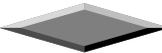


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION**

MINUTES OF MEETING

Wednesday, April 18, 2012



The Board of Administration met on Wednesday, April 18, 2012 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 11:22 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Michael Bilbrey
Howard Schwartz for Julie Chapman
Terry McGuire for John Chiang
Richard Costigan
Dan Dunmoyer
JJ Jelincic
Henry Jones
Grant Boyken for Bill Lockyer
Priya Mathur

Board of Administration Members excused: none.

AGENDA ITEM 3 – PRESIDENT'S REPORT

President Feckner noted the addition of Julie Chapman to the CalPERS Board. Ms. Chapman is the new acting Director of the Department of Personnel Administration (DPA) and has a strong background in labor relations, both at the DPA and at a number of State agencies. President Feckner also welcomed Marie Ziegler, who recently returned to CalPERS to join the Board Services Unit.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Anne Stausboll reported on the following recent activities:

- At the end of March, CalPERS successfully launched the second release of my|CalPERS, which transitioned members of the Judges' and Legislators' Retirement Systems into the new my|CalPERS.
- Kathleen Webb will join the CalPERS executive team as Chief Officer for Risk, Compliance, and Ethics effective April 23. Ms. Webb is the former Director of Policy and Risk Management Services at the California Correctional Health Care Services Department.
- In the prior week, CalPERS formally launched its search for a Chief Financial Officer, and engaged Heidrick & Struggles, a worldwide executive search firm, to conduct the recruitment efforts. The final date for recruitment is May 15, with interviews to follow.
- Anne Simpson, Director of Corporate Governance, has been elected to the Board of the Council of Institutional Investors (CII).
- CalPERS has been named a member of the U.S. Security and Exchange Commission's (SEC) newly formed Investor Advisory Committee. The Committee was established under the Dodd-Frank Wall Street Reform and Consumer Protection Act. Mary Shapiro, SEC Chair, has appointed 22 institutions to the Committee, including the California State Teachers' Retirement System (CalSTRS) and CII. Joe Dear, Chief Investment Officer, will represent CalPERS.
- CalPERS has scheduled a number of roundtables with leaders and stakeholders around the State who share interests in business and economic investments and infrastructure. The first two of a series of four infrastructure roundtables and a quarterly employer stakeholders' roundtable were held recently, and a business leaders' roundtable will be held on May 4.
- Staff have spoken at various recent events, including: RFK Compass West Coast Conference; the Bay Area Council; the Pension Fund Fiduciary Forum; the Conference of Consulting Actuaries' Public Plan Seminar; and the 9th Annual World Health Care Congress.
- At the end of April, CalPERS will launch its first ever Sustainability report. The report will contain both operational and investment related efforts.
- On April 28, the CalPERS team is preparing to walk six miles to raise funds for the March of Dimes' March for Babies event.
- On May 12, the CalPERS Jammin' for the Cure team will participate in the annual Komen Race for the Cure at Cal Expo.

Ms. Stausboll recognized the efforts of a special cross-divisional team within the Benefit Services Division, formed to streamline the processing of direct deposit

authorizations and to tackle a backlog caused by conversion activities. Aided by staff from the Information Technology Administration Division and Information Technology's Customer Acceptance Test staff, the team successfully processed 16,635 applications in March. In six weeks' time, a backlog that had grown to over 20,000 in February was eliminated.

b. Chief Investment Officer Report

Joseph Dear presented the Chief Investment Officer's (CIO) report to the Board and reported on the following:

- At the close of business on Monday, the Total Fund had \$234.6 billion in assets. All asset classes are within their policy ranges.

AGENDA ITEM 5 – CONSENT ITEMS

On **MOTION** by George Diehr, **SECONDED** by Henry Jones and **CARRIED**, the Board approved acceptance of Action Consent Items 5a; 5c-1 through -6; 5c-8 through -14; and 5d. For Proposed Decisions of Administrative Law Judges and the Petition for Reconsideration that were approved, the Board approved acceptance of Staff recommendation.

