MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

CALPERS AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, NOVEMBER 16, 2021

10:49 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

Theresa Taylor, Chairperson

David Miller, Vice Chairperson

Margaret Brown

Rob Feckner

Henry Jones

Fiona Ma, represented by Frank Ruffino

Lisa Middleton

Eraina Ortega

Ramon Rubalcava

Betty Yee

STAFF:

Marcie Frost, Chief Executive Officer

Dan Bienvenue, Interim Chief Investment Officer

Matt Jacobs, General Counsel

James Andrus, Investment Manager

Kelly Fox, Chief, Stakeholder Relations

Pam Hopper, Committee Secretary

Rob Patterson, Investment Manager

Arnie Phillips, Interim Deputy Chief Investment Officer

Greg Ruiz, Managing Investment Director

Tamara Sells, Associate Investment Manager

APPEARANCES CONTINUED

STAFF:

Mike Silva, Investment Officer

Anne Simpson, Managing Investment Director

ALSO PRESENT:

William Cunningham, Creative Investment Research

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PROCEEDINGS

CHAIRPERSON TAYLOR: I am calling the Investment Committee open session back into order. And since we recessed yesterday, I'm going to go ahead and just call roll for the formality of it.

Ms. Hopper.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Good morning.

COMMITTEE SECRETARY HOPPER: Rob Feckner.

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY HOPPER: Henry Jones?

CHAIRPERSON TAYLOR: He's here somewhere.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Present

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present

COMMITTEE SECRETARY HOPPER: David Miller.

VICE CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

CHAIRPERSON TAYLOR: Excused.

COMMITTEE SECRETARY HOPPER: Thank you.

Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

Betty Yee?

Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER YEE: Here.

COMMITTEE SECRETARY HOPPER: Madam Chair, I have Henry not yet in attendance, Stacie Olivares excused and Shawnda Westly absent.

CHAIRPERSON TAYLOR: Got it. Thank you very much. We still have a quorum.

So next item on the agenda is approval of the November 16th, 2021 Investment Committee timed agenda.

COMMITTEE MEMBER BROWN: Move approval.

VICE CHAIRPERSON MILLER: Second.

CHAIRPERSON TAYLOR: Moved by Ms. Brown, seconded by Mr. Miller.

All those in favor, say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Any abstentions?

All right. Motion carries for the approval of the agenda.

We're moving -- we have information agenda items,

3. And so let's start with 3a. And am I starting with Anne or Dan?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I can -- I cant kick us off briefly. Just good morning, Madam Chair and members of the Committee. We're here as you say for the continuation of yesterday's Investment Committee, taking up two items being led out of our Board Governance and Sustainability team under the leadership or course of Anne Simpson.

The first item is a review of the Emerging Manager Program and the second is the annual report on the Responsible Contractor Program. For this first item, Anne is here to walk us through, and you'll note that we have several members of the investment team, including all of the Managing Investment Directors joining us who weighed in on the item as it went. This was definitely a team effort under Anne's leadership, so greatly appreciate the collaboration by Anne and the team. If there are questions, we have plenty of people on hand to answer those questions.

So with that, I will turn it over to Anne to lead us through the item.

Anne, over to you.

(Thereupon an overhead presentation.)

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you very much. And I know this is a rather strange way to be talking to each other. I feel like we're all dressed up with party masks or something like, you know, well who's -- what's your spirit animal? But -- and we've also got these little pads over the microphone. So if I -- if I'm not clear, please wave a hand.

So just to echo Dan's introduction, I'd like to say thank you to Clinton Stevenson, and Mike Silva, and Nelson Da Conceicao in addition to the MIDs and their teams as well who've really done so much to bring this all together.

Now, I would say this presentation is really the story so far. We're going to cover the scope and the definitions, because there has been confusion at times about quite what an emerging manager is and how this connects to our broader agenda on diversity, equity, and inclusion. And sometimes the two overlap and there's some confusion. So we want to talk about that.

We also want to look back over the history. This has been 25 years commitment for CalPERS and the commitment to Emerging Manager Programs continues, but the review process, which is the third point we'll cover, is extremely important. And we'll say a little bit about how we've gone through the review talking to our sister pension funds, our advisors, Canyon, Legato, and

Grosvenor, who've been wonderful partners in this program and given us such valuable advice, and also our stakeholders and research that we've reviewed and we've given you all of that in the Appendix, so that you can dip in, if you're interested.

Then we're going to look at the question of performance, which is quite complicated, because we're really not measuring apples to apples. We're measuring a whole bowl of fruit. We've got apples, bananas, grapes, oranges, you name it, different programs measured and defined over different periods of time. So the performance question obviously is always important for CalPERS, but getting a clean set of data and a clean line of sight into where we've done well and where we can do better, that's something that I think we've got more to do on.

Then we're actually going to have an overview of the three asset classes that have existing Emerging Manager Programs, and then highlight the opportunities that global fixed income and our new program Opportunistic Strategies see. Then we're going to finish off, of course, reflecting a little on some lessons learned in the process of the review and the experience we've had to date, and set out next steps, because we've got some exciting work ahead, and we'd like to preview that with the Board. So with no further adieu, let's move to the first slide.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Which I've covered, so there we are.

The next slide.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

So starting off with scope and definitions. Emerging managers, as the name suggests, are generally defined as either newly formed investment firms or firms that are raising their first, their second, or their third fund. In other words, think about this as a bit like an innovation portfolio. These are new companies setting up and if it was in a different -- a different segment of the market, we might be thinking about venture capital, where you may understand that you've got -- you're taking bets on new ventures, but because you see the potential for returns over the long term.

The other thing to flag on scope and definitions is that we are using fund of funds structures. This is really so that we can tap into the extra expertise, networks, and knowledge, and capacity certainly of our current three advisors. So these are pooled investment funds that then invest in other vehicles. But, of course, with the additional help and the services that we get through those relationships, there's also another layer of fees and that obviously has an impact on performance.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So just while we're getting real clarity on what is an Emerging Manager Program and what is our diversity, equity, and inclusion strategy, I thought it was helpful to highlight the five elements in the framework that CalPERS has developed. And there will be more on this tomorrow with Marlene D'Adamo -- Timberlake D'Adamo when she gives her update as our Chief Diverse, Equity, and Inclusion Officer.

However, what I'm highlighting here in our new framework is a very strong statement about what our beliefs are, about the value of diversity, equity, and inclusion. And we say achieving stronger investment returns with the belief that diverse boards and companies that value diversity perform better. So in other words, our investment thesis really is rooted in our Investment Beliefs, our understanding of human capital management being a driver of performance and also a driver of risk.

So attending to these issues of risk and return around human capital -- my glasses are steaming up. I must be getting very excited about these comments.

(Laughter.)

MANAGING INVESTMENT DIRECTOR SIMPSON: Sorry. The point here is we have an investment thesis, which we've now built out for the total fund. So think of this as the total strategy for the fund, reflecting current and new work that's planned on diversity, equity, and inclusion. And within this in three asset classes, we have Emerging Manager Programs, which is where we're putting capital to work with either new firms or existing firms with new funds. So thank you for bearing with me on that, but I do know when the issues get discussed, it's easy to have some confusion.

So the next slide, please.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So this is another point we just wanted to clear up. Everyone saw that Proposition 209, which has been on the books in California for quite a while, is intended to prevent State government institutions from considering race, sex, or ethnicity specifically in certain areas, like public employment, public contracting, and public education. And I think everyone noted that there was a ballot proposal to remove it, and it was defeated last year.

However, going back to the point about the investment case, because our investment case for diversity, equity, and inclusion is being driven by our understanding of human capital management and value creation, it's an investment approach rather than a compliance issue around Proposition 209.

The other element of California State law that's important is there was Senate Bill 294 some years ago, 10 years ago. And that called on CalPERS to provide an annual report, but just on the Emerging Manager Program itself. And what we're really pleased about is there's a new Assembly Bill, which as gone into effect, which CalPERS Board supported and we welcome on the Investment Office, which will give us a chance to give an annual status report to the California Legislature. And it's not just looking at the Emerging Manager Program, but the bigger question of diversity across our manager cohort. And at the end, I'll say a little bit more about what we're about -- the work we're about to start on that.

So really, you've got this -- if you think of it as a Venn diagram, you've got the whole fund within the scope of the new diversity, equity, and inclusion framework. And then we've got this small innovative strategy in three asset classes that we're going to focus on today.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So with all of that, and just being aware that we're zooming in on emerging managers today, here's the purpose and the objectives for the program. So the first, of course, is absolutely in line with our fiduciary duty, which is to achieve favorable risk-adjusted returns by harnessing the talent of new investment managers. Now, the new managers will bring potentially the ideas, the talent, the perspectives that really can add value to the investment process.

And the objectives, in other words how do we break down that big purpose into specific goals, we say first of all, our objective is to identify early stage funds with the strong potential for success; secondly to access unique investment opportunities that may otherwise be overlooked; and very important, cultivating the next generation of external portfolio management talent. And as we go through the presentation, you'll see that we've really seen some very exciting developments in that arena, managers who've graduated from the program and done well in the market and also done well for CalPERS.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So as we're now zooming in a bit more closely to the three asset classes that have Emerging Manager Programs, we've given you some of the compare and contrast feature in this particular matrix. And you'll see that each asset class has taken a somewhat different approach. And, of course, you'd expect that, because the asset classes have different objectives within the total fund itself, the degree to which the asset class is internally or externally managed is an extremely important feature, because obviously if we can internally manage, we're not going to have a large cohort of external managers within which we'll place and emerging manager strategy.

Likewise, the definitions on fund size have varied over time and also the structure, some of the constraints, like geography, and also we've given you a snapshot on the investment strategy.

Next slide, please.

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MANAGING INVESTMENT DIRECTOR SIMPSON: This -- page eight. This simply continues with a bit more of the background to show what's in common and what's different between the three asset classes, for example, the inception year, the commitments, the operating model, the current market value, and also the number of managers. So for global equity, the current status is we have four, for private equity 33 general partners and 40 funds, and in real assets, five.

Also, there's an important footnote, which is just to give a sense of the scale of CalPERS commitment, bearing in mind that the definitions have evolved over time. So we just do have that pinch of salt in with any of the numbers that we're presenting today. But on a reasonable estimate, CalPERS has committed more than nine billion to other first and second institutional funds, in addition to the values that are set out here.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

Program history. So we could spend a fair amount of time going over the evolution of the Emerging Manager Program at CalPERS, but as you have had in previous years, we wanted to give you the overview of the history, the key decision points for when the program took a new direction, and bring it up to date with other developments. I'd be very happy to answer any questions on this, but let's move to the next section, otherwise...

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MANAGING INVESTMENT DIRECTOR SIMPSON: So the review process. So in the review process, as Dan and I said, really the content for this presentation really has come from the asset classes. They have responsibility for the development, the execution, and the adjustments of the Emerging Manager Strategies in each of the asset classes, but we also thought, apart from the asset classes and also the Program insights, our Investment Risk and Performance team have been the source for ensuring the numbers we're presenting are reasonable. And also our Research and Strategy -- our Research and Strategy Group team have really helped us with framing our understanding of an active management program like this.

We also took a close look at how CalSTRS has got their program organized, likewise New York City, New York State, and Texas Teachers. And this really showed that the way that our peer pension funds are organizing their emerging manager programs varies quite significantly. We think there's probably more to do there in coming back into the market to learn from other pension funds, because certainly some of the challenges that we faced seem to -- seem to be echoed in some other places as well.

I'd also like to thank Grosvenor, Canyon, and Legato. They've been extremely helpful as we sort of teased out lessons learned and an understanding, both of, you know, the market opportunity, the constraints that CalPERS has by size and by asset class role, and also, you know, how we've been able to evolve the program over time.

We've also benefited as always from input and discussions with stakeholders and our strategic partners. And we've given a list of those partners in the appendix, plus research. At the moment, there's precious little in the academic community. There is some research on the markets from market studies. We've given you a selection of those.

However, this is something we'll come back to in the next steps, because we think there's more to do to make sure that everything we're doing is well grounded in the economics, well supported by evidence.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So before looking at the performance numbers for the asset classes separately and in combination, I'd want to add something which our Research and Strategy Group has really been helpful in framing. In addition to the question of comparing apples with all the other fruit in the fruit bowl, which is one of the challenges we have with a varied program like this, there's also a separate consideration, which is to understand that emerging managers are not just a venture portfolio, it's also an active management strategy.

And that essentially means that an active management strategy is seeking alpha and that requires certain things. The first is that there is a market or a structural inefficiency. In other words, that's your alpha fishing pond. That's the place where you're going to look for opportunities that public markets may not offer.

Now, overall, it's fair to say that the private markets remain structurally more inefficient than public markets, and that's partly because of well understood features, obviously information, information scarcity, and asymmetry, network effects that can operate before you were against you, and some degree of market fragmentation.

But also within public equities, those inefficiencies can still be around. And typically, we see those in the less liquid markets, perhaps we would say internationally or around smaller companies and so forth. But this is important when you're thinking about the whole of the CalPERS portfolio, how we are deploying capital asset class by asset class to think, well, how could an emerging manager strategy add value there. And we'll come back to those issues in a moment.

The second thing that, if you found your fishing pond, your place to go fishing for the new opportunities, the next thing is obviously timely identification of what those inefficiencies are. And these are your skilled fishers. These are the people who can understand those markets, have -- bring expertise and insight that perhaps we wouldn't get through mainstream managers. And this provides an opportunity for a niche fund with highly specialized skills, where they'll have what's called an informational advantage.

But then, obviously, there's another part to this, because it's not just the opportunity and then having the skills and the ideas, the understanding of the opportunity. The next thing is the operational capacity. Of course, with an emerging manager, by definition, these are start-ups, new ventures or new funds.

CHAIRPERSON TAYLOR: Pam, I'm going to move the -- if you want to move the slide. I think you're on a different slide.

MANAGING INVESTMENT DIRECTOR SIMPSON: Oh, my goodness. I am so sorry. I'm getting all enthusiastic and -- apologies. Could we have the next slide.

CHAIRPERSON TAYLOR: Thank you.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you. Thank you, Madam Chair.

Yes. So the practicalities. Getting a new firm set up. We know the -- you know, the risks and the returns are both higher with start-up situations. And that, in turns, means that the three advisors that we have at the moment Grosvenor, Canyon, and Legato really playing a tremendously important role in terms of not just identifying managers for us, but also assessing the opportunities, and making sure that there is the mentoring and support for these firms as they grow. And as I said, we've seen some very successful firms coming out of the Emerging Manager Program.

And then finally, is a statement of the obvious, but it really does matter, it's the ability to sustain performance over time, and, of course, through different market conditions. And that itself means a level of repeatable processes and stability and security in the entity that will make a difference as well. So key person risk is obviously something with small a start-up venture, which is particularly an issue to monitor.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

So again, remember this is our bowl of fruit. So we have apples, pears, bananas, oranges, probably pawpaw, and pineapple, and everything in there. If were to try and put a financial model around each one of these. The numbers that we have here also need to be taken with a caveat that the programs in global equity, private equity, and real assets have evolved over time. One example here is in private equity, where our existing advisor Grosvenor took over another set of funds from another manager that was terminated and they have been able to generate in their work a substantial internal rate of return, but you've got a legacy effect from that.

The numbers, just as a way of example, so the domestic emerging manager fund that Grosvenor -- that Grosvenor is running directly since 2014 has generated an internal rate of return of 17 percent. They assess that. But of course, by taking over other legacy portfolios, there is a question of whether those should be broken out and accounted for separately. And that's just one example of how this assessment of performance and also fair comparisons is quite a complicated issue to assess.

Can I have the next slide.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So here's another element on performance which is important to assess. Because we're using specialist external advisors to source, to mentor, to develop the new firms or the new funds, this is bringing an additional layer of fees. So the costs have varied and base fees can be relatively higher on a net asset value basis.

However, in recent years, the asset classes have been making real progress in this arena to better align costs with CalPERS fiduciary duty and our Investment

Beliefs that costs matter. And real assets has been able to report that the costs for other net value added programs is similar.

A third element on here that's relevant and impacts performance is, of course, size. Because these are small-scale investments relative to CalPERS' portfolio, we haven't had the same opportunity to scale up and get economies of scale, I should say, economies of scale on fees, so that is a factor as well.

Why don't we move to the next slide.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So now what we'll do is turn to each of our three asset classes with existing programs and then also scope out what global fixed income and opportunistic strategies are thinking about for the future.

So next slide, please.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So global equity is obviously almost half the total fund. And in 2019, there was an active risk review, which I'm sure the Board will remember. And out of that active risk review, it was decided to bring more money in-house, essentially because the internal team can manage the money at a better cost -- better cost structure. Obviously, it's more efficient to internally manage. But also we're indexed to highly efficient global markets. And the role of active management needs to be very carefully thought about when you've got a large indexed, internally managed fund.

So in that process, there were 30 external active managers who were terminated, and that included four emerging managers. The cost savings from this were just over $19 million. But for the emerging managers, this actually represented about 20 percent, so the four emerging managers represented about 20 percent of the overall cost reduction out of the 30. So you can see that's really where that double layer of fees does start to bite.

But we are very pleased to say that Legato Capital who's worked with CalPERS as a close partner over many years has retained. And he's one of four external managers, or I should say for him an advisor, for Victor Hymes at Legato for global equity, alongside Arrowstreet. That's one of the four external managers that were retained. And Arrowstreet is a very successful Investment Manager that started off in the Emerging Manager Program.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So just to shed a little more light on why we value our relationship with Legato, so highly, obviously the role of our advisor here is to manage the portfolio and the partnerships, but also to provide due diligence on quite a broad universe of emerging managers globally. So Legato isn't just looking in California or even the United States, but has a global -- a global purview.

Then obviously, the next in question is -- if you like, that's the way to find your fishing pond, then finding the skilled fishes, that's the next job for Legato as our advisor here. And also, Legato has been following right along with CalPERS by considering sustainability factors through environmental, social, and governance issues, and assessing diversity, equity, and inclusion as well.

And of course, the other role for Legato is to monitor risks, recommend changes depending on what's happening with particular managers and their progress, but also the wider market.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So really when we're considering the double costs, understanding the value of the advisors role is obviously important. So that I've just explained is really what the benefit is for CalPERS in the partnership, but Legato's role is also to be a strategic partner to the managers themselves and provide resources for them to help them grow their business, outsource providers on compliance, technology, legal matters, business development, and product creation. It's obviously complex, sensitive, and challenging, and important work building out new investment firms.

Also, Legato has a role helping these managers connect with other potential investors and hosts broader industry forums, which help develop the knowledge and capacity across the market. And this is also something that, in fact, our other advisor Grosvenor has just host similar events, which we've been at CalPERS very glad to participate in and learn from.

Let me turn to the next slide.

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MANAGING INVESTMENT DIRECTOR SIMPSON: This final slide for global -- sorry, not the final, the last but one slide for global equity is really to reflect on this broader issue about active management. And when is it your friend and when can it be difficult to compete against our internally managed indexed portfolio?

So what you can see from the numbers here is that there have been periods of time when the Legato cohort of managers has comfortably outperformed and other periods when the performance has been less or lower. So excess returns in recent years really have also reflected the way -- or the potential for active management to add value more broadly.

So we've put some of the issues here to actually explain a little bit about what an act -- any active management strategy in public markets has had to contend with. You know, the outperformance of the highly liquid companies in the segments of the market, the large companies versus small, overseas, but also the increased competition from the growth of indexed investments, ETFs, and, of course, the expansion of the private markets, and fee compression. I mean, for us, as a fiduciary for CalPERS, free compression is when we're making sure we're getting the alignment. But obviously, the companion part to fee compression is lower income for the managers. And if they've got to continually invest in technology, product innovation, communication, and distribution, working out a business model that can be aligned on fees is obviously quite important.

So next slide, please.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So just to sum up, clearly global equity has had a long -- you know, since 2000 had a number of challenges in this arena, which I think are structural and to do with CalPERS, not just our size, but the very slow period of time for managing changes when this type of strategy benefits from, you know, being nimble. And, you know, it's very hard with the size of our portfolio to be nimble.

I sometimes think when we're trying to make fast decisions about -- we're a bit like the hippopotamus in the ballet shoes and Fantasia. We're very large and we're trying to be dainty and fleet of foot, but it's quite tricky. And that can be something that makes it difficult.

CHAIRPERSON TAYLOR: Can I -- because you're on -- next is private. Can I have -- I have a question from one of the Board members. Is that okay?

MANAGING INVESTMENT DIRECTOR SIMPSON: Oh, yes, please.

CHAIRPERSON TAYLOR: Mr. Jones.

COMMITTEE MEMBER JONES: Oh, I can wait till the end.

CHAIRPERSON TAYLOR: You want to wait till the end. Okay.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes. Thank you. Yes. So we just wanted to chart that in response to some of these issues and working with Legato, as we said, whose expertise and thought leadership we so appreciate, there has been a realignment of operating expenses and quite a substantial cut.

And, of course, the overall impact of the active risk review is really what drove bringing more assets in-house, which I think ultimately had an impact on the number of emerging managers on the roster.

Could we turn to the next slide?

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MANAGING INVESTMENT DIRECTOR SIMPSON: So private equity. So again, private equity has a very long-standing program in the emerging manager arena. It goes back to certainly being conceived in 2006, and I think initially executed in 2007. And I think the information on the slide shows that there have been some quite significant changes and as the program has evolved over time. So initially committing, using a fund of funds model again, deploying to first and second time funds, but with quite a wide variety of strategies. So buyout, mezzanine, credit and so forth. And it was up to a billion dollars in size was the definition of the scope and the focus was the United States.

But since then, there was some other commitments and some changes in ownership, which I just mentioned. So two to Centinela, a third to Credit Suisse, and then the fourth and fifth allocated to Grosvenor, who then also took over some of the other strategies.

But also along the way, the mandate was expanded to include not just first- and second-time funds, but third-time funds up to a bigger potential size, up to two billion, and also to allow for co-investments and secondaries. And, of course, that's also a way in the private equity space where you can get access to more of the economics and offer that also reduce the fees.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

So this chart just gives you a picture of some of the evolution over the period. And I do want to say, as mentioned earlier, that Grosvenor does offer a wide range of mentorship, research, and thought leadership activity as well, which we find a very valuable addition to our own investment work in this whole area.

Let's move to the next slide.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So real assets. So the real assets program goes back to the 90s. Who knew? This is really a very long-standing ark of experience. And to be fair, the asset class considers there just been varying degrees of success, in other words, there's been quite a steep learning curve, and as with everything, the important thing when you don't succeed is learning why and how to make changes that actually can set you for success next time.

So 2011 was a landmark year for this asset class in reevaluating the approach. And the changes that were determined then really are still reflected in the current strategy. And an important point here is that in that recalibration, developing a formal program was also based on establishing very clear guidelines and also agreeing an investment philosophy.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So real assets at the current stage of the program is with the qualifications as set out on this slide, to be originated and managed, having a gross market value of less than a billion, making sure, just staying true to the concept of being an emerging manager strategy, making sure that the manager hasn't originated or managed more than three commingled funds, or a single institution investor separate account, but also finding a sensible way to establish a track record of investing in real estate, because, of course, the issue here when assessing skill and experience is when people come to set up a new firm, you don't have those years of back-tested data that you can analyze to check on performance. You're really taking a bet on people's past experience, and on their vision, and on their investment thesis. So getting that right is extremely important.

So the role of Canyon -- next slide, please.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So Canyon is our advisors for real assets. And we're flagging here as right across the asset class, the focus on sustainability is extremely important and there are energy efficiency measures and best practices in place, as the Board is familiar with, and also -- and sort of speaks to our next item for this Investment Committee, the Canyon itself and the emerging managers adhere to the Responsible Contractor Program Policy, which you're about to hear about.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Next slide, please.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

So here's some more detail about Canyon's role in mentoring emerging managers. I think we've touched on several of them already, so I'll leave that for you to take a look at or ask any questions, which the Real Assets team will be able to answer.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So with that long history for those three asset classes and many changes and developments along the way, we also have been talking with global fixed income and our new program opportunistic about how they're currently positioned in relation to external managers overall, and where an active management strategy may fit in, and then specifically how might an emerging manager strategy. So it's sort of three tiers, external managers, active strategies and then an emerging manager strategy.

So again, very similar to global equity, global fixed income is mostly internally managed. And, of course, for CalPERS overall that's very good for fees. And there's also been a successful internal strategy in terms of performance as well.

Ninety-six percent is currently internally managed. So at the moment, it'd just a coincidence, but this asset class only has four external high-yield managers two are targeted with alpha generation, and two with targeted end dates, slight returns, slight risks. And another about is just to flag that in the last 25 years, there have only been two Requests for Proposals in fixed income, which really just reflects the strength of the internal team over the decades.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Just to look back to give an example of a time when global fixed income did issue an RFI, we just wanted to highlight that although this predates the new diversity, equity, and inclusion framework, the asset class work with Wilshire way back in 2007 to establish minimum qualifications for the RFI that were emerging manager friendly, as you can see from the target assets under management, but also that the minimum qualifications were intended to allow emerging managers to get -- take a bite at the cherry.

So there was progress on this. Four firms responded, two were visited, a firm was hired, but then resigned due to personal issues. And I think that just reflects something I mentioned earlier, which is when you've got new entrepreneurial firms being set up, key person risk can be quite important to the entity's success.

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MANAGING INVESTMENT DIRECTOR SIMPSON: However, in talking with our global fixed income team, it's clear that there is a really high bar in this asset class, much as there is with global equity, and the internal cost structure is very low, and also there's currently, through the internal program, a very strong alpha generation program in the investment work.

However, the results of the ALM process of yesterday may bring some additional opportunities for bringing in external managers. And if that becomes part of the execution on the new ALM, then the door will be open, of course, for emerging managers, who can meet the test.

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MANAGING INVESTMENT DIRECTOR SIMPSON:

Opportunistic strategies. Again, this is a very -- this is a newly formed group. And the purpose of this is to tap into investment opportunities that lie outside the existing benchmarked asset classes as the name suggestions, and it's mandated to invest in private debt for CalPERS, so -- and it's relatively small, but it's exciting stuff, but it's just getting off the ground. And it's current at about 2.5 billion.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So future possibilities. So opportunistic strategies welcomes new and innovative managers, who can add value to the program. That's obviously important to underline. And the experience so far during this build-up phase for opportunistic strategies is going to include setting up minimum qualifications for emerging manager opportunities, as this program moves towards its targeted allocation. So that's something to look forward to.

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MANAGING INVESTMENT DIRECTOR SIMPSON: Here we are, Section 6, lessons learned.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So the first issue is about the data challenges. It's lack of consistency. It's not that there are not the data there. It's that the definitions, the time periods, the terminology varies. So we do think this is something that we've found in many other strategies at CalPERS as well, and it's why data and corporate reporting has been the number one priority in our Sustainable Investment Strategy. And the new initiative with the private equity ESG data convergence platform that's just been launched, the work we've been doing in public markets with the SEC and the IFRS, it looks as though there's some fruitful work to be done in this arena, working with our sister pension funds.

Also, we want to reflect a little on how the variety benchmarks makes it difficult to track performance clearly. And it also reflects some complexity in the varying role and approaches that have been taken over time. And it's very understandable that some of the benchmarks that have been deployed relate to the advisors cohort of managers and in other times, it's been the CalPERS asset class benchmark, which again will have varied over time.

Next slide.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So another thing, again, this is -- in all humility that we listen and we learn as we go, the program criteria and the process that we have. Remember the Hippopotamus in the ballet shoes, that we are. We understand that some of the constraints that CalPERS has put on particular advisors at particular times have clearly been very additive to performance.

I think we can see that in real assets with a focus on real asset markets, where that niche approach, that expertise can really add value, but we've also seen a negative impact from some of the constraints that CalPERS has imposed. It might be a delay or a long time for getting approvals through, which make it difficult to be nimble. One is a new opportunity.

But again, each of the asset classes has been looking at these issues, responding, lifting constraints where they're considered to have hampered. The external managers and -- really just keep a very open mind, and as a sense of being honest about what the facts -- what the data show you.

And then, of course, there's the continuing challenge about the costs. But we have seen how we've been able to better align costs across the different asset classes with different approaches. So that work will continue, because the concern with costs alignment is a commitment right across the portfolio.

And the other issue about costs, in driving costs down for CalPERS, which is very important, then we've brought many more assets in-house, because we can invest more cheaply, and efficiently, and effectively, so that means overall external managers are a much smaller cohort for CalPERS than they were even a few years ago.

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MANAGING INVESTMENT DIRECTOR SIMPSON: So what's the -- what's the next step? Well, we've got two things coming up, which we think are going to be really valuable for informing this program, and seeing how we can better access the opportunities that are out there, bearing in mind our particular asset class strategies, can look quite different to others. And I think one of those is that many other pension funds are much more reliant on external managers than we are at CalPERS. So we have to accept there will be differences.

But what we've done, as the Board is aware from when we updated you on this last June is we're just commissioning the third round of the Sustainable Investment Research Initiative. I don't think we can announce it, but we've -- we're almost at the point of having our partner established, so very excited about that.

And when we did the RFI, we said there's two things that are a priority, one is climate change and capital allocation, and climate risk, I should say, specifically. And the other is quite a large bucket of work on human capital management that we want to do. So diversity, equity, and inclusion, tying that into our risk return objectives, but also understanding better what the opportunities are and the execution improvements that we can make on the emerging manager's side. So that was all set out in the Request for Information.

The second thing, which is about to happen and many thanks to Mike Silva for leading this work, we are bringing Lenox Park back in again. This is a consulting firm, a FinTech firm, who we've worked with in the past. And what they have done for us, which has been extraordinarily important is assessing diversity, equity, and inclusion right across the cohort of external managers.

Now, we know because of the due diligence that our asset classes undertake, they have probably better access than anyone for pursuing some of these issues. But what Lenox Park is able to do, which is so valuable, is allow us to benchmark progress over time and also benchmark ourselves against our sister pension funds, and against the industry, and against the demographics of the market where those companies are operating.

So this is going to be assessing all of our external managers on dimensions of gender, race, ethnicity, veterans data and disability. We're entering into more discussions to say if we can broaden this out to full array of facets of diversity, the CalPERS own approach. I would highlight gender identity and sexuality, and some of the issues around generational diversity that we've highlighted as well.

That work is about to begin as well. And we're seeing it. It's really going to make a strong contribution to the new diversity, equity, and inclusion framework that Marlene will talk about more tomorrow.

Also, we're looking forwards through that work and further discussions to exploring the viability of expanding the Emerging Manager Program into the -- into global fixed income and into opportunistic strategies, bearing in mind the alternatives of internal management, the role of active management, and all the other issues that we've talked about.

But really I think this next round of SIRI, the Sustainable Investment Research Initiative, and the specific assessment about to be done by Lenox Park really are going to give us valuable new data for considering how we can raise our game in this arena.

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MANAGING INVESTMENT DIRECTOR SIMPSON: With that, I thank you for your patience. I realize that was a lot to get through, but I know that the rest of the Investment team would be delighted to answer any questions as -- and thank you for your attention.

CHAIRPERSON TAYLOR: Thank you, Anne. This was a great report as always. And I really appreciate all the work you put into this. It was -- I feel like it was quick. I don't feel like it was really long, so...

But I wanted to kind of go over our next steps and tie it all back, because talking about like asset classes, global equity, global fixed income that we do a lot of our own investing. We invest in-house, right? So -- and it keeps our costs low and looking for external managers that are emerging managers which kind of are more costly, et cetera. It doesn't sound like it makes a whole lot of sense, unless there's -- you know, one of our consultants can figure out a way to do that. But as I look at number -- page -- or next steps, number seven on page 40, it says CalPERS to complete a diversity, equity, and inclusion survey by Lenox Park of all our external managers and to provide us with greater insight into the investment industry, workforce, leadership, decision-making practices, as well as our own portfolio.

I mean, if we're going to have some of this -- have to do this work inside, right, shouldn't we also do our own racial equity audit inside CalPERS. And that way, you know, those asset classes we are meeting the diversity, equity, and inclusion without having to go out to external managers. So I wondered what you thought about that?

MANAGING INVESTMENT DIRECTOR SIMPSON: That is such a good point. You know, as always, it's eat your own cooking. If we know that diversity, equity, and inclusion is good for performance, we know that's true internally as well as for our external managers. That to me seems completely consistent. What I think might be a good place to talk that through is tomorrow when Marlene comes forwards, because in that five-part framework, I think we had back on slide 3 -- you probably don't need to go back to it, but there's talent management, there's culture, suppliers, health --

CHAIRPERSON TAYLOR: You're right.

MANAGING INVESTMENT DIRECTOR SIMPSON: -- health and then it's investments. So I'd really hand over to Dan for a comment. But the talent management and culture piece are enterprise-wide. So seeing how we can synch up that work with what we've learned for the external managers could be something that's valuable. But, Dan, your -- over to you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: No. I completely agree. I would say that as part of our overall diversity, equity, and inclusion work under Marlene Timberlake D'Adamo's leadership would probably be the place to consider that. And I do think it's important that if we're requesting that our external partners engage in audits like that, that -- you know, that CalPERS eat its own cooking, as Anne said.

CHAIRPERSON TAYLOR: Yeah. What's good for the goose is good for gander.

MANAGING INVESTMENT DIRECTOR SIMPSON: Source for the goose is source for the gander.

CHAIRPERSON TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR SIMPSON: And also, we'll learn through that process. I mean, sometimes it's difficult. I mean, we've had this discussion, for example, with our Governance and Sustainability Principles, where we're saying to companies how about this, how about that, why don't you do a carbon footprint? Hey, why don't we do a carbon footprint. But what we learned in that process was tremendous, because it made us better informed when we're engaging companies and it also gave us insight into risks and opportunities, so --

CHAIRPERSON TAYLOR: Well, then it also -- doesn't it help us create or figure out with a partner how to create --

MANAGING INVESTMENT DIRECTOR SIMPSON: Right.

CHAIRPERSON TAYLOR: -- data that we need, right --

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

CHAIRPERSON TAYLOR: -- which we don't have.

MANAGING INVESTMENT DIRECTOR SIMPSON: Correct.

CHAIRPERSON TAYLOR: I think that's a good way for us to start, right, in that. And then I was -- the only other thing it was on page 17, when you were talking about global equity and scale. And I know that his -- I know you didn't go through the history of what happened with our emerging manager. But I noticed that we had like a $500 million requirement or something like that. Is that kind of big for an emerging manager? Is that like -- I know those -- that was our requirements at the time, but I was wondering is that where we need to really focus is putting that kind of parameter in or is there a way we can break off something, so that it's smaller, so that we can really dive in to emerging managers, so that -- I don't know how to do that, but almost as if it's own company.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah. I'm just asking Mike Silva to come and join me, as Mike has done a lot of the hard work and the number crunching on this stuff. The idea of the big chunk of money is it goes to the advisor who can then allocate in smaller parcels to the emerging managers, but let me hand over to Mike who will be able to.

INVESTMENT OFFICER SILVA: Mike Silva, Investment Officer with BGS. Yes, the 500 million is for Legato and for the emerging managers under that portfolio it's generally ranged 50 million to 150 million per allocation.

CHAIRPERSON TAYLOR: Okay. I see. So these -- and so our partners are these three or four companies. And they are the ones that then go out and find the emerging managers for us. And are we just like trusting, are we checking it out, are we making sure that they're getting emerging managers with diversity and inclusion, how are we -- how are we checking that out to make sure that we're --

INVESTMENT OFFICER SILVA: Well, the asset classes work directly with the emerging manager advisor. In this case, Global Equity has a team that works closely with Legato, and stays in close touch with them with regards to how the portfolio is managed.

CHAIRPERSON TAYLOR: Okay. Excellent.

MANAGING INVESTMENT DIRECTOR SIMPSON: So the new round of the Lenox Park assessment will include all of the emerging manager cohort. There will be, you know, soup to nuts right across the external managers.

CHAIRPERSON TAYLOR: That sounds wonderful. I just want to encourage us to broaden this out again.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

CHAIRPERSON TAYLOR: I know that we wanted to bring costs down. And I think that's an excellent idea and I know this can be expensive. If we -- if we focus on where we can do better with active management and opportunistic, et cetera, I think that's where we want to focus. And then otherwise if we're looking at in-house, then maybe we should do our own diversity and inclusion work as well. But again, I encourage you guys. This is a great report. Keep going. Let's restart this and move on and be better.

And I had one other thing emerging managers, it said that we worked with CalSTRS, and I forget the New York funds.

MANAGING INVESTMENT DIRECTOR SIMPSON: The two New York funds, yes.

CHAIRPERSON TAYLOR: Okay. Because I -- oh, and Texas Teachers.

MANAGING INVESTMENT DIRECTOR SIMPSON: And Texas Teachers.

CHAIRPERSON TAYLOR: Because I know there's a bunch of folks. And I see them on LinkedIn and I apologize, but there's a bunch of small funds that are doing really, really good work with emerging managers and diversity and inclusion in those emerging managers. And I'm trying to think of it right now. I think I talked -- Illinois.

MANAGING INVESTMENT DIRECTOR SIMPSON: Right.

CHAIRPERSON TAYLOR: Illinois State Fund. I don't what their secret sauce is. I don't know if we look out beyond the folks that you had named to see or if we attend emerging manager programs to see if we can get better ideas. I know that we're so huge that it makes it difficult for us, so -- but again, I appreciate this report.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah. And just on the Sustainable Investment Research Initiative, our -- the CalPERS SIRI, one of the elements of that will be a symposium, which will probably run in a virtual format, but I think what we're hoping is that the piece that comes forward on the emerging manager strategies can then be part of that symposium. And it would be a chance to bring in sister funds, and as you say not just the big four or five who we're always talking to, but actually to broaden it out. So that's certainly something that's in the works.

CHAIRPERSON TAYLOR: Okay. That sounds fabulous. Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Thank you, Madam Chair. Yeah, thank you for the report. Very comprehensive. And a few questions. The first one on the CalPERS to complete a diversity, equity, and inclusion survey. It was my understanding that we already are requiring those firms that we do business with to report that information as a result of SB 92 -- 294. So why are we having to repeat this?

MANAGING INVESTMENT DIRECTOR SIMPSON: The -- apologies. I'm looking for the slide. The new reporting requirement doesn't start till 2023.

COMMITTEE MEMBER JONES: No. I'm going back to 20 -- I think it was 2011. Current prices Emerging Manager Program legislation.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah. Mike, could you handle that, because I think you're -- you were still on the program at that point.

INVESTMENT OFFICER SILVA: Yes. That was the five-year plan. And the five-year plan concluded in 2017 with the final report to the Legislature in 2018.

COMMITTEE MEMBER JONES: But we -- I remember asking staff to continue that report and so that same information should be forthcoming, even though the final report was provided.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

INVESTMENT OFFICER SILVA: That is correct. There was a emerging and transition manager plan that lasted through 2020, but no subsequent plan has been put in place at the expiration of 2020.

COMMITTEE MEMBER JONES: But if the legislation authorizes us to gather that information, why would we stop gathering that information?

INVESTMENT OFFICER SILVA: The 2020 plan was not a legislative mandate. That was just CalPERS that continued with that effort in reporting it to the Board.

COMMITTEE MEMBER JONES: That's my point is that --

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah.

COMMITTEE MEMBER JONES: -- if it -- just because the legislation ended doesn't mean we have to stop collecting that data, because we found that collecting that data was a benefit to us to focus on diversity and inclusion --

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah, Maybe I can --

COMMITTEE MEMBER JONES: -- including gender.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah, absolutely. Maybe I can help. And apologies, because I'm new to this part of the portfolio. But in 2019, Lenox Park did complete the manager review that -- on diversity, which was as it was defined at the time. So we do have that data. However, because there was a shedding of 30 plus managers during that period, that information was viewed as okay this is keeping us going in terms of information gathering, but it's not something that we can put into the public domain because most of the managers will have left. So I was not -- Dan, you might have something to add to that during that --

CHIEF EXECUTIVE OFFICER FROST: Anne, isn't -- I mean, isn't it a fact that the current managers of the Emerging Manager Program provide that data to us on their annual report? I know Victor provides that.

COMMITTEE MEMBER JONES: Yeah, that's what I thought.

MANAGING INVESTMENT DIRECTOR SIMPSON: And Grosvenor.

CHIEF EXECUTIVE OFFICER FROST: Right. So we get that data that we can provide to the Board. What the Lenox Park work is is to actually survey the universe of relationships that we don't currently have.

MANAGING INVESTMENT DIRECTOR SIMPSON: No, of all of our external managers who we have.

CHIEF EXECUTIVE OFFICER FROST: Okay. All right.

MANAGING INVESTMENT DIRECTOR SIMPSON: So we've got two tracks.

CHIEF EXECUTIVE OFFICER FROST: Yeah.

MANAGING INVESTMENT DIRECTOR SIMPSON: But, yeah, but we do collect the data and we do have it, yes.

COMMITTEE MEMBER JONES: And with the external managers excluding the emerging managers, aren't we also requiring them to report that data also?

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER JONES: So data should be coming in on diversity, gender, et cetera.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER JONES: And that's why I'm trying to understand if we're collecting that data now, why would we have to wait for a survey? We should have that data.

MANAGING INVESTMENT DIRECTOR SIMPSON: Well, I think the value of having a third-party is you get an objective view. You get benchmarking options with other funds. And it's the trends over time against the industry and against the geography that you're investing in. So that's really the value of having Lenox Park provide -- being part of their RoundTables' platform gives us access to that broader industry view. Rather than just having our own information, we want to be able to see how we match up against our peers, and the industry, and the geography that we're investing as well.

COMMITTEE MEMBER JONES: Yeah. And I can understand, you know, the larger picture, but the smaller picture is that we're conducting business with firms that are providing -- you're requiring --

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER JONES: -- that they provide that information currently, so that can help make -- if everything else is equal, then what's the doing well part of our allocations is important.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes, the benchmarking.

COMMITTEE MEMBER JONES: The next -- and I guess kind of related to your question about AB 890 that's effective 2023, I think you said. So would -- are there any significant difference between this new enabling legislation and the current price, 294?

INVESTMENT OFFICER SILVA: Yes, I would say so. The five-year plan asks CalPERS Investment Office to take a -- do a deep dive and examine the Emerging Manager Program across each of the asset classes. Over a five-year period, it had six portfolio management workstreams and four external management workstreams. Whereas, this new legislation requests that CalPERS provide statistics on diverse managers and emerging managers. And those are new allocations to both.

MANAGING INVESTMENT DIRECTOR SIMPSON: Right.

COMMITTEE MEMBER JONES: Okay. And then the last question I think is that on that performance sheet slide where you have benchmarking over a period of time. If I were to ask the question to your kind of scenario, Anne, about the --

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah.

COMMITTEE MEMBER JONES: -- basket of fruit. So you've taken out one designated kind of fruit for the emerging managers.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER JONES: But if you look at the rest of that basket, would those performance data be similar, because you're using comparative benchmarks as --

MANAGING INVESTMENT DIRECTOR SIMPSON: Right.

COMMITTEE MEMBER JONES: -- as opposed to absolute returns net of fees?

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah.

COMMITTEE MEMBER JONES: So how would the rest of the private equity look without the emerging managers -- compared to the emerging managers?

MANAGING INVESTMENT DIRECTOR SIMPSON: I'm going to ask either private equity for Greg to answer that or if Rob is here. He's our fruit expert. Otherwise known as Investment, Risk, and Performance.

COMMITTEE MEMBER JONES: Okay.

CHIEF EXECUTIVE OFFICER FROST: Anne, and if we don't have that, we can take that as Committee direction to provide it back to Mr. Jones.

MANAGING INVESTMENT DIRECTOR SIMPSON: Oh, that's --

COMMITTEE MEMBER JONES: Okay.

MANAGING INVESTMENT DIRECTOR SIMPSON: Maybe is that better?

Yeah, thanks, Marcie. Yeah.

COMMITTEE MEMBER JONES: Okay. And so is that the -- and I guess the secondary question is that the best way to compare using benchmark as opposed to returns net of fees?

MANAGING INVESTMENT DIRECTOR SIMPSON: That I can't answer the question here, but that's something I think for us to take back. Dan, do you want to add anything there?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. No, I do think that that's the -- that's the right comparison is how the emerging managers have done relative to the overall programs. I do know that, like we talked about yesterday, how you measure the performance can be challenging based on time periods and then also based on sort of subsets. We'll just come up with the best way to assess that performance and present it.

COMMITTEE MEMBER JONES: Okay. Okay. Thank you.

CHAIRPERSON TAYLOR: Okay. Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Madam Chair and thank you, first of all, to the team and to Ms. Simpson for the excellent report, not just on emergency[SIC] manager program and -- but also in CalPERS ESG and social impact practice -- policies.

I have a comment before I ask, Madam Chair, for a question. And I hope everyone on this dais will agree that equitable access to capital by developers of color and in under-invested communities of color is essential, is essential to stemming the ravages of mounting economic inequality. That said, Madam Chair, with your permission, as we do this external survey, or we don't, or we go back to what we have collected in the data, I'd like to ask a question that doesn't necessarily needs to answer today, but perhaps we can look at it, and that is how many minority women developers have CalPERS allocated investment capital to?

CHAIRPERSON TAYLOR: Managers you mean?

ACTING COMMITTEE MEMBER RUFFINO: Correct.

CHAIRPERSON TAYLOR: Okay.

ACTING COMMITTEE MEMBER RUFFINO: And in the same vein, you know, what steps are being taken by CalPERS to ensure that these project sponsors and these managers have the specific experience, the skill set, and the relationships that are required to achieve equitable investing in ESG outcomes?

Thank you, Madam Chair.

CHAIRPERSON TAYLOR: And take that as Committee direction from the Treasurer's office.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah. Thank you.

CHAIRPERSON TAYLOR: And I also wanted to ask along with that, there's a lot of information out there for diversity and inclusion and the loss of capital. One of those is the Citibank study. And I don't know, have you used that, have you looked at that?

MANAGING INVESTMENT DIRECTOR SIMPSON: No.

CHAIRPERSON TAYLOR: You haven't heard of it. It came out six months ago, maybe a little longer than that. But it's -- it's trillions of dollars of lost capital, because of racial inequality in the capital markets.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

CHAIRPERSON TAYLOR: So I think we need to include that in our toolbox as it were. Okay.

Is that it, Frank?

ACTING COMMITTEE MEMBER RUFFINO: Yes, ma'am.

CHAIRPERSON TAYLOR: Thank you.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

CHAIRPERSON TAYLOR: And Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you. I, too, want to join in and thank you for the report. I think this is something that I commend CalPERS and your staff for trying to take the leadership and that we should continue.

I also want to follow up on some statements that Mr. Jones said. On your slide number four, the whole thing about achieving stronger returns. I mean, I think that's key. We all want to pursue stronger returns. And I think given what the Chair has talked about these past studies about how the structural barriers are there. And so I think as long as those barriers are there to access to capital and also the other part of your investment box here, what the Board's -- we need -- those boards -- corporate boards have to have diversity and see the value --

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER RUBALCAVA: -- in diversity to drive those returns. And until that is tackled, I think we're going to have those problems of access and how scale doesn't deliver the efficiencies. And so I would just commend you again on your work and ask you to continue to have CalPERS play the leading role in developing this field of work.

Thank you very much.

CHAIRPERSON TAYLOR: Thank you, Mr. Rubalcava.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Yes. Thank you, Madam Chair. And before I start, Anne, I want to congratulate you on the Washington Post online media interview that you had a few weeks ago on ESG. That was extremely well done and nice to see the CalPERS name all over the country --

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

COMMITTEE MEMBER MIDDLETON: -- for that event.

So I'm joining my colleagues in supporting this program. I think it's incredibly important. I'm very pleased that at CalPERS it includes not only gender, but -- and ethnicity, but LGBTQ+ issues as well.

I want to draw attention to page number 16, because obviously all of this does come back to performance. And I was struck on page 16 in private equity the failure to match benchmarks seem to be greater than in other asset allocations. It would seem that private equity would be one of those places where performance, based on emerging market information, should actually outperform the more public equity. And perhaps I'm missing something, but any thoughts on why private equity performed comparably so poorly?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Caitlin, can we get slide 16 back up on the screen, please.

Yeah. So this speaks to Mr. Jones question. I think it was a really good question. And I'm going to see if I can ask Rob Patterson to just step forward please to just walk us through the -- basically walk us through this screen and then tell us kind of what the -- what the legend means and the like. And then we can talk about how that relates to the total fund. Because I think it speaks to Mr. Jones question that it's so important that what we compare to is the total fund.

COMMITTEE MEMBER MIDDLETON: Thank you.

INVESTMENT MANAGER PATTERSON: Great. Thank you, Dan. Rob Patterson, CalPERS Investment staff.

So as we're looking at this, what we'll see is four different sections. We're going to see on the far left-hand side global equity. And when we're looking at that performance, it's going to be performance of the aggregate emerging manager investments relative to their asset-weighted benchmarks. And the reason that's important is when we look at all of the managers, they have a distinct benchmark. So we basically say you're managing relative to very specific strategy represented by way of that benchmark. And the excess return that we're looking there is the program performance relative to that benchmark.

Private equity, moving now to the next set of columns, is going to be the private equity emerging pro --

performance relative to the Private Equity Program performance, our own CalPERS program performance. So when we say, for example, that one-year underperformed, that is the emerging manager private equity program relative to the CalPERS Private Equity Program performance.

Real -- and the reasons we do that is, unlike global equity where we have very specific benchmarks, in private equity, there isn't a perfect benchmark. We talked about that. When we talk about the program, in that it's very challenging to identify an appropriate benchmark. So we're basically looking at that as an opportunity cost.

Real assets is similar. It's kind of a blend though between global equity and private equity in that we have a benchmark that is generally representative of real asset investments. So when we're comparing the emerging manager performance there, it is against the actual program performance -- I'm sorry, against the actual program benchmark performance. So in that instance, you can see that the Real Asset Program specific to emerging managers outperformed the Real Asset Program benchmark.

COMMITTEE MEMBER MIDDLETON: All right. I think the point that President Jones made as to what we should be comparing to again is a good one, and -- but as we move forward, it's going to be incredibly important that we watch performance, and that these emerging managers should be demonstrating a level of insight and -- that gets us greater performance.

Thank you.

CHAIRPERSON TAYLOR: Thank you, Ms. Middleton. I will agree with that, which is why I suggested looking outward more for other help.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you. Thank you for that explanation. That helps clear up some questions in my mind. But on the further clarification, on the private equity, are you saying that the benchmark used for emerging managers is different from the benchmark in the other private equity?

INVESTMENT MANAGER PATTERSON: It is, yeah.

COMMITTEE MEMBER JONES: Okay.

INVESTMENT MANAGER PATTERSON: So to clarify that point, private equity, the program, as compared to the cap-weighted benchmark plus 150 basis points, in this instance, we're comparing the emerging manager private equity to the emerging -- I'm sorry, the private equity program itself, not the private equity benchmark.

COMMITTEE MEMBER JONES: So the difference is is that the emerging manager is -- you're receiving information from different emerging managers to create that benchmark? How are you coming up with this benchmark for the emerging manager private equity?

INVESTMENT MANAGER PATTERSON: We're actually not taking a view on it. And by that, what I mean is we're saying a dollar invested in the private equity Emerging Manager Program is a dollar we're not investing in the Private Equity Program itself. So that's how we're looking at it, more opportunity costs than anything else.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So, Rob, if we -- as an example, if we go into the one-year number -- and we talked about this. Remember, this is information at the end of June. We recall that the one year performance of the Private Equity Program underperformed the benchmark by 17 percent, right, 1,700 basis points. And then this is showing the legend that's in -- that's in percentages. So this is showing that basically the one-year private equity return underperformed -- the -- I'm sorry, the one-year emerging manager private equity return underperformed the one-year overall private equity return by something like another 16 percent, is that fair?

INVESTMENT MANAGER PATTERSON: That's correct.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So what that would be saying is that the Emerging Manager Private Equity Program underperformed the benchmark by 33 percent, which would be 17 plus the 16. Rob, that's what this graph is telling us?

INVESTMENT MANAGER PATTERSON: Um-hmm.

COMMITTEE MEMBER JONES: And so as I recall from the Investment Committee in your Interim CIO report, you had a few charts. And one of those charts showed for private equity was it over a hun -- a thousand basis points? What was that period of time?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. So to -- that would be to the same period. So to the June -- gosh, I wish we could show two things, because we could show the slides we had up yesterday. But yes, the June 30th 2021 period, private equity underperformed the benchmark -- the global equity cap-weighted plus 150 underperformed that by 1,730 basis point, so 17 percent.

COMMITTEE MEMBER JONES: Okay. And so that -- that's why I'm getting to. So if I compare the overall private equity to the Emerging Manager Program, they outperformed the overall private equity?

INVESTMENT MANAGER PATTERSON: Can I play that back, Dan?

COMMITTEE MEMBER JONES: No?

INVESTMENT MANAGER PATTERSON: So the way I would look at, Mr. Jones, is that the public equity benchmark was approximately 60 percent, so that's from recollection. The Private Equity Program for the same period was about 43 percent and the return for the emerging managers within private equity is closer to 26 and a half percent.

COMMITTEE MEMBER JONES: That's returns.

INVESTMENT MANAGER PATTERSON: Returns. So we're saying private equity underperformed its benchmark by about 17 percent.

COMMITTEE MEMBER JONES: Um-hmm.

INVESTMENT MANAGER PATTERSON: The Private Equity Program underperformed that by an additional 16 percent --

COMMITTEE MEMBER JONES: Um-hmm.

INVESTMENT MANAGER PATTERSON: -- which gets us to about 27 and a half.

COMMITTEE MEMBER JONES: Yeah. Okay. I think that's answering the question that I had. Yeah.

CHAIRPERSON TAYLOR: Is that an appropriate -- I think to add on to that --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: No, I would -- I would -- I definitely want to reiterate the point that I made yesterday a few times, which is that one-year numbers, especially in private markets are very hard to draw conclusions from.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: In the one-year number, the private equity emerging manager -- in the one-year number, private equity returns relative to the benchmark were very much challenged underperforming by 1,700 basis points. In the one-year number emerging managers within private equity were even more challenged, underperforming by something like 33 percent or three hundred and -- or, I'm sorry, 3,300 basis points.

However, we have to always have the caveat that one-year numbers in private equity -- that's probably why Greg is -- part of what Greg is up here to remind us, is that it's -- you know, you don't want to take too much conclusions with that. But I do think it's fair to say that as you look at these numbers, the numbers of the bars being below the axis reflect some of the challenges we've had in this space around performance, to Ms. Middleton's point.

Greg, do you have something to add there?

MANAGING INVESTMENT DIRECTOR RUIZ: Yeah. Yeah. Yes. All I was going to add is when you look across various periods of time, our Emerging Manager Program, as it's defined here, has underperformed our Private Equity Program. That's clear. What is -- what doesn't jump out here is it's the definitional issues around emerging managers. We have backed what are many emerging managers over time, which are not captured in the five vehicles we captured here. And some of those have added materially to our returns. So emerging managers simply denotes the early stage of a, in the case of private equity, private equity firm's development. That's all.

I like to draw a distinction, because sometimes these two topics, I think, get conflated. Diversity is, of course, a separate topic, and we look at diversity across our entire program. You can, of course, have a diverse emerging manager, but what we've seen over time is significant gains in diversity across our entire program outside of the Emerging Manager Program we've shown here today. So I just wanted to add that point.

COMMITTEE MEMBER JONES: Okay. Thank you.

CHAIRPERSON TAYLOR: Thank you, Mr. Jones.

I think that was the end of our questions for the Board, if you want to move on to the RCP.

And thank you very much, everybody.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

CHAIRPERSON TAYLOR: Also I wanted thank you for having this on a separate day so that we're not --

COMMITTEE SECRETARY HOPPER: Madam Chair, we have some public comment for 3a.

CHAIRPERSON TAYLOR: Oh, yes we. Hold on. So we're not moving on yet. But I also wanted to thank you for moving this to a separate day --

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah.

CHAIRPERSON TAYLOR: -- so that we can cover this well enough.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: The idea was definitely to have plenty of time to go through this important topic.

CHAIRPERSON TAYLOR: And we do have public comment on 3a and that is on the phone. Is Mr. Fox available?

Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Madam Chair. We have one caller on item 3a. It's William Cunningham Creative Investment Research.

CHAIRPERSON TAYLOR: I can't hear him. I'm sorry.

MR. CUNNINGHAM: Good day. Thank -- good day. Thank you for this opportunity. I want to raise a couple of issues here. We are currently in the pool of non-fiduciary advisors. This follows from our participation in a number of pools that are related to this topic matter that -- and let me give you those pool numbers RFP 2006-4066 and 2010-5646. That was a diversity investment consultant grouping that you put together.

So my point is this, CalPERS has a lot of data that can be used to address a lot of the issues surrounding alpha generation due to diversity. And I've sent in some recent data that we and others have put together on that. And by the way, by the way, one of your Board mention -- members mentioned the Citi study, which showed 16 trillion in losses due to racial discrimination over the course of the past 20 years, 16 trillion. So that's a huge number, huge missed opportunity, not only for CalPERS, but also for the country as a whole.

So with respect to some of your earlier RFPs and pools that you've had, it's our contention that you've collected a lot of very valuable data that would be useful in this area. And let me specify how and why that data is useful. Now, one of the things that we do and have done over the past 30 years is do research on women and minority owned banks, thrifts, and brokerage firms. And what we discovered, having done that research, is that one of the most valuable parts of our database is information on women and minority owned banks, thrifts, and brokerage firms that no longer exist, because that data is very, very difficult to get a hold of.

And my sense is -- and one of -- one of your Board members or staff members just confirmed that contention when he described how you probably have a lot of data that you've collected in the past that you can use for this path. Because once again, as a research analyst, I can tell you one of the more difficult things to do is to collect information on diverse firms in this sector that no longer exist for whatever reason and using that data -- we use that data to determine the factors leading to success or failure, success or failure of those firms. And I think that type of data that I believe that you have, based on the RFPs that I just mentioned, I believe you have a lot of that data internally which for some reason you're not using.

CHAIRPERSON TAYLOR: All right. Sir, I don't want to interrupt, but can you conclude your comments?

MR. CUNNINGHAM: Yes, ma'am. Yes, ma'am. So once again, I appreciate the effort. I believe you have a long way to go in this area. Obviously, your efforts have been outstanding in leading the field forward. But in conclusion, I believe you have a lot of internal data that you might be able to profitably use for this exercise.

Thank you.

CHAIRPERSON TAYLOR: Thank you very much.

And I have -- before we move on, I'm sorry, Lynn Paquin for Betty Yee.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam Chair. I had a technical difficulty so I was trying to ring in earlier, but I appreciate the opportunity. And just wanted to thank you very much for the report, Ms. Simpson. I thought it was great. One question I had was I appreciate the deep dive on the real assets success with the Emerging Manager Program. And, you know, you outlined a few reasons why they've had success. Is there anyway to export that strategy to some of the other asset classes, and especially is looking at whether or not opportunistic strategies can implement an Emerging Manager Program?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: That's a terrific question, Ms. Paquin, and it is one of the things that we're looking at is why have the results -- and if you again -- Caitlin, if we can get slide 16 back up there. Why have the results in real assets, where most of the bars are above the -- are above the axis, been different from global equity and private equity, where most of the bars are below the axis. And we think part of it could be just geography, right, because a lot of that program was invested in California and the like, but there might be something there that's going well.

And one of the challenges is you -- and, you know, we've talked about this a lot at this, you know, Committee over time, is trying to disentangle sort of what is skill and what is in that secret sauce, and what is maybe just sort of probabilities, right? If you have a hundred programs, probabilistically at least one is going to outperform. But if you have three, it's probably less so. And so trying to really dig in and see what has gone on and what could -- we can -- you know, any sort of successes that we can extrapolate is exactly what this sort of next step is about, because we know that performance -- you know, it's got to have performance, again back to Ms. Middleton's comments, but figuring out how to -- how to have a different future from what we've had in the past is one of the -- one of the really critical parts of the -- of the review.

ACTING COMMITTEE MEMBER PAQUIN: Great. Thank you. Appreciate that.

CHAIRPERSON TAYLOR: Thank you. And thank you all very much.

Go ahead, Ms. Simpson on with Responsible Contractor subject.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah. Thank you very much. So it's my pleasure now to ask James Andrus and Tamara Sells to join me to present this next item.

This is a companion piece under our human capital management work and a very long-standing program of which CalPERS is rightly proud. So we have the annual update coming, which Tamara and James will present. It's my great pleasure to introduce Tamara to the Board. I think it's the first time you'll have had chance to meet her. She joined us -- she returned to CalPERS during the pandemic in order to be our lead on the human capital management program itself and we're just delighted that she's joined CalPERS. It's wonderful to have her back.

And James, I think needs no introduction. He's our lead on financial markets and much else that CalPERS relies upon as well.

But, James.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Maybe -- I'm sorry. Can I just underscore --

MANAGING INVESTMENT DIRECTOR SIMPSON: I'm sorry.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: -- that it is that Tamara rejoined CalPERS.

(Laughter.)

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: She was with us in the global equity team under Simiso's leadership on corporate governance. She went to an opportunity we won't say elsewhere, but elsewhere. We were able to --

CHAIRPERSON TAYLOR: Oh, we know where.

(Laughter.)

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: We were able to attract her back recently under Anne's leadership and we're -- to Anne's point, we're very happy to her back. Sorry, Tamara, over to you.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you. Is my mic on? Can you hear me?

CHAIRPERSON TAYLOR: You push right on the left, I think.

CHIEF EXECUTIVE OFFICER FROST: It's on.

CHAIRPERSON TAYLOR: Nope.

There you go.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you so much, Dan, Arnie, and James, Sarah, Rina, Madam Chair, and the Investment Committee. It's a pleasure to be here today. My name is Tamara Sells. I'm CalPERS Investment team member on the Board Governance and Sustainability team.

Today, it's my pleasure to present you with the Responsible Contractor Program Policy annual report for the 2020-2021 fiscal year. Today, I will provide a brief overview of our Responsible Contractor Policy and its history. I'll also provide a summary of the 2020-2021 compliance results. I'll touch a bit on the communication and engagement workflow, as well as the bidding and notification process. And lastly, I will provide a snapshot of our total compliance and contracting over the past six fiscal years.

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ASSOCIATE INVESTMENT MANAGER SELLS: The Responsible Contracting Policy exists to ensure prudent and careful action, while selecting and employing contractors on our RCP assets. It demonstrates our fiduciary principles to support and encourage fair wages and benefits for workers employed by our contractors and subcontractors. The policy also supports competitive bidding further contributing to competitive returns on our real estate and infrastructure investments.

The Responsible Contractor Policy applies when Real Estate Program makes investments in our service, maintenance, development, and improvement of CalPERS real estate and infrastructure assets, where CalPERS holds a greater than 50 percent interest and on contracts equal or greater to 100,000.

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ASSOCIATE INVESTMENT MANAGER SELLS: A little bit on the history. 1998, the CalPERS Investment Committee approved and established the program. The Responsible Contractor Policy was carefully crafted with the input of wide stakeholders, including external investment managers, labor organization, fiduciary counsel, as well as pension consultants and CalPERS staff.

The Responsible Contractor Policy seeks to secure the condition of workers without adverse affect on our investment returns, access to investment opportunities, or significant costs. The Responsible Contractor Policy also provides an important risk management function in the identification and mitigation of labor risks across our real estate and infrastructure portfolios.

While the policy has been revised several times over the years since its inception, with extensive input from labor organizations, our investment managers -- and our investment managers, application of the policy continues to result in positive outcomes for CalPERS, labor stakeholders, and CalPERS investments.

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ASSOCIATE INVESTMENT MANAGER SELLS: We're happy to report 100 percent compliance for the fiscal year 2020-2021 by all CalPERS RCP managers. All managers have certified that they, their contractors, and subcontractors have complied with the policy. During this same period, certified responsible contractors received over $461 million under the policy. All managers have reported that the RCP Policy had no adverse material impact on CalPERS's investment returns and no formal complaints were filed during this period.

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ASSOCIATE INVESTMENT MANAGER SELLS: The policy provides an avenue of communication and responsibilities for our external managers with their contractors, labor stakeholders, and staff. CalPERS Investment staff communicates regularly with our key labor leaders, our real estate and infrastructure managers regarding implementation of the RCP Policy. We continue to address labor issues as they occur and in accordance with the Responsible Contracting Policy.

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ASSOCIATE INVESTMENT MANAGER SELLS: The Responsible Contracting Policy also establishes communication channels a responsibilities between the managers, unions, and contractors to facilitate bidding opportunities. The Responsible Contracting Policy is a part of each applicable contract requiring information on wages and benefits from contractors during the bidding process, and supported by a certification.

Unions may ask to be put on RCP manager's listing for information on contracts and union stakeholders may also provide lists of signatory contractors. Some managers have automatic notification, while others send email notifications or post information to their websites.

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ASSOCIATE INVESTMENT MANAGER SELLS: So in summary, this slide covers our compliance and total contracting over the past six fiscal years. And we'd like to note that over five billion has been paid to responsible contractors under this policy.

That concludes the Responsible Contractor Program Policy annual report, unless there are any questions.

CHAIRPERSON TAYLOR: So I'm going to start. Thank you. Great report. And I always enjoy hearing our Responsible Contracting Policy, because I know we're out in the forefront on that. I was wondering, as we look at this, I think all of this data that we've collected and our contractors that are complying, do we -- does this help us give a better understanding in how workforce management practices contribute to our long-term value creation. And then -- and the reason I'm asking that is because I feel like we should do this in more than just real assets, you know what I mean?

I think somehow or another making sure that the S in ESG that we're looking at fair wages, and, you know, staying out of, what do you call it, union disputes, you know, being neutral in union disputes, but at the same time making sure that people come to the table. I'm wondering if we could make sure that this gets applied somehow or another. And I know I've asked this almost every year to all asset classes.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah. I think in the private markets, the new initiative that the private equity team has launched really is the place where we can start to dig in in private equity. The six baseline metrics that have been agreed with this new private equity data convergence platform includes things you'd expect, like greenhouse gas emissions and renewables, but also diversity, workforce health and safety, employee engagement, and really important, net jobs created, which I think is a very innovative addition, which is -- if -- you could, I think, see this as the companion piece to the Responsible Contractor Policy, because the policy here isn't telling -- telling the managers what to do, it's saying we're paying attention, because we know human capital management is going to be important to returns.

So -- and then, of course, in the public markets, you know, maybe James can saying something about our agenda with the SEC on human capital management reporting, because we've got a lot going on there. And, of course, through Simiso's great work and his team we've done a lot of engagement directly with companies. But, James, do you want to say something about the human capital management side.

INVESTMENT MANAGER ANDRUS: James Andrus, CalPERS staff.

CHAIRPERSON TAYLOR: Good to see you.

INVESTMENT MANAGER ANDRUS: The direct answer is yes, we are focused on those things in the other asset classes, but Real Assets does and excellent job. That's in part, because the RCP applies to funds where we own more than 50 percent of the particular asset and so we do have more control.

CHAIRPERSON TAYLOR: Right.

INVESTMENT MANAGER ANDRUS: And then the reality is that we've had excellent engagements through real assets with those managers. They're are hyper responsive, and we feel that they work with us when issues come up and even with reporting on the Responsible Contractor Program. So much is, in fact, learned from that, but how do we get there in asset classes where we may own less than half of one percent in the case of --

CHAIRPERSON TAYLOR: Global equity.

INVESTMENT MANAGER ANDRUS: -- global equity or a smaller percentage in, you know, private equity, is in fact the issue. But I think we can applaud real assets in terms of how they operate this particular program and the cooperation we get from the managers.

CHAIRPERSON TAYLOR: I do appreciate that. And I will say I see how it would be much more easily applied in private markets, private equity. And that is where I feel like our S in the ESG becomes a problem in private equity, where we run into labor issues. During the pandemic, we ran into a lot of labor issues that were more -- revolved more around the PPEs not having that, not having -- I mean, these employees being exposed, but -- and then essential workers, and having the essential worker issue where they had to go to work, but didn't have sick leave, weren't paid -- you know, what I mean, weren't paid a living wage, didn't have insurance, couldn't go get checked and see if they were sick. I think all of these came to -- and I know Anne -- I think I was at CII when the pandemic hit and you and I talked on the phone about what are we going to do about this in terms of the worker and the workforce.

Go ahead, Dan. I see you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. No, I was just going to comment that we agree with you, that -- and really you're speaking and Anne talked about it the data is one of the really critical things, because in the vacuum of data, we have anecdotes and we definitely hear anecdotes from the GPs talking about we do this great thing, and we do that great thing, and we do this great thing, and we do that great thing. And then we have anecdotes from frankly stakeholders and others that we -- and we see evidence of this not great thing and this not great thing.

And so really the idea is to start with data, that way we can -- we can remove the anecdotes and figure out where are we being effective, when are things going well, which managers are being effective and going well, and then frankly where are we more challenged and how do we address it. So that is really one of the reasons why I am so encouraged by this ESG data convergence project.

You know, if we recall from the 2016 overall five-year ESG plan, you know -- you know, one of the very hot topics was getting data, because we know that data is how we really can start figuring out, like I said, what is working, what is not, and how do we address what's not, and how do we do more of what it is.

CHAIRPERSON TAYLOR: Right. Right. And I do appreciate that. Did you want to say something else?

MANAGING INVESTMENT DIRECTOR SIMPSON: Oh, I just wanted to add another bit of good news, which is really how investors like CalPERS are driving this whole agenda.

During COP26, it was announced that the International Sustainability Standards Board was being launched. This is going to be writing standards for 144 markets. Now, the SEC sits on the monitoring Board for the IFRS Foundation. James represents the CII on the Advisory Group there. So we see in public markets huge potential human capital management. We've already been in discussions with the Chair of the SEC in some detail on these topics. So public markets in the U.S. will move.

That will pull the private markets along, because investors don't want to see whack-a-mole, you know, something that moves out of public markets, pops up in private markets, because out of sight is not out of mind, when you're a fiduciary.

So in other markets, the regulator has jurisdiction over private markets as well as public markets, so all of this stuff is beginning to really pick up pace, which is good.

CHAIRPERSON TAYLOR: Great. Thank you. Thank you. Oh, there you are. Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you. Thank you, Mrs. Chairman. I also want to join and congratulate you for this work in putting CalPERS on the frontline -- I mean, showcasing leading forward, because I think human capital is a big thing that helps -- like I think somebody else said, you know, drive value to create --

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER RUBALCAVA: -- to create capital. The -- but the other part also is we want to guard against reputational risk, you know, us backing something that creates bad press and that's not good for us either. So thank you for your work. Thank you for the whole team. Thank you, Ms. Chair.

CHAIRPERSON TAYLOR: Thank you.

I see -- let me make sure -- nothing else from the Board. Again, thank you for the reports, excellent reports, and again thank you for bringing them, so we have time to cover them.

Hold on. Let me go to make sure I'm at where I need to be. Do we have any public comments on the rest of this?

Nothing. Okay.

I don't have anything on here for Committee direction, but did we take some.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I would like to -- yeah, I was going to say we're on the same page Madam, Chair.

(Laughter.)

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

First of all, I think what we owe is a better description of that slide 16 --

CHAIRPERSON TAYLOR: Right.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: -- right, to really describe what that's trying to tell us and what the messages are there, and the like, and, you know --

CHAIRPERSON TAYLOR: I think covering the difference in the benchmarking for private equity really helps.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Exactly, so that we can be very clear on what do those numbers depict in terms of public equity, private equity, real assets.

Number two, I think we owe -- we were asked for a report on the number of minority and underrepresented organizations that we've allocated to, and specifically minority and underrepresented women, so we'll come back with something on that.

And then finally, at your request, the Citi report on diversity and the overall economy, so we'll come back with all three of those.

CHAIRPERSON TAYLOR: Great. I appreciate it. And thank you again you guys very much.

This adjourns the open session finally of the Investment Committee. I'm saying lunch time now, and Risk and Audit is next.

COMMITTEE MEMBER MIDDLETON: 1:15.

CHAIRPERSON TAYLOR: 1:15. So we'll be back -- is it open session I assume.

COMMITTEE MEMBER MIDDLETON: It is open session.

CHAIRPERSON TAYLOR: We'll be back with Risk and Audit at 1:15 open session.

Thank you.

(Thereupon, the California Public Employees' Retirement System, Investment Committee open session meeting adjourned at 12:34 p.m.)

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Investment Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of November, 2021.

James F. Peters

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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