VIDEOCONFERENCE MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

ZOOM PLATFORM

MONDAY, MARCH 15, 2021

9:55 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 Matthew Saha

Lisa Middleton

Stacie Olivares

Eraina Ortega

Jason Perez

Ramon Rubalcava

Shawnda Westly

Betty Yee

STAFF:

Marcie Frost, Chief Executive Officer

Dan Bienvenue, Interim Chief Investment Officer

Matt Jacobs, General Counsel

Christine Gogan, Investment Director

Sterling Gunn, Managing Investment Director

Jean Hsu, Managing Investment Director

Pam Hopper, Committee Secretary

APPEARANCES CONTINUED

STAFF:

Simiso Nzima, Investment Director

Arnie Phillips, Interim Deputy Chief Investment Officer

Christine Reese, Investment Director

Lauren Rosborough Watt, Investment Director

Anne Simpson, Managing Investment Director

ALSO PRESENT:

Dr. Margaret Chin, Physicians for Social Responsibility

Sandy Emerson, Fossil Free California

Steve Foresti, Wilshire Associates Consulting

Jerry Fountain

Dr. Robert Girling, Emeritus and Retired Faculty and Staff Association

Dr. Robert Gould, San Francisco Bay Physicians for Social Responsibility

Monique Hernandez

J.J. Jelincic

Kathy Kerridge

Steve McCourt, Meketa Investment Group

Michael Ring, Service Employees International Union Capital Stewardship Program

Sara Theiss, Fossil Free California

Sheila Thorne, Fossil Free California

Tom Toth, Wilshire Associates

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PROCEEDINGS

CHAIRPERSON TAYLOR: The Investment Committee is -- I'm calling to order. And first order of business Ms. Hopper is roll call, please

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?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Hi, Pam. It's me. It's Matt. Present.

COMMITTEE SECRETARY HOPPER: Okay. Matt for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Thank you. Present.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

COMMITTEE SECRETARY HOPPER: Shawnda Westly? Theresa, I don't see Shawnda.

CHAIRPERSON TAYLOR: I'm not either. David, do you -- can you see Shawnda's -- okay.

COMMITTEE MEMBER JONES: Theresa, I think when we were at the regular Board she text -- she chatted and said she had to step away.

COMMITTEE MEMBER FECKNER: That's correct.

CHAIRPERSON TAYLOR: Okay. All right. Thank you. So she's excused for a sec -- for a moment.

COMMITTEE SECRETARY HOPPER: Thank you, Madam Chair. And Betty Yee?

COMMITTEE MEMBER YEE: Here.

COMMITTEE SECRETARY HOPPER: I believe we have everyone in attendance which Shawnda Westly being excused.

CHAIRPERSON TAYLOR: Okay. Great. Then at this time, we will recess into closed session for items one through seven from the closed session agenda. We can --

sorry about this guys, because this is a difficult morning. So at this time, Board members will exit this open session and connect to closed session.

To the members of the public watching on livestream, the open session Investment Committee meeting will reconvene -- will reconvene following the closed session. Thank you very much. I'll see you guys on the other side.

(Off record: 9:57 a.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 1:01 p.m.)

CHAIRPERSON TAYLOR: I will call to order the open session of Investment Committee.

COMMITTEE SECRETARY HOPPER: Theresa, I think we're still waiting on Rob as well.

CHAIRPERSON TAYLOR: It's unmuted.

It's only Rob we're waiting on, Pam?

COMMITTEE SECRETARY HOPPER: I believe so. Yeah, I think we have everybody but Rob from what I can tell.

CHAIRPERSON TAYLOR: Let me text him real quick. He might be having trouble.

COMMITTEE SECRETARY HOPPER: And I don't see him in the room yet as an attendee either.

VICE CHAIRPERSON MILLER: He's here.

COMMITTEE SECRETARY HOPPER: Oh, there he is.

CHAIRPERSON TAYLOR: Sorry about that, Rob.

CHIEF EXECUTIVE OFFICER FROST: What about Eraina? Do we see Eraina?

COMMITTEE SECRETARY HOPPER: Yes, I thought I saw her.

CHAIRPERSON TAYLOR: I see her name. I don't see her. Okay. I think we're okay. So I'm going to go ahead and call the open session back to order. So first, we need Item 3, the approval of the March 15th, 2021 Investment Committee timed agenda. I need a motion.

COMMITTEE MEMBER BROWN: Move approval.

COMMITTEE MEMBER FECKNER: Second.

COMMITTEE SECRETARY HOPPER: Madam Chair, do want to do a roll call first?

CHAIRPERSON TAYLOR: I think we already did roll call when we opened it originally.

COMMITTEE SECRETARY HOPPER: It's Item 2.

CHAIRPERSON TAYLOR: Call to order, we did that when we went beforehand, so we're just reconvening now.

COMMITTEE SECRETARY HOPPER: Okay.

GENERAL COUNSEL JACOBS: That's Matt -- this is Matt Jacobs. That's correct. You don't need to have another roll call.

CHAIRPERSON TAYLOR: Okay. So I got a move approval from Margaret who shouted it to me.

COMMITTEE MEMBER FECKNER: Second.

VICE CHAIRPERSON MILLER: Second.

CHAIRPERSON TAYLOR: I got a second. I didn't see a second. I'm sorry.

VICE CHAIRPERSON MILLER: Yeah. David.

CHAIRPERSON TAYLOR: That was David Miller. So I got a second from David Miller. So I need a roll call on item number 3, the timed agenda.

COMMITTEE SECRETARY HOPPER: Okay. Margaret Brown?

COMMITTEE MEMBER BROWN: Aye

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?
COMMITTEE MEMBER OLIVARES: Aye.
COMMITTEE SECRETARY HOPPER: Eraina Ortega?
COMMITTEE MEMBER ORTEGA: Aye.
COMMITTEE SECRETARY HOPPER: Jason Perez?
COMMITTEE MEMBER PEREZ: Aye.
COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?
COMMITTEE MEMBER RUBALCAVA: Aye.
COMMITTEE SECRETARY HOPPER: Shawnda Westly?
COMMITTEE MEMBER WESTLY: Aye.
COMMITTEE SECRETARY HOPPER: Betty Yee?
COMMITTEE MEMBER YEE: Aye.
COMMITTEE SECRETARY HOPPER: Madam Chair, I have all ayes, motion made by Margaret Brown, seconded by David Miller for Item number 3.
CHAIRPERSON TAYLOR: All right. The Agenda Item 3 passes.
And we move on to agenda item 4, the Executive Report. Dan.
INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:
Yeah. Thank you, Madam Chair. And good afternoon, Madam Chair and members of the Investment Committee.
Before we take up the business of the day, I'd like to take a moment to reflect on the very, very sad

news that we received a couple of weeks ago on the passing of our friend and colleague Kevin Winter. Kevin dedicated over 30 years, an entire career, of tremendous service to CalPERS and to the members and beneficiaries we serve.

Kevin started as the very first student intern in the Investment Office in 1988, the first -- frankly, a string of firsts in Kevin's career. From there, Kevin officially joined as a CalPERS team member as an Investment Officer in 1990. And since, served in a variety of positions of ever-increasing responsibility over his long and decorated career.

Most recently, he served as the Managing Investment Director for the Research and Strategy Group, a critical piece of our total fund focus, one-team one-fund approach, and he was the very first Managing Investment Director of the Research and Strategy team. Prior to that, and yet another first, Kevin was the very first Managing Investment Director of the Opportunistic Strategies Group.

In his career, leading up to those two roles, Kevin developed his career in the fixed income asset class, highlighted by managing the credit team, and tens of billions of dollars of CalPERS fixed Income assets and the investment grade corporate bond markets.

Throughout Kevin's time with CalPERS, his leadership and personal relationships to myself and to others have been immensely valuable. So I really just wanted to take a moment and acknowledge Kevin's many, many years of commitment, energy, effort and service to our members that helped to make CalPERS in general, and the Investment Office specifically, so much better during his tenure.

Kevin was a friend, a manager, a mentor, and a colleague. He'll be greatly missed by many, and I, for one, am just thankful to have known him and appreciative off all he was able to do for CalPERS. And I'm appreciative of his wife and his family for allowing us to share time with Kevin.

With that, I'd like to invite two of his closest colleagues, Jean Hsu and Arnie Phillips to share their remembrances of Kevin. Jean and Arnie worked very closely with Kevin for almost 20 and almost 30 years respectively, so I'll ask them to share a little bit.

And with that, Jean, I'll turn it over to you to share some thoughts.

MANAGING INVESTMENT DIRECTOR HSU: Good morning, Madam Chair and members of the Investment Committee. I am very honored to share with you some of my observations and memories of Kevin Winter. I have known Kevin for 20 years. I reported directly to him for ten years and I sit right next to him for the past three to four years as we built up the Opportunistic Strategies Group.

On the professional side, I would say Kevin was focused on total fund. He's a risk taker. And he embraced diversity. Kevin was an early adopter for total fund concept. Now, at the time, when Investment Office was still very siloed, he had started to view investments from a total fund perspective. He was a strong supporter for us to use our fixed income skill sets to enhance global equities return.

And Kevin was the head of the credit for almost 30 years, so risk taking is deeply engrained in his mind. Kevin was willing to take risks, both on deploying money as well as deploying manpower, or in the case of his recent team, the Opportunistic Strategies, womanpower.

Kevin was an advocate for diversity and inclusion. The investment industry had been a male dominated field for decades. Kevin was one of the few who truly appreciate and respect female colleagues for their professional knowledge, and not just in gender and ethnicity, he also enjoyed the diversity of thought. He wasn't intimidated by different opinion coming from his subordinates. He was so open-minded, which gave me an assurance that I could speak my mind without being judged. He was willing to look beyond my broken English and see the logic in the investment ideas I had in my brains. I am very, very grateful that I had a boss like him.

On the personal side, Kevin was kind, caring, and very generous. He loved good food and enjoyed chatting with friends. He also liked a lot of -- and he also had a lot of interests outside of work. For example, Kevin likes hunting. He went duck hunting several times a year. He had a particular talent for remaining stoic and calm during the storm, no matter it is out there in the hunting field or here at work.

When encountering frustration in the office, he often told me to dust it off like a duck dusting off water from its feather. This specific sentence had helped me greatly in various difficult moments at work.

Kevin was also a gourmet chef. He had attended many cooking classes and read tons of cooking books. I knew he took a day off to San Francisco. I asked him, hey, why do you need to take a day off to San Francisco? He went there to pick up a pasta machine imported from Italy.

He was always interested in what I brought to work in my lunch box. He always asked me what are the ingredients and then how do I cook it? That gives me tremendous amount of pressure that I have to make sure that my lunch box is presentable.

I heard him, he made dishes from Moroccan chicken to Thai spicy stir fry, to Brazilian roasted whole pig. And I believe that he bought another oven, which is dedicated to this whole pig.

He likes fishing too. And he would smoke the salmon he caught and bring cream cheese and cracker to feed the whole trading desk. He built a Tuscan style brick pizza oven in his backyard and invited the whole credit team over when he was the head of the credit.

So 20 people enjoyed the feast of his made-from-scratch super thin crust pizza with a raw egg in the middle. Together, with an incredible Caesar salad with anchovy and garlic his wife Deanna made for us.

On the surface, Kevin seems to be like tough, quiet, and he had very few words, but he was always very sensitive and caring inside. Whenever Roselle -- Roselle is one of our colleagues that also know Kevin for like a good maybe 18 years. Roselle would come to my cubicle for a friendly personal chat, Kevin would stand up and lean over his cubicle wall to be apart of our sister chat. And to be honest, Roselle and I don't mind it, because we really think that he is a part of us.

There are lots of very fond memories. It is hard to believe that the moments like this will not happen again. Kevin had been my peer, my manager, my mentor, and my brainstorming partner whenever I had investment puzzles.

It is such a great loss for myself and for CalPERS, as a whole. Goodbye my friend. I will miss you.

Now, I'll turn it over to Arnie.

INTERIM DEPUTY CHIEF INVESTMENT OFFICER PHILLIPS: Thank you, Jean. Very well done. I think my sentiments will echo a lot of yours.

So good afternoon, everyone. When I started here 28 years ago, Kevin was already here. When you walk in our trade room today, you see a big open air room full of specialists that are really good at their crafts.

Twenty-eight years ago, we had a really small trade room that was much more like a dungeon. Kevin and I were two of the six folks in that dungeon, four from global fixed income and two from global equity.

I was personally very fortunate like Jean to get to learn from two intense and very smart investors, Curtis Ishii and Kevin Winter. Kevin and I were the last two global fixed income staff remembers hat really got to cover all the fixed income products. Over time, we've migrated to a specialist model as the markets have gotten more complex.

One thing I learned working with Kevin all those years is that Kevin was able to truly take a long-term investment horizon. He had the ability, but he also had the mindset to be a long-term investor, something that is much easier said than done. A lot of folks intend to be long-term investors, but when the markets get volatile, their conviction wanes.

Kevin was willing to take a position that was different than the market convention and he had the stomach to take the performance volatility that comes with being early to a trade sometimes. Maintaining conviction is not easy when the trade isn't working. Kevin was one of the best in riding out that volatility.

Kevin was a self-professed introvert, but a lot of us have heard many stories in the past few weeks of interactions Kevin had with folks, much more on a one-on-one basis. So it turns out he wasn't quite as introverted as some thought. He just preferred conversations in smaller settings.

For me, it says a few things. One, we are all unique. We all tackle challenges and situations differently. But in the end, we need to embrace the diversity that brings us to the table and try to be our collective best. And unfortunately, sometimes the best laid plans can change quickly.

The video you will see shortly shows a side of Kevin that many of us did not see -- or I saw, but many people did not see. He was quiet and often serious at work as Jean portrayed. But as you will see, that was very much balanced with a personal life full of smiles.

Clearly, Kevin's hobbies, which included hunting, fishing, woodworking, cooking and more recently being a grandparent, made him very happy. I have fond and funny memories of after-work dinners and Kings games. And in Kevin's style, I will keep those stories introverted and to myself.

Nothing any of us can say will make it any easier for Kevin's wife Deanna, their kids, and their grandkids, but I do want them to know that Kevin's friends and colleagues at CalPERS are thinking of them.

Thank you. Dan, back to you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Thank you, Jean. Thank you, Arnie.

I also want to thank our Public Affairs team who put together a short video tribute to him, as Arnie mentioned, and that's what you'll see right now. It -- this tribute really only scratches the surface of Kevin and who he was, but I think it's a really nice way to honor him and his -- his just tremendous service to CalPERS.

Can we please roll that video.

(Thereupon a video was played.)

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And I definitely want to thank Brad Pacheco and the team in Public Affairs who worked on putting that together. I also want to thank all the contributors and specifically want to thank his wife Deanna for sharing so many photos with us that we could include there.

We're also working on a token of recognition and appreciation of Kevin's more than three decades of service to CalPERS and to our members, and we'll present that to Kevin's family in a safe way, as soon as we can.

Kevin will be greatly missed in so many ways. We must move forward and persevere. We know that's what Kevin would want us to do and that is what we'll do. But thank you for allowing us to take a few minutes to honor Kevin and his many years of dedicated service to this great organization and to our mission.

CHAIRPERSON TAYLOR: Dan, thank you very much. Jean, Arnie, thank you for sharing your memories.

Thank you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Thank you, Madam Chair. Thank you for allowing us to do that. Like I said, Kevin will just be tremendously missed.

Now, as I say, we do have to move forward and persevere. And on that topic, I think we can move on to today's business. Normally, I would discuss our portfolio, and our performance, and our positioning as part of this report, but we have our semiannual trust level review scheduled for this meeting, so we'll be able to take that topic up in detail in agenda items 8B and 8C.

We also have a very full agenda today, so I'll keep my comments very brief and just give an overview of what's before us today.

We lead off with the consent items. We have a number of the routine ones, including the minutes, the reports on performance, risk, and investment controls, and then our annual update on the rebalancing of the Terminated Agency Pool, or TAP.

Then we'll move to the first action item for the Committee's consideration, with Sterling Gunn and Christine Reese presenting the recommended asset allocation for the Long-Term Care Program.

From there, we move on to information items that are on our agenda. We'll start by continuing with Sterling Gunn and Christine Reese as they cover another item on the ALM work, that is such a critical body of work for us here in 2021. Today's item focuses on the various risks that we're looking to balance and manage, as we navigate this year's ALM process.

Please recall that one of our Investment Beliefs is the strategic asset allocation is the dominant determinant of portfolio risk and return, which again speaks to the criticality of this body of work.

Our second information item, your general pension consultant, Wilshire, and your private asset class consultant, Meketa, will provide their semiannual independent trust level reviews, including coverage of market conditions, and portfolio performance.

From there, Arnie Phillips, Lauren Rosborough Watt, and I will present you with the Investment Office's internally developed trust level review, where we'll cover portfolio risk and performance, business accomplishments and objectives, and economic conditions.

Next, we'll be joined by Simiso Nzima and Anne Simpson for an update on our proxy voting and corporate engagement activities. As long-term investors focused on the sustainability and long-term performance of the fund, we know that this body of work is a key part of managing the portfolio in a sustainable way to pay ben -- to pay benefits for generations to come.

And then finally, we -- we'll take up our second and lost scheduled action item of the day, the five-year review of CalPERS active divestments. Some of you might recall that this periodic five-year review was added to the total fund Investment Policy in 2017, as part of several enhancements to the divestment section of the policy.

These additions were made to ensure that prior divestment decisions were adequately monitored and remain supportive of the prudent stewardship of the system's assets, consistent with the Committee's fiduciary obligations. This review was originally calendared for November of this year, but was moved up to March at the Committee's direction.

And that concludes my opening remarks Madam Chair. And with that, I'll turn it back to you to take any questions or to take us through the agenda.

CHAIRPERSON TAYLOR: Thank you, Dan. I don't see any questions, so I'm going to move through the agenda.

Our next agenda item is 5, and those are action consent items. And I need the pleasure of the Board.

Anybody move approval?

VICE CHAIRPERSON MILLER: Move approval.

COMMITTEE MEMBER JONES: Move approval.

COMMITTEE MEMBER FECKNER: Second

CHAIRPERSON TAYLOR: So I got a move approval from Mr. Miller and I take it a second from Mr. Jones.

So Ms. Hopper, can you go ahead and call the roll on that one.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.
COMMITTEE SECRETARY HOPPER: Rob Feckner?
COMMITTEE MEMBER FECKNER: Aye.
COMMITTEE SECRETARY HOPPER: Henry Jones?
COMMITTEE MEMBER JONES: Aye.
COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?
ACTING COMMITTEE MEMBER SAHA: Aye.
COMMITTEE SECRETARY HOPPER: Lisa Middleton?
COMMITTEE MEMBER MIDDLETON: Aye.
COMMITTEE SECRETARY HOPPER: David Miller?
VICE CHAIRPERSON MILLER: Aye.
COMMITTEE SECRETARY HOPPER: Stacie Olivares?
COMMITTEE MEMBER OLIVARES: Aye.
COMMITTEE SECRETARY HOPPER: Eraina Ortega?
COMMITTEE MEMBER ORTEGA: Aye.
COMMITTEE SECRETARY HOPPER: Jason Perez?
COMMITTEE MEMBER PEREZ: Aye.
COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?
COMMITTEE MEMBER RUBALCAVA: Aye.
COMMITTEE SECRETARY HOPPER: Shawnda Westly?
COMMITTEE MEMBER WESTLY: Aye.
COMMITTEE SECRETARY HOPPER: Betty Yee?
COMMITTEE MEMBER YEE: Aye.
COMMITTEE SECRETARY HOPPER: Madam Chair, I have

all ayes with David Miller making the motion, Henry Jones seconding it.

CHAIRPERSON TAYLOR: Okay. Motion carries. Thank you very much.

We're moving on to Item 6, which was information consent items. I received no notification to pull any of those items.

So we'll move on to Item 7, our first action item, on Total Fund, Long-Term Care, A.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Thank you, Madam Chair. I see we've got Sterling Gunn and Christine Reese with us. Can we please also bring forward Don Moulds, Scott Terando, and Tom Toth from Wilshire in the event questions come up, so that they can be available to answer.

Recall that this is the action item on the adoption of the strategic asset allocation to support the discount rate that was adopted at November's meeting. So with that, I'll turn it over to Christine Reese to take the lead and walk us through the item.

Christine, over to you.

(Thereupon an overhead presentation.)

INVESTMENT DIRECTOR REESE: Thank you, Dan. And good afternoon, Madam Chair, and members of the Committee. Kevin is a very tough act to follow.

But in the spirit of perseverance, this agenda item focuses on the long-term care asset allocation review and recommendation. I will be presenting the findings. Wilshire will then speak to their opinion letter. And we also have with us, as Dan just mentioned, Scott Terando, our Chief Actuary, and Don Moulds, our Chief Health Director for any questions that the Committee may have for them.

Just a moment. Let me get myself situated a little bit here. Okay. Thank you.

So before I begin the presentation, I would like to acknowledge that this body of work has been a collaborative effort with expertise and perspective provided from team members in many areas, including the Investment, Actuarial, Health, Legal, and Operational Services Support teams.

On the next page, we've got the executive summary.

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INVESTMENT DIRECTOR REESE: And so in this review, I will step through some context and background regarding the current portfolio and its limitations in the current environment. I will provide some information around the review process, and then present the two candidate portfolios, and our recommendation, which is supportive of the four and three-quarters percent discount rate, and nine and a half percent expected volatility threshold that the Committee set at the November 2020 meeting.

I would like to highlight that this presentation is a summary of the conclusions from a very significant amount of supporting underlying analysis and evaluation.

On slide three --

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INVESTMENT DIRECTOR REESE: -- we look at the expected risk, and return, and allocation for the current portfolio. And this is a slide that we showed in the November Committee meeting. And what this illustrates is the drop of almost one and a half percent in expected return and an approximate one percent reduction in expected risk, since the 2018 asset allocation study.

The four percent expected return falls significantly short of supporting that four and three-quarters percent discount rate that was adopted. These lower expected returns versus 2018 are largely due to fixed income allocations to treasuries and mortgages, which we've discussed have very low yields, due to the historically low interest rate environment we find ourselves in.

On slide four --

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INVESTMENT DIRECTOR REESE: -- I'll review a little bit of the portfolio evaluation process. And this process was undertaken through a request for proposal and was a rigorous multi-phased evaluation that considered many elements, such as long-term care expertise, asset liability management framework, the manager and team capabilities, investment performance, risk, complexity, cost, and comparative advantages.

The graphic on the left shows the general steps of the process and the graphic on the right takes the analyze proposals step on the left and provides a deeper dive into each of the component steps for that specific process.

To find the best candidate portfolios, we began with 14 unique portfolios and at each step in the process narrowed down the field to arrive at the two that we're presenting today.

On slide five --

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INVESTMENT DIRECTOR REESE: -- we take a look at the strategic asset allocation of the current and two candidate portfolios. A few things to note and consider are that in comparison to the current portfolio, portfolio one has a 30 percent equity allocation, and portfolio two has a 45 percent equity allocation, so double and triple the current allocation respectively.

For fixed income, portfolio one and two each have lower fixed income allocations by six percent and ten percent respectively, and they both employ active management in the fixed income asset class.

Portfolio one also has allocations to REITs and commodities, whereas portfolio two does not. So it's a little bit less diversified. And then both portfolio one and two are constructed from current asset classes. And we're happy to report no private assets or leverage has been used in the construction of these portfolios.

On slide six --

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INVESTMENT DIRECTOR REESE: -- we move into the benchmark composition for the current and candidate portfolios. This takes a look at each of the portfolio's subasset classes, which will be used to build the portfolio and the custom benchmark. These weights are approximate and will be confirmed during the contracting phase with the manager, along with allocation ranges and rebalancing frequency.

So we plan to bring all of this information back, which will be included in the Investment Policy. We will bring this back to the Committee for approval in June.

On slide seven --

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INVESTMENT DIRECTOR REESE: -- we look at the expected risk and return for the current and candidate portfolios. So again, this is the same graphic that we showed at the beginning presentation. And now we've added the candidate portfolios one and two. To establish a baseline for portfolio comparison in the this review, we've used a single set of capital market assumptions to measure the expected risk, expected return, and correlation for the current 2020 LTC portfolio and the two candidate portfolios.

And so what we see is while both candidate portfolios support the expected return and expected volatility objectives, portfolio one has the more optimal expected return and expected risk profile. This is partially due to candidate one -- candidate portfolio one having a lower allocation to equities, 30 percent versus 45 percent, and a higher allocation to higher yielding fixed income subasset classes versus U.S. treasuries and mortgages.

On slide eight --

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INVESTMENT DIRECTOR REESE: -- if we look at de -- some of the detailed attributes in a different format, so in a table versus the graph, we can see that candidate portfolio one expected return is 4.97 and risk of, sorry, 8.29. And candidate portfolio two expected risk[SIC] is four and three-quarters with an expected risk of 9.45. We also add to this table the cash yield, which is notably higher for portfolio one, again due to allocations to higher yielding fixed income subasset classes versus U.S. treasuries and mortgages.

On slide nine --

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INVESTMENT DIRECTOR REESE: -- we took a look at the portfolios and simulated how they would have performed over five different time periods. Each candidate portfolio consistently outperformed their respective benchmarks in this historical simulation. And this can primarily be attributed to the outperformance in the active managed fixed income portfolios. We know that while both portfolios exceeded their respective benchmarks, Portfolio one's performance -- it outperformed portfolio two across nearly all of the time periods simulated, with the exception of the seven-year time period.

And moving on to the next slide --

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INVESTMENT DIRECTOR REESE: -- we have our recommendation, which is to adopt the strategic asset allocation of candidate portfolio one, with the expected return of 4.97 and the expected volatility of 8.29. It has the most optimal risk-adjusted return profile of the two portfolios. And this, along with other elements evaluated in the review, support the recommendation to approve the strategic asset allocation of candidate portfolio one for the Long-Term Care Fund.

On the next slide --

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INVESTMENT DIRECTOR REESE: -- we run through our next steps. And so if the recommendation is approved, we would formally announce the selection of the manager. We would conduct contracting and due diligence with the manager. And as I mentioned, we would come back in June with the Investment Policy update.

And while our timeline is somewhat dependent upon contracting, we are aiming to complete the planning work by the fiscal year-end, so that implementation can begin in July of this year.

And at this time, I will turn it over to Tom Toth at Wilshire for his comments.

MR. TOTH: Good afternoon. Thanks, Christine. Tom Toth with Wilshire.

I just wanted to make a couple of comments related to our opinion letter, which is included in your Board packet. We reviewed the long-term care portfolios using the lens of our capital market assumptions, which considers the underlying economic and market conditions, as well as discounting how those conditions might evolve in the future.

And while we readily admit that forecasting returns and risk over extended period of times is inherently filled with estimation error. We think our assumptions provide a helpful lens in evaluating relative risk and return impacts for asset allocation changes.

So our independent modeling confirms that portfolio one's asset allocation has the potential to deliver enhanced long-term returns, but we want to be very pointed that it does come at a higher level of expected risk than the current portfolio.

As staff pointed out, the increased risk comes from both higher exposure to equities, as well as a tilt within fixed income towards credit risk. That's what's driving that yield higher.

That said, the additional diversification across the portfolio -- for portfolio one, ultimately translates into higher risk-adjusted expected returns. So while you are taking on more volatility, you are being compensated for that volatility over time.

One last point I wanted to make for the Committee. The returns that we've discussed that are in the presentation, as well as in our opinion letter, those are market returns. As the staffing information illustrates, the partners have demonstrated the ability to add incremental returns over and above those market rates. And I think that's an important component to consider as you look to move forward with the selected partner.

With that I'll stop and see if there are any questions from the Committee.

CHAIRPERSON TAYLOR: Thank you, Mr. Toth.

I am not seeing any questions at this moment from the Committee.

MR. TOTH: Very good.

CHAIRPERSON TAYLOR: I'm -- I think then I will ask to move approval of the action item, if we have no questions. And the action item is the asset allocation and selecting the candidate portfolio number one.

Do I have a motion on that?

COMMITTEE MEMBER FECKNER: Move approval.

VICE CHAIRPERSON MILLER: Second.

CHAIRPERSON TAYLOR: Moved by Mr. Feckner and seconded by Mr. Miller.

And, Ms. Hopper, can you take the vote?

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: No.
COMMITTEE SECRETARY HOPPER: Rob Feckner?
COMMITTEE MEMBER FECKNER: Aye.
COMMITTEE SECRETARY HOPPER: Henry Jones?
COMMITTEE MEMBER JONES: Aye.
COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?
ACTING COMMITTEE MEMBER SAHA: Aye.
COMMITTEE SECRETARY HOPPER: Lisa Middleton?
COMMITTEE MEMBER MIDDLETON: Aye.
COMMITTEE SECRETARY HOPPER: David Miller?
VICE CHAIRPERSON MILLER: Aye.
COMMITTEE SECRETARY HOPPER: Stacie Olivares?
COMMITTEE MEMBER OLIVARES: Aye.
COMMITTEE SECRETARY HOPPER: Eraina Ortega?
COMMITTEE MEMBER ORTEGA: Aye.
COMMITTEE SECRETARY HOPPER: Jason Perez?
COMMITTEE MEMBER PEREZ: Aye.
COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?
COMMITTEE MEMBER RUBALCAVA: Aye.
COMMITTEE SECRETARY HOPPER: Shawnda Westly?
COMMITTEE MEMBER WESTLY: Aye.
COMMITTEE SECRETARY HOPPER: Betty Yee?
COMMITTEE MEMBER YEE: Aye.
COMMITTEE SECRETARY HOPPER: Madam Chair, I have

11 ayes, one no by Margaret Brown, with the motion being made by Rob Feckner, seconded by David Miller for Item 7A, Long-Term Care Asset Allocation.

CHAIRPERSON TAYLOR: Thank you very much, Ms. Hopper. The item passes.

Let's move on to Item number 8A, asset liability management risk concepts and examples.

Mr. Bienvenue.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. Thank you, Madam Chair. Let's see, I think we can move Don Moulds, Scott Terando, and Tom Toth back to the attendee area. And we just need to keep Sterling Gunn and Christine with us -- Christine Reese with us as they did go back to back on this one.

So as you say, we're on Item 8A, where we'll go through the various risks that we're looking to balance and address as part of this year's ALM process. This item also follows other recent presentations to the Committee on this topic. And as I mentioned in my opening comments, this cyclical ALM work is among the most critical bodies of work before us here in 2021. Today, we'll dig into the fund sensitivities to key assumptions, and how they drive the risks that we're trying to manage through this -- through this process, as well as the inherent uncertainty of those assumptions.

So with that, I'll turn it back over to Sterling to take the lead on this one, taking us through today's item.

Sterling, over to you.

(Thereupon a slide presentation.)

MANAGING INVESTMENT DIRECTOR GUNN: Great. Thank you, Dan. Chair and Board members, good afternoon. Sterling Gunn, CalPERS team member. I just wanted to make a note that the asset liability management, it's an ongoing process that relies on CalPERS device -- diverse range of skills and experience, including those of the Actuarial and Investment offices.

And the ALM reviews the policy portfolio of both the PERF, but also each of the affiliate funds. Now, at our first ALM Board presentation in February, we provided an overview of the ALM process, including our objectives, purpose, and the framework we were going to use.

This session is the second of six ALM sessions this year that we have planned. I will be discussing examples illustrating the relationships between the discount rate, portfolio returns, contributions, and the funding ratio. And these relationships are the foundation for understanding the multi-faceted nature of risk at CalPERS.

And our objectives are related to the

sustainability of the plans. These include paying benefits now and in the future, minimizing employer contributions, maximizing rates of return, and minimizing risk of loss.

And these objectives depend on long-term economic demographic and market outcomes, none of which are certain. Given this uncertainty, there is a risk of failing to meet one or more of these objectives. In addition to these risks, some of these objectives are achieved at the cost of others, requiring us to make tradeoffs. As an example of a tradeoff, increasing expected returns likely means increasing the risk of loss.

Now, the purpose of the asset liability management process is selecting a portfolio that does the following two things: one, strikes an appropriate balance amongst the objectives that we have to achieve; and two, manages risk at an acceptable level.

Can we go to slide three, please.

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MANAGING INVESTMENT DIRECTOR GUNN: Now slide three illustrates the growth of benefit payments over time. And these benefits depend upon relatively slow moving economic and demographic factors. So compared to returns and to contributions, the benefit is probably the most certain part of the pension scheme.

Now, though the benefits grow over time, we can see that the rate of growth begins to slow in ten years or so. This slow in growth rate is a result of the PEPRA changes and contributes to the long-term plan sustainability.

Can we go to slide four, please?

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MANAGING INVESTMENT DIRECTOR GUNN: Now, this slide has four examples illustrating how contributions and funding ratio depend upon both the discount rate and expected returns. And we've used the miscellaneous plan for these examples.

Now, there are two panels on the left. The top panel plots annual contributions for each of the four scenarios. Contributions here are measured in billions of dollars. The second panel plots the annual funded ratio for each of the four scenarios.

Let's just take a moment quickly to talk about the discount rate. It is a long-term rate used to discount the liabilities, long term being measured over decades or generations. And this discount rate is based on the expected long-term rate of return of the investment portfolio.

Now, I just want to emphasize, the discount rate is base on the expected long-term rate of return. As we will discuss in June, expert opinions on long-term expected returns vary and can vary significantly. So when we set the discount rate, we don't know for sure if it actually matches expected returns or not. And as we will see example three, this uncertainty crates some risk.

In the following examples, the scenarios specify the discount rate and the quote true value of the expected returns.

So let's look at the first example, which sort of represents the status quo. This example is represented by the blue lines. In this example, the discount rate is set to seven percent and expected returns are also seven percent.

Thousand, looking at the tope panel, we can see the contributions, represented by the blue line, rise slowly for another ten years, and then decline significantly. Looking at the blue line in the bottom panel, we can see that the funding ratio rises steadily and the plan is fully funded in roughly 20 years.

Let's look at the second example. The second example is the orange lines. Here, we set the discount rate to six percent. And again, it so happens the discount rate matches expected returns of six percent. We see contributions rise sharply, then level out for ten years. Thereafter, the contributions decline. And after

20 years or so, the contributions are basically the same level as in scenario one.

In the bottom panel, looking at the orange line, we see the funding ratio drops in the first year, then rises steadily to a hundred percent over the next 20 years. So just as in example one, the plan is fully funded after 20 years.

In example three, the discount rate is seven percent. In this example, though, we thought expected returns might be seven, they will actually be six. So there's a bit of a mismatch between what we think the discount rate is and should be, and what's actually happening in the world. And this has model's uncertainty.

So let's look at the green line in the top panel. We see contributions slowly increase, a bit faster than in scenario one, but not the sharp rise of scenario two. This higher level of contributions is to the -- due to the amortization of losses, since the expected returns are lower than the discount rate. And just like in scenario one, after ten years, contributions begin to decline. However, the decline is somewhat short lived and contributions begin to increase at slow rate. So in this scenario, contributions never reach the lower levels found in scenarios one or two. The long-run contributions are higher to make up for the lower returns.

Now, let's look at the green line in the lower panel. Here we see the funding ratio slowly increases and then levels out around 90 percent. The plan is certainly better off, but it's not quite fully funded. And the reason for that is really we didn't save enough. So this example kind of illustrates the risk of being overly optimistic when estimating the discount rate. In the long run, we end up with higher contributions and a lower funding ratio.

Okay. Example four, like example one, sets the discount rate to percent. And like example one, expected long-term returns are seven percent as well. In this example, however, returns are five percent in the first ten years and eight percent in the last 20. Again, that averages out -- excuse me -- to seven.

So what happens here, where we have low returns at the beginning but higher returns later on? Here, we look to the gray lines. Let's start in the top panel. Here, we see contributions slowly increase and peak after ten years. This is a result of the amortization of the losses as the five percent returns are lower than the seven percent discount rate.

At that point, however, contributions begin to decline and reach levels lower than those of example two and three. And this in part, because now returns of nine percent are higher than the discount rate of seven percent.

So after about 25 years though, we still end up in basically the same place as we did in scenarios one or two. Let's look in the bottom panel, again, the gray line. Here, the funding ratio stays flat for almost ten years, because the returns are low. They're five percent and below the discount rate. Then as the returns rise to eight percent, the funding ratio rises quickly over ten years to be more than fully funded.

So just stepping back for a second and summarizing these examples. Three of these examples illustrate that so long as the discount rate is comparable to the long-term expected returns, long-term contributions will decline as the fund reaches fully funded status.

Example ill -- three illustrates, the long-term risks of increasing contributions and not reaching a fully funded status of being optimistic when setting the discount rate.

Now, all four examples assume we make no changes once we start the process. In practice, CalPERS would be reviewing these assumptions at least once every four years. So there's always an opportunity to change our minds and reconsider.

Can we go to slide five, please.

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MANAGING INVESTMENT DIRECTOR GUNN: This chart is a histogram of employer contributions as a percentage of payroll. And it illustrates the wide range of circumstances of different employers. Information, however, is not sufficient to help us understand or appreciate the financial capacity of employers to bear increases or decreases in contributions.

That would require a lot more than simply knowing contributions as a percentage of payroll. So this slide simply illustrates though different employers are in different circumstances.

Let's move on to a more well known source of risk, the markets. Slide six, please.

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MANAGING INVESTMENT DIRECTOR GUNN: Here we -- again, we have two panels. The top panel shows rolling ten year total returns for both the S&P, which is in blue, and the ten-year bond which is in orange. There are some notable features.

The ten year rolling S&P return is varied significantly even in recent history. The red circles shows us three periods when the ten year rolling equity return has been negative, most recently after the financial crisis of 2008.

The gray regions are periods when the ten year rolling bond return was actually greater than the ten year rolling equity return.

Excuse me.

This means that on a ten year rolling basis, these are periods when the equity risk premium was negative.

Now, the lower panel shows us the accumulated returns for equities, which is the blue line and a portfolio made up of 60 percent equities and 40 percent bonds, which is the orange line. Not surprisingly, over the long term, a hundred percent equity portfolio does outperform the 60/40 portfolio.

It is, however, a very bumpy road. The S&P has lost more than 30 percent of its value six times in the last hundred years. And after both the drawdowns in 2000 and 2008, it took six years for the S&P to fully recover its lost value.

And this variability has a significant influence on contributions and the funding ratio. And these exhibits illustrate that even ten years does not guarantee equity returns will be rewarding or that equities will even outperform bonds.

Slide seven, please.

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MANAGING INVESTMENT DIRECTOR GUNN: This chart illustrates the effect of a significant market downturn on contributions and funding ratio. The stylized returns are like similar to those experienced in 2008. In the first year, there was a 25 percent drawdown. This drawdown is then followed by 16 years of nine percent returns, and then 13 years of seven percent returns, again averaging out to about seven percent over the 30 years.

Now, for easy reference, the base case, which was our example one, is plotted in blue, when the discount rate is seven percent and the returns are seven percent in a constant manner.

The funning ratio, which is plotted against the left-hand axis is the solid blue line for the base case. And the contribution rate plotted against the right-hand axis is the dotted blue line. The orange lines are the contribution rate and funding ratio during and after the drawdown.

What do we see?

Well, we see the contribution rate, the dotted orange line, increases for five years. This represents the amortization of the initial losses, seeing as how the 25 percent was below the discount rate. Then after five years, the contribution rate begins to drop as the higher returns now are amortized as gains.

After 15 years, the contribution rate hits its minimum value. In addition to the funding ratio, which is the solid orange line, drops to just below 50 percent in the first year and then steadily rises and reaches a hundred percent in 15 years.

So this result is like the results of examples one, two, and four, the amortization of gains and losses will sustain the fund if the discount rate is not excessively higher than the long-term expected returns.

Examples have illustrated how the contributions and funding ratio respond to changes in a discount rate and expected returns. Let me summarize the key points here.

One, lower expected returns lead to increased contributions. An increase in contributions may be financially stressful for some employers. Return uncertainty can lead to overestimating long-term expected returns, a discount rate higher than it should be, and a contribution rate lower than it should be. Under these circumstances, in the long run, contributions will end up higher than the base case, and the long-term funding ratio will be below 100 percent.

And last, though extreme return fluctuations induce significant increases in short-term contributions, and an initial decline in funding ratio, the amortization mechanism restores the plan, so long as the discount rate is comparable to long-term expected returns.

So our choice of portfolio which we will be making in November has direct bearing on managing these risks and the ALM process will consider these factors when developing our recommendations.

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MANAGING INVESTMENT DIRECTOR GUNN: Just let me quickly finish by summarizing the remaining ALM timelines. Today, we were talking about some of the key factors that we will look at, both when we present information about the portfolios and that will influence our recommendation for portfolios. In June, we will discuss our capital market assumptions. And in July, we will discuss the overall framework and how we use the capital market assumptions to help assess portfolios. In September, we will present the candidate portfolios. And then in November, we will make a recommendation and choose a portfolio.

Okay. At this point, I've finished the presentation, and I'm happy to take questions.

CHAIRPERSON TAYLOR: Thank you. Hold on a second. Let me see. So I have -- I'm going to name it out, so everybody knows I've got them. I've got Henry, Margaret, and Betty.

First is Henry.

COMMITTEE MEMBER JONES: Thank you, Madam Chair and thanks Mr. Gunn for a very easy-to-follow presentation. I enjoyed -- I was able to follow you line by line. Appreciate that.

My question goes to page four of the -- of your presentation and that's 119 of the iPad. And just looking at the four examples isn't it true that example three and four are more aligned to reality, because as we've been looking at our discount rate, we have a discount rate for the first ten years at whatever that rate is, like seven percent, but then we've seen that over time, from ten to 30 years, it tends to drop, or vice versa, for example.

So is it -- you know, I think the last time the first ten years was lower than seven percent and then it was higher in the out-years. So could you comment on the in and outs of -- I know this seems to flip-flop, because this says the first five years is -- five -- it's five percent the first ten years and then eight percent for the last 20 years.

So, yeah, that's consistent with what Wilshire capital market assumptions are. So in terms of trying to assess which one of these might reflect the real world, is it true that it's going to be something like three or four?

MANAGING INVESTMENT DIRECTOR GUNN: Thank you, Mr. Jones, for your question. At the moment, we're just trying to illustrate sensitivity. You know, in terms of which one is more likely to represent the future, I'm going to guess one where the returns do vary. But in terms of the actual pattern of returns, I mean, four is probably close. But again, this is a stylized example. But I think most people do see returns being lower in the first five or ten years and then rising to some extent later on --

COMMITTEE MEMBER JONES: Um-hmm.

MANAGING INVESTMENT DIRECTOR GUNN: -- to what, you know, the actual values of that. That's the kind of work we're going to look at and better understand the sensitivity to that uncertainty when we present the materials later on.

COMMITTEE MEMBER JONES: Yeah. And that's true, because based on that sensitivity is going to drive that top plane that contributions the impact on the -- on the agencies. And so that's why I was trying to get an understanding of --

MANAGING INVESTMENT DIRECTOR GUNN: Yes.

COMMITTEE MEMBER JONES: -- three and four, because it's going to drive the impact on the agencies and -- or sensitivity, as you described, so, yeah.

MANAGING INVESTMENT DIRECTOR GUNN: Yes.

COMMITTEE MEMBER JONES: Okay. Thank you.

CHAIRPERSON TAYLOR: Thank you, Mr. Jones.

So I was just going to comment on that. It gets -- when you look at the top in the same -- on the same graph that we were just looking at, when you look at the top contributions under different scenarios for number three and four, that's a little scary for our agencies. So I like the idea of sort of changing our expected returns.

Here's my question on this though, how does that -- I mean, how does that get reported out in our audit? And when we do that, doesn't it make it confusing for us in the long run, when we have a seven percent discount rate, but then our expected returns are different?

MANAGING INVESTMENT DIRECTOR GUNN: All right. So the proposal here is not that we necessarily make them different, but rather to recognize that when we estimate expected returns, there's actually -- you know, we don't really know exactly what they will be, right?

CHAIRPERSON TAYLOR: Yeah.

MANAGING INVESTMENT DIRECTOR GUNN: So here, we were just trying to illustrate how sensitive the choice will be. We're not trying to rest the outcome on one particular guess at the future though. This is more about trying to be prepared and understanding what could happen and then over time we can monitor and like adjust accordingly. So, you know, in terms of how the -- it would be accounted for, I think there's still only going to be one discount rate for the organization. It's just going to be informed by, you know, what the range of probable returns.

And then, you know, we'll have to choose a particular point come June, but we'll understand better the range of outcomes and how we could then differ from what we hope to do.

CHAIRPERSON TAYLOR: Okay. Great. Thank you. I appreciate that.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Maybe, Ms. Taylor, maybe I can jump in really quickly. I think the only thing I would add is that -- is that, you know, Sterling said we don't know what the future holds in terms of market returns, you know, for -- you know, we'll have our capital market assumptions. One thing we know is that they will be probabilistic guesses, but we'll very likely be incorrect.

What we do know is we're constantly working through this balance of having lower expected returns, higher contributions, but higher certainty around contributions versus having higher expected returns, but thereby higher volatility, and higher volatility of contributions. And it is exactly that. It's a balance and that's exactly the sort of -- the point of this presentation is to walk through those things and think through the kind of appetite for risk that we have in that space.

CHAIRPERSON TAYLOR: Right, to get to that nice balance for our agencies, so that they can -- yeah, they're not being -- having the bank broken by too much contributions, et cetera. I get it.

Next person is Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Madam Chair.

Mr. Gunn, you really made that presentation very simple. It's pretty good. But I do have a couple of questions for you. So we keep talking about us being fully funded in 30 years, right? A hundred percent funded in 30 years based on these scenarios.

So my question is, but what's the probability of us actually reaching a hundred percent funding in any of those scenarios in 30 years?

MANAGING INVESTMENT DIRECTOR GUNN: Right. Good question. And that's part of the work that we have to do in order to help choose a portfolio come September and November.

So today was just sort of lay the table. These are the kind of things we will look at, but we do owe it to you to come back and say, okay, here's a better understanding of the range. And that gives you then a sense of the probabilities. So that is something we will have to consider. Don't have a specific answer right now. It's just that right now it's really just to illustrate what we would like to show you and how we want to use it.

COMMITTEE MEMBER BROWN: Yeah, I thought -- I thought that part was a little simplified. I'm like, wow, we're going to be a hundred percent funded. In 30 years, that would be great, but I don't think that's the case.

My other concern, Mr. Gunn, is -- and I'm not sure if you can answer this for me or if it's going to take the actuaries, but I am concerned about this. So in future presentations, I'm going to want to know about -- it always seems like when we adopt a discount rate, seven percent, it's for years one through ten and then the years 11 through 30 is basically is the -- I feel like number is backed into, right, to get us to the average that we need to be at. And that's a concern I have. And so I am talking to the actuaries. But I just to be sure that we're using real numbers or real estimations when we put this together.

So let's just say that if, for example, we say we're going to get seven percent -- that we set the discount rate at seven percent and so for the next ten years, it's seven person. And then the actuaries have to put a much bigger number on the back end to make sure we get there. And so I want to make sure that all the numbers that are used are -- you know, use some real mathematical probability as opposed to backing into the number. And I assume that's not you, Mr. Gunn, is that correct?

MANAGING INVESTMENT DIRECTOR GUNN: I'm sorry?

COMMITTEE MEMBER BROWN: Is that you that does that or is it the actuary?

MANAGING INVESTMENT DIRECTOR GUNN: Well, it's us collectively. So the actuaries choose the discount rate and it's our work to try to lay out our best understanding of the markets and the kind of returns that might be available to us in the future. And then we have to --

COMMITTEE MEMBER BROWN: Okay. So just -- okay. So that -- this is just my caution to you, I'm going to be pushing hard on that 11 to 30, because, you know, apparently we don't look too closely at that number because it's so far away, but I'm going to be focused on that as well.

Thank you.

MANAGING INVESTMENT DIRECTOR GUNN: Okay. Thank you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And, Ms. Brown, the only thing I would add there -- and definitely, you know, I'm sure Scott is watching and he'll consider this a heads-up, and he'll -- and, you know, certainly be ready for those questions. But I would definitely just bear in mind that part of being, you know, titled an actuary is that returns that you assume have to be justified by your sort of intellectual honesty. That is part of the -- you know, part of the requirement. So I certainly will tell you that this is exactly what Sterling is referring to, is that Sterling, and Scott, and Arnie, and I, and Christine, and others, we'll all be putting our heads together to come up with what do we think we can defend appropriately, rightly, intellectually honestly, while also, you know, balancing the need for contri -- you know, to the challenges around contributions and contribution volatility. And that's exactly the work of this ALMprocess.

CHAIRPERSON TAYLOR: Thank you, Dan. Margaret was that -- oh, you're on mute Margaret.

COMMITTEE MEMBER BROWN: Sorry. I have a dog barking, so I hit the mute.

I appreciate those comments, Dan. My -- and I haven't done the ALM before, as you know, but it just --

it felt like -- when I'd gone back and seen it, it felt like that number was backed into. I'm not saying it was. And I'm sure there's plenty of work behind that, but now as a Board member, I'll be able to see that and ask the tough questions. So I do appreciate that heads-up.

Thank you.

MANAGING INVESTMENT DIRECTOR GUNN: Great.

CHAIRPERSON TAYLOR: All right. Thank you, Ms. Brown.

Ms. Yee, you are up.

COMMITTEE MEMBER YEE: Thank you, Madam Chair. Just to follow on to Ms. Brown's question, It does seem like, and I hope this is a fair statement, that this ALM cycle does have more of a specific focus or consideration, I guess, on capacity for employers to make the contributions. And unlike, I guess, the ALM process four years ago, where there was definitely more focus on the appropriate discount rate required to meet our funded status.

And I guess in that vein, I'm just trying to figure out with respect to the timeline, are the models that you're going to come forth to us with, I guess around the September time frame, right, is that -- will they present then a range of discount rates then? And I only ask that, because obviously discount rates kind of make people nervous. And so it follows onto my second question and that is how are we incorporating, I guess, employer and other stakeholder input in the process?

MANAGING INVESTMENT DIRECTOR GUNN: Right. So...

I muted myself accidentally. Apologies.

On the second point, there are a series of stakeholder meetings where we do hear from the various stakeholders about their concerns. On the mechanics of that, indeed, come September, there will be a choice of portfolios. And there will be a choice of discount rates, but that will be associated probably with very different levels of risk both in the portfolio, but also as Dan was saying earlier, in the volatility of the contributions as well.

So if -- we'll -- like I said, so the three or four portfolios very distinct in terms of their risk characteristics and their discount rate.

COMMITTEE MEMBER YEE: Okay. And do we have any sense of what that range looks like now or is that still to come?

MANAGING INVESTMENT DIRECTOR GUNN: I wouldn't want to prejudge. I would think at the moment that seven percent is probably near the top of the range.

COMMITTEE MEMBER YEE: Okay. All right. Thank you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And, Ms. Yee, to your point, we definitely want to hear stakeholder input.

MANAGING INVESTMENT DIRECTOR GUNN: Yes.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: You know, we had the stakeholder event in January. Certainly, you know, want to -- you know, an item on this in February. The plan is that at every time we get together to have this in front of the Committee -- certainly today's and June we're back with capital market assumptions. This will be a big part of the July off-site. Then September is a whole workshop. It won't actually be part of the sort of standard committee. I mean, it is part of Investment Committee, but it will be its own workshop, where we really have time to dig into some of tease candidate portfolios with adoption of the ALM in November. So lots of opportunities for our stakeholder to have input. And we -- to your point, we definitely, you know, want and need to hear it.

COMMITTEE MEMBER YEE: Great. Appreciate that.

CHIEF EXECUTIVE OFFICER FROST: Yeah. And Controller Yee, you know, in addition to the stakeholder meetings that we have regularly scheduled, the monthly and the quarterlies, we've added a quarterly webinar specific to ALM for any, you know, stakeholder, employer, you know, labor, retirees, whoever is interested.

COMMITTEE MEMBER YEE: Great. I appreciate all of that. Thank you. Thank you, Madam Chair.

CHIEF EXECUTIVE OFFICER FROST: Um-hmm.

CHAIRPERSON TAYLOR: Thank you, Ms. Yee.

Next is Mr. Rubalcava, please.

COMMITTEE MEMBER RUBALCAVA: Thank you, Madam Chair. Thank you, Mr. Gunn, for this presentation. I particularly appreciate chart four, because you -- like you said it or somebody said it -- maybe somebody said it, speaks to the -- to the sensitivity and I think employer is always worried about -- you know, everybody wants the benefit to be secure guaranteed, and that's what you're starting for the full funding. But to get there, there has to be all these actuarial assumptions. And I think we have to respect the actuarial principle that in the long run everything is going to work out.

And I think one thing to assess it is that we can make -- we can make adjustments accordingly when -- I'm getting of my point. The point is the assumptions we -- the assumptions in these scenarios will impact the employer contribution, which, of course, funding ratio impacts the contribution. So -- but I know the focus here is something else. But besides the adjustments accord -- we can make according -- adjustments as we go on, we can -- there's also some tools, are there not, for the employer to sort of mit -- provide some -- mitigate the impact on the employer and the contribution rate or mitigation, or the rate relief. Is there anything -- when will that be adjust -- discussed? Is that after we've done the asset liabilities set and we're going to other assumptions? I'm just -- I might be jumping ahead there. The process, I just I want to understand --

CHIEF EXECUTIVE OFFICER FROST: Yeah.

COMMITTEE MEMBER RUBALCAVA: -- for the employers out there that where do -- I mean, they care about that, you know, the impact on their contribution. So when does that happen?

MANAGING INVESTMENT DIRECTOR GUNN: So the --

COMMITTEE MEMBER RUBALCAVA: And what tools are available, please. I'm not sure if that's a question for you or the Actuary Office. Thank you.

MANAGING INVESTMENT DIRECTOR GUNN: I think the Actuarial Office can give a more detailed answer, but we use the tools that are available online for employers to develop some of this -- the pieces of work that you saw here today. So there are tools available online so explorers can explore, you know, what may happen with different choices, different scenarios.

CHIEF EXECUTIVE OFFICER FROST: Yeah. Mr.

Rubalcava, we have the Pension Outlook Tool that was developed by our actuaries that is out in the hands of all of our public employers now. Just released the pools version of that tool. In addition, we have the 115 Trust that we put into place for employers who have some money to set aside for future contributions. I think, you know, specifically what you may be referring to is when we change the 30-year amortization to 20 years, that there's --

COMMITTEE MEMBER RUBALCAVA: Yes, I voted on that.

(Laughter.)

CHIEF EXECUTIVE OFFICER FROST: -- a hardship process that if a public employer was really having difficulties with that 20-year amortization, that they could make a request through our Finance Office to have us do a review to determine whether we could either, you know, change their amortization or do some kind of a fresh start. But there are tools that we have available and we really encourage our public employers to be in contact, either through Michael Cohen's office or through Scott Terando's office.

COMMITTEE MEMBER RUBALCAVA: Since we started on this path, let me ask one more question. I know there's a lot of headlines and press out there about whether it's the right time for -- or ever the right time for a pension obligation bond. Does the CalPERS staff ever weigh in on those discussions or give advice to employers who are considering that avenue?

CHIEF EXECUTIVE OFFICER FROST: We have not taken a position -- a formal position on pension obligation bonds. I know that a consultant just recently came out -- and this is someone who used to be one of our actuaries, Todd Tauzer from Segal. We can make that available to the Board. I just got that as a part of this new kind of pension accounting work group that I'm on. I'd be happy to share that with all of you. But CalPERS has not taken a position on POBs.

COMMITTEE MEMBER RUBALCAVA: Thank you, everybody

CHAIRPERSON TAYLOR: Since Mr. Rubalcava went down that vein, there's the money coming in from the COVID Rescue Bill, and as I understand it, and correct me if I'm wrong Dan or Marcie, what -- weren't we getting some of that for CalPERS? Am I wrong about that? Oops. Sorry.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I don't think we know yet, Ms. Taylor. I'm going to do -- I do think there are some -- there certainly is talk of that in the Governor's office, and the like, around the budget. I do know that to Marcie's point, we have gotten in some one-off contributions from issues of pension obligation bonds from some of our municipalities.

CHAIRPERSON TAYLOR: Yeah.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: But whether part of this most recent $1.9 trillion package will actually come into CalPERS on behalf of the State, I don't think we know that yet.

CHAIRPERSON TAYLOR: Okay. I thought maybe I read it, but thank you for correcting me.

My next question is from Ms. Middleton and then Mr. Jones.

COMMITTEE MEMBER MIDDLETON: Thank you. And it's really more a comment than a question. We -- hopefully, as we start to move into summer and into fall are going to see organizations gathering together in more traditional kinds of meetings. And I think it is incredibly important that our outreach efforts this year to the employer community on the ALM process is very robust and widespread. I'm more than very happy to help in those efforts. League of California Cities currently has their convention planned for Sacramento September 22 through 24. And we need to get out and meet the employer community where they are as we approach ALM.

Thank you.

CHAIRPERSON TAYLOR: I forgot to unmute. I'm sorry. Mr. Jones. Thank you.

COMMITTEE MEMBER JONES: Yeah. Thank you. Just a follow-up on the discussion around the one to ten and 11 to 30 year capital market assumptions. And so my question is is that Wilshire provides their capital market assumptions, and they talk about the one to ten and 11 to 30 year numbers to come up with an average. Are -- do we use that data or do we just use it as a guide in terms of coming up with our discount rate?

MANAGING INVESTMENT DIRECTOR GUNN: We'll use that data along with data from other providers, to try to estimate the range of possible outcomes. So we don't ignore anything. Even internally, we'll also develop our own views on the world and then we'll use all of that to really better understand what we think is probable, and then make a choice based on that.

COMMITTEE MEMBER JONES: Okay. Thanks.

CHAIRPERSON TAYLOR: Is that it, Mr. Jones?

COMMITTEE MEMBER JONES: Yes.

CHAIRPERSON TAYLOR: Okay. Thank you.

COMMITTEE MEMBER JONES: Thank you.

CHAIRPERSON TAYLOR: It looks like I don't have any additional questions. Marcie, Jason asked if you could share with the Board that article. And, Mr. Gunn, I want to thank you. I don't know if it's because I've been on the Board long enough now, but this one of the most understandable ALMs I've ever been through. So it was very straightforward and I thank you very much for your report.

MANAGING INVESTMENT DIRECTOR GUNN: All right. You're ver welcome. Thank you for your time.

CHAIRPERSON TAYLOR: And we are now on 8B, CalPERS trust level review and we're starting, as I understand it, with Wilshire.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: We are indeed. Thank you, Madam Chair. Thank you, Sterling and Christine. I see we've got Tom Toth. If we can also please get Steve McCourt brought up into the presenter's queue. This is our first trust level review of 2021. The Committee may recall that staff and your Board consultants alternate who presents first, with the consultants going first in March and then management taking the lead in September.

So the consultants go with 8B and then staff will follow with 8C. And with that, Tom, I'll turn it over to you to take us through Wilshire's portion.

(Thereupon a slide presentation.)

MR. TOTH: Thanks very much, Dan. Tom Toth with Wilshire. Let me start on page 127 of the Board packet and lead off just by saying that really any review of 2020 would be wholly insufficient without acknowledging the terrible human toll the pandemic has taken really around the globe. And we're all aware of the case counts and mortality statistics, which we've laid out on page 127, which are thankfully declining in the U.S. as the distribution of the vaccines continue to accelerate. Obviously, continued vigilance is incredibly important, given the potential for variants that we've seen around the globe.

Now, the economy has staged a sharp rebound. Although, admittedly, the impact of the rebound has been uneven. But given the recovery in employment, manufacturing activity, and the relatively strong aggregate position of the U.S. consumer, we're likely to witness an acceleration in consumption of both goods and services. And that's likely to lead to a very strong 2021 in growth in U.S. GDP with estimates north of five percent. In fact, Goldman Sachs released an update yesterday that had GDP growth at eight percent, which is just an enormous number when you think about it, as sort of normalized growth leading into the pandemic was between one and a half and say two and a half percent.

Now, in the last few weeks, we have seen upward pressure on interest rates, even as the Fed has pledged to keep short-term rates low. And as investors digest economic growth prospects and the potential inflationary pressures, interest rate volatility is likely to increase and impact valuations on the full spectrum of investment opportunities.

And I view this as a key risk for capital markets over the coming year, and not just for fixed income importantly, but also for other risk assets, such as growth equities, which have elongated cash flows underpinning their valuations, where the discount rate can really make quite a difference in terms of their levels.

On page 129 of the Board packet, as we've discussed in the past, the Federal Reserve's accommodative monetary policy, combined with substantial fiscal action, including the most recent $1.9 trillion support package have also --

COMMITTEE MEMBER JONES: Excuse me, Madam Chair? Madam Chair, could you have the charts -- see that the charts are moving to where he's talking, please.

CHAIRPERSON TAYLOR: Yes. Thank you. And I don't know if it's because you're mention -- oh, there we go -- the Board books number, because it's actually page number four of 58.

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MR. TOTH: Oh, if it would be help, I can refer to that lower right-hand number, if that's easier for body.

CHAIRPERSON TAYLOR: Yeah. Okay. Thank you very much, Henry.

COMMITTEE MEMBER JONES: Thank you

MR. TOTH: Thanks, Henry.

So we've talked about the different support packages, which have all helped equity markets. And as you can see here, equity markets rallied quite strongly in 2020, even as some underlying operating fundamentals deteriorated. And that really is driven by the discounting mechanism that is financial markets. And you can see the -- sort of the path there in that upper chart.

Given the strong performance of equity markets, these elevated valuations impact our expectations for equity returns going forward. And I wanted to point out one of the models that we use in forecasting equity returns, which is on -- it would be page eight of this deck. It actually is -- looks like it's missing its -- that one right there.

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MR. TOTH: It looks like it's missing its page number.

On the right-hand side, you can see the components of our income growth and valuation framework. And you can see that each of the components has a lower contribution to return than we've seen historically. And of particular note is the negative contribution from valuation shifts, which as of the snapshot here historically had added about 1.7 percent to return, as that -- those levels move back towards more -- more of what we'll call normal historical averages. That's actually going to switch to a headwind for equity returns going forward.

When you combined the low, albeit rising, interest rate environment with our outlook for riskier assets, you can see the portfolio's expected return on the next page.

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MR. TOTH: And Mr. Jones referred to this in his earlier comments on the I -- the ALM. This really highlights the challenge that institutional investors face in meeting your return targets. And this is going to be, as Mr. Gunn pointed out, a key discussion point during the ongoing ALM process. And to provide just a little bit of color actually to Ms. Brown's question about probabilities, as we look at the return and risk here, using a normal distribution, the portfolio has about a 43 percent chance of exceeding seven percent over the next ten years and about a 48 percent chance of exceeding seven percent over the 30-year time period.

Naturally, during the asset all -- the asset liability study we'll be looking at different ways to adjust that, ideally moving that probability -- that probability higher.

Let me grab my page here.

If we flip forward to performance on page 12 --

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MR. TOTH: -- you can see that the portfolio was in line with the benchmark over the calendar year period with a return of 12.4 percent. In addition, the fiscal year-to-date return stands at 13.4 percent as of the end of 2020. Just gives you a sense for the path of returns last year with a very challenging first quarter followed by a substantial rebound moving through the back-half of the year.

Absolute performance was driven by strong returns in both public and private equity, as well as the fixed income portfolio, which benefited from a long duration positioning relative to core fixed income benchmarks.

Now, real assets struggled as inflation expectations collapsed in 2020. And there's continued uncertainty over the outlook for real estate demand in the post-pandemic economy.

Now, I would caution something we're talking to clients continually about is building in some inflation resilience into portfolios. So while real assets has struggled relative to global equity, the diversification and that inflation resilience that that provides on a strategic perspective we think should remain an important consideration when we're talking about portfolio construction.

If we move forward a page to the attribution.

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MR. TOTH: One more to the calendar year.

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MR. TOTH: Sorry. A couple of points that I wanted to make here. In terms of the larger impacts, public equity and the income portfolio were both positive contributors at 15 and 26 basis points respectively. Private equity was a net negative contributor on a relative basis, although the attribution information is a bit counterintuitive. When you look at the portfolio return relative to its benchmark, you actually see that the private equity portfolio outperformed its benchmark, which naturally leads to the question, well, how did it have a negative relative return impact?

And that's related to the extreme level of volatility that we saw moving through 2020, such that the weighted asset contribution ended up negative. In other words, you had more assets early on and fewer assets when we saw some of the substantial snapback in the middle of

2020. I point that out, because it is counterintuitive, but suffice to say that we have reviewed the figures and we're confident that they're accurate.

Lastly, from an active risk standpoint, if I could have you just flip forward to page 17 of the review --

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MR. TOTH: -- you can see the realized active risk, or tracking error, of the portfolio does show an upward trend to about 1.4 percent. This was driven by some of those sharp market swings we experienced in 2020.

With that, I will stop and see if there are any questions from the Committee or I can turn it over to Meketa to follow on with their trust level comments.

CHAIRPERSON TAYLOR: I am not seeing any questions at the moment. I had one quick question. You mentioned the downturn and then the rebound, but it's been kind of an uneven rebound. And I was wondering what -- maybe this isn't for you, maybe it is. Our ESG strategy -- how are ESG strategy plays into this total fund review when we're taking into consideration the workers that were displaced, et cetera, because it seems to me as we look at risk, et cetera, that poses a risk in the future to me.

MR. TOTH: Madam Chair, I would certainly agree with that. The broader based, the benefits of the recovery, the more self-sustaining it is. And so to the extent you've probably heard the term the K-shaped recovery, where some have benefited but others have not, that is going to, I think, lead to a rockier road to recovery. A lot of the debate around the shape of the various support packages has really hinged on that very -- that very concept of trying to make sure that that -- that support is provided to the right constituents across the economy, in order to support coming out of this pandemic.

CHAIRPERSON TAYLOR: Thank you, Mr. Toth, I appreciate that. I'm still not seeing any additional questions, so we can move on to Meketa.

MR. McCOURT: Thank you. This is Steve McCourt at Meketa. It's nice to see everybody virtually and can't wait to see you all in person, hopefully sometime soon.

I'm going to present some scripted remarks on Meketa's private equity, real estate, and infrastructure semiannual reviews.

Steve Hartt, Christy Fields, David Glickman, and Lisa Bacon are all here present from Meketa to answer any detailed questions about each of these asset classes after I go through them. I'll start with private equity and then move on to real estate and infrastructure.

So starting with private equity and with performance, I'll note that each of these reports that are presented in your package are as of December 31st, 2020, but the net asset values are reflective of the three-month lag in private markets, which is as of September 30th, 2020. So just note that.

Private equity, as well as other asset classes, rebounded in the second half of 2020 with both CalPERS private equity portfolio and the policy benchmark returning to positive returns for the one-year period, returning 12 and a half percent and 11.7 percent respectively. Performance for the portfolio and the policy benchmark across longer time periods have also increased in recent months. The program's performance exceeds the policy benchmark for each of the one- and three-year periods, but dips below the benchmark of the five- and ten-year periods.

As a reminder, the policy benchmark was most recently changed to the custom FTSE Global All Cap plus 150 basis point level beginning in July of 2018.

For the trailing ten years, the private equity asset class returned 11.5 percent per year on average. The portfolio's net asset value, as of December 31st, 2020, was $30.8 billion, an increase of 5.1 billion net of cash flows compared to June 30th, 2020. The current net asset value represents seven percent of the CalPERS total fund compared to an eight percent target for private equity.

As I noted, the program's net asset value was calculated based on the September 30th, 2020 values, while the overall CalPERS portfolio includes publicly traded assets valued as December 31st, 2020. Consequently, we would expect that when the December 31, 2020 private equity values are received, the program's net asset value will have a modest uplift from the September 30th values that you're seeing.

The performance rebound from COVID-19 is evident across the portfolio with all strategies experience -- experiencing significant increases. Venture and growth expansion strategies have generated particularly strong returns in recent periods, each returning over 20 percent for the past year.

Credit continues to be a relative drag on performance. Overall, the program has been and will continue to be driven by the buyout strategy, which has also rebounded and has provided attractive returns in the long term.

While the Private Equity Program is predominantly invested in the U.S., it's noteworthy that European private equity had a particularly strong trailing 12 months returning nearly 20 percent.

Moving on to implementation considerations. For the second half of 2020, staff completed 26 commitments totaling $9 billion and 46 commitments totaling $18 billion from January 2020 through December 2020. This was a very active period for the program, maintaining a high level engagement while continuing to be in a work-from-home status. Very strong execution from the staff during this period.

Staff has increased their emphasis on no and low fee separately managed accounts and co-investments by managing -- by leveraging CalSTRS[SIC] size and scale. The portfolio is in compliance with all key parameters and strategy -- related to strategy diversification.

Concluding, the private equity portfolio's recent performance shows resiliency as the program reported over $5 billion of gains since our prior report. The staff maintained a high level of engagement while being in a work-from-home status, and worked closely with the underlying managers to monitor the health of the portfolio, which has largely remained resilient.

The program's investment pace remained strong and staff expanded its implementation of lower cost separately managed accounts and co-investments.

CalPERS faces challenges in building the program, but also has opportunities given its scale, experience, and large investment team. Staff's continued focus on deploying capital through lower cost investment structures will help mitigate overall fees. As you know, staff is currently presenting its private equity strategic plan to the Investment Committee to maximize future opportunities and to identify challenges.

Shifting on to the real estate asset class, CalPERS assigns to the real estate portfolio, the goals of diversification, current income, and inflation protection. Real estate represents 84 of the -- 84 percent of the real assets portfolio.

The portfolio's diversification is serving the system as different property sectors experience varying demand and supply dynamics. Similarly, CalPERS focused on the highest quality locations and materials that attract credit worthy tenants provides defensive characteristics.

Overall returns have moderated from both CalPERS and the broader real estate market. CalPERS has historically used more leverage than the benchmark, 32 and a half percent versus 23.1 percent presently. So when property values are rising, this accelerates returns. When values decline, this detracts returns -- detracts from returns.

The portfolio posted a positive 0.8 percent current income for the most recent quarter, while valuations declined slightly by 0.1 percent. Among core holdings, regional mall retail property investments, to which CalPERS has a overweight compared to the benchmark, and which account for 18 percent of the portfolio, declined by 3.6 percent. These investments have produced a 9.8 percent total net return since inception. The core portfolio representing 84 percent of the real estate portfolio produced stronger longer term returns of 6.3 percent for the trailing five-year period compared to the MSCI/PREA benchmark return of 5.6 percent.

It's important to note that just four years ago, the core portion represented just 55 percent of the real estate portfolio, and that efforts continue to transition the portfolio away from legacy non-strategic risks towards higher quality stabilized assets that serve the role of the asset class better.

Related to implementation, the real estate portfolio is compliant with all key parameters related to diversification and other limits applicable at the portfolio level. CalPERS business model for real estate emphasizes control, transparency, alignment, and governance. CalPERS market advantages are its size, scale, and ability to hold assets for longer periods. CalPERS continues to be an industry leader in creating embrace -- creating and embracing responsible contractor policies and ESG best practices at its properties.

Meketa believes that CalPERS strategic long-term tilt to the historic centers of population and employment growth is sound. Interest rates are still at very attractive levels for spread investing, and given the lack of alternatives for current return, serve to maintain strong interest in leveraged property purchases.

In concluding, the COVID-19 pandemic and the associated unemployment continue to loom over the property markets around the world. Like other asset classes, so much of the private real estate sector's future hinges on the delivery of vaccines and therapeutics, the mutations of the virus, and subsequent changes in the behavior by real estate occupants and investors.

The transaction and financing markets continue to be challenging for core buyers, core sellers, and property owners, who are neither buying nor selling at volume. Nevertheless, CalPERS continues -- continued discipline, long-term investment horizon in this illiquid asset class and focus on the role of the asset class should continue to serve the needs of the system.

And finally, regarding infrastructure, the CalPERS infrastructure portfolio continues to outperform its policy benchmark for all reporting periods.

CHAIRPERSON TAYLOR: Mr. McCourt, sorry about that.

MR. McCOURT: That's okay.

CHAIRPERSON TAYLOR: I believe Mr. Jones had a question and I think we passed by the question or do you want to wait?

COMMITTEE MEMBER JONES: Until you finish.

CHAIRPERSON TAYLOR: Okay. Never mind. Go ahead, Mr. McCourt.

MR. McCOURT: Okay. Yeah. Thanks. I'm on -- I'm on the last piece here, so I'll be -- I'll be quick.

The infrastructure portfolio continues to outperform the policy benchmark for all reporting periods except the trailing year, where the portfolio returned negative 0.4 percent versus the real asset benchmark of positive 0.4 percent.

Compared to six months ago, the ten-year performance is unchanged, but shorter period returns are lower on an absolute basis. On a relative basis compared to June 30th, the portfolio's outperformance is about the same for the ten- and five-year periods.

This is consistent with our ongoing comments that we expect prior period higher returns to moderate somewhat going forward. We continue to note that CalPERS' longer term infrastructure returns are far in excess of the longer term return expectations of the asset class.

The infrastructure portfolio is in compliance with all key parameters related to diversification and other applicable limits of the portfolio. The portfolio's net asset value as of December 31st, 2020 was $5.77 billion, an increase of $337.8 million, or 6.2 percent, compared to the June 30th, 2020 net asset value.

The current net asset value represents about 1.3 percent of the total portfolio. For the trailing 12 months, the portfolio's contribution -- contributions outpaced distributions 1.1 billion to 0.4 billion dollars respectively.

We would expect to see contributions outpace distributions going forward, given the number and size of new commitments made over the last two years compared to the remaining smaller size of more mature assets in the portfolio.

One new investment was made during the semiannual period in opportunistic renewable power asset with a concentrated -- with a contracted revenue profile located within the U.S.

In concluding -- in concluding, we believe the portfolio's performance for trailing periods of longer than one year has been impressive relative to the benchmark, although the portfolio's performance does not appear -- does appear to be moderating. Although the one-year performance mark is slightly below the benchmark, it has improved over the prior quarter and we note that the current benchmark is not specific to the infrastructure asset class.

It appears the portfolio has held up well so far in the face of the global pandemic. A number of the existing investments are appropriately defensive and others exhibit resiliency.

The portfolio should benefit from improving conditions and is also positioned to take advantage of a robust pipeline of deal opportunities in the U.S. and abroad.

And that concludes my comments. Happy to take any questions on any of the three private market asset classes

CHAIRPERSON TAYLOR: All right. Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair and thank you, Mr. McCourt, for your presentation, and also indicating that all our key parameters are consistent with our diversification and our long-term goals, et cetera.

I just would like for you to expand on the comment about the three-month lag with private equity and real estate, because we seem to always get questions about why the numbers change when we close our books. And when you made reference to the three-month lag with real estate and private equity, that -- therein lies the issue about the data is going to change. So could you just comment on the industry standard and the process so that people are aware of how that works.

MR. McCOURT: Sure. So in the -- in the public markets, when you hold stocks and bonds that trade daily, you know the price of your assets on a daily basis and those are marked typically fairly quickly after the end of every month and quarter.

Private market assets are generally valued, depending on the asset class and depending on the particular strategy, any time between one and five months after a quarter ends. And so the industry standard is to lag private market asset valuations, as a consequence of that, by three months. So the asset values that are reported in your December 31st semiannual reports reflect the asset values as of September 30th, adjusted for the cash flows that go into and out of the portfolio during the full fourth quarter.

And then once your valuation reports are completed for December 31st, which might occur between now and the next couple of months, the portfolio's value will be updated to reflect the new December 31st net asset values.

So those lags are consistent across private market asset classes. It has to do with the fact that these assets are not marked to market on a daily basis and their valuations rely on valuation policies that investors and managers apply to their portfolios.

COMMITTEE MEMBER JONES: Thank you.

CHAIRPERSON TAYLOR: Thank you, Henry. Good question.

Mr. McCourt, I had a quick question going back to real estate. The State of California itself is considering permanently implementing teleworking. So I know that has an impact, not just for the State of California's workforce but for other workforces that I've read about that are also doing the same. I imagine that has some impact -- and I think I talked -- asked this before, but it has some impact on our real estate holdings. And I noted -- I was reading in your report that you are -- you're not quite sure where that's going to go yet. Do you have any estimation of whether or not these core assets will become, you know, possibly risky assets, because now people aren't going back to the office buildings?

MR. McCOURT: Yeah, fantastic question. I'm going to take the opportunity to allow David Glickman to respond to that, as someone who is on the ground on a day-to-day basis in these real estate markets.

CHAIRPERSON TAYLOR: Thanks. Thanks, David.

MR. GLICKMAN: Good afternoon, everybody. It's great to see all the faces. We all at Meketa look forward to being able to see each other in person again, as soon as it's safe. And therein Theresa, lies the answer to your question. We don't really know the take-up of office space. Each employer is making her own decision based on her constituents and their need to be together.

Clearly, the effort that has faltered is training and culture within companies. That isn't yet able to be reproduced online or virtually. And depending on the kind of organization that it is, that will determine how quickly and intensively they decide to return to the home office.

In terms of market transactions that might illustrate or give a trend towards how investors are feeling about the future of half a million to a million square foot office buildings, such as are found in your portfolio in major city centers, there have been almost no transactions to date for the last year, relatively few.

And so the idea that we could extrapolate on valuations from those, again I wish I had a better answer, but the crystal ball is still very, very cloudy.

One of the things that has been commented a lot is how the ability to work remotely in the last year has accelerated probably by five to ten years worth of adoption. And that's going to have an impact on the expectation of the amount of space per worker that's going to be required as leases expire and landlords and tenants negotiate to relet those same spaces, whether they'll need the same amount of space or not.

And at the same time, different kinds of users are being created every year. You see that in the emerging companies. Somebody like Salesforce, who didn't exist 15 years ago, is now one of the biggest net users of space on the planet. And so it's very hard to try to draw inferences at this stage.

We will continue to keep posted. We think that the two most important things to keep an eye on are the supply of space, either new space that's created or existing buildings in which there's contraction or subletting, so that's in effect bringing new space to market, even though there's no new construction, that's one thing to watch.

The other thing to watch is the supply of money. And as has been discussed earlier in today's meeting and at other meetings, the lack of current return is having people face towards real and infrastructure, because of the possibility of earning current return with which to pay benefits or other liabilities. And there, the lower interest rates have created more attraction for existing core real estate investments that have good credit tenants in it and can offer reliable income.

The one thing we've noted through the last year is that the CalPERS portfolio has had a relatively strong performance, as Steve described, in terms of positive cash flow. And even though many of the office tenants were not able to actually physically occupy their space, there's a very high degree of collection from the tenants and very few defaults in the leases.

So we take a little bit of comfort in that in fulfilling the mission assigned to real estate of creating current income going forward.

Thank you.

CHAIRPERSON TAYLOR: Thank you, David. That is interesting. So that -- I don't know if what you're saying is people have empty buildings but are still paying the rent, is that what you're saying, or is -- they're actually occupying the buildings?

MR. GLICKMAN: No. Even in California, contract law is being enforced and people are paying their rent.

CHAIRPERSON TAYLOR: Nice.

MR. GLICKMAN: The place where you are seeing moratoria on rent payments are in residential. And those payments are deferred, they are not being forgiven. And the National Multi-Housing Council, which surveys millions of multi-family units across the country, has reported high 80s to low 90s payment and collection experience for Class A and Class B plus, which is the kind of properties that you own in your portfolio, and your experience has been very similar.

CHAIRPERSON TAYLOR: Okay. Great. Thank you very much.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Madam Chair, you managed to get muted there, I think.

CHAIRPERSON TAYLOR: Oops. I'm sorry. Mr. Rubalcava, you're next -- you're up next.

COMMITTEE MEMBER RUBALCAVA: Thank you, Madam Chair. Thank you for the presentation. Has the -- I want to go back to the real estate section report. As you -- speakers have stated, there's a lot of uncertainty as to the use of buildings and office space. But one thing is -- I think is clear is that as people do return, or will -- or in order to return, there has to be a lot of focus on certain classification of workers that will keep buildings maintained, and protect the tenants, and the products, and what have you.

And so I wanted to commend the report by Meketa on the implementation, the last paragraph. I'm going to paraphrase here, but it says CalPERS continues to be an industry leader in creating and embracing responsible contractor policies and ESG best practices at its property. So I want -- I want to commend the CalPERS staff for making sure that happens and continue that and also to Meketa to make sure they highlighted that as a strength and thank you for that.

I just want to make a comment. Thank you, Ms. Chair.

CHAIRPERSON TAYLOR: Thank you, Mr. Rubalcava.

My next question is from Controller Yee.

COMMITTEE MEMBER YEE: Thank you, Madam Chair. I had kind of a similar line of inquiry about retail shopping malls and a lot of talk about perhaps repurposing them into housing. And I guess I just want to get a reality check about how feasible is that and are we seeing any of that activity?

MR. McCOURT: Great. Thank you. And, David, I'll hand that one over to you as well.

MR. GLICKMAN: Yes. Thank you. Ms. Yee, the enclosed mall shopping centers are a tale of two cities. And the difference is who has capital and who doesn't have capital. The properties in your portfolio are of the very highest quality and you and your joint venture partners have balance sheets that will provide for the preservation of the assets through this difficult time and continuous improvement of the assets, including, but not limited to, alternative, or auxiliary, or supplemental uses.

The places where most of the repurposing is happening is in malls that were not economically strong to start with and who need another purpose to draw people to the remaining retail.

So we are seeing evidence of that. We're seeing that more in the distressed or opportunistic sectors of the market than the high quality core parts of the retail mall market. And it's really a case-by-case basis, whether there is permission from the local municipality to allow for the change in zoning. And to the extent that there isn't, that can be a long and sometimes contentious process before you actually get occupancy of the apartments and get them constructed.

So there's a multiplicity of factors and risks that are associated with converting a large property like a six, or seven, or eight hundred thousand foot enclosed mall. And we watch them and your manager is looking for opportunities where the expertise of the joint venture partners might be able to affect such a redevelopment. But for the most part, those are slow.

Recall there are approximately a thousand enclosed retail malls in the United States. Two hundred of them are of very high quality. Four hundred of them are of very low economic driver potential. And there's another 400 in between. So we get As, we get Bs, and we get Cs.

The places where the repurposing is happening is in the Cs, as their owners and lenders struggle to see how they can continue to create rents from those properties to service the debt that's attached to them.

COMMITTEE MEMBER YEE: Got it. Yeah, that's very helpful. Thank you.

Then I have a question related to private equity. We're hearing more and more discussed about these special purpose acquisition companies, or SPACs. And I was curious about -- and these are companies that -- whose sole -- whose sole purpose is to raise capital to take private companies public. And I just want to know kind of what your take is on that, whether that provides an opportunity, or a threat, or a challenge to our private equity investments.

MR. McCOURT: Yeah, it's a very interesting phenomenon and maybe I would start there. It seems like just a few years ago, we were commiserating about the lack of public companies and the lack of a robust IPO market.

And then all of a sudden, hundreds and hundreds of SPACs are being started, which, on the surface, are simply ways for investors in the public markets to gain access to private investments.

How this evolves from here is -- it's really hard to predict. One could make a case that the SPAC opportunity fills a void in the capital markets to provide financing to private businesses that doesn't -- that doesn't exist right now.

One could also point to it as evidence of a -- of a bull market, and one of the many signals of excesses in a bull market that tend to occur at the tail end of those markets, as investors are willing to put capital into blind pools for investment. So it's hard to tell.

For certainly in the near term, what it means is it provides another source of investment capital to bid up the prices of private businesses. So on the surface, this brings retail -- some retail dollars into a marketplace that traditionally was supplied predominantly by larger institutional investors like yourselves.

So we'll -- we don't have a crystal ball. We don't know if the SPAC trend will be a fad or something sustaining in the markets. But certainly in the near term, it's adding to the pricing pressure that we see in the private markets.

COMMITTEE MEMBER YEE: Yeah. And I guess are their challenges particularly with respect to the degree of disclosure, you know, by SPACs? I mean, it sounds like they're just kind of out there not necessarily having to make their intentions well known or documented and just, you know, in terms of what their acquisition targets are, and --

MR. McCOURT: Right. Yeah, they're blind pools. And they're blind pools that investors -- retail investors are investing in arguably without a lot of the information that larger institutional investors like yourselves have when they commit to blind pools in the private markets.

COMMITTEE MEMBER YEE: Yeah.

MR. McCOURT: So it does, you know, bring up some concerns about governance and transparency on owning those types of public vehicles for sure.

COMMITTEE MEMBER YEE: Yeah. Okay. All right. Thank you. Thank you, Madam Chair.

CHAIRPERSON TAYLOR: Thank you, Ms. Yee. That was -- really, I had never heard of those. And I saw Dan nodding his head vehemently, so it sounds like something we're not going to get near for a while, that's for sure.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: No. It's certainly a phenomenon. And I agree with everything that Steve said. I mean, it's a -- it's a phenomenon that we're keeping our eye on. And, you know, Ms. Yee, to your question, it is both an opportunity and a threat. It does give retail investors the opportunity to get to areas of the capital markets that they -- we weren't able to get to.

Conversely, it is an area that's fraught with potential misalignment, potential governance issues. You know, there are certainly challenges there. And I will say that we know that the regulators are looking at it closely. And as far as what the future holds if you -- you know, you ask the CEO of Goldman Sachs, he thinks it's overblown. If you ask, you know, the CEO -- I'm trying to remember which European bank, but they're kind of going all in and probably everywhere in between. So it's -- you know, it depends on who you ask certainly. And it's certainly something that we're keeping an eye on, but we certainly have our reservations about.

CHIEF EXECUTIVE OFFICER FROST: Yeah. I'd just add that I think if you look at the experience of the IPOs over the last couple of quarters, a very large percentage have been done through these SPACs. And so I think what -- one of the things we could offer the Board is an education session on what those are, if the Board would be interest in having that.

CHAIRPERSON TAYLOR: I'm seeing some thumbs up on that. I mean, you guys -- we can talk about that later, but definitely we can -- I think my next question is from Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you, Madam Chair. There's been illusions earlier in conversations today to the concept that we are entering a period of time where there is inflationary risk. We've had 20 years of practically no inflation whatsoever. What's your assessments of the probabilities of significantly different inflationary numbers than we have seen in the past, and how should we respond to that risk, most specifically in the real estate market?

MR. McCOURT: Great. Let me kind of respond more at the macro level and then I'll hand it over to David to talk about the implications within real estate.

The first premise to anything that I or anybody would say about inflation is we have to acknowledge that we are in uncharted territory. The capital markets have not gone through a pandemic period like we've seen over the last year. And we have not seen a series of fiscal and monetary stimulus packages anywhere close to the scale that we're -- that we've seen over the last 12 months and there could be more to come.

So the most accurate answer to any question about the future path of inflation is I don't know. We are simply -- we don't enough about how trillions of dollars of stimulus filter its way through the economy to know would impact it might have on prices.

What we -- what we know for sure early on is that at least at a minimum, it creates a lot of asset inflation. The stocks, bonds, assets of all type, have gotten a lot more expensive over the last 12 months, largely as a result of the stimulus that's been provided. And that is yet to trickle into consumer inflation.

On the consumer inflation side, two things to note. One, for the next few months, you will see headline inflation numbers that look fairly high, but that's not really inflation. All you're seeing is year over year numbers where last year's numbers was -- were depressed, because of the shock to the economy from the pandemic.

And so when you compare this year's prices to last year's prices, they're naturally going to look a little elevated, but no serious economist takes that as evidence of sustained inflation in the economy. And in all likelihood, you'll see consumer price increases fall back down to more normal levels through the end of the summer and the fall.

What's more interesting to ponder is the potential for inflation to make its way back in a more sustained way into the economy. And that's where we're less certain of whether that will happen or over what time period that might happen.

Before handing it over to David, I'll offer the following comments on it, being somebody who's probably more in the camp that if there is inflation, it's likely to be lower than what most people expect and maybe farther out in the future. The main reasons that there's been disinflation in the global economy for the last 40 years are globalization, technological change, demographics in the developed world, and certainly here in the U.S., a declining proportion of the workforce that is covered by organized labor.

And none of those four secular forces were changed as a result of the pandemic. So if those four secular forces were what caused inflation to decline globally over the last 40 years, it's hard to -- and they haven't gone away. Globalization is still here. Technological change is still happening. We might very well see those forces push the economy towards continued low prices in the future.

And at the very least, I think what it probably means is that whatever inflationary impact the stimulus has, because one would undoubtedly acknowledge there is some inflationary component to it, it might take longer to flow through than people expect. So the short answer is I don't know. Long answer is there's reason to believe that there's going to be some inflation in the very short term that's more cursory. And we'll just have to wait to see if longer term inflation begins to creep into the economy.

And I'll hand it over to David to talk about any inflationary commentary related to the real estate portfolio.

MR. GLICKMAN: So thank you. I think, Ms. Middleton, you're going to see, when it's safe very high turnout at retail facilities. And therefore, a bulge or a surge in retail sales from pent-up demand that was partially taken up by E-commerce, but doesn't have the same kind of thrill as going and shopping in person.

Similarly, another sector in real estate that will experience a surge is hospitality. Most -- CalPERS does not have very many assets in the private real estate portfolio that are hotels or related to hospitality, but that's going to be another place where you might see prices go up, because there's a short-term overdemand compared to the available supply.

In general though, I think that there are, as Steve pointed out, an awful lot of larger forces that will ultimately translate into whether or not you can charge higher rent or not. And that's where inflation hits real estate in increased rental rates and increased costs of construction materials.

And so at the moment, we don't see a whole lot of new building in most sectors. A couple of notable exception, life science and data center properties. And we are seeing more and more of those, because those are in demand from tenants who wish to expand their spaces.

But, in general, I think that there is a correlation -- and I may be getting outside my lane here, but there's a correlation between commentary on deficit spending and borrowings by the government and politics. The debt increased by roughly $8 trillion over the last four years. And the new stimulus will add 1.9 of new spending to that. There wasn't a whole lot of hue and cry about the first eight billion. There seems to be a lot of hue and cry about that last 1.9.

I'm not sure, when it all settles, whether that was the tipping point that drove us to inflation or not. My sense is it, it may not be.

Thank you.

COMMITTEE MEMBER MIDDLETON: Thank you. That's helpful. And I think all of us are trying to wrap our heads around what is going to happen next. I will say, as a city council member in a tourism retail dominated community, from your lips to God's I hope.

Thank you.

MR. GLICKMAN: And let's hope she's listening.

COMMITTEE MEMBER MIDDLETON: Yes.

CHAIRPERSON TAYLOR: I will say I need -- I need a vacation and hotel stay. So just saying.

I think that was it on questions. So I guess we're moving on to 8C, CalPERS trust level review from our staff. Dan.

Oh, you know what, I hate to do this, but we're over two hours. We should probably take a ten-minute break. It just dawned on me. So how about we come back at 2:23.

(Off record: 3:11 p.m.)

(Thereupon a recess was taken.)

(On record: 3:24 p.m.)

CHAIRPERSON TAYLOR: We're going to be at 8C trust level review. And Dan, take it away.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Thank you, Madam Chair. And Jared, it looks like you've got Lauren up here with us, so thank you for -- for doing that as well. So this is item 8C, which is the companion item to 8B. This one being done by your Investment team -- the trust level review by your Investment team.

So let's see, can we get the presentation up.

(Thereupon a slide presentation.)

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Thank you.

So as mentioned, this item is one of two semiannual trust level reviews we conduct each year. The goa of this item is to provide the Committee with information about the portfolios and their performance, some of the key business initiatives designed to support and enhance our Investment program, and then some of the market and economic conditions within which we manage the portfolio.

The item has three main parts. I'll start by giving us an overview of the risk positioning and performance of the various trusts. From there, Arnie Phillips will take us through some of the key business and operational dates. And then we'll finish with Lauren Rosborough Watt providing an update on global markets and economic conditions.

So with that, let's dig right in. Can we go to the next slide, please.

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INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So let' start with the positioning of the Public Employees' Retirement Fund, or the PERF. And I would say that there are three main takeaways here. First, the PERF's risk is dominated by assets sensitive to economic and corporate earnings growth. Based on our quantitative modeling, 95 percent of the risk in the PERF comes from this growth exposure. And this is one of the reasons for the thoughtful work that Sterling and his team are doing as we move through the ALM process, to check our appetite for this risk exposure.

The second key theme is that deploying capital at scale into the private assets, while maintaining our high underwriting standard, is a perennial challenge, given our size. Now, this is a challenge that it's critical that we meet, and one we're focused on, given how accretive private assets are to fund returns, but it is a challenge. And currently, this has resulted in the PERF being underweight private equity by about one percent and underweight to real assets by three percent.

And the third main takeaway is that current actionable tracking error for the PERF is 26 basis points. Now, please recall our item in November, when Michael Krimm joined us and walked us through what we mean by actionable tracking error, meaning that deliberate, controllable departures from the benchmark undertaken by staff.

Now, 26 basis points, or roughly one quarter of one percent, is a relatively modest level of active risk, especially when compared to the total active risk of the portfolio of 1.1 percent, and total plan volatility of 11.5 percent.

And this actionable tracking error reflects the impact of active strategies across the public markets and portfolio exposures.

So as requested by the Committee and as a result of the November discussion, we do plan to propose some changes to the Total Fund Investment Policy in June to update the tracking error definition and limit. And these changes will be intended to really to do two main things as requested.

First, to provide a more sensible governance metric for the Committee to use when measuring active risk taken by management, and second, to avoid any disincentives to deploy capital into the private markets that we all believe are so critical in our aim to achieve absolute returns on the assets.

Next slide, please.

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INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So on the next slide, we're looking at the performance of the PERF and most of the Affiliate Funds. As we know from our Investment Beliefs, the returns of the various trusts are driven predominantly by their respective strategic asset allocations. And I would say that in general, performance of the various trusts was roughly in line with expectations, with one main exception, and that being the underperformance of the relative -- relative to the benchmark of the PERF across many time periods.

And that takes us to the next slide, please.

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INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And on this slide, we can see the returns for the various programs and across various time periods for the PERF and to get a sense of what drove the PERF's overall performance. Now, given our nature as a long-term investor, I'll lead with the ten-year number, which now stands at 8.4 percent and is above our seven percent assumed rate of return.

Now, we should bear in mind that this number reflects a strong run up in equity markets toward the end of 2020, but it is encouraging. Now, since this is an annual program review, where we cover calendar year results, I'll move us to the one-year numbers just reminding us to keep in mind that the one-year number we need to keep in context, given our nature as a long-term investor -- or our true nature as a long-term investor.

And in terms of absolute return, during calendar year 2020, the PERF earned a 12.4 percent rate of return. And this return came primarily from the equity asset classes, as expected, given our his analysis that we discussed on the first slide. Public equity returned 13.7 percent and private equity returned 12.5 percent. And the two together were the primary driver of returns.

In addition though, our income assets also had a very strong absolute return, earning 11.7 percent, with particularly strong performance from the treasury segment. And while absolute returns for the PERF were quite strong, excess returns are more challenged candidly, with calendar year returns reflecting underperformance of four basis points relative to the benchmark.

This underperformance for the PERF was driven by relative underperformance in the private markets, offset by positive excess return in the public markets, primarily in the fixed income asset class, which continues to deliver very strong active returns across all time periods.

So that covers the review of risk and performance. And with that, I'll turn it over to Arnie to take us through some business and operational highlights.

Arnie, over to you.

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INTERIM DEPUTY CHIEF INVESTMENT OFFICER PHILLIPS: Thank you, Dan. So today, I'm going to share some reporting enhancements we've done, take some time to go through our operating model, and end with some major accomplishments from the last year and some future initiatives.

So next slide, please.

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INTERIM DEPUTY CHIEF INVESTMENT OFFICER PHILLIPS: So Dan gave a performance overview. And I want to highlight some performance reporting enhancements our Investment Risk and Performance Group, or IRP made to reflect our one team one fund approach, and improve our visibility of investment and financing activities at the total fund level.

The reporting changes are designed to improve transparency and to align with actually how we're managing the assets from a top-down total fund portfolio construction process.

A couple of the highlights I would like to note, first off, and very importantly, the economic exposure of the entire PERF has not changed in this new reporting format. The low liquidity enhanced return, or LLER, is now shown as a distinct total fund program, before the assets and the performance were embedded in both the global fixed income and global equity asset classes. So this will provide a clearer view of what's going on in LLER.

And total fund financing activities are now shown explicitly at the total fund level. This report now aligns with the total fund focus of the Investment Office, reports along the line of how the assets are managed, and is designed to provide greater clarity and transparency on our liquidity and leverage activities.

Next page, please.

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INTERIM DEPUTY CHIEF INVESTMENT OFFICER PHILLIPS:

This slide depicts our operating model. It was originally known for folks that have been around awhile as the targeted operating model. And it's been utilized by the Investment Office since 2011 to identify and manage operational risk.

Our investment controls and operation risk team, or ICOR, manages the process and reports quarterly to the Operating Committee, of which Dan and I are both members. Risks have been allocated to 24 different classifications with a weighted average risk level of four, reflecting a mature operational control framework with a majority of functions that -- and activities on average at the low to medium risk level.

However, the reality is is that we will never perfect any of these classifications but the goal is to constantly improve.

Next page, please.

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INTERIM DEPUTY CHIEF INVESTMENT OFFICER PHILLIPS:

So on this page, we'll go through some of the accomplishments of the past year, and I'll end with some of the things we'll be working on going forward.

So as all of us know, the last year we've been working remotely. And it's actually been a great success and really a testament to the collaboration with many teams in the organization, including the executive team, our HR folks, our information and technology team. And the reality is is the Investment Office could not have gone 100 percent virtual in a matter of days and operated as efficiently as we had, if we had to do it alone. So work from home has been a really big success. And everybody that was a part of it deserves a big thank you.

Our liquidity and leverage effort in the last couple years actually has been an investment focus. And we've spoken in the past about our liquidity dashboard, and it remains a critical component that allows us to effectively manage our liquidity and leverage positions at the total fund level.

The entire office is really focused on and improving in the area of technology and data. It's critical to any investment organization and we are no different. Our trading system's compliance engines, business continuity plans, risk and performance platforms are all intertwined and have benefited from an improved data and technology focus. But this is also an area with large performance improvement opportunities.

Finally, we have focused on the people side of our business with a communication focus on the one team, one fund culture, of course, now being done largely virtually.

Dan and I lead regular webcasts with the Investment Office. We now have a monthly investment newsletter. Dan or I will send out a weekly update email recapping the week's key topics, and we've even been regularly meeting with small groups of call it ten or so folks to just talk about any topic on their mind and to help answer what's going on in the office.

And all of these efforts have been led by our great communications team, led by Don Pontes, Shazia Dawood, Shannon Hoogenbosch, Tara Akkari, and Tiffani Harter. Dan and I just greatly appreciate their efforts to help us improve the communication with our team.

As for the future, well, we talked about it today, but the asset liability management cycle will continue to be a big focus for the next year. Obviously, extremely important work as we strive to meet the seven percent return target.

As it results to that seven percent target, we will continue to improve our capabilities and our ability to deploy dollars in the private assets.

I mentioned it in the accomplishments side, but technology and data strategies are going to remain important to increase our chances of success.

And finally, we will continue to focus on our people. The enterprise engagement survey has given us a lot of helpful information that we are going to use to focus and improve the office going forward. We are launching an informal mentoring program. And finally, we recognize that the development of our people is vitally important to our goals and will be a continuous effort. So we intend to relaunch our education and training advisory committee to focus on development opportunities for our staff.

With that, I'll stop there and hand it over to Lauren for a quick economic update.