Action Consent Items:

- a. Approval of March 2012 Meeting Minutes
- b. Board Travel Approvals
- c. Proposed Decisions of Administrative Law Judges
- d. Petition for Reconsideration – Ronald W. Smith

On **MOTION** by Richard Costigan, **SECONDED** by Henry Jones and **CARRIED** with one abstention by Grant Boyken, the Board approved acceptance of Action Consent Item 5b. Mr. Boyken stated the reason for abstention by the Treasurer's Office was that some of the requests had been received on the day of the meeting and had not been vetted by the Treasurer's office.

President Feckner reported that previously approved travel for Richard Costigan and Henry Jones to attend a world pension forum in South Africa had been cancelled due to the cancellation of the forum.

Howard Schwartz recused himself from the following motion and left the room.

On the matter of Item 5c-7, Independent Counsel Shirag Shah recommended setting the matter for a full Board hearing or remanding it to the Administrative Law Judge for the taking of further evidence regarding the setting of the effective date of retirement.

On **MOTION** by Henry Jones, **SECONDED** by Michael Bilbrey and **CARRIED**, the Board approved setting Item 5c-7 for a full Board hearing.

AGENDA ITEM 6 – CONSENT ITEMS

Information Consent Items:

- e. Board Meeting Calendar
- f. Draft Agenda for May 2012 Meeting
- g. General Counsel's Report

AGENDA ITEM 7 – COMMITTEE REPORTS AND ACTIONS

a. Investment Committee

Henry Jones, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, April 16, 2012.

Additional information may be found in the April 16, 2012 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for May 14, 2012 in Sacramento, California.

A member of the public, Steve Kwai, Retired Public Employees Association (RPEA), spoke against changing the investment strategy for the Long-Term Care Fund.

b. Pension and Health Benefits Committee

Priya Mathur, Chair, Pension and Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, April 17, 2012.

On **MOTION** by Committee and **CARRIED** with one nay vote, the Board approved the following:

- Phasing-in the Impact of the Change in Discount Rate
 1. Approval of a phase-in of the impact of the change in discount rate on employer contribution rates for all plans in the Public Employee Retirement Fund by amortizing over a 20-year period the increase in actuarial liabilities resulting from the change in assumptions, with the payment in year one equal to one-third of the payment that would have been required without the phase-in and the unpaid balance amortized over the remaining 19 years.

2. For state plans and non-pooled agencies, allowing employers the option to elect not to phase-in the increased employer contribution rate.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Judges' Retirement System Actuarial Valuation
 1. Approval of the June 30, 2011, Judges' Retirement System Actuarial Valuation Report, along with the change in assumptions as outlined in the report, and the transmittal letter to the Governor and Legislature.
 2. Continuing to encourage the California Legislature and Governor to adopt an employer contribution schedule that includes advanced funding of the Judges' Retirement System.

On **MOTION** by Committee and **CARRIED** with one nay vote, the Board approved the following:

- Interviews and Selection of Long-Term Care Program Third-Party Administrator
 1. Approval of the Committee's interview scores as follows: CHCS Services interview score is 128; LTC Partners interview score is 214; and Univita's interview score is 206.

The combined total score for each Proposer is:

CHCS Services: 625

LTC Partners: 722

Univita: 853

Univita is the Proposer with the highest total score.

2. Approval of the selected finalist and directing staff to begin contract negotiations for RFP No. 2011-6269 with Univita, and in the event that staff, in its discretion, concludes that negotiations are unsuccessful, begin contract negotiations with the next highest scoring Proposer.

On **MOTION** by Committee and **CARRIED** with one abstention by Richard Costigan, the Board approved the following:

- Adoption of a Support position on Senate Bill (SB) 1196 because it would provide greater transparency on health care cost and quality for CalPERS members.

Two members of the public were on hand to speak:

- Harvey Robinson, RPEA, voiced his concerns about a recent letter from Univita's Program Administrator announcing a policy change regarding the Alternative Care Payment Program and the use of independent providers.
- Steve Kwai, RPEA, urged a phasing in of any rate increase by the Long-Term Care plan.

President Feckner directed Staff to research the Univita letter brought by Mr. Robinson, and report back to the Board.

Additional information may be found in the April 17, 2012 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for May 15, 2012 in Sacramento, California.

c. Finance and Administration Committee

George Diehr, Chair, presented the Finance and Administration Committee Summary report to the Board. The Committee met on Tuesday, April 17, 2012.

