


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

**MINUTES OF MEETING
OPEN SESSION**

May 14, 2012



The Investment Committee met on Monday, May 14, 2012 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:30 a.m. and the following members were present:

Henry Jones, Chair
George Diehr, Vice-Chair
Michael Bilbrey
Julie Chapman, represented by Greg Beatty
John Chiang, represented by Terry McGuire
Richard Costigan
Dan Dunmoyer
Rob Feckner
JJ Jelincic
Bill Lockyer, represented by Pam Milliron
Priya Mathur

AGENDA ITEM 2 – EXECUTIVE REPORT, Chief Investment Officer (CIO) Briefing

Joseph Dear, Chief Investment Officer, provided the CIO Briefing. The report included a review on the conditions of the U.S. and global economies, ongoing developments in the European sovereign debt crisis, and general market conditions. Mr. Dear highlighted that several economic issues may lead to a several billion dollar contraction for the U.S. economy in 2013 if left unaddressed after the upcoming presidential election. Additionally, Mr. Dear highlighted the 1.9% return by the Total Fund for the previous quarter.

AGENDA ITEM 3 – CONSENT ITEMS

Action Consent Items

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that the following action consent items be approved as presented:

- a. Approval of the April 16, 2012 Open Session Meeting Minutes
- d. Revision of Alternative Investment Management (AIM) Delegation Resolution for Professional Staff
- e. Revision of Global Fixed Income Delegation Resolution for Professional Staff and Global Fixed Income Program Policy

Agenda items 3b, Infrastructure Board Consultant – Special Project Request, and 3c, Long-Term Care Fund Asset Allocation Policy Revision, were pulled from the consent calendar for discussion at the end of the open session.

AGENDA ITEM 4 – CONSENT ITEMS

Information Consent Items

The Committee accepted the following information consent items:

- a. Annual Rolling Calendar Review
- b. Draft Agenda for the June 11, 2012 Committee Meeting
- c. Activity Reports – Total Fund Monthly Update

AGENDA ITEM 5a – ASSET ALLOCATION, PERFORMANCE & RISK, Asset Allocation Investment Strategy for Terminated Agency Pool

Ben Meng, Senior Portfolio Manager, Alan Milligan, Chief Actuary, David Lamoureux, Deputy Chief Actuary, and Geraldine Jimenez, Affiliated Investment Programs Division Chief presented the item. Michael Schlachter, Wilshire Associates Consulting, and Peter Mixon, CalPERS General Counsel, were available to answer questions.

Staff recommended the adoption of a more conservative asset allocation strategy for the Terminated Agency Pool to help minimize the probability that the fund will become underfunded, and maintain an appropriate funded status for future benefit payments from the Terminated Agency Pool.

It was highlighted that direct inflation linked securities were the only security type that provided protection in a deflation scenario. It was noted that a revised policy would be brought to the Committee for approval and that the asset allocation would be evaluated on a year by year basis with ongoing monitoring on projected versus actual cash management.

On **MOTION** by Mr. Beatty, **SECONDED** and **CARRIED** to approve staff's recommendation to adopt the revised strategic asset allocation.

The Committee recessed for lunch from 12:06 p.m. to 12:54 p.m.

AGENDA ITEM 5b – ASSET ALLOCATION, PERFORMANCE & RISK, Investment Beliefs

Joseph Dear, Chief Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the item. The presentation included an overview of the development process of the Investment Beliefs, the seven beliefs being presented for adoption, and possible next steps. There was consensus amongst the Committee members that additional discussions regarding the Investment Beliefs at the Committee level are necessary prior to formally adopting the Investment Beliefs.

The Committee did not take a vote on this item and the Chair instructed staff to return with additional information and opportunities for discussion, possibly in an educational format such as a workshop, to the Committee.

Public comment was received from Dennak Murphy, Service Employees International Union (SEIU), in support of deferring the adoption of Investment Beliefs pending further discussion by the Committee.

AGENDA ITEM 6a – TOTAL FUND, CIO Quarterly Performance Report and Consultant Performance Review

Joseph Dear, Chief Investment Officer, and Senior Investment Officers Eric Baggesen, Réal Desrochers, Ted Eliopoulos, and Curtis Ishii presented the item. The presentation included an overview of quarterly performance for the Public Equity, Private Equity, Real Assets, Fixed Income, and the Absolute Return Strategies programs. Michael Schlachter and Andrew Junkin, Wilshire Associates Consulting, presented on the Wilshire review of the Total Fund's quarterly performance. Additionally, Michael Moy and David Glickman presented on Pension Consulting Alliance's (PCA) review of the Private Equity and Real Estate programs respectively.

AGENDA ITEM 6b – TOTAL FUND, Global Governance Program Update

Anne Simpson, Senior Portfolio Manager, presented the item. The presentation included an overview of key accomplishments of the Global Governance Program. Ms. Simpson highlighted the release of CalPERS first sustainability report, "Towards Sustainable Investment" which has been positively received. Ms. Simpson also noted that for the previous quarter CalPERS did not have any failed proxy votes.

AGENDA ITEM 7 – PROGRAM REVIEWS, Real Assets – Infrastructure and Forestland Annual Program Review

Ted Eliopoulos, Senior Investment Officer, and Randall Mullan, Senior Portfolio Manager, presented the item. Highlights of the presentation included the continued development of the Infrastructure and Forestland Program, the role of the Program within the Total Fund, portfolio characteristics and performance, and an update on key initiatives. It was also noted that an in-depth update on the Infrastructure Roundtables will be provided as part of the Targeted Investment Programs update scheduled for the June Committee meeting.

Portfolio Managers Christine Yokan and Judy Alexander, Andrew Junkin, Wilshire Associates Consulting, and David Altshuler, Meketa Consulting, were available to answer questions.

AGENDA ITEM 3b – INDEPENDENT OVERSIGHT, Infrastructure Board Consultant – Special Project Request

Agenda item 3b was removed from the