wilshire assumes fiduciary responsibility as designated in a definitive agreement negotiated and entered into by the parties. The services we provide are set forth in, and subject to the terms and conditions of, the agreement.

16. Do you consider yourself a fiduciary under ERISA with respect to the recommendations you will provide with respect to the services described in this RFP?

Yes.

17. Does your firm have any arrangements with broker-dealers under which your firm or an affiliate of your firm, will benefit if money managers place trades for their clients with such broker-dealers?

No.

18. Explain in detail any potential for conflict which would be created by your representation of CalPERS, including other client relationships which may inhibit services to CalPERS on a primary basis.

Wilshire does not have any potential conflict with continuing our relationship with CalPERS. Please note above our disclosure regarding conflicts of interest generally.

19. Please list any other relationships / contracts / business activity that involve CalPERS, its Board Members, top staff, or investment managers or consultants. Please see [www.calpers.ca.gov](http://www.calpers.ca.gov) for a current listing of Board Members and investment managers / consultants.

Wilshire currently provides general consulting services to CalPERS and the California Department of Human Resources. CalHR has an ex officio member on the CalPERS Board, Eraina Ortega; thus, we have a dual relationship with Ms. Ortega.

In order to provide information regarding Wilshire's relationships with CalPERS' investment managers, we prepared a detailed "follow-up" conflicts disclosure report that was sent directly from our compliance department.

20. Explain in detail any potential for conflicts of interest which would be created by your firm's representation of CalPERS. Please include any activities of affiliated or parent organizations as well as other client relationships which may inhibit services to CalPERS.

To the best of our knowledge, there are no other potential areas of conflict of interest.

### C. EXPERIENCE & DEPTH

21. Provide the names of professionals who will be assigned to the CalPERS account including the primary consultant and principal assistant (Identify the primary consultant with an asterisk (\*) and any individuals that will be directly involved in the CalPERS account). Please use format below. (Please update Service Area categories as needed, in the table below).

SERVICE AREA	FIRM EMPLOYEES THAT WILL BE DEDICATED TO CALPERS ACCOUNT	TOTAL NUMBER OF EMPLOYEES AT THE FIRM EMPLOYED IN THIS AREA
Direct Board Reporting Services	Steve Foresti Tom Toth, CFA Rose Dean, CFA Ali Kazemi Daniel Ingram	28
Research Services	Steve Foresti* Mike Rush, CFA James Gnull, CFA Daniel Ingram	42
Consulting Services	Steve Foresti Tom Toth, CFA Rose Dean, CFA Ali Kazemi Daniel Ingram	28
Risk Management Services	Ali Kazemi	6
Asset Allocation/Asset Liability Modeling Services	Ned McGuire, CFA, FSA, FRM Brice Shirimbere	8
Performance Services	Amy Hemphill Josephine He, CFA, FRM	16
Investment Policy Review Services	Steve Foresti Tom Toth, CFA Rose Dean, CFA Ali Kazemi Daniel Ingram	28
Investment Office Program Review Services	Steve Foresti Tom Toth, CFA Rose Dean, CFA Ali Kazemi Daniel Ingram	28
External Manager Review Services	Steve Foresti Tom Toth, CFA Rose Dean, CFA Ali Kazemi Daniel Ingram	70+**

SERVICE AREA	FIRM EMPLOYEES THAT WILL BE DEDICATED TO CALPERS ACCOUNT	TOTAL NUMBER OF EMPLOYEES AT THE FIRM EMPLOYED IN THIS AREA
Ongoing Education Services	Steve Foresti Tom Toth, CFA Rose Dean, CFA Ali Kazemi Daniel Ingram	28

\*Primary consultant

\*\*Firm wide, shared resource across Wilshire

22. Please provide biographical information of the key individuals who will represent the firm and directly interact with the CalPERS Board. Please provide no more than the top three individual's biographical information.

**Steven Foresti, Chief Investment Officer**

Steve Foresti, a Managing Director with Wilshire Associates, is the Chief Investment Officer of Wilshire's institutional consulting practice. Based in Wilshire's Santa Monica, Calif., office, he heads Wilshire Consulting's investment management and research efforts, including strategic investment research and the development of asset class assumptions for use in Wilshire's asset allocation process. Mr. Foresti is a member of Wilshire's Board of Directors, Chairman of Wilshire Consulting's Investment Committee, Co-Chairman of Wilshire's Investment Strategy Committee and a member of the Wilshire Index Oversight Committee. Throughout his tenure at Wilshire, he has worked directly with large institutional investors of all types: public and corporate defined benefit plans, foundations, endowments and insurance companies.

Mr. Foresti has authored papers on a broad range of topics across both the traditional and alternative investment areas.

Mr. Foresti has over 30 years of capital market experience. He joined Wilshire in 1994 and spent nine years within Wilshire Analytics where he developed and supported quantitative attribution and risk models. Before joining Wilshire, Mr. Foresti worked in Morgan Stanley's Mutual Fund Division (formerly Dean Witter Inter-Capital) where he acted as a liaison between the firm's portfolio management team and sales force. He holds a BS in finance from Lehigh University and an MBA in finance and accounting from the University of Texas at Austin.

**Thomas Toth, CFA, Managing Director**

Tom Toth is a Managing Director of Wilshire Associates and a member of Wilshire Consulting. He has 18 years of investment experience and 16 years of consulting experience providing client service for a variety of pension, endowment and foundation clients. Mr. Toth is a member of Wilshire's Investment Strategy Committee.

Mr. Toth joined Wilshire in 2004 and initially worked in Wilshire Consulting's Investment Research Group, where he was responsible for writing white papers on topics such as hedge funds, private equity, and infrastructure. Prior to joining Wilshire, Mr. Toth worked in New York for fixed income asset manager Fischer Francis Trees and Watts. Mr. Toth earned his BA from the University of

California, San Diego, and an MBA with a concentration in finance / capital markets from the USC Marshall School of Business. Mr. Toth holds the Chartered Financial Analyst designation.

## **Summary of Wilshire's Compliance Program and Update to Wilshire's Conflicts of Interest Policies**

1. Wilshire's compliance program seeks to:
  - a. Encourage employees to operate in accordance with the highest standards of business ethics
  - b. Induce employees to fulfill Wilshire's fiduciary duty and professional obligations to clients
  - c. Navigate the rules which govern Wilshire's highly regulated industry
  - d. Monitor, evaluate and seek to mitigate risk
  - e. Manage conflicts of interest
  
2. Compliance Management: Managed by industry veterans with significant experience in the market.
  - a. General Counsel: Reena S. Lalji is responsible for overseeing the legal, compliance, human resources and administrative functions of Wilshire and its affiliates. Ms. Lalji has been with Wilshire since 2009 and has over 20 years of legal, compliance and business experience in the financial services industry. Prior to joining Wilshire, Ms. Lalji was lead counsel for RBC Asset Management, the Canadian asset management division of the Royal Bank of Canada and prior to that, was an associate with Dentons (formerly FMG). Ms. Lalji has a B.Com. from the University of Alberta, a J.D. from the University of Victoria and a LL.M. from Osgoode Hall Law School at York University. She is qualified to practice law in California and Ontario.
  - b. Chief Compliance Officer: Benkai Bouey the Compliance Officer of Wilshire and the Wilshire Mutual Funds and VITs. Mr. Bouey reports both to the General Counsel and directly to Wilshire's Board of Directors. Mr. Bouey has been with Wilshire since 2012 and has over 20 years of legal and compliance in the financial services industry. He began his legal

career as an associate at Sullivan & Cromwell in their London and New York offices. Subsequently he was with Horizon Asset Management, an asset manager in New York, and Triton Pacific Capital Partners, a private equity firm based in Los Angeles. Mr. Bouey obtained his J.D. from the University of Virginia and his B.A. from Cornell University.

3. Wilshire's conflict management

- a. Identify conflicts of interest
- b. Determine risks associated with conflict
- c. Develop policies and procedures to mitigate risk

4. Wilshire's conflicts policies and procedures

- a. Primary identified conflicts
  - i. provide advice or a recommendation to a client with regards to Wilshire's own products or services;
  - ii. provide advice or a recommendation with regards to a product or service with which Wilshire competes;
  - iii. evaluate, review or recommend an investment manager or other financial services provider with which Wilshire has a business relationship or to which it provides services;
  - iv. make a decision whose impact may have different effects on different clients; or
  - v. recommend the services of a third party from which Wilshire currently obtains a benefit (economic or otherwise).
- b. Policy
  - i. Oversight
    1. Governed by Wilshire's Management Committee
    2. Compliance oversight of investment process governance
  - ii. Transparency
    1. Disclosure of relevant relationships
    2. Disclosure of identified conflicts
    3. Wilshire's contractual obligations- Fulfilment of paragraph 51 and Investment Addendum #3

Wilshire provides CalPERs with sufficient disclosure to fulfil its obligations in accordance with our agreement.

- a. Wilshire's Disclosure Form provided annually
  - b. Wilshire Follow-up Report provided upon requests
  - c. Wilshire's ADV Part 2A
  - d. CalPERs RFPs and DDQs
- iii. Controls: Controls seek to govern firm activities to fulfil Wilshire's fiduciary obligation and to mitigate potential or actual conflicts of interest
1. Well defined policies that govern Wilshire's process for evaluations and recommendations
  2. Ethical walls seek to control the flow of client information to relevant parties
  3. To the best of Wilshire's understanding it fulfils of Political Reform Act conflict laws and Government Code Section 1090 as follows:
    - a. Wilshire does not act or collect fees as a placement agent
    - b. As an external manager Wilshire has been subject to CalPERs competitive bidding process
    - c. Wilshire fulfills the "One Third" exemption as Wilshire's primary contacts with CalPERs spend more than 1/3 of their time engaged in investment functions
- iv. Proposed changes to policy in light of the Transaction
1. Identified conflicts
    - a. Risk Investor Group seeks to inappropriately benefit from Wilshire's relationships
    - b. Risk Investor Group seeks to influence Wilshire's advice to clients
    - c. Perceived Conflicts related to the lending agreement with Ares

## 2. Controls

- a. Wilshire will not recommend members of the Investor Group
- b. Members of the Investment Group will not participate in Wilshire's investment process
- c. Members of the investment group will be required to recuse themselves from conflict matters in which they have a vested interest
- d. Ethical walls will be placed between Wilshire and the Investor Group to prevent sharing of information with regards to client portfolios and their investments.
- e. Disclosure will be added as necessary regarding the lending arrangement with Ares

## v. Third party support

1. Purpose: While Wilshire relies on the professional knowledge, experience and integrity of its internal compliance team, supported by expert counsel, to devise, implement and oversee its compliance program, given the nature of the change to the its ownership structure, Wilshire determined that it would be a good practice to seek additional compliance support. More specifically, Wilshire wants to get feedback on its policy and procedural changes.
2. Firm: ACA Compliance Group.
3. Purpose:
  - a. Provide an assessment of the implementation of the compliance program following the change in ownership.
  - b. Review the implementation of Wilshire's Conflicts of Interest Policy.
    - i. ACA will review our updated policies and procedures related to conflicts of interest to

determine if they are reasonably designed to identify and manage the conflicts of interest in accordance with our obligations as a fiduciary and under applicable law.

4. Implementation and deliverables:
  - a. ACA introduction to firm and initial due diligence. Between now and year end 2020.
  - b. Review of conflicts policies and procedures. By end of Q1 2021.
  - c. Examination of implementation of new policies and procedures. To be completed before year end 2021.



# Investment Committee

## Agenda Item 7b

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**November 16, 2020**

**Item Name:** Review of the Investment Committee Delegation

**Program:** Investment Committee

**Item Type:** Action Consent

### **Recommendation**

Approve the Investment Committee delegation in the form included as Attachment 1.

### **Executive Summary**

Management's proposed updates to the Committee's delegation are in furtherance of prior board direction that the composition of the Investment Committee to be comprised of the entire membership of the Board and that the Investment Committee is authorized to act finally with respect to all actions described within the delegation.

### **Strategic Plan**

This item supports the "Reduce Complexity and Risk Management" Strategic Goal from the CalPERS 2017-2022 Strategic Plan.

### **Investment Beliefs**

This agenda item supports CalPERS Investment Belief 10, that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives, acknowledging the need for strong governance and effective, clear processes.

### **Background**

As required by the Board Governance Policy, each Committee's delegation is reviewed annually and updated as needed to ensure continued alignment with board policy and the CalPERS Strategic Plan.

### **Analysis**

Based on feedback provided during the September 2020 Board Governance Committee meeting, the Delegation Resolution for the Investment Committee reflects the following updates:

- The Investment Committee will comprise the entire membership of the Board
- The Investment Committee is authorized to act finally with respect to all actions described within its delegation
- In order to be consistent with other committee delegation structures, non-substantive revisions have been made that reflect the Board's direction to revise Board policies and documents into plain English

Any revisions to the Delegation Resolution that the Committee wishes to make will be incorporated and brought to the full Board for consideration and approval at the November 18<sup>th</sup>, 2020 Board of Administration meeting.

### **Budget and Fiscal Impacts**

Not Applicable.

### **Benefits and Risks**

The benefit of reviewing and updating the delegation of authority for the Investment Committee is to continually align the Committee's authority with the needs of our members while keeping CalPERS' commitment to its strategic goals and objectives. Management does not perceive any risks.

### **Attachments**

Attachment 1 – Investment Committee Delegation Resolution

Attachment 2 – Investment Committee Delegation Resolution – Track Changes

Attachment 3 – Board Investment Consultant Opinion Letter – Wilshire Associates

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Anne Simpson  
Interim Managing Investment Director  
Board Governance & Sustainability

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Dan Bienvenue  
Interim Chief Investment Officer

**STATE OF CALIFORNIA BOARD OF ADMINISTRATION  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**DELEGATION RESOLUTION**

Subject: Investment Committee

Delegation No: IC-20-01

Pursuant to California Government Code section 20099, the Board of Administration of the California Public Employees' Retirement System (Board) hereby authorizes the appointment of the Investment Committee to be comprised of the entire membership of the Board.

Except as otherwise provided within this Resolution, the Investment Committee (Committee) is authorized to:

- (1) Set investment beliefs to guide investment strategies.
- (2) Approve investment policies and oversee compliance with investment policies.
- (3) Conduct strategic asset allocation, set the target rate of return, and select the asset allocation mix including interim allocation targets for each fund.
- (4) Set total fund and asset class policy benchmarks.
- (5) Approve and oversee asset class strategic plans and portfolio construction guidelines.
- (6) Set investment risk appetite and tolerances.
- (7) Oversee investment performance.
- (8) Oversee fund liquidity management, including ensuring that the fund has sufficient liquid assets to respond to market conditions and meet investment obligations (e.g. capital calls, collateral calls).
- (9) Conduct selection and oversee performance of Board consultants who provide investment-related expertise to the Board.
- (10) Oversee selection process and performance of investment partners, managers and consultants.
- (11) Approve the initiation or settlement of investment-related litigation (including corporate governance) involving material sums or having a substantial impact on investment goals or investment operations.

Delegation No: IC-20-01

- (12) Oversee cost effectiveness of the investment program.
- (13) Oversee investment office risk assessment and control environment.
- (14) Oversee environmental, social and governance (ESG) program.
- (15) Set the criteria and triggers for information that comes to the Committee for review, as well as approve performance metrics to be reported to the Committee.
- (16) Approve positions on investment-related legislation.
- (17) Approve investment-related regulations.
- (18) Oversee management of risks related to the duties delegated to the Committee.

Notwithstanding any other provision within this Resolution, the Committee is authorized to act finally with respect to all actions described herein.

This Resolution shall be effective immediately upon adoption and supersedes all previous delegations of authority to this, or any predecessor, committee.

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I hereby certify that on the 18th day of November, 2020, the Board of Administration of the California Public Employees' Retirement System made and adopted the foregoing Resolution.

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HENRY JONES  
President, Board of Administration  
California Public Employees' Retirement System

**STATE OF CALIFORNIA BOARD OF ADMINISTRATION  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**DELEGATION RESOLUTION**

Subject: Investment Committee Delegation No: IC-~~19~~20-01

~~WHEREAS, (1) In accordance with Government Code sections 20120, 9353, 75005, 75505, 21661, 21670, 21759, 22200, 22201, 22794, 22940 and 22970.30, the Board of Administration of the California Public Employees' Retirement System (the "Board") is charged with the administration and management of the Public Employees' Retirement System, the Legislators' Retirement System, the Judges' Retirement System, the Judges' Retirement System II, the Public Employees' Long-term Care Act, the Public Employees' Deferred Compensation Program, the Replacement Benefit Plan, the Old Age and Survivors' Insurance Program, the Public Employees' Medical and Hospital Care Act, the Annuitants' Health Care Coverage Fund and the Supplemental Contributions Program (collectively, the "System").~~

~~WHEREAS, (2) In accordance with Government Code sections 20171, 9354.1, 75105, 75607, 21664, 21677, 21759, 22601, 22910, 22911, 22940 and 22970.41, the Board is also charged with the exclusive control of the administration and investment of the Public Employees' Retirement Fund, the Legislators' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement System II Fund, the Public Employees' Long-term Care Fund, the Public Employees' Deferred Compensation Fund, the Replacement Benefit Custodial Fund, the Old Age and Survivors' Insurance Revolving Fund, the Public Employees' Contingency Reserve Fund, the Public Employees' Health Care Fund, the Annuitants' Health Care Coverage Fund and the Supplemental Contribution Program Fund (collectively, "the Fund").~~

~~WHEREAS, (3) In furtherance of the authority granted in Article XVI, section 17 of the California Constitution, the Board may make any investment consistent with the duties therein described, except where such investments have been prohibited by legislation which itself complies with the standards of care and loyalty that are imposed upon the Board.~~

~~WHEREAS, (4) In accordance with Government Code section 20191, the Board is authorized, by affirmative vote of at least seven members of the Board, to make any investment authorized by law or to adopt an investment resolution that contains detailed investment guidelines.~~

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~~WHEREAS, (5) In accordance with Government Code section 20099, the Board is authorized to appoint a committee of one or more of its members to perform any act within the power of the Board itself to perform, and may through express delegation authorize any such committee to act finally.~~

~~RESOLVED, (A) That, pursuant to the foregoing, California Government Code section 20099, the Board of Administration of the California Public Employees' Retirement System (Board) hereby authorizes and ratifies the appointment of the Investment Committee (the "Committee") to be comprised of not less than nine (9) members the entire membership of the Board.~~

~~RESOLVED, (B) Except as otherwise provided within this Resolution, the Investment Committee (Committee) is authorized to:~~

- (1) Set investment beliefs to guide investment strategies.
- (2) Approve investment policies and oversee compliance with investment policies.
- (3) Conduct strategic asset allocation, set the target rate of return, and select the asset allocation mix including interim allocation targets for each fund.
- (4) Set total fund and asset class policy benchmarks.
- (5) Approve and oversee asset class strategic plans and portfolio construction guidelines.
- (6) Set investment risk appetite and tolerances.
- (7) Oversee investment performance.
- (8) Oversee fund liquidity management, including ensuring that the fund has sufficient liquid assets to respond to market conditions and meet investment obligations (e.g. capital calls, collateral calls).
- (9) Conduct selection and oversee performance of Board consultants who provide investment-related expertise to the Board.
- (10) Oversee selection process and performance of investment partners, managers and consultants.
- (11) Approve the initiation or settlement of investment-related litigation (including corporate governance) involving material sums or having a substantial impact on investment goals or investment operations.

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- (12) Oversee cost effectiveness of the investment program.
- (13) Oversee investment office risk assessment and control environment.
- (14) Oversee environmental, social and governance (ESG) program.
- (15) Set the criteria and triggers for information that comes to the Committee for review, as well as approve performance metrics to be reported to the Committee.
- (16) Approve positions on investment-related legislation.
- (17) Approve investment-related regulations.
- (18) Oversee management of risks related to the duties delegated to the Committee.

~~RESOLVED, (C) — That the authority granted under this Resolution is subject to the following conditions:~~

- ~~(1) — The Committee must discharge its duties "solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system." In exercising this responsibility, the Committee shall place the interests of system members and beneficiaries above all other interests. (Cal. Const. art. XVI sec. 17(b).)~~
- ~~(2) — The Committee must discharge its duties with the care, skill, prudence, and diligence under the circumstances then-prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. (Cal. Const. art. XVI, sec. 17(c).)~~
- ~~(3) — The Committee must diversify the investments so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so. (Cal. Const. art. XVI, sec. 17(d).)~~

~~RESOLVED, (D) — That, n~~Notwithstanding any other provision within this Resolution, all acts of the Investment Committee shall be reported to the Board, at its next regular meeting, and shall be subject to review and ratification or reversal by the Boardthe Committee is authorized to act finally with respect to all actions described herein.

~~RESOLVED, (E) — That t~~This Resolution shall be effective immediately upon adoption

Delegation No: IC-~~19~~20-01

and supersedes all previous delegations of authority to this, or any predecessor,  
~~Committee~~committee.

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I hereby certify that on the 18th day of ~~September~~November, ~~2019~~2020, the Board of Administration of the California Public Employees' Retirement System made and adopted the foregoing Resolution.

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HENRY JONES  
President, Board of Administration  
California Public Employees' Retirement System



**Thomas Toth, CFA**  
**Managing Director**

October 29, 2020

Ms. Theresa Taylor  
Chair of the Investment Committee  
California Public Employees' Retirement System  
400 P Street  
Sacramento, CA 95814

Re: Agenda Item 7b: Review of the Investment Committee Delegation

Dear Ms. Taylor:

You requested Wilshire's opinion regarding the annual review requirement mandated by the CalPERS Board Governance Policy as it relates to authority delegated to the Investment Committee. Most importantly, there are no changes to the listed delegations on which to opine. The revisions are limited in scope to those designed to provide clarity and to align with previous direction from the Governance Committee.

In reviewing the redlined delegation resolution, most of the revisions relate to Government Codes and the California Constitution that are being struck to further the Board's stated goal of improving the clarity of the Board policy. The referenced Government Codes and the California Constitution remain in force from a governance standpoint. Wilshire supports the move to enhance the ability of all stakeholders to understand the delegations provided by the Board.

The revised delegation expressly references California Government Code section 20099, which provides the Board of Administration with the statutory authority to delegate to a committee of Board members. This reference also enhances the ability of stakeholders to understand upon what authority this delegation resides.

The revision that structures the Investment Committee as a committee of the whole Board aligns with the recommendation from the Governance Committee earlier this year. The Governance Committee had healthy discussion and debate around this issue; hence, Wilshire is comfortable with this revision. We look forward to continuing to advise all Board members as CalPERS embarks upon the Asset Liability Management process within a very challenging investment environment.



**Conclusion**

Wilshire believes that these delegations support the full set of CalPERS' Investment Beliefs, underlining the importance of their regular review and discussion. Wilshire is comfortable that the revisions proposed to the Investment Committee delegation promote effective governance. Please do not hesitate to contact us should you require anything further or have any questions.

Sincerely,

A handwritten signature in black ink, appearing to be 'T. B.' with a horizontal line extending to the right.