INVESTMENT DIRECTOR ROSBOROUGH WATT: Thank you, Arnie. Hello, everyone. So on the next slide --

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INVESTMENT DIRECTOR ROSBOROUGH WATT: -- slide eight, you know, when we come every March, we talk around calendar year 2020, and Tom spoke around the near-term macro situation. So today, I'm going to focus some more on the bigger trends.

So as we all know, 2020 moves in the economy outside. Lets use the U.S. as example. In Q2 2020, the U.S. collapsed 31 percent at an annualized pace after a five percent decline in Q1. But it then bounced back 33 percent in Q3, and then another four percent into Q4. And you can see on the chart there on the left-hand side, the bar charts, the end of year, the December 2020 figures compared to a year prior, we're down 3.5 percent. Now, in fact, the numbers have been revised higher from there. The U.S. economy is a mere 2.4 percent weaker than December 2019.

But in a historical context, the intra-2020 drop in GDP would have been well off the left-hand side of that chart. But because of the speed of the turnaround, the annual return was not significantly outsized.

(Inaudible) been global. But for the vast majority of countries, their economies are within ten percent of pre-pandemic levels within six months. And the IMF estimates that world growth will be around three and half percent weaker at the end of 2020 than at the beginning of the pandemic and those numbers are starting to feed through. Will be published as we speak.

If we look forward, the OECD recently revised up its world expectation partially on the back of the American Rescue Plan. It anticipates global growth to reach pre-pandemic levels now by mid-2021. Now, you'll recall last year, we spoke around expectations -- market expectations for GDP to reach pre-pandemic levels some time at the end of 2021. And that's certainly been pulled forward.

The current macro environment has direct implications for risk. And when I talk about risk, I'm referring to a range of outcomes around an expected returns. And Sterling Gunn today spoke in detail around risk and about returns. So I sort of want to put that into the context of the marco economy and how that sits within a risk framework.

One notable feature of the economic downturn that we saw had been the type of shock we experienced. So the chart there on the right-hand side of slide eight shows the annual size of performance in the U.S. activity and corresponding recessions. Over the past 40 years, recessions have typically been the result of a period of extended growth, an over extension in credit, and then a retraction in demand.

Whereas, this recession was the result of an external shock, culminating in a drop in supply and demand. So not only is this type of recession different, but, as mentioned earlier, the size, the duration, and the speed. So the recession seems unusual or moral volatile. And in a risk framework, that suggests the expected distribution of potential future outcomes may also be wider.

We can see how households view the future by way of the sharp rise in precautionary savings. So in the U.S., the personal savings rate peaked at 33 percent in April 2020. It remains elevated today at 20 percent. And part of that is the inability to go out retail shopping as we -- as the Board spoke around earlier. But nonetheless, base on the levels of unemployment we see in the U.S. economy, precautionary savings still remain relatively elevated.

So in the most basic sense, savings reveals our preference for the today over the future. So when times are good, we prefer current consumption over future consumption. But if we have low transparency over the future about how things may pan out, we save more, so our perception of risk has changed.

Now, of course, policy support, both monetary policy and fiscal policy are an attempt to temporarily counter these risks, all right? And these policy responses are broadly an extension of the type of support undertaken following the 2008 recession, quantitative easing is a prime example of that.

So from a risk perspective, policy support has reduced some of the downsides to economic outcomes and it also mitigated systemic risks to the economy. The issue of temporary nature of policy support implicitly assumes that the relationships between economic indicators are unchanged. We're simply being hit with an unusual shock.

But there is a growing debate and we spoke about this in the last Board meeting about whether the underlying process is indeed known. So if the behavior of the economy is not fully understood, then we may see more events that seem unusual compared to recent history.

So the question then is, and this is an open question, has the pandemic embedded changes and policy responses that began back in 2008, i.e. is the world a different place or will the pandemic be, when we look back, a larger event, but somewhat stand-alone as the global economy transitions back to something close to normal?

And there are other aspects where the policy response is linked to the macro economy and to risk. And once again, these remain open questions. We're posing a lot of questions today. For example, if investors anticipate that central banks will do what it takes, as it were, using this language, will this change investor's behavior towards risk in the future, i.e., so has the price of risk changed or indeed -- or is there now some asymmetry in the distribution of future expected returns.

Central Banks are purchasing assets and are reducing high frequency volatility as a result. Could this mean an increase in future macro economic volatility, i.e. could it increase the probability of bigger booms and bigger busts.

And another question, what might happen to the relationship between asset class returns over time, while the covariants of returns, if one or more asset class has greater support by the Central Bank with fiscal authority. And as I said, these are open questions, you know, the ones investors and ourselves are going to be grappling with in the years ahead.

So as to summarize, you know, 2020 was certainly exceptional in our living history. I have attempted to illustrate today how we think about risk and uncertainty in the context of the macroeconomic environment. And as always, with the macro economy, we don't know -- we don't know the future, but we have an idea of some of the questions that we should be asking. And we do that to ensure the resilience and the performance of the fund to ensure it into the future.

That's my prepared remarks. Back to you, Dan.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Thank you, Lauren. Madam Chair, that concludes our prepared remarks and we're happy to take any questions that you or the Committee may have.

CHAIRPERSON TAYLOR: Thank you, Dan. Those were -- I really appreciate all of those presentations. And I am not seeing -- and correct me if I'm wrong anybody, I'm not seeing any questions.

So it looks like we are --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I see --

CHAIRPERSON TAYLOR: I'm sorry?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I see Henry with a --

CHAIRPERSON TAYLOR: Oh, Henry. Henry.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: (Inaudible.)

CHAIRPERSON TAYLOR: Okay. Well --

COMMITTEE MEMBER JONES: Yeah. Thanks. I could not -- these -- the slide presentation was covering up my chat box. I couldn't hit it, so...

Yeah, I just had a question on the terms of the equity market drawdowns over -- from a historical point of view. And then I was just looking at the financial crisis in 2008, and then the pandemic COVID-19 that we experienced. And the drawdown was significantly less than the 2008 crisis. So my question is was it the -- because of the actions we took after the 2008 crisis that mitigated the drawdown or is it just that the COVID-19 wasn't as bad?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. Thank you for the question, Mr. Jones. And my recollection is it's a little bit of both. But I'm guessing that you're looking at slides 13 in the appendix that shows a smaller pull down.

COMMITTEE MEMBER JONES: Yes.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: The one thing to know is that -- is that those are -- those are monthly numbers. So recall that the pandemic's drawdown really started late February, really drew down to March 23rd and then bounced back up. So what you're seeing there is kind of March 1st to March 30th when we had already recovered a little bit. Whereas --

COMMITTEE MEMBER JONES: Okay.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Whereas, during the financial crisis, it was much more extended and that's why you're seeing it down and stay down, which speaks to the second part of your question, which was, was the response by, you know, the authorities, both fiscal and monetary policy different?

And the answer is, yes, it was much larger and much faster in response to the crisis -- I'm sorry, the pandemic. Now with the crisis, there was a lot of things that were fairly new that were untested. All of those were in place with the pandemic. And so as soon as the pandemic broke out, the authorities, both fiscal and monetary, were able to react in size and quickly.

COMMITTEE MEMBER JONES: Okay. Okay. That answers my question. Thank you, Dan.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Absolutely.

CHAIRPERSON TAYLOR: Great question, Henry.

I do have another question from Controller Yee.

COMMITTEE MEMBER YEE: Thank you, Madam Chair. I just had a question on page -- actually, I think it's page 264 on the iPad, about the global equity portfolio. I just wanted to find out why the factor-weighted portion of the portfolio recovered more slowly than the cap-weighted segment.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Thank you for the question, Madam Controller. You know, and the answer is really it's a -- it's a different construct of the equity market. So recall that the factor weighted -- that the cap weighted is really just kind of a standard harvesting of the equity risk premium. The factor weighted was put in -- into the portfolio to have some characteristics that are different from that cap weighted, one of which is being somewhat more defensive.

So it experienced less drawdown. If my recollection serves, the cap-weighted portfolio was down over 30 percent, whereas factor weighted was only down -- not only, but it was down maybe 25, 26 percent. But then the converse was also the case, that when the cap weighted bounced back as quickly as it did, the factor weighted bounced back more slowly.

COMMITTEE MEMBER YEE: I see. Okay. And then just a question with respect to the staff. Given the limited ability to travel, has that presented any challenges in terms of doing the -- conducting the due diligence on any of our potential investments, particularly in the private assets classes?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: You know, I guess -- I guess I would say -- I would say, you know, yes and no. I have been just incredibly happy with how well the team -- you know, and Arnie spoke to it. The technology team under Christian Farland's leadership, the -- you know the entire organization under Marcie's leadership really pivoted quickly and was able to stay productive. And I have been just really proud and impressed by how the team has been able to just figure out alternate ways to do things.

That said, when it comes to say something like operational due diligence that happens within ICOR on Kevin Hirst's team, it's hard to really kick the tires when you're not present.

COMMITTEE MEMBER YEE: Yeah.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So certainly we're doing it virtually, certainly we definitely believe the risks are controlled, but I think that there will be a balance. And once -- you know, once it's safe and we can travel again, I do think that, you know, speaking to what the Meketa folks and David Glickman said on the, you know, real estate, I do think there will be some pent-up demand for travel and there will -- there will be some business travel that will be needed also.

COMMITTEE MEMBER YEE: Yeah. Thank you.

CHIEF EXECUTIVE OFFICER FROST: And, Dan, don't you think generally we've been cautious of new relationships in this period of time, just because we can't do the appropriate due diligence Under normal circumstances. So, you know, just leveraging our existing relationships over the last year has really been the course.

COMMITTEE MEMBER YEE: That's great.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Agreed. I would say leverage. And, you know, we do -- we are trying to underwrite new relationships knowing that we need them, both in the private debt space and then also in the -- in the private equity space, you know, in terms of, you know, better diversifying the private equity portfolio. But, yes, it's definitely the case that we've really leveraged or relationships to try to do sort of indirect due diligence, go with, you know, highly reputable organizations that we think we have some intelligence on, because it -- that has been probably where the challenge has been presented. And certainly, we think we've controlled the risks, but I do think that we'll probably -- there will probably be a snapback in travel when the time comes.

COMMITTEE MEMBER YEE: Okay. Okay. Appreciate that. Thank you. Just great work from -- by everyone. Thank you.

CHAIRPERSON TAYLOR: Thank you. Thank you, Lauren. Thank you, Arnie.

We're moving on to 8D, proxy voting. I'll hand it to you, Dan. I imagine you're handing it to Anne.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Terrific. Yeah, we actually have, I think -- I don't see Anne yet. If we can get Anne Simpson forward, that would be great. And we have Simiso with us to lead this one. So I -- and I do see that we've got Simiso. Let me get to my notes very quickly.

So yeah, this takes us to Item 8D, which is where we'll give an update on our proxy voting and corporate engagements that happened. As we talked about it earlier, proxy voting and corporate engagements are really a key part of our investment strategy. So with the 2021 proxy season approaching, we wanted to take a moment to both share our priorities for this coming proxy season, but then also share some of our outcomes from the 2020 proxy season.

So with that, I'll turn it over to Simiso to lead us off and we'll take it from there.

Simiso, over to you.

CHAIRPERSON TAYLOR: Thanks, Simiso.

INVESTMENT DIRECTOR NZIMA: Thank you, Dan.

Madam Chair, good afternoon. Members of the Investment Committee, Simiso Nzima, CalPERS staff.

If we could have the presentation up, please.

I'm just waiting -- waiting for the slides to be put on the -- so I can walk you through that. I don't know whether we're having technical issues with that, so...

(Thereupon a slide presentation.)

INVESTMENT DIRECTOR NZIMA: Well, I can proceed without the slides. I'm assuming the Board members you have the -- you have slides on your iPad, so I can -- I can proceed without the slides up on the -- but the -- if you look on slide two --

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INVESTMENT DIRECTOR NZIMA: -- in terms of the looking forward to the 2021 proxy season outlook. Really, the things that are there are things that you have seen before, because really we are still sticking to the five-year sustainable investment strategy plan, which the Investment Committee adopted in August 2016. As you can see, really the four items that I put out there, those are the co-activities that we're actually dealing with and looking at. It doesn't mean those are the only things that we're doing. We actually have a lot of work under this workstream.

But really corporate board diversity and climate action, those two are -- you know, are in our sustainable investments strategy plan. And then executive compensation is something which really is about alignment of interests, which is really, really important to us as an investor. And then investor rights, that's something which gives us the ability to hold boards accountable. And in there I list two things which is proxy access and majority vote for director elections. And those are things that CalPERS has been pushing companies to adopt and even advocating in terms of the regulators and so forth to have those in place, because those are the only ways that give us the ability to hold boards accountable.

If we move on to the next slide, which is the one that looks at the 2020 proxy season outcomes.

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INVESTMENT DIRECTOR NZIMA: So if you look at that slide really -- let me see, I moving my slides as well. If you look at that slide really all we're talking about here is about Board accountability. And this is really important. Again, board accountability forms the foundation of what we do here at CalPERS. When we're investing in these companies, we're investing in companies because we're trying to earn a return. And with that return, we -- because we invest in so many companies, we can't be sitting on those boards at all those companies. We have other people sitting on boards and we have to hold them accountable for that.

So in terms of those items, really starting with enhanced compensation, if you look on compensation, we voted against 51 percent of say-on-pay plans. But these say-on-pay plans again these are advisory votes. They're not -- they are not binding to companies. Even if you vote against them, the company can decide to ignore that. So what we did there is that we actually started voting against compensation committee members. And as you can see, we voted against -- we voted against 3,400 compensation committee members this past proxy season. This again is to hold them accountable for that misalignment between pay and performance.

And we didn't just stop there from voting against the compensation committee members. We then brought to these companies, to the compensation committee chairs, as well as, you know, board chairs, to say wanted to have meetings with them to explain why we voted against them. So we wanted absolute transparency in this issue, while we're holding them accountable.

The second thing is on the -- oh, now we have -- now we have the slides. So on slide three, the improvement on corporate board diversity.

So again, here if you look at the work that we have done, 65 percent of the companies that we engage since 2017 have ended elements of Board diversity that they didn't have. And going back to the issue of accountability, as you can see, we voted against over two hundred and -- two hundred directors where our engagements had not been constructive.

So really the number of votes against directors, as you can see, have been trending downwards. So if you look at 2018, we voted against 468 directors on corporate board diversity. And now the number is more than -- it's just less than half that. So a decrease in this number is a positive thing. It means that companies are actually adding diverse candidates to their boards.

And then on climate change, I just want to spend a moment to talk about this, because this shows the value of engagements, and just to give you the timeline, and we use the case in point in ExxonMobil. And in May 2020 at the AGM we actually voted against members of the Board who sit on the public issues and contributions committee, which is the committee that oversees climate change at ExxonMobil. We voted against them, because they're not disclosing Scope 3 emissions.

And then in August 2021, we actually followed that up by filing a shareholder proposal asking the company that it actually disclose its Scope 3 emissions. So this proposal was supposed to be voted in the company's AGM in May this year. And at the start of this year in January, the company disclosed Scope 3 emissions for the first time ever.

So again, this shows our approach in terms of this work. We engage privately and confidentially. If we don't see any results, we use our investor rights to hold boards accountable by voting against them. And if that doesn't help, we also file a shareholder proposal to get the company to do some of the things that we are asking for.

So I won't go into -- into the appendix. There's a lot of more information in the appendix, including slide 12, which is the last slide, which actually includes the links to our website. Our website has a lot more information than this item and all the things that we're actually doing. So I'll stop here and we'll take any questions.

CHAIRPERSON TAYLOR: Sure. Simiso, thank you very much. Hold on one second. I'm trying to get -- oh, there it is -- all my questions up.

So I -- first of all, thank you very much, Simiso. I had a question on the ExxonMobil withdrawing the shareholder proposal. So they disclosed their Scope 3 emissions. Does that guarantee they're going to continue to do that?

INVESTMENT DIRECTOR NZIMA: They will continue to do the disclosure on an annual basis. And they actually came out with an 8-K filing in December 2020 to say that they would start disclosing that. And this has been an issue -- it was an issue for a long time, which a lot of investors were raising with the company, and the company wasn't willing to disclose those emissions.

CHAIRPERSON TAYLOR: Okay. And what are you looking forward to -- I mean, it looks like we do our proxy voting kind of on the same things. The company amount -- I mean, the amount of proxies we file - I think what was it - on the corporate board diversity is going down. So I kind of -- I'm -- I think that's a really good thing. But at the same time, I feel like that's not enough. And I think I've asked this before, if we could get -- and I know this is a hard one, but if we can get statistics for some of these corporations and their racial makeup. And I know this is difficult, but I think it's important that we do more for the board diversity.

I mean, it can't just be board diversity, right? We also have to be loaning to diverse managers. We have to be making sure those corporations are promoting folks throughout the -- their corporation.

So is there anything -- I know you're talking specifically about proxy voting, but is there anything we do on that?

INVESTMENT DIRECTOR NZIMA: Yeah. There is. I'll let Anne, as Anne has her hand up, I'll let her speak first and then I'll end if there's anything else that I need to be add.

CHAIRPERSON TAYLOR: Okay. Thank you.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you very much for the question, Chair. And thank you, Simiso for the presentation of all this wonderful work that you lead. It's so important.

The Board will recall that we have three channels in our strategy for sustainable investment, one of which is engagement. And that's this tremendous work that Simiso has just presented.

The second is integration. And that's going to -- you're going to hear more about this when Brad and Marlene present to you the diversity, equity, and inclusion framework, which covers our investment strategy for integration.

The third piece, really important, is advocacy. Because at the moment, we simply don't have the data, the corporate reporting that enables us to track what's really going on with diversity and inclusion. And I think you will have seen James Andrus gave testimony two weeks ago to a subcommittee of the House Financial Services Committee on this. And CalPERS is going back on Thursday to give another round of testimony, specifically on the issue of data around diversity and inclusion.

And we've been in this miserable situation of looking at people's names, trying to peer into photographs. There's really not an acceptable way to understand the talent that you have on the board. But we've also been at the forefront through the SEC and also internationally in arguing that we don't just need diversity and inclusion being reported on at the level of the Board, we need this right through the company, and also health and safety, and also working conditions, and also contractual status, because we're not going to get to the inclusion part of this agenda, unless we understand much more about the economic conditions.

You know, companies say that people are our greatest asset. Well, if we're the investors in those companies, then we really need to understand not just the asset that people are in the company, but also understand some of the risks. And COVID has made that brutally clear.

So I think these three channels all supported by partnerships really give us the full scope of the approach. But today, we're focusing on the proxy voting bit, of course.

CHAIRPERSON TAYLOR: I appreciate that, Anne. And I want -- I wanted to also say congratulations to James on his testimony. Great job. I did look at it. And he's going back, so awesome, so we've got more work to do in front of Congress. That's awesome.

INVESTMENT DIRECTOR NZIMA: Well, I was going to -- I was going to add, Madam Chair, if you don't mind --

CHAIRPERSON TAYLOR: Sure.

INVESTMENT DIRECTOR NZIMA: -- that the ease -- this bill was introduced in the Senate called Improving Corporate Governance Through Diversity Act of 2021 by Senator Bob Menendez. And this is actually -- is the seventh bill which actually passed the House in 2019, which got bipartisan support in the House. And it will request -- it will require companies to disclose the racial, you know, gender, ethnic, and racial status of their board members.

So if this bill goes through, then again this will be -- provide a tailwind in terms of getting that data that we're getting -- we're looking for. So it's the same bill that passed the House in 2019. It now is coming from the Senate. And if it passes the Senate, then it will most likely pass the house, because it got bipartisan support.

CHAIRPERSON TAYLOR: That's fantastic. Well, bipart -- and got bipartisan support in the House in '19?

INVESTMENT DIRECTOR NZIMA: It did.

CHAIRPERSON TAYLOR: Oh.

MANAGING INVESTMENT DIRECTOR SIMPSON: And CalPERS has supported this. Just say CalPERS is on the record for the House and the Senate in that arena. Thanks, Simiso.

CHAIRPERSON TAYLOR: Thank you very much, both of you.

Also, I am not sure, Rob, did you want to state what you wrote or did you want to leave it there?

I don't know if he heard me.

COMMITTEE MEMBER FECKNER: I heard you. I don't know if you can hear me or not, but I just wanted to say that I saw Simiso on a panel at the CII conference, a virtual conference this last week and he did a great job representing CalPERS, so I just wanted to put that out there for everyone.

Thank you.

CHAIRPERSON TAYLOR: Great job. Thank you, Simiso.

INVESTMENT DIRECTOR NZIMA: Thank you.

CHAIRPERSON TAYLOR: Stacie.

COMMITTEE MEMBER OLIVARES: Thank you, Madam Chair. Simiso, this is very helpful to hear, and so a great overview. I want to know if we're looking at the correlation of investment of company performance along with board diversity, or C-suite diversity.

I know there's not a lot of data out there. And, Anne, you probably have some answers to this too, but I'm wondering if we're tracking this or what initiatives we're taking right now.

MANAGING INVESTMENT DIRECTOR SIMPSON: I can say something about SIRI 3, Simiso, if that's helpful. So, yes, you're absolutely right, we're caught in a trap. We have an insight and some evidence that human capital management really matters. That's in CalPERS Investment Beliefs. And also specifically the diversity and inclusion are markers for performance, high performance and also low, but we don't have consistent data.

So we did, as part of the sustainable investment research initiative round one, round two review all the evidence that was out there. However, with the focus on racial equity and inclusion coming to the fore, and us having even less by way of information, we've issued a Request for Information to get research proposals in, both on this question, but also an emerging issue in climate change, which is looking at what we can learn from research around the question of capital allocation. And I know that's something you've been interested in.

So we've had about just under 20 proposals in. And Nelson Da Conceicao, who leads our research team in this arena, we're going to sit down to review these and we'll be commissioning a new round of research, because, you know, we've got these broad-brush conclusions about the impact on performance, but we need to -- we need to drill down into what specifically is going to make the difference.

Thank you. I don't know if Simiso wanted to add anything to that.

INVESTMENT DIRECTOR NZIMA: And so there is a growing body of evidence. I mean, MSCI has done some studies. A lot of the studies are around gender, because that's the data that's available. And it does look -- some of this does look both at the C-Suite as well as the Board. And there is correlation. And obviously, you know, correlation is not causation, but that correlation shows that companies are -- which are diverse tend to do better operationally, financially, you know, in terms of risk taking, in terms of investment, and, you know, invest in R&D, and all those respects.

So the data showing the correlation is there. Maybe it's just more focused on, you know, gender, because that's the data that's available. But as we get more disclosure around race and ethnicity, I think that's going to be helpful as well and we'll take that into account.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah. I just wanted to add another thought and it's back to our strategy, which is advocacy, engagement, integration. But the partnerships piece of this work, it's just fundamental. So I think one group that was launched last year, which CalPERS was very honored to be invited to join through our Chief Executive, Marcie Frost, and more recently Fiona Ma was invited as the Treasurer of California, is the Vatican's Council for Inclusive Capitalism.

And I think this idea that inclusion needs to be a fundamental part of our understanding in Finance, this is -- this is groundbreaking. And for this initiative, which is supported by some of the world's most influential chief investment officers and chief executives, really shows that at the highest level this work is coming to the fore.

So I think we're all incredibly proud that CalPERS is part of that work. And having Pope Francis to sprinkle some Holy Water on these ideas can only be a good thing. He's a wonder ambassador for this agenda on a multi-faith basis. And we really see great potential, because that initiative is also working out the framework that we need in terms of not just the data, but the practices and the implementation.

COMMITTEE MEMBER OLIVARES: Great. Thank you, both.

CHAIRPERSON TAYLOR: Thank you, Anne and Simiso. Thank you, Ms. Olivares.

Next question is from Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam Chair. Thank you so much for the report, Simiso. I appreciate it. It's really interesting. I think the data shows that you presented to us over the past three years, the impact of the executive compensation tools that you're using now and how you're analyzing that. And I'm just curious if you've seen executive comp starting to trend differently, in general, since there's been a little bit more disclosure, a little bit more focus and what your thoughts are on that.

INVESTMENT DIRECTOR NZIMA: Thank you for the question. The answer is not yet. And the reason why I'm saying not yet, if you recall that initially, the say-on-pay was themselves really an advisory vote. And when board members don't feel they can be held accountable, they do not necessarily change their actions. And that's why we decided, starting with the 2020 proxy season, to start voting against compensation committee members on this issue, because at that point, then people actually start to take this issue seriously.

And to give you just an example is when we have our normal proxy calls with companies, you know, the off-season proxy calls, we typically have five percent of board members on those calls.

For executive compensation calls, which we've had over 300 meetings with companies. And as the slides points out, there were a 35 percent response rate as of -- as of December, which is over almost 450 companies, for those calls we actually have 50 -- around 50 percent of the meetings, we have a member of the board, either the board chair, or the chair of the compensation committee, or, you know, other members of the compensation committee. And those discussions tend to be, you know, sort of more engaging and straight to the point, as compared to when we're having discussions with investor relations or general counsels who then have to take it to the -- to the board.

So if you're actually talking to someone who's representing your interest on the board, those discussions tend to be different. We expect to see that having an impact and going forward. And speaking of the CII panel, which I was on, this is one of the things that we've been encouraging other investors to say if you're not happy with the pay that is out there, which is not aligned in performance, they should start voting against directors. They should start voting against compensation committee members. That is the only way we can get the chance. That is the only way we can drive results.

So from our discussions, our discussions have been really open and frank. And we're hopeful that we'll start seeing some change, but it tends to be a more market-wide approach. It can't just be CalPERS. We only hold about roughly 50 basis points of every company on average. So we need all other investors to start, you know, voting against directors or this issue.

ACTING COMMITTEE MEMBER PAQUIN: Thank you.

CHAIRPERSON TAYLOR: Thank you, Simiso.

Mr. Miller.

VICE CHAIRPERSON MILLER: Okay. I thought Ms. Middleton was ahead of me there, but --

COMMITTEE MEMBER MIDDLETON: That's okay.

CHAIRPERSON TAYLOR: You have a comment that said -- oh, I see. You were making a comment about Anne at CII. I see. Oh, well, then I will -- if you want, I will go to Ms. Middleton.

VICE CHAIRPERSON MILLER: And then I have a specific comment after her, so...

CHAIRPERSON TAYLOR: Okay. But congratulations, Anne. You did very well at CII. I guess you were the keynote speaker, so thank you very much.

Go ahead, Lisa.

COMMITTEE MEMBER MIDDLETON: All right. Thank you Madam Chair. And first, Simiso, Anne, let me add my congratulations and my deep appreciation for the work that you both have done.

Could you describe what success, if any, we have seen in efforts to increase LGBTQ diversity on corporate boards and in C-suites. And most particularly have we seen any success in obtaining any metrics in this area? Thank you?

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah, I can add something from a couple of years ago, Ms. Middleton, which was a very important piece of research that was presented to the Board, which came from Credit Suisse, if I recall correctly. And what it showed -- their head of research at that point she set out some interesting work, whereby companies that had either C-suite or board members who were openly declaring their gender identity and sexuality and status were associated with outperformance -- financial performance. And one of the explanations of that is that if you create an environment of inclusion, then people feel comfortable in being able to -- you know, not feeling the need to hide who they are.

And so therefore, I think this was actually a really important piece of work. The sensitivity in the discussions that we're having is self-identification is the critical point here, in order to protect people's privacy and to make sure that individuals are in control of what is, you know, understood about their particular status.

With race and gender, likewise, we are supporting this being done on a self-identification basis, because we don't want this turning into some sort of box ticking exercise, which is not in the spirit of inclusion.

But anyway, Simiso, is there -- and, of course, thank you following you specifically raising this with management quite recently. The definition of diversity that we have for our engagement with regulators and also with companies has now been expanded to include sexual orientation and gender identity, which I think is a very important improvement on the language that we had. But, Simiso, would you like to add to that?

INVESTMENT DIRECTOR NZIMA: Yeah. I think you covered it well. And I think the issue is the data availability and the fact that it has to be self -- voluntarily self-identified, in terms of the different aspects, but -- of diversity. But what we've done is -- Anne mentioned is that, you know, we share with companies our definition of diversity, which is broad, which includes all aspects of diversity.

And we are hopeful that more and more people start self-identifying and that voluntary data is available. You know, with the Equilar Diversity Network, for example, we're seeing a lot more partners joining the Equilar Diversity Network, which is what houses our 3D. And it is our hope that as people join, they also self-identify. And even on race and ethnicity, we're actually seeing people not self-identify on those -- on those aspects as well. So it's a challenge to have any of that data available.

COMMITTEE MEMBER MIDDLETON: All right. Again, thank you for your work. If I could add one comment. And I've heard many conversations around this issue of privacy and the need to self-identify. In 2021, if an individual is working in a large organization and believes that they are frightened, or reluctant to self-identify, it is a crimson red flag that that organization is in severe trouble in terms of its commitment to diversity inclusion.

Thank you.

CHAIRPERSON TAYLOR: Thank you, Ms. Middleton. I agree.

Mr. Miller.

VICE CHAIRPERSON MILLER: Yeah. Thank you. Great presentation Simiso and Anne. And I enjoyed the CII conference. And one of the things that I noticed when they did the -- they did kind of a little kind of a round-robin wrap-up of proxy voting stuff from various members and organizations. And one of the things that I heard, I can't remember exactly who it was, mentioned, and it's something I've been very interested in for a long time, was not just looking at, you know, greenhouse gas emissions. And I'm glad to see Exxon has been responsive to our entreaties there, but they were actually looking at engaging on releases of, you know, hazardous and toxic substances, particularly to EJ communities, which to me, in some ways, gets completely lost in the shuffle, when we think about global climate change as being the big target.

But at the same time, the incredible amount of toxic and other hazardous pollution that's going into our planet is and has been a problem for, you know, since way before Love Canal. And so I was -- I found that interesting. It's one of the first times I've ever heard an institution mention that they had that focus, which has been a huge focus for the environmental communities and government here in the U.S, particularly in California, but also in some of the European countries. And it is a huge problem in much of the developed and developing world, particularly China and some other countries.

So I just wanted to make that comment. And it's -- there's more to pollution than greenhouse gas emissions.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yeah. Maybe I could -- thank you, Mr. Miller, for the kind words and also for this important observation. When the first science was really mapped out around this concept of planetary boundaries, this was the idea there actually are physical limits to what the planet can cope with. And greenhouse gases are just one of the nine. You know, there's nitrogen runoff, there's plastic -- single plastic use waste, antibiotics, hormones. So this whole question of sustainability certainly has a much broader range, as you rightly say.

The focus on the greenhouse gases is because this is something we can't postpone. There's a time limit to the warming, which can then trigger all these other impacts. So I think when we were developing our strategic plan five years ago, it was like we have to focus on something which is time bound, where we need results. And I think the work Simiso is talking about is Climate Action 100+ shows we're making progress.

But one of the questions we've been asked by other groups is could we use a Climate Action 100+ model to tackle other issues on these planetary boundaries, like single use plastic, nitrogen and so forth? And the answer is yes. And, you know, please, you know, other investors who've got insight into this have got an opportunity to move on it. And we will be -- we will be supportive, because we pick these issues up in CalPERS principles in some detail.

The other thing I wanted to mention is that in terms of guessing this integrated approach on environmental and financial issues, we've developed -- we spent nearly two years doing it, but we've developed and just launched the benchmark for tracking companies progress in response to Climate Action 100+. There are ten elements, which include financial measures like CapEx, but also the various other measures that need to be taken on the financial front, as well as operational, and as well as having a placeholder for this concept of the "just transition", which is where our diversity and inclusion work are in capital markets -- sorry, human capital management work really connects with our environmental work.

So I think that benchmark is a good example of how you can, in an organized, approach these sorts of issues, but you're absolutely right to flag them.

VICE CHAIRPERSON MILLER: Yeah. I very much appreciate that. And one of the things, as, you know, 30 plus years in environmental regulation, we've kind of learned is that companies that are not doing well on -- in terms of compliance, even public record stuff, on water pollution are also screwing up on air pollution, they're also screwing up on hazardous waste, vice versa. If you come into it from the worker safety side, you also then look around and start finding environmental safety issues and violations of hazardous waste law, et cetera. And you look a little further and you'll start seeing they're not doing their disclosures. They're not -- they're all kind of indicators of a corporate culture that leads to performance issues, that leads to impacts on risk, and risk for investors as well.

So it's -- as you say, it's all integrated. It's all linked. It's just what thread do you start pulling on to get to it? I think I'm encouraged in the longer run that we'll have more avenues, because the companies that are not doing well with integrity, whether it be on the environmental regulatory side, or pollution, or greenhouse gas, or worker safety, or financial reporting, it's all out of the same less than optimal corporate culture that allows those kind of things to go on.

And even as far as just not having real strong pollution prevention programs, you also find that they often also don't have real good process improvements or organizational improvement, and they're creating more waste than they need to, and they're not as efficient in their manufacturing. So it's all connected and I'm glad we're seeing more of a holistic approach to the whole subject.

CHAIRPERSON TAYLOR: Thank you, David.

It looks like, Simiso, I think we're done here. I don't think I have any other questions. Anne, Simiso, thank you so much for your presentation, as usual. It was amazing.

Our next -- we're moving on to our next item, which is an action item, our five-year divestment review. That's 9A. And I'm throwing it back to you, Dan.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Thank you, Madam Chair. Yes, and definitely thanks to Simiso and to Anne for the update, and really also thanks to Simiso and his team for all of the progress -- I mean, all of the progress around Climate Action 100+, corporate board diversity, executive compensation. That's the result of hundreds, and hundreds and hundreds of phone calls and meetings with both peers and portfolio companies. So, you know, we see the results quickly. It comes from a whole lot of work. So really great work by the team.

And we know that these are critical efforts in support of our mission of managing the investment portfolio in an efficient and risk-aware manner to generate returns to sustainably pay benefits.

So, as you say, with that, we find ourselves at our last agenda item of the day. And this is an action item on our every five-year review of CalPERS divestments. I saw that Christina Gogan was brought forward. If we can make sure that Anne stays forward. And then can we also please bring Nelson Da Conceicao, Daniel Ingram, and Steve Foresti from Wilshire to have available for questions.

And with that, Christine, I will turn it over to you to take us through the item.

(Thereupon a slide presentation.)

INVESTMENT DIRECTOR GOGAN: Very good. Good afternoon, ladies and gentlemen of the Investment Committee. Christine Gogan, CalPERS Investment Office.

I'm here today to present the five-year review of the active divestments called for in the Total Fund Investment Policy. You'll recall in November 2020, Wilshire presented their annual review of divestments. The five-year review that I will be presenting is the work product of a multi-disciplinary team, including the efforts of the Investment Controls and Operational Risk Team, the Research and Strategy Group, the Corporate Governance team, the Board Governance and Sustainability Group, the Legal Office, and the Board's consultant, Wilshire.

Team members, as Dan mentioned, from each of these groups will be available to address questions the Committee may have at the conclusion of this presentation.

So if we could flip the page two of the presentation.

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INVESTMENT DIRECTOR GOGAN: There you go. Thank you very much.

The Total Fund Investment Policy requires that at least once every five years, CalPERS presents a review of the active divestments, including an economic analysis of the risks and return impacts on the portfolio, and present this analysis to the Committee for determination as to whether continuation of the divestments is consistent with fiduciary duties.

If we could now move to page three.

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INVESTMENT DIRECTOR GOGAN: Thank you.

Page three presents the five active divestment mandates and groups them according to whether they are Board-directed mandates or legislatively-directed mandates. I wanted to briefly describe each of the five active divestment mandates before we turn to the economic analysis.

So first, the two Board divestment mandates are tobacco, which has been in effect since the first quarter of 2001 and applies to companies whose primary business includes the production and sale of cigarettes.

Second, firearms, which has been in effect since the second quarter of 2013, applies to assault style weapons that are illegal for sale to private persons in this State of California.

Next, I'd like to describe each of the three legislative divestment mandates. First, the Sudan Act, which has been in effect since the third quarter of 2010, applies to statutorily specified active business operations in Sudan that include oil-related activities, or energy, or power-related operations, or contracts with another company with business operations in the oil, energy, and power sectors of Sudan.

The second legislative divestment mandate is the Iran Act, which has been in effect since the third quarter of 2011 and applies to statutorily specified investments in the energy sector in Iran, including companies that provide oil, or liquefied natural gas tankers, or products used to construct or maintain pipelines used to transport oil or liquefied natural gas.

And the fifth investment mandate is thermal coal, which has been in effect since the third quarter of 2017, which prohibits CalPERS from investing in public equity or debt securities of publicly-traded companies that generate more than 50 percent of their revenue from the mining of thermal coal.

In connection with our ongoing monitoring, CalPERS has continued to engage companies regarding their plans to bring revenues from the mining of thermal coal below 50 percent. In fact, in October of 2020, three companies were identified whose share of revenue from mining thermal coal was above 50 percent, and the three companies engaged with our corporate governance team to discuss transition plans to reduce coal revenues and told the plans continue to remain in development.

Our corporate team -- our Corporate Governance team, excuse me, has reported to the Board that we continue to assess progress with these three companies and will report back later in 2021 regarding next steps. If we could now please turn to page four of the PowerPoint deck.

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INVESTMENT DIRECTOR GOGAN: Thank you.

So for the economic analysis summary, there's a lot of information on the page. So we have provided information regarding the relative size of each of the five divestments, as well as the return impacts over both one year, as well as inception to date with risk impacts measured by realized tracking error and predicted tracking error.

Since each of the divestments relative inception date, all divestments of, other than tobacco, have generated positive returns with small relative impacts on total fund risk. To better understand the economic analysis we have presented in this table, I would like to walk you through the first divestment presented in the table to explain each of the columns presented.

So first, on the far left, we present the dollar exposure of each investment. For tobacco, the divestment has resulted in $1.125 billion of divested holdings, which translates to 0.524 percent of the global equity exposure as of November 2020.

The next columns present both the annual and inception-to-date return impacts of each of the five divestments as computed by Wilshire Associates. For tobacco, the column labeled since last affirmation is the one-year number and the result of the tobacco divestment is a positive return impact over the one-year period of 856 million, whereas the inception-to-date divestment number, which for tobacco again extends back to 2001, is a loss of approximately $3.6 billion.

Turning next to the risk measures, we are showing two risk measures, predicted and realized tracking error relative to a cap-weighted benchmark. Of the five divestments shown in this table, tobacco, with a predicted tracking error of 0.063 and a realized tracking error of

0.165 percent over a ten-year period, has the largest tracking error and therefore the greatest risk impact of the five divestments shown in the table.

Finally, the last column on the table displays the information ratio. The information ratio for tobacco of 0.72 percent, reflects that over the five-year period shown, the tobacco-divested portfolio outperformed a portfolio that included tobacco.

So if we could please turn to the page, page five.

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INVESTMENT DIRECTOR GOGAN: I wanted to call attention to the fact that we are not reviewing the Emerging Markets Equity Principles as a divestment, because CalPERS public equity benchmark is screened to remove companies that have been linked to grievous human rights, environmental, or social welfare violations.

Specifically, our Corporate Governance team evaluated the ESG risk screen and determined that it is consistent with the action taken by the Investment Committee in 2015 and achieves the full integration of the Emerging Markets Equity Principles into the CalPERS Total Fund Investment Policy by using this risk screen to manage the portfolio.

If we could please turn to page six.

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INVESTMENT DIRECTOR GOGAN: In conclusion, the staff has reviewed the economic impact of the five active divestments and is seeking the Investment Committee's direction to either remove some or all Board-directed divestment restrictions or affirm continuation of the divestments as both actions are consistent with the Committee's fiduciary obligations.

I really thank you for your attention. And with that, we are ready for any questions you may have.

COMMITTEE MEMBER FECKNER: You're muted, Theresa.

CHAIRPERSON TAYLOR: Sorry about that. I have Mr. Perez has a question.

COMMITTEE MEMBER PEREZ: Thank you. You -- on the Board Books, we get to see page nine of 16, but you didn't speak to it. Can you address slide nine of 16, please.

INVESTMENT DIRECTOR GOGAN: I would like to ask that Nelson Da Conceicao speak to that. He prepared a lot of the analysis on this and it would be best to hear from him.

INVESTMENT MANAGER DA CONCEICAO: Good afternoon. Can you hear me?

COMMITTEE MEMBER PEREZ: Yes.

INVESTMENT MANAGER DA CONCEICAO: Can you hear me, sorry?

COMMITTEE MEMBER PEREZ: Yes.

INVESTMENT MANAGER DA CONCEICAO: Excellent. Thank you. Good afternoon, Mr. Perez and Chair and members of the Committee. I'd be happy to guide you through this slide.

It might actually be useful to just remind you on slide eight very quickly that what we perform, what the team was asked -- what my team was asked to perform in this con -- in the context of this item was to deliver a robust research-based five-year forward financial assessment of each Divestment Policy. That is really assessing the investment's relative benefit of investing $1 in each of the divestment baskets versus investing $1 in a portfolio of diversified equities or benchmark.

We did that. We achieved that robustness by employing a multi-lanes approach, five different shared evaluation techniques, not fully independent, but largely different, that are likely to produce different shaded outcomes, and would allow us to produce again several angles to the question of, you know, what is the benefit of divesting or investing in those baskets.

So with that, what we also did is because the work was highly numerical, we didn't want to overwhelm you with numbers. What we did is that we summarized the findings in this stable, page nine, really focusing on directionality and materiality. And by directionality, what I meant here is we have pluses, and minuses, and some neutrals. The pluses here really are to be interpreted as reinvesting, or inversing, the divestment into this basket -- let's say tobacco -- reinvesting in tobacco is assessed to have a positive impact relative to the benchmark, based on the analysis we have performed, which is purely financially based, purely based on those different models that we employed. Again, those are models.

With that, so if it's negative, the contrary would apply is that reinvesting in those baskets would detract or is expected to detract, based on the metrics we use, the models we use, or keeping divestments would be expected to benefit versus a benchmark -- a dollar of benchmark.

What we have here, those different methods that was just highlighted very quickly, is that they're really capturing very different angles, again as I mentioned. The one that I would guide you through these different models, they're not all providing the same insight. The one that I would focus on first is that EVA analysis, is that the EVA analysis really is about assessing two dimensions that I would say are, you know, defined as structural, benefit, or viability of a business.

It's really about two questions. Is this company -- is this company earning its cost of capital? And is this company or is the management of this company having a track record or have a track record to allocate capital that is shareholder friendly, i.e. increasing or able to grow assets when the business is earning its cost of capital and above or shrinking the business when it's not? So this is something I'd say that we'd start with which is structural.

Positive means the company is generally profitable, the business model is generally viable, until something major changes, and the management company is doing a good job at managing capital.

With that, then you look at the sides of those -- of those -- of that central column. And on the left side, you have two types of models, the factor analysis and the total return decompositions, which are trying to really reach the -- to a similar type of outcome with different angles. It's really about decomposing the drivers or equity returns.

The factor analysis if fairly quantitative looking at risk premia. We understand or -- we understand drivers of risk relative to benchmarks. And those are industry exposures, country exposures, FX styles, that's really important, value growth.

And then we also have a understanding -- a quantified understanding of the past behavior of those factors. So assessing what those -- these portfolios are versus the benchmark, understanding or realizing what those behaviors would have been over the last 30 years, then we can make an assessment of the potential benefit.

And, for example, tobacco here, in this case, has a plus there. It is mostly driven by its current large exposure to value, which over time has said to revert back to the mean. And here it would be expected to perform or to add value compared to performance versus the benchmark.

The same thing for dividend yields. It is a characteristic of tobacco. Tobacco companies are -- do deliver a high total shareholder yield, really a dividend yield to shareholders.

On the opposite --

COMMITTEE MEMBER PEREZ: Thank you.

INVESTMENT MANAGER DA CONCEICAO: On the right -- okay.

COMMITTEE MEMBER PEREZ: Is Forest on?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes, he is, Jason. I saw him.

MR. FORESTI: I am on.

COMMITTEE MEMBER PEREZ: Thank you, Dan. Steve, in your opinion letter, there was two criteria that you thought was pretty appropriate. And I can't -- I can't seem to find it in my Board Books. Can you refresh our memory?

MR. FORESTI: Sure, I'd be happy to. And I'm also joined by my colleague, Daniel Ingram, who penned that letter. But the way we laid it out, and to your question, Mr. Perez, is the two paths that we see that are, you know, potential rationales or drivers of divestment, one would be a, you know, mission-based or, you know, think about there -- a health care organization looking at tobacco, or a religious organization looking at could be contraception, could be other things that are just misaligned with their missions. So that was one very clear path to divestment.

The other path to potential divestment that we noted in the letter was an investment-based rationale. And that would fall, and this is where we continued in the letter to try to lay out a process, which is to consider the potential return impacts of, in this case, moving from a divestment program back into these segments of the market, consider the cost of those trading activities to, in this case, again get reinvested, and then the risk, which is the unknown around the return. And we'd argue a little bit less unknown around the cost. Cost is something we've got a pretty good vision on.

So to answer your question, we laid it out across mission-based versus an investment-based potential rationale for divestment.

COMMITTEE MEMBER PEREZ: Thanks, Steve.

And I don't know if Marcie, Theresa, or even Dan, if -- when this -- back in 2001, when we started tobacco and then whenever we started firearms, I mean, obviously this was mission based, right?

CHAIRPERSON TAYLOR: No, it was not. And that was at the time all those lawsuits were going on Jason, so it was actually investment based, as I recall. Dan, you were there, I think, right.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. So I -- so I was not here in 2001. I joined in 2004. So I was not here in 2001 with the tobacco. My understanding is that it was around concern around the, you know, potential lawsuits around, you know, tobacco and the like. In the case of the firearms, yes, it was right in the aftermath of I believe it was Sandy Hook, and the concern was around potential litigation there as well.

COMMITTEE MEMBER PEREZ: That sounds an awful like -- an awful lot like mission based, potential -- okay. I'll leave that one be.

And I know -- I saw a note from Mr. Fox saying that there's speakers in the queue, so I'll try not to take too much more time.

CHAIRPERSON TAYLOR: Thank you, Jason.

COMMITTEE MEMBER PEREZ: Hold on. I'm not done.

CHAIRPERSON TAYLOR: Oh, you're not done.

COMMITTEE MEMBER PEREZ: Too much more time, yeah.

In -- the last time in November we spoke, you heard from -- I'm speaking to the Board at large now. Last time we talked about this, you heard from the Association of Highway Patrolmen, you heard from the League of California Cities, you heard from California Professional Firefighters, you heard from the California Special Districts Association, all encouraging you to do what we can about making the returns, as opposed to -- and I'm not putting words in their. You can read it through the letters, but encouraging them to let us make investment decisions.

And, you know, in my point of view, replace tobacco and firearms, and put blue widgets and white widgets. I don't care what they are. I think that the important part of this is that we let the Investment Office determine what they want to invest in or not.

And then I'll ask Dan one more time. I've asked him every time we talked about this, but I'll ask him again today. Dan, all things being equal, do you want us to put restrictions on the Investment Office or do you guys want to be able to do what you're paid to do.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. No, it's a great question, Mr. Perez, and I appreciate the question. Certainly, all things being equal, fewer constraints are better than more constraints, and, you know, as it says in our policy, we prefer engagement to divestments. You know, our portfolio is 97 percent indexed in the equity side, so we definitely believe in markets being fairly efficient. So absent a strong rationale for divestment, we prefer -- we prefer, you know, broader degrees of freedom.

That said with this, I do think when balancing risks, I do think a reasonable investor -- and I think -- and I know we've got Ashley Dunning on the line as fiduciary counsel. I do think it, you know, a reasonable investor can come to either place, especially when considering some of the certain costs that are associated with reinvesting. But specifically to your question, Mr. Perez, unequivocally, fewer constraints are better than more.

COMMITTEE MEMBER PEREZ: Thank you, Dan.

And as we wrestle with the items in the first half of the day about the ALM cycle, and, you know, talking about the discount rate, why would we, as a Board, want to handcuff our Investment Office for being that -- the studs that they are to go out there and make the returns that they need to make.

So I -- I will motion that we lift the restrictions on the divestments.

CHAIRPERSON TAYLOR: We are not taking a motion yet. Hold off on that, because I've got three more speak -- questions from the Board -- four more, and then we have comment --

COMMITTEE MEMBER PEREZ: I'm pretty sure you can acknowledge that motion.

CHAIRPERSON TAYLOR: I said hold off on that. Hold on to it, and then make the motion when we're ready to make the motion, okay?

I had a question on the thermal coal, and maybe I should have asked it earlier, there's -- we had a mandate from the Legislature to divest from thermal coal. We divested from many of the companies. Three of them we had engaged with and they were agreeing to our -- the legislation basically. Do you have an update on where those three companies are in terms of thermal coal, and reaching the below 50 percent, and redoing their business model?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Certainly, Madam Chair. This is something that we've spent a good bit of time on. So maybe I'll ask Anne Simpson to please take the lead on that question.

MANAGING INVESTMENT DIRECTOR SIMPSON: No. Thank you very much for the question, Chair. You'll all recall that we did a thorough analysis of the portfolio and identified, I think, almost two dozen companies that met the test, the threshold of 50 percent of revenues from coal. Then in line with our Board's policy, we reached out to engage those companies, because that legislation, of course, calls for the overarching fiduciary duty of the Board to be respected.

Three of the companies on the list essentially said we know we have to make this transition, but our future prosperity depends upon getting aligned with the transition to low carbon. And we felt that it was -- it was important that these companies were given a period of time to then respond, because transitioning a big company is complex and it takes time.

So what we did last October was contact those three companies for a progress report, so that we could see what measures have been taken. And you can see some of this information on their website, the sort of climate risk reporting that they're doing and so forth. Those responses are being reviewed at the moment. And there will be a recommendation from the Investment team once that's complete.

But that review of those responses is in hand.

Does that answer your question, Madam Chair?

CHAIRPERSON TAYLOR: Yes. Yes.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

CHAIRPERSON TAYLOR: I was curious about that.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

CHAIRPERSON TAYLOR: I think our next person to have a question is Ms. Middleton. Oh, one more thing. I'm sorry, Lisa. I just wanted to know, as we're talking about the cost of this, right, yes, it makes sense from what Jason is saying to just dive right back in, except that we've already lost the money that we were talking about from before. It looks like there's a high cost to getting back into some of this.

And my -- I think you said something earlier, Dan, about how we -- oh, no, it wasn't you. Maybe it was Christine, about how we have decided to get out of -- based on the ESG Strategy, that we are not getting into companies that, you know, are labor unfriendly, or however she put it. So that was the second part of my question, which was we're kind of already in a -- what you would call a -- I don't know what you'd call it, specialized fund, because we -- we have this -- these criteria already, based on our ESG strategy.

Then my second question is about the cost of getting back into these companies. Is it worth it for us to get back into these companies based on the transaction costs and the risk costs?

COMMITTEE MEMBER PEREZ: Theresa, before you continue, I just wanted to clarify. I didn't say that we should get back in. I am just saying that we should lift the restrictions and let the Investment Office make that decision.

CHAIRPERSON TAYLOR: Great.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So, Ms. Taylor, let me take a first shot at your question. So first of all, I hope we didn't give the characterization that we have -- that we have big portfolio tilts around ESG in the portfolio, because certainly ESG is one of many things that we take into consideration. I mean, you know, Anne spoke about integration being one of our key tenets in our ESG strategy, and it is. Basically, we're talking about integrating ESG considerations in every investment decision we make. That's whether it's in private markets or public markets, equity markets or income markets. ESG is one of the -- is one of the considerations we unequivocally take into account when we make our decision.

As far as --

CHAIRPERSON TAYLOR: Right. I think we were discussing about human rights violations, that kind of thing, that was mentioned. It was earlier in this 9A. And I thought it was Christine that talked about it. But it was human rights violations, we don't -- if there are companies that are overtly human rights violators, et cetera.

COMMITTEE MEMBER PEREZ: It was the emerging managers issues.

CHAIRPERSON TAYLOR: Oh, yeah, that's right.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. The Emerging Markets Principles. Yes, and those principles definitely still hold and they're definitely part of our -- you know, part of our index construction methodology for sure.

With respect to the costs, it is -- it is a good question. There is a cost to reinvest. Unfortunately, we don't have a crystal ball and we don't know how all of these stocks are going to perform on a go-forward basis. Certainly, the models that -- you know, that Nelson referenced are models that we think may have some efficacy.

But, you know, candidly given, you know, what I said about markets being fairly efficient, if we had a model that we -- that we knew would outperform, we would just always outperform. And it doesn't work that way. That's not investment management. Unfortunately, that's one of the challenges.

So I do think the costs are certain. I do think that absent other considerations, to Mr. Perez's point, we would say fewer constraints are better than more. And this is where we kind of come to a balanced place. I think a reasonable -- you know, a reasonable decision could be made in either way, and that's one of the reasons why you -- why you don't see a strong recommendation from your Investment team.

CHAIRPERSON TAYLOR: Thank you.

Ms. Middleton go ahead.

COMMITTEE MEMBER MIDDLETON: Thank you, Madam Chair. And one of my questions was going to be with relation to the three coal companies. And so let me just very quickly on that point, and I do have two others, be specific with a question. And I guess this goes to Anne. At this point, the three coal companies that are -- you are looking at and engaging with are all above the 50 percent threshold.

They, as I understand it, are developing plans that you're working with them to get under that 50 percent threshold. Is it accurate to say that staff, at this time, has not concluded that they will be unable to succeed at getting under 50 percent?

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you for the question, Ms. Middleton. As I mentioned, we did our scheduled check-in with the companies in October. And a previous report to the Board, we said that these three companies would be coming back this year with a view. I don't want to jump ahead of the review that's ongoing, but the test will be a simple one, which is if these companies have a credible plan and they're making progress towards that 50 percent, then we'd consider that to be in the spirit and the letter of the law, as it was drafted.

If having had this time to develop plans, we can't come to the view that there is a credible transition plan where progress is being made, then, you know, consideration of the -- of that statute will be brought to bear.

But I just don't want to get ahead of -- you know, processes is our friend. Being able to stand back and do the analysis, and when we come forward with our report for the board, you can then hang your hat on that and say, they looked at this carefully. They give the companies the chance to respond. They made a reasonable recommendation.

So I'm sorry that we're not -- we're not quite complete. But two of the companies out of the three, did respond in -- you know, in some detail in October, so we have got an amount of material to go through.

Thank you.

COMMITTEE MEMBER MIDDLETON: I do appreciate the answer and I appreciate --

(Laughter.)

COMMITTEE MEMBER MIDDLETON: -- going through that any process has a timeline.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER MIDDLETON: And you'll be following that timeline.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER MIDDLETON: So thank you on that one.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes, thank you.

COMMITTEE MEMBER MIDDLETON: Second question that I have is going back to page three of our agenda where we've got the five industries that we have had divestment on. And with reference to number three, Sudan, and number four, Iran, am I accurate that in addition to California legislative restrictions, there are also federal restrictions that apply to investments in Sudan and Iran.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Thank you, Ms. --

INVESTMENT DIRECTOR GOGAN: That's my understanding as well, Ms. Middleton.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Ms. Middleton, I think -- I think these exist at two levels. So there's what -- we can all ready OFAC, which is a list published by the federal government that says U.S. investors can't invest in certain companies.

These are -- you know, that knocks them out of our entire universe as a U.S. based investor for. However then, after that screen, there are also still some companies that are -- that do business with Iran and Sudan, and that's what this bill was intended to go at.

COMMITTEE MEMBER MIDDLETON: So I think it would be appropriate, where there is federal restriction, to make note of that on our list. There are -- there's a range of opinions on divestment. There's also a range of opinion as to how much divestment we have. And depending on who I'm talking to, I sometimes come away with a conclusion that they believe that either the Legislature or the Board has restricted the Investment Office from investing in almost anything. So I'd like to get some clarity.

And my last question is going to follow up on that theme. Do we maintain any type of list of all of the various industries that we have been strongly requested to divest from, and have not made that divestment decision?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I think Anne maybe best to -- between her history here and also the --

(Laughter.)

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: -- fact that her office tends to field these first, maybe, Anne, can you take a stab at that one?

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes. Thank you for the question. I think that when there is a challenge that's brought to us by stakeholders or by legislators, usually, there's something very, very serious at the heart of the divestment proposal, I mean, a really serious issue.

And in my time here, I've seen divestment on a range of different countries, measures which conflict with each other regarding country exclusions. I remember Israel, Iran, Iraq, Turkey all being in the mix. It was the Levant, the Middle East was the focus of attention.

I think that the approach that CalPERS over the years has taken is understanding that if you see potential for improvement and you see a role as an owner of the assets for being part of that, your best course of action is engagement. And, of course, that's why we've focused on climate change in taking the very biggest emitters, the systemically important emitters, the toughest ones -- we're not reaching for the low-hanging fruit here -- and we have got a multi-year engagement. And we've teamed up with the 50 trillion other -- you know, others, $50 trillion in assets, which have come together on that.

I think when an industry is in secular decline, for example, you know, the trend is on coal, or there are trends on litigation, and legislation, and lifestyle, for example, health costs around tobacco, predicting these long-term trends is difficult.

And finding a way for companies to restore themselves to prosperity and, you know, find new businesses. It's not an uneasy thing at all.

So I think to sum up, I think we always have a very sympathetic hearing, for those who come to us calling for divestment, because we understand something serious is driving this, but I would say there are rare situations where simply avoiding an industry or avoiding a situation the going to change it.

But I think the bigger question for our Board is we are a universal owner. We have such long-term liabilities, isn't considering risk isn't something that can be done quarter to quarter or even year to year. And I do remember the last time the Board was looking at the tobacco question, some of the medical projections about the use of tobacco over generations, I mean, over decades ahead. We're part of what fed into the Board's discussion at the time.

So I do appreciate the question about the Board's role and management role, but this seems to me to be absolutely the Board's role, which is setting risk tolerance, focusing on strategy, and absolutely focusing on the very long term.

And then within that, our job as management is to go off and get the job done and meet those investment returns, as Dan was saying.

Thank you.

COMMITTEE MEMBER MIDDLETON: I appreciate that. And I think I concur with everything you've said. I'm just simply asking that we be able to document clearly where we have chosen engagement over divestment, so that from information standpoint we're in a much better position to have that conversation with our stakeholders.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you. Dan, I think we'll take that as a follow-up point perhaps.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I was -- I was writing --

MANAGING INVESTMENT DIRECTOR SIMPSON: I apologize if I wasn't clear enough. Thank you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes, I was writing that down, Ms. Taylor. Unless you disagree, we'll take that -- we'll take that as direction.

CHAIRPERSON TAYLOR: I agree. I think it's a great idea, because it is important that they -- that our stakeholders understand. And honestly, when you look at what we've actually divested from that's not legislatively mandated, it's two things, so it's --

(Laughter.)

CHAIRPERSON TAYLOR: So, yeah. And I don't think a tobacco company has a -- it's hard to engage with a tobacco company. I don't think they can change their business model.

I need to move on. And you are done, Ms. Middleton, correct?

COMMITTEE MEMBER MIDDLETON: (Nods head.)

CHAIRPERSON TAYLOR: Okay. Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Ms. Taylor. I had two questions. Ms. Simpson, you mentioned there's some analysis underway for the coal companies -- the three coal companies, but you didn't -- I know it's taking time and process is our friend. I like that. But what is the timetable roughly before the report comes to the Board or the analysis comes to the Board?

MANAGING INVESTMENT DIRECTOR SIMPSON: I am personally not doing the calculations, but I know who is. So Dan, can I ping this back to you?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yeah. Yeah, maybe I'll jump in here.

MANAGING INVESTMENT DIRECTOR SIMPSON: It's in --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Mr. Rubalcava, we're -- it's happening on Simiso's team whom you just heard from, of course, in the last item. I think it's probably reasonable to say that it happens -- I'll underpromise and overdeliver. Why don't we say this calendar year, but we'll shoot for it and significantly sooner than that, if that -- if that meets your timetable.

COMMITTEE MEMBER RUBALCAVA: Thank you. I just needed a sense of time frame that's -- on that. Thank you.

The other question just follow up on the Chair's comments about reinvestment transition costs. I noticed that the Wilshire letter does state that -- that these are meaningful numbers, meaning the cost of reinvesting. And I was hoping somebody could review -- explain to us -- there's a chart on page 15 reinvestment transaction costs. What these numbers mean and how they were developed please. Thank you.

CHAIRPERSON TAYLOR: Dan, do you know who that would be?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yeah. Sorry. Can you hear me?

COMMITTEE MEMBER RUBALCAVA: Yes.

CHAIRPERSON TAYLOR: Yes.

Uh-oh. You went away for a minute. And your phone is off.

You're off, Dan. I don't -- it looks like -- oh, almost.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Can you hear me now?

CHAIRPERSON TAYLOR: Yes.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Okay. Good. Yeah, my Zoom was freezing on me and then jumping all over the place, not responding.

Okay. So those basically come from what we call a transaction cost model. So we have a series of models that we can use across the asset classes that allow us to estimate what things will cost to trade. So what those models do is they look at, you know, the bid-offer spread of stocks. They look at kind of what historical amount of liquidity a certain stock has. We compare that to how much stock we would be looking to trade. And then what it does is it basically uses some quantitative metrics to interpret -- to come to some expected costs.

It is based on a model. So we know that it will differ from the model, but they've proven to be fairly accurate historically. By accurate, I mean indicatively accurate in terms of direction in orders of magnitude.

COMMITTEE MEMBER RUBALCAVA: But can you explain what they represent? Does that mean there's a trading cost that goes to -- is that an internal cost? Is that something that you pay to the market? I mean, I'm just trying to understand what they -- what they represent. What those -- there's a range, for example, for tobacco. What does low --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Right. So what --

COMMITTEE MEMBER RUBALCAVA: I mean why --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yeah.

COMMITTEE MEMBER RUBALCAVA: -- is there just a range and what does it represent exactly? A bit more -- just simpler.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Okay. Sorry there are two main things that that represents, is that, first of all, if we were buying back into tobacco, we would be expecting to general be demanding liquidity and be buying at the offered side, right? So just the way that if you were, you know, buying a house, you would expect to kind of, you know, pay the asker -- the seller's asking price for the house. We would expect to pay some cost by going to the -- to who's willing to sell it. Secondly, there's commissions in there.

COMMITTEE MEMBER RUBALCAVA: Okay.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And then thirdly, there are probably -- given that in some countries, specifically the UK, there's a stamp pack. There's probably -- there's some tax there also.

COMMITTEE MEMBER RUBALCAVA: Okay. Thank you.

CHAIRPERSON TAYLOR: All right. Thank you, Mr. Rubalcava.

Ms. Brown, you're up next.

COMMITTEE MEMBER BROWN: Thank you. Thank you, Madam Chair.

Just two quick comments. First, I'd like to say that I agree with Ms. Middleton about documenting our decisions why? Historical knowledge is critical for the Board, especially as -- you know, I think a long time ago, the Board didn't turnover very often. But now, I mean, the majority of us are new. And so I think that's very important, but -- and for the stakeholders. So I hope we can do that.

And then I just wanted to mention that, you know, we talked earlier about concentration concerns with public equities as well as private investments. I raised that issue. And I think that limiting what the staff can invest in could be problematic, especially when it comes to concentration concerns. You know, our Investment team are professionals. And we trust them with the delegated authority to invest up to $2 billion. They don't have to come to us. They can just do it. And we trust them to do their job prudently. And I, for one, want to remove constraints or barriers on staff.

You know, with their delegated authority, the staff should decide what to buy or sell, when to buy or sell, how much to buy or sell. And I think that's the way we should move. So I'm not saying spend the money and reinvest. But as we talked about overconcentration on some public equities, you know, there's some opportunities here, if we open up and allow the staff to make those decisions and the Board take the handcuffs off.

Thank you.

CHAIRPERSON TAYLOR: So I just want to clarify. I think there's a perception with these comments. These are directed divestments. The staff gets to invest wherever they want. So these are directed divestments. That's not -- it's outside of the market, yes. And it makes it a special like portfolio for us when we do this. But again, I -- the staff invests wherever they want and makes the decisions themselves. These are directed divestments. Three of them are from the federal or the State government, and two were from past Boards. So --

COMMITTEE MEMBER BROWN: I'm not talking -- yeah, I want to be clear. I'm not talking about the ones the federal government tells us we can't do. That's not in our purview. But there are some in our purview and those are the ones I'm talking about.

CHAIRPERSON TAYLOR: Right. Right. But it's sounding like you're saying that we're handcuffing the staff.

COMMITTEE MEMBER BROWN: We are. We are. We have.

CHAIRPERSON TAYLOR: (Inaudible) I'm just clarifying for perception.

COMMITTEE MEMBER BROWN: We've told them you can't do -- we've told them you can't do tobacco and firearms.

CHAIRPERSON TAYLOR: Right. Right.

COMMITTEE MEMBER BROWN: So we have handcuffed the staff. Thank you.

CHAIRPERSON TAYLOR: Thank you.

Mr. Miller.

VICE CHAIRPERSON MILLER: I thought Ramon was in there.

Okay. Oh, okay. Yeah. A couple -- a couple thoughts here. One is staff aren't picking individual companies to invest or divest. You know, so when this -- these decisions happened, it restricted, and -- but it's not like if these restrictions weren't there, that staff would be identifying specific tobacco and firearms companies for us to invest in as investments in those individual companies, if I understand this. It would cause us to potentially have to go back and look at funds, and indexing, and all that kind of stuff. And there would be significant costs of getting back in. And so the whole cost aspect of it associated with that concerns me. And if I'm wrong about that, Dan or somebody, interject.

The other thing is when I look at -- for example, let's take the tobacco ones. We lost a lot of money, because it cost us a lot to divest from them at the time we did it. Then you go a year later, a year later, a year later, and pretty quickly you start to see - and we don't have all those numbers this time. We did in the past - that as long as you're not hung up on that cumulative number, I mean, that's -- that was money lost, yep.

But from very shortly thereafter, it actually turned out to be a good decision from a financial perspective. We were better off without tobacco. And all those real risks that are associated with that specific industry, and that specific investment, that may not really appear in these tracking error calculations, which are aggregate stuff from history, and from what's going on, those are still very real. There are still huge risks associated with that industry globally, in terms of health, litigation, potential liabilities, not to mention, you know, ag industry in general, that all still exist. And it's still making sense financially for us to not be in tobacco.

And so -- and I think the same goes even more so with the firearm decision, just from a purely money lost, money to be gained sense, it just doesn't -- to me, doesn't make sense to mess with these decisions at this point, just because of the costs potentially to do it. And again, it throws us into a potential big challenge with explaining this to anyone, because right now, you know, tobacco and firearm divestment on a -- on a -- you know, ever since those initial losses of the cost of divesting have actually been a benefit to us.

CHAIRPERSON TAYLOR: Thank you, Mr. Miller.

Is there -- I don't see anyone else, so we're on to our public callers now.

I have eight callers on 9A, if I'm correct, Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Madam

Chair. Can you hear me?

CHAIRPERSON TAYLOR: I can.

STAKEHOLDER RELATIONS CHIEF FOX: Thank you, Madam Chair. Our first caller is Kathy Kerridge. She is speaking on Item 9A.

MS. KERRIDGE: HI. Hopefully you can hear me.

CHAIRPERSON TAYLOR: Yes, we can.

MS. KERRIDGE: Do I have to do anything?

CHAIRPERSON TAYLOR: I can hear you.

MS. KERRIDGE: Okay. There's a huge disconnect between the video and the audio, like a couple of minutes it seems.

I think that I'm speaking about the -- particularly about the coal companies and the thermal coal production. CalPERS is in the dirty 30 of the top investment in these -- this industry. So I think you really need to be looking at getting rid of those companies.

Listening to your report, it looks like two of the companies have responded and are, I'm assuming, working to divest themselves of that. I'd be very curious about what the other company -- what the response has been. And if that company has not been cooperative, I think you probably should be immediately selling it.

And to give a year-long time, I'm not an expert, but that seems to me like an awfully long period of time, especially when this has been mandated by the State. You know, this is State legislation. And we're talking here about companies that -- I mean, basically coal is killing our future. Huge greenhouse gas emitter. It's part of what's causing fires in California, floods, sea level rise, ocean acidification. Do we really want to be invested in that industry whatsoever.

But the other part of it is that this -- these are bad investments. The fossil fuel industry has not done well, as far as rate of returns. Last year, in general, they lost 41 percent. This is at a time period when the S&P 500 gained ten percent. And your rate of return was, I think you said, 12 percent.

So not only are these companies -- these are -- this is a dying industry. And if it's not dying, it's killing us, so why would you want to maintain an investment in an industry that really should be going out of business completely.

Thank you.

CHAIRPERSON TAYLOR: Thank you. Next caller, please, Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes. Madam Chair. We have Dr. Margaret Chin.

DR. CHIN: Good afternoon. Can you hear me?

Hello.

CHAIRPERSON TAYLOR: Yes, we can hear you.

DR. CHIN: Can you hear me?

CHAIRPERSON TAYLOR: Yes, we can.

DR. CHIN: Wonderful. Thank you so much. Thank you for allowing me to speak to you today. My name is Dr. Margaret Chin. I come on behalf of Climate Health Now and the Physicians for Social Responsibility, two organizations of health professionals who are alarmed about the overwhelming negative effects of climate change on health and mortality.

I'm an OB/GYN physician who has devoted my entire life to ensuring the health of women, especially pregnant women and their unborn babies. With the extreme climate changes, their health is in jeopardy. The health and safety of our future generation is at stake. Air pollution is causing increased pregnancy complications, chronic lung diseases, greater complications to COVID disease, and early death, and so much more.

The increased temperatures have caused droughts and wildfires here in California. These climate events have caused an alarming increase in preterm births, small than expected size of babies and stillbirths. We Californians will never forget that day in September 2020 when we never saw the sun through the orange gray haze of the wildfire air pollution.

We know the primary cause of climate change is greenhouse gases from fossil fuel extraction, production, and use. We need to protect my vulnerable patients, the mothers and their babies, and stop a cause of preterm birth, small babies, and stillbirth. We need to stop supporting the fossil fuel industry industries that cause continued damage to the health of my patients and the world we live in.

The trend towards renewable energy sources is inevitable. The financial health of the oil, and gas, and coal industries are falling -- failing. The diagnosis is clear, fossil fuels are causing a health emergency. You have a fiduciary responsibility, a moral and social responsibility, and a health mandate from the medical community to divest from fossil fuel and coal industries.

Thank you so much.

CHAIRPERSON TAYLOR: Thank you.

Mr. Fox, next caller.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Madam Chair, we have Sandy Emerson with Fossil Free California.

MS. EMERSON: I'm Sandy Emerson. I'm the Board President of Fossil Free California. And we're asking CalPERS to finish its mandated thermal coal divestment. The three companies that you've identified as still having more than 50 percent of their revenue from the mining of thermal coal, in fact, are much higher than that.

Exxaro from South Africa has over 90 percent of its revenue from thermal coal. Adaro from Indonesia has over 90 percent of its revenue from thermal coal. And Banpu from Thailand has 88 percent of its revenue from thermal coal. And this is as of November of last year, November 2020.

These three companies together produce more than 138 mega tons of coal every year equivalent to almost 279 mega tons of CO2. In fact, South African company Exxaro Resources owns more than 31 billion tons of recoverable coal, which is more than enough to create a tipping point for earth's climate.

The scope of new and emerging coal projects that these companies support is dangerous to climate health. Last year during the pandemic, Exxaro increased its coal exports by 39 percent and its continued to engage in expansion projects identifying new markets in India and China, despite an uprising organized by mine workers to protest human rights and safety practices.

Adaro has been actively participating in expansion projects in Indonesia since 2016 with its continued work on the Central Java Power Project. This endeavor has been delayed, but they're still hoping to expand. And Banpu is planning expansion into Chinese, Australian, and Indonesian markets.

I'm looking forward to your analysis. I think these companies have a long way to go. If you finish this mandated divestment for a portfolio worth more than $400 billion, the total value of these investments is somewhere between eight and a half and ten million dollars. So it's insignificant.

The financed emissions potential of these thermal coal companies far outweighs the market value of the shares. Adding these three companies to the exclusion list would allow CalPERS to complete its compliance with the requirements of SB 185 and eliminate this risk to its portfolio and to the planet.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

Mr. Fox, our next caller.

STAKEHOLDER RELATIONS CHIEF FOX: Yes. Madam Chair, our next caller is Dr. Robert Gould with the San Francisco Physicians for Social Responsibility.

DR. GOULD: Can you hear me okay?

CHAIRPERSON TAYLOR: Yes, we can. Yes, we can.

DR. GOULD: Okay. Thank you.

Hi. I'm Dr. Robert Gould a Californian, UCSF professor, and President of San Francisco Bay Physicians for Social Responsibility. Representing hundreds of California health professionals, PSR calls on CalPERS to swiftly and completely divest from coal, as well as other fossil fuels.

Numerous scientific reports, such as the recent Fourth National Climate Assessment, have warned us about the rapidly unfolding impacts of global warming that greatly threaten our health, including extreme weather events and wildfires. While exacerbating our COVID pandemic crisis, such climate health impacts particularly devastate our communities made most vulnerable by systemic racism, environmental injustice, hunger, and poverty.

Understanding that coal is responsible for 34 percent of global energy related carbon dioxide emissions driving our climate crisis, we find it unconscionable that CalPERS's almost $8 billion invested in companies within the thermal coal value change. And we join many others in demanding that CalPERS immediately divest from thermal coal producers Exxaro, Adaro, and Banpu.

In line with policies promulgated by the American Medical Association, American Public Health Association, and numerous health specialty societies urging swift climate action, health professionals increasingly recognize that divestment from coal and other fossil fuels is cost effective, health protective, preventive medicine.

In fact, since 2018, it has been the AMA's official policy quote, "To protect human health from the effects of climate change by ending its investments in fossil fuel companies", unquote. While committing to speedy divestment from coal and other fossil fuels, CalPERS should invest its vast financial holdings in renewable and sustainable, non-nuclear energy portfolios that will provide more financial security for CalPERS' retirees than squandering assets in coal stocks that have plunged in value over the recent period.

Through such divestment and reallocation, CalPERS can contribute significantly towards assuring the security, health, and survival of our children and grandchildren by helping avert the catastrophic health consequences of global warming that threaten all human civilization.

Thank you for your time.

CHAIRPERSON TAYLOR: Thank you, Dr. Gould.

Mr. Fox, next caller.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Madam Chair. Next caller is Sheila Thorne a member of CSA Retired and Fossil Free California.

MS. THORNE: Hello. My name is Sheila Thorne. I'm a CalPERS beneficiary and a retired member of CSA.

The CalPERS member news I received this month justifies not divesting by saying quote, "As an owner of a company, we can work with that company to change behavior. And by divesting, we lose our influence".

But what influence do you really have? For example, Duke Energy is one of the largest CalPERS holdings on the global coal exit list, and among the top 25 emitters in the Climate Action 100, and the third highest emitter of Scope 1 and 2 emissions owned by the CalPERS portfolio. And it has pledged to reduce carbon emissions 50 percent from a 2005 baseline in the power side of its business by 2030 and be net zero by 2050.

That all sounds really good. However, an extensive January 2021 study by the Sierra Club of major U.S. utility companies found that actually, of Duke Energy's 54 million megawatt hours of coal generation in 2019, only 11 percent is firmly committed to retire by the end of 2030. Further, Duke intends to build as much as 7,800 megawatts of new gas by 2030.

This new gas capacity could generate nearly as much power as the entirety of Duke's existing coal fleet. In other words, Duke is planning for an energy future centered on gas, not clean energy.

CalPERS own June 2020 investment strategy on climate change reports, quote, "The longer the delay on reducing CO2 emissions towards zero, the larger the likelihood of exceeding 1.5 degrees Celsius". Duke Energy has explicitly stated that the planned gas plants coming online in the late 2020s and 2030s will be stranded assets as of 2050.

So another way of meeting its pledge, besides not actually meeting it, is to pass on the cost to ratepayers and shareholders. Then instead of building out its solar and wind capacities, and battery storage, Duke is relying on suddenly getting to net zero by a hypothetical geothermal technology that has yet to developed and tested. They call them unicorns.

Who knows if it will actually happen. This is an example of empty climate pledges by Climate Action 100 companies that are underhandedly seeking to delay real action for as long as possible in order to continue to reap whatever profits they can in the meantime.

ExxonMobil and Shell have both made similar empty pledges. And it's time to either call them out for divest them. There are both mission-based and investment-based reasons for doing so.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

Mr. Fox, our next caller.

STAKEHOLDER RELATIONS CHIEF FOX: Yes. Madam Chair, we have Sarah Theiss from Fossil Free California.

MS. THEISS: Hi. I'm Sarah Theiss, as you know, CalPERS retiree and Fossil Free California Board member.

I have to say I am disappointed that the Board may be giving the three coal companies another year, given their continued dedication to coal after promising to change business models in 2017.

Today, I want to give you some information about the ESG practices of these three companies, which as Mr. Miller pointed out, often indicate larger problems in a company. Defender for Environmental Rights, a South African NGO monitors whether the largest emitters of greenhouse gases there disclose and manage their climate related risks effectively. Its most recent report in 2019 faulted Exxaro for failing to support the task force on climb related financial disclosure, failure to identify climate changes and material business risks to its shareholders, or have a policy to manage it and other matters. Exxaro committed to setting a science-based target in 2015, but has not -- had not yet implemented it.

In another report, the same NGO documented the environmental destruction of coal mining, for instance, the health impacts on nearby communities when blasting from one of Exxaro's open pit mines spreads coal dust on the town, the health threatening pollutants in irrigation water that prevent farmers from exporting their crops to

Europe, and the degradation of the land which can never be rehabilitated back to their full potential.

Coal mining also uses a tremendous amount of water, a scarce resource in South Africa. Exxaro has been found to operate without proper water use permits and was criminally charged for this. Finally, at a protest last year, Exxaro's private security firm shot and killed one of the people protesting Exxaro's atrocious practices.

As to Banpu, Green Peace issue -- Green Peace issued a report on mining in Indonesia with Banpu a primary target accused of causing environmental destruction

And Adaro operates in the Philippines has one of the largest mine concessions in an area where there was severe flooding earlier this year, which meant 24 deaths and displacement of over a hundred thousand people. The flood is linked to the severe deforestation and sedimentation caused by the mining operations.

A British NGO Global Witness published a report raising questions about Adaro's questionable use of offshore tax havens. And the Indonesian tax authority has opened a major case of tax manipulation against Adaro.

I hope this information is helpful, as you consider to withdraw -- whether to withdraw investments from the three companies pursuant to SB 185. And thank you for listening.

CHAIRPERSON TAYLOR: Thank you.

Is there -- I think there's two more callers, Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Madam Chair, we have two more callers on this item.

Next, we have Dr. Robert Girling, CSU retired faculty.

DR. GIRLING: I represent 2,000 members of the Emeritus and Retired Faculty Staff -- and Staff Association. We're all members of CalPERS.

And let me begin by saying I've listened closely to your deliberations so far. We certainly respect and applaud the cautious actions that have been taken with regard to and respect to corporate engagement and governance. And it's very encouraging to hear, particularly the 12.4 percent return that Dan and his team have achieved over this last year. I thank you for your hard work on our behalf.

However, my members have asked why CalPERS is not doing more with respect to climate change and pollution. They tell me they'd like to see their money invested in industries that would forestall catastrophic climate change and they ask why is CalPERS continuing its investments in coal, in coal-fired utilities, and other fossil fuels, where a livable future requires decreasing such investments.

As we look at things, we see that CalPERS coal policy lags far behind many other institutional investors. Moreover, global, economic, and policy trends indicate that investments in the coal sector are really unlike to prove profitable in the future. It's very clear that the trend has been down and that there's so -- so many other investors are getting out of that industry or moving away from that and align with the recommendations of the International Panel on Climate Change.

So we believe that CalPERS should follow the spirit of the 185 legislation by removing this financial risk from its portfolio.

In addition to that, some have brought to my attention the work of Bloomberg's analysis Nathaniel Bullard who wrote, "In terms of growth, there's no apparent penalty for moving fossil fuel companies from indexed investing". The S&P 500 fossil fuel total return index has outperformed the S&P 500 total return index since its inception in 2012. So there's very strong financial arguments that lie behind this.

So we're really asking, in view of this growing urgency of climate change, we're asking the CalPERS Board to accelerate its action and expand its efforts to divest in fossil fuels by stop investing in fossil fuel companies immediately, reinvest fossil fuel --

CHAIRPERSON TAYLOR: Sir, I'm sorry. I'm sorry, sir, you're done. Your time is up.

DR. GIRLING: Okay. Thank you.

CHAIRPERSON TAYLOR: Thank you.

DR. GIRLING: Okay. I got it. Thank you.

CHAIRPERSON TAYLOR: Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Madam Chair. We have Jerry Fountain from CSR.

MR. FOUNTAIN: Kelly, can you hear me?

STAKEHOLDER RELATIONS CHIEF FOX: Yes.

MR. FOUNTAIN: Okay. This is Jerry Fountain. I'm calling in as a stakeholder to CalPERS representing myself.

I'd like to suggest that the Board reevaluate the divestment from firearms. As presented today, firearms have been divested from that subject, because of sales of weapons, attack style weapons in the state of California. Now, California already has an extensive list of firearms that cannot be sold in the state of California to include rifles, pistols, revolvers. So what CalPERS is trying to accomplish may not be allowed in the State of California in the first place. So I would suggest that they look at what California does not allow and reevaluate the divestments from firearms. Thank you.

CHAIRPERSON TAYLOR: Thank you. Mr. Fox, are there any other commenters on 9A?

STAKEHOLDER RELATIONS CHIEF FOX: Madam Chair, that concludes your public comment on Item 9A. You will have at least two callers for public comment number 11.

CHAIRPERSON TAYLOR: Okay. Thank you very much.

So at this point, now we can take a motion to either remove some or all Board-directed divestment restrictions or affirm the continuation of divestments. What's the pleasure of the Board?

VICE CHAIRPERSON MILLER: I move we affirm.

CHIEF EXECUTIVE OFFICER FROST: Ms. Taylor, you have a motion that was in progress by Mr. President.

CHAIRPERSON TAYLOR: I'm sorry. You're right. You're right. Jason, make the motion.

COMMITTEE MEMBER BROWN: Where is he?

COMMITTEE MEMBER PEREZ: All right So we've heard from staff. We've heard from management, our own internal management. We heard from our consultants. We've heard from labor, being California Professional Firefighters, California Association of Highway Patrolmen, and we heard from employers through the California League of Cities and through the California Special Districts Association. And they all suggest the same, let the Investment team make the decisions.

So I'm move that we lift the divestments from tobacco and firearms, and put that authority back in the hands of the Investment Office to make that determination, when and if to reinvest.

CHAIRPERSON TAYLOR: Thank you.

Is there a second?

COMMITTEE MEMBER BROWN: I'll second.

CHAIRPERSON TAYLOR: Okay. It's been motioned by Mr. Perez, seconded by Ms. Brown.

Ms. Hopper, can you call the roll?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Ms. Taylor, I'm sorry to inject, but I believe the policy calls for independent votes on each divestment. And maybe I'll ask Mr. Jacobs to confirm that, if he's -- if he can.

CHAIRPERSON TAYLOR: That's not -- okay.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: But my understanding, the policy is that each one needs to be voted on independently.

CHAIRPERSON TAYLOR: Okay.

GENERAL COUNSEL JACOBS: Each one needs to be voted on --

COMMITTEE SECRETARY HOPPER: Make me a copy. Can you make three.

GENERAL COUNSEL JACOBS: Can --

CHAIRPERSON TAYLOR: Pam, hold on.

GENERAL COUNSEL JACOBS: Can folks hear me?

CHAIRPERSON TAYLOR: Yeah.

GENERAL COUNSEL JACOBS: Okay. So there can be and up and down -- up or down vote on all five. But if we're going to separate them out, it probably is better practice at least to have at least these two taken up individually.

CHAIRPERSON TAYLOR: Okay. And I'm not sure that we can divest from -- or reinvest in the other three, is that correct, because those are mandated.

GENERAL COUNSEL JACOBS: They could be reinvested in, if the Board makes the -- well, Sudan and Iran, no. But the other one --

CHAIRPERSON TAYLOR: Okay. So right now let's do one. You want to redo the motion, Jason. Start with one and then go to the other.

COMMITTEE MEMBER PEREZ: Yes, ma'am. So all that stuff I said, but for tobacco. Let's lift the tobacco, put it back in the Investment Office.

CHAIRPERSON TAYLOR: Okay. So there's a motion to lift the divestment from tobacco. We don't need to put it in the divestment[SIC] office that -- if we're lifting the divestment, they would reinvest. I need a second.

COMMITTEE MEMBER PEREZ: Hold on. They wouldn't invest automatically. I want to put that authority back in their -- back into their office. As nothing -- so the bigger picture is not just for tobacco -- not for these two widgets right here. The bigger issue is for every other divestment that's going to come to this Board. This is a retirement fund, not a political fund and that's what I want the goal here to be.

CHAIRPERSON TAYLOR: So if the Board made the decision to divest, if we're saying to reinvest, then we are directing staff to reinvest. That's what you're saying.

COMMITTEE MEMBER PEREZ: That's not my motion. My motion is to lift the restriction.

CHAIRPERSON TAYLOR: All right. Remove the restriction and -- that's not how it reads.

COMMITTEE MEMBER PEREZ: I'll say it again.

CHAIRPERSON TAYLOR: I'm trying to do it how it reads, Jason.

(Laughter.)

COMMITTEE MEMBER BROWN: He can change it.

CHAIRPERSON TAYLOR: So remove the restriction and let staff reinvest, if they want. Is that what you're saying?

COMMITTEE MEMBER PEREZ: I'll. Here, I'll just start again. I submit my motion to remove the restrictions that we placed on the tobacco divestments and put the responsibility and authority back into the Investment Office to make that decision, if and when they see that it's appropriate.

CHAIRPERSON TAYLOR: And, Mr. Jacobs, is that an appropriate motion?

GENERAL COUNSEL JACOBS: Yes, it is.

CHAIRPERSON TAYLOR: All right. Thank you.

Could I have second?

COMMITTEE MEMBER BROWN: Second.

CHAIRPERSON TAYLOR: All right. So it's been motioned by Mr. Perez, seconded by Ms. Brown.

Ms. Hopper.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER BROWN: No.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: No.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: No.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: No.

COMMITTEE SECRETARY HOPPER: David Miller?

COMMITTEE MEMBER MILLER: No.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: I abstain.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: No.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Yes.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: No.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: No.

COMMITTEE SECRETARY HOPPER: Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Lynn Paquin for Betty is no vote.

CHAIRPERSON TAYLOR: Okay. Madam Chair, I have two yeses by Margaret Brown, one by Jason Perez. I have nine noes, and one abstention by Stacie Olivares. Motion made by Jason Perez, seconded by Margaret Brown.

CHAIRPERSON TAYLOR: Thank you. Motion fails.

Can I get the next motion, please?

COMMITTEE MEMBER PEREZ: Yes, ma'am. I motion for the same thing but for firearms.

CHAIRPERSON TAYLOR: All right. So remove the divestment restrictions on firearms. And what was it? You're going to have to repeat it.

COMMITTEE MEMBER PEREZ: It's okay. And put the authority to reinvest, if and when they seem -- if and when they see it appropriate, in the Investment Office.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER BROWN: And that's a second.

CHAIRPERSON TAYLOR: All right. It's been motioned by Mr. Perez, seconded by Ms. Brown.

Ms. Hopper, please take the roll for the vote.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: No.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: No.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: No.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: No.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: No.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER PEREZ: She had to drop off.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: No.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Yes.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: No.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: No.

COMMITTEE SECRETARY HOPPER: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: No.

COMMITTEE SECRETARY HOPPER: Madam Chair, I have two yes votes, one by Margaret Brown, one by Jason Perez, nine no votes, for a motion being made by Jason Perez, seconded by Margaret Brown regarding firearms.

CHAIRPERSON TAYLOR: Okay. Thank you. So motion fails on the -- on -- well, the motion fails. And I guess we're -- I have a question for Matt at this point. Do we have to vote -- since we voted down reinvesting, do we now have to affirmatively vote to divest? Is that how we have to do it, Mr. Jacobs.

GENERAL COUNSEL JACOBS: To continue the divestments, yes.

CHAIRPERSON TAYLOR: Okay. So I need a motion.

COMMITTEE MEMBER JONES: Wasn't that David's motion?

VICE CHAIRPERSON MILLER: Yeah. I'd move that we affirm.

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON TAYLOR: On which? We have to do one at a time.

VICE CHAIRPERSON MILLER: Oh, do we? Can't we --

CHAIRPERSON TAYLOR: Yes.

GENERAL COUNSEL JACOBS: Well, I think that, at this point, if you want to have an up or down vote on all five, that's okay.

VICE CHAIRPERSON MILLER: Yeah.

GENERAL COUNSEL JACOBS: But you should specifically identify all five in the motion.

CHAIRPERSON TAYLOR: Okay. David.

VICE CHAIRPERSON MILLER: Okay. I will move that we affirm all five of the active mandates on divestment, which includes tobacco, firearms, Sudan, Iran, thermal coal, and maintain the status quo.

CHAIRPERSON TAYLOR: All right. I've got a motion from David. Do I have a second?

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON TAYLOR: Second from Rob.

Go ahead Pam and call the roll.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: I have a concern. I'm -- I need -- I'm going to vote no on some and yes on the other, so...

CHAIRPERSON TAYLOR: Does that mean we have to redo the vote, Matt?

GENERAL COUNSEL JACOBS: Well, you can either separate it out or Ms. Brown can vote no, because it's overinclusive, and she can vote no on that basis.

COMMITTEE MEMBER BROWN: Well, I don't want to vote no Iran and Sudan. Let's be clear about that.

CHAIRPERSON TAYLOR: All right. Can we restate the motion one more time, please. Let's do the firearms and the -- David, and tobacco separately from the other three.

VICE CHAIRPERSON MILLER: Okay. So I guess I'll have two motions. Does that work?

CHAIRPERSON TAYLOR: Yeah.

VICE CHAIRPERSON MILLER: Okay. So my first motion is to affirm the active mandates for divestment of -- well, no, not -- to affirm our divestment decision on tobacco and firearms.

CHAIRPERSON TAYLOR: Okay. And the second is still standing with Mr. Feckner?

COMMITTEE MEMBER FECKNER: Yes.

CHAIRPERSON TAYLOR: Okay. So it's been motioned by Mr. Miller, seconded by Mr. Feckner to affirm the divestment for tobacco and firearms.

Pam, go ahead.

COMMITTEE SECRETARY HOPPER: Okay. Margaret Brown?

COMMITTEE MEMBER BROWN: No.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

CHAIRPERSON TAYLOR: David?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares

Had to go.

Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: No.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Aye.

COMMITTEE SECRETARY HOPPER: Madam Chair, I have the motion being made by David Miller, seconded by Rob Feckner. I have two noes, one by Margaret Brown, one by Jason Perez, and nine aye votes to affirm that divestment of firearms and tobacco.

CHAIRPERSON TAYLOR: I forgot to unmute. Thank you. The motion carries.

So David, can you make the next motion, please?

VICE CHAIRPERSON MILLER: Okay. The next motion is to affirm divestment of Sudan, Iran, and thermal coal.

CHAIRPERSON TAYLOR: And seconded?

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON TAYLOR: Seconded by Mr. Feckner. So it was a motion by Mr. Miller, seconded by Mr. Feckner.

Pam, can you take the vote for me?

COMMITTEE SECRETARY HOPPER: Sure.

Margaret Brown?

COMMITTEE MEMBER BROWN: Yes.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Matthew Saha?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY HOPPER: Was that an aye?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY HOPPER: Thank you.

Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: No.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Aye.

COMMITTEE SECRETARY HOPPER: Madam Chair, I have ten ayes, one no made by Jason Perez, motion made by David Miller, seconded by Rob Feckner on the affirming the divestment of, I believe, Sudan and I didn't catch the other two.

CHAIRPERSON TAYLOR: Sudan, Iran, and thermal coal.

COMMITTEE SECRETARY HOPPER: Thank you.

CHAIRPERSON TAYLOR: Okay. So the motion carries. That's the end of action item 5A[SIC].

So we're going to move on to summary of committee direction. Dan.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Thank you, Madam Chair. I have four. I'm not sure they were all entirely direction, but I think they were the intent. So we'll start with, first of all, there was an article on pension obligation bonds that we will circulate to the Board. We'll consider an information session on special purpose -- on SPACs, special purpose action vehicles. We will list -- per Ms. Middleton's request, we will list all the places where we were asked to divest and instead are engaging. We'll come up with good documentation there. And then finally, we will come back to this Committee with our plan on the three coal companies discussed within this calendar year. Once Simiso and his team, who are leading that body of work, get through proxy season, we'll look to come back sometime this calendar year.

CHAIRPERSON TAYLOR: Excellent. Thank you very much. That's what I remember. Thank you.

So then I think we are at public comment. I believe Mr. Fox said we had two more commenters.

STAKEHOLDER RELATIONS CHIEF FOX: Madam Chair, yes, we have actually three callers now. The first caller is J.J. Jelincic.

MR. JELINCIC: J.J. Jelincic, beneficiary.

The Board may itself make any investments authorized by law or sell any security obligation or real property, in which monies of the retirement fund are invested by an affirmative vote of at least seven members of the board, or by the same affirmative vote may, from time to time, adopt an investment resolution that shall contain detailed guidelines by which to designate those securities and real properties that are acceptable for purchase.

With the resolution in effect, securities and real property may be purchased for investment by an officer or employee of the Board designated by it for that purpose. Sales of securities may be consummated by the officer or employee under the conditions prescribed. Purchasers and sales of securities shall report -- shall be reported to the Board on a monthly basis at its next regular meeting. Government Code section 20191.

Thank you for your time.

CHAIRPERSON TAYLOR: Okay. Thank you.
Mr. Fox, our next caller.
STAKEHOLDER RELATIONS CHIEF FOX: Madam Chair, next we have Monique Hernandez.
MS. HERNANDEZ: Hello. Can you hear me?
CHAIRPERSON TAYLOR: Yes, we can.
MS. HERNANDEZ: Okay. Perfect. My name is Monique Hernandez. I'm here to speak on item number 11
I work at --
CHAIRPERSON TAYLOR: Can I stop you for a second. Can I stop you for a second.
MS. HERNANDEZ: Yep.
CHAIRPERSON TAYLOR: I'm sorry. You have an echo. Do you have us on some place else. You might want to turn it down.
MS. HERNANDEZ: No. I don't have you on anywhere else.
CHAIRPERSON TAYLOR: Oh, that's better.
MR. HERNANDEZ: Maybe it's because my phone was on speaker. Is that better?
CHAIRPERSON TAYLOR: Yes. Thank you.
MS. HERNANDEZ: Is that better?
CHAIRPERSON TAYLOR: Yes, thank you.
MR. HERNANDEZ: Okay. I'll start. So my name is Monique Hernandez. I'm here to speak about Item number

11. I've worked for Riverside Community Hospital, which is an HCA hospital for 13 years as a registered nurse. I continue to do the best care I possibly can for my patients and advocate for my colleagues and my profession.

In the recent months, perhaps years, I have been pained by this realization, patients are not getting the care they deserve at RCH due to short staffing. We have patients that go for days without being seen by their physician. Patients waiting days for diagnostic or therapeutic procedures.

Imagine your daughter, your 28 year daughter -- year old daughter waiting two days for a CAT scan while being in the hospital, because our radiology department is so behind, because they're short staffed, or imagine your husband is on a heparin drip, which is a blood thinner, to make sure that he doesn't have a blood clot after having a heart attack. This medication is dosed according to a certain lab that we have to draw and this lab is time sensitive. So if this lab was due to be drawn at 9:30 and wasn't drawn until three p.m. because phlebotomy is so short staffed, this is not okay.

Over and over, I have attempted to address these issues and concerns, and over and over I'm thanked for identifying an issue only to see the same issue play out days later or weeks later, often with the same entities or departments. I do not know what happens when these issues are addressed, but I do know that the end product, mainly patient care, has continued its downward trajectory.

I have been hopeful in some big changes with the incoming teach -- with us being a teaching hospital with the G Tower expansion, strengthening our union's presence, the addition of the rapid response department would move the needle towards excellence. Tragically, there have been some things that can only be accomplished with real human resources, people.

The people at RCH are what make it run, but there have been too few people for too long. The most difficult thing is that, at some point, we needed 50 more -- or more nurses. Then it slid to a hundred. Now, 200. And who knows what the deficit is going to be after the dust of this pandemic settles. Vacant nursing positions are a cold comfort. They need to -- we need to invest in retaining staff and not being a puppy mill for new nurses. You're bleeding money at this facility, training them only to see them go to safer, better staffed hospitals in a year.

I want to see RCH succeed. I have put great effort toward that goal and seeing my sincere efforts occasionally embraced, but more often trampled by naked economics, by disinterest, and by a lack of accountability. I think that there is where your success will lie, some day having the resources and the moral authority to raise the level of accountability for staff and administrators alike.

With all due respect to everyone of you on this Board, you will eventually be a consumer of acute health care. You will, if you haven't already, need hospital services. What kind of care would you want rendered to yourself and to your loved ones. In my humble opinion, lack of investment in the people that actually make this entity operate is catastrophic to patient care.

Thank you for your time.

CHAIRPERSON TAYLOR: Thank you very much.

Mr. Fox, our next caller.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Madam Chair. Our final caller is Mr. Michael Ring, SEIU.

MR. RING: Good evening, members of the CalPERS Investment Committee. This is Michael Ring with the Service Employees International Union's Capital Stewardship Program. Thank you for taking my comments and the opportunity so speak with you today.

Along with SEIU member and HCA worker Monique Hernandez, who you just heard from, I'm here to share some information with you about important investment related issues at one of the company's largest -- one of the country's, excuse me, largest health care corporations, HCA, which is -- which owns the hospital that Ms. Hernandez was referencing.

Our team recently shared with your Investment staff a series of publicly available reports and articles that document the potential risk of HCA's business practices to long-term investors like CalPERS. Some of the issues of possible concern to consider for further due diligence include HCA policies regarding billing, stock buybacks, taxation, public subsidies, lobbying, compensation, and the workforce management and safety issues that HCA workers have shared with us, that have only become more acute during the COVID-19 pandemic.

We believe concerns about these business practices are relevant to CalPERS due to your portfolio's exposure to HCA. We also believe that it impacts CalPERS and similar long-term investors more broadly, given that as one of the largest health care corporations in the United Stage -- States - excuse me - HCA sets a market standard in the industry critical to the overall functioning of our economy, an industry that impacts taxpayers, consumers, workers, and investors, including pension funds and their plan participants.

We encourage your team to do its own due diligence with this information to assess the risk HCA's practices may present to the interests of CalPERS plan participants who, of course, depend on the long-term healthy performance of the fund's investments.

Thank you very much for the opportunity to speak with you today and for your work facilitating retirement security for all CalPERS participants.

CHAIRPERSON TAYLOR: Thank you.

Mr. Fox, are there any other callers?

STAKEHOLDER RELATIONS CHIEF FOX: No, Madam Chair. That concludes your business for today.

CHAIRPERSON TAYLOR: Thank you so much.

So then that concludes Investment Committee open session. We will adjourn. And what time are we starting tomorrow? I believe it's 9 a.m., correct?

COMMITTEE MEMBER FECKNER: (Thumbs up.)

CHAIRPERSON TAYLOR: Yes. I got thumbs up from Rob. Okay. See you all tomorrow morning. Thank you very much.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 6:05 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 20th day of March, 2021.

James F. Peters

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063