On **MOTION** by Committee and **CARRIED**, the Board approved the following Action Consent Item:

- Approval of the proposed changes to one initiative in Objective 2.1 in the 2011-12 CalPERS Business Plan.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the Contract Activity Reporting Policy effective July 1, 2012 (Attachment 1 to the Committee Agenda materials).
- Approval of the 2012-14 Business Plan as a second reading.

On **MOTION** by Committee and **CARRIED** with a nay vote by JJ Jelincic and an abstention by Howard Schwartz, the Board approved the following:

- Acceptance of the proposed Fiscal Year 2012-13 Administrative, Enterprise Projects and Headquarters Building Account Budgets as a second reading, and approval of the transmittal of this agenda item.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the proposed elected Board member percentages of time to be spent on Board related duties for Fiscal Year 2012-13.

Additional information may be found in the April 17, 2012 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Finance and Administration Committee will be held on June 12, 2012 in Sacramento, California.

d. Performance and Compensation Committee

The Committee did not meet in April.

e. Risk and Audit Committee

The Committee did not meet in April.

f. Board Governance Committee

George Diehr, Vice Chair, Board Governance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, April 17, 2012

On **MOTION** by Committee and **CARRIED** with nay votes by Dan Dunmoyer and JJ Jelincic, the Board approved the following:

- Approval as a second reading, the Board Gift Policy as attached (Attachment 1 to the Committee Agenda materials).

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the changes to the CEO Delegation as attached (Attachment 2 to the Committee Agenda materials).

Additional information may be found in the April 17, 2012 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Board Governance Committee will be held on May 15, 2012 in Sacramento, California.

AGENDA ITEM 8 – PRECEDENTIAL DECISION – CRAIG F. WOODS

On **MOTION** by Priya Mathur, **SECONDED** by Dan Dunmoyer, and **CARRIED**, the Board approved requesting the CalPERS Legal Office to solicit written comments from the public regarding whether the Board's decision in this matter should be designated as precedential, and that the Board will consider the issue whether to designate its decision as precedential at a time to be determined.

Agenda Item 9 was moved to the end of the Agenda.

AGENDA ITEM 10 – my|CALPERS UPDATE

Donna Lum, Deputy Executive Officer, Customer Services and Support, reported on the overall status of the project:

- A detailed report on the project status was provided to the Pension and Health Benefits Committee yesterday.
- The project team continues to implement a number of mitigations to address remaining backlogs, and to seek additional alternative methods to aggressively reduce the backlogs in a shorter period of time.
- The second release, which included the Judges' and Legislators' Retirement System members into my|CalPERS, was a success and staff is now using the system daily to process transactions.

Karen Ruiz, PSR Project Manager, provided an update on upcoming major releases and reported on the following:

- The project team successfully implemented changes to the actuarial assumptions for retirements within two weeks from the date of the Board's decision in March.
- Similar changes for service credit purchases will be implemented at the end of the month.
- Member Self-Service is on schedule for a late July release. The first round of usability testing was completed in March, and changes based on feedback are being incorporated. The second round will begin at the end of the month.
- The project team continues to work closely with the various program areas, particularly in those areas where backlogs continue to exist.

Chris Jasper, KPMG, Independent Project Oversight (IPOC), concurs with the status reported in the Project Performance report. Mr. Jasper reported that the project team did successfully meet their major conversion thresholds in March, which supported the success of the implementation of the second release. The business areas have been making a number of improvements in addressing backlogs. The IPOC team has concluded its oversight of the enterprise transition management efforts. With the project's focus now shifting to a more operational mode for the remaining functional releases, the IPOC team is evaluating the areas in greatest need of attention and adjusting its oversight criteria accordingly.

AGENDA ITEM 11 – EXTERNAL AFFAIRS/STATE AND FEDERAL LEGISLATION

- a. Robert Glazier, Deputy Executive Officer, External Affairs, provided an update on Public Affairs, State Legislation and CalPERS sponsored bills, and reported on the following:

- CalPERS has enhanced its website with a new modernized design to be launched tomorrow. The new design is easier to read and navigate, and includes graphs that illustrate the market value of the Total Fund and CERBT Fund at the close of market each day.
 - The second of four scheduled infrastructure roundtables was held in San Francisco on April 5. Both public and private sectors were well represented in a large turnout of 56 attendees.
 - On May 4, CalPERS will be hosting the California Business Leaders Roundtable at CalPERS headquarters, and has invited Chambers of Commerce and other business leaders around California to participate.
 - On May 1, CalPERS will host another Ambassador meeting in partnership with the City of Glendale at their retiree information seminar. 113 retirees from the City of Glendale have already registered for the Ambassador Program training. Another seminar is scheduled at the RPEA General Assembly in Sacramento on June 24. Future training sessions are planned for the Bay Area and Long Beach.
 - Staff is also engaged in the planning of pension town halls to be held at the retirement planning fairs in Orange County, the Bay Area and Sacramento in August or September.
 - A new report provided to the Board this month is the Legislative Highlights, which highlights changes in legislation of significance to CalPERS.
 - SB 987 (Negrete McLeod) has passed out of the Policy Committee on a 3-0 vote and into the Fiscal Committee.
 - AB 2142 (Furutani) is scheduled to be heard in the Policy Committee on April 26.
 - SB 955 (Pavley) was heard in the Senate PERS Committee on April 9 and was passed out on a 4-0 vote. It has been amended to remove a mandate that CalPERS was in opposition to.
 - The Joint Legislative Conference Committee held its fifth informational hearing last Friday in Chino. The hearing focused on '37 Act retirement systems and pension benefits for elected officials.
- b. Tom Lussier, CalPERS Federal Liaison, provided updates on federal legislation and reported on the following:
- Staff will begin over the next several weeks re-engaging congressional health staff in the California delegation to determine what health-related activity is anticipated for the remainder of this session.

- Senator Harkin, Chairman of the Senate Health Committee, has indicated an interest in initiating national retirement security legislation and would like for CalPERS to participate in the dialogue.

AGENDA ITEM 12 – PUBLIC COMMENT

Donna Snodgrass, California State Employees' Association, expressed concerns with the possible lowering of the rate of return for the Long-Term Care Program fund. Ms. Snodgrass also applauded CalPERS staff for reducing the direct deposit backlog and call wait times.

The Board of Administration Open Session recessed at 12:53 p.m. and reconvened at 1:37 p.m.

Roll Call was taken and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Michael Bilbrey
Greg Beatty for Julie Chapman
Terry McGuire for John Chiang
Richard Costigan
JJ Jelincic
Henry Jones
Grant Boyken for Bill Lockyer
Priya Mathur

AGENDA ITEM 9 – BOARD SELF-ASSESSMENT REQUEST FOR PROPOSAL INTERVIEW AND SELECTION

Peter Mixon, General Counsel, reported that eleven proposals were received in response to the RFP for the services of a third-party facilitator to design and lead the Board's self-assessment process. A team of three staff members scored the technical and fee proposals and ranked the proposals based on those points.

A work group of three Board members determined that the three highest ranking bidders based on their technical and fee proposal scores would be finalists to be interviewed by the Board.

The three finalists interviewed were BoardSource, PA Consulting Group, and Veaco Group. The interviews were conducted in alphabetical order.

The Board of Administration Open Session recessed at 2:52 p.m. to allow Staff to tally the interview scores, and reconvened at 3:06 p.m.

On **MOTION** by George Diehr, **SECONDED** by Michael Bilbrey, and **CARRIED**, the Board approved the following interview scores:

BoardSource 31.25 points
PA Consulting Group 28.75 points
Veaco Group, 36.25 points

Gina Ratto, Deputy General Counsel, reported the following combined scores:

BoardSource – Technical 19; Fee 20.73; Interview 31.25; Total 70.98
PA Consulting – Technical 12; Fee 30; Interview 28.75; Total 70.75
Veaco Group – Technical 15; Fee 20; Interview 36.25; Total 71.25

On **MOTION** by President Feckner, **SECONDED** by Priya Mathur, and **CARRIED**, the Board approved awarding the contract to Veaco Group as the highest ranking finalist, and directing staff to begin contract negotiations for RFP No. 2011-6268 with Veaco Group. If Staff in its discretion concludes the negotiations are unsuccessful, Staff will begin contract negotiations with BoardSource, the next highest scoring finalist.

There being nothing further to come before the Board of Administration, the meeting adjourned at 3:10 p.m.

The next Board of Administration meeting is scheduled for May 16, 2012 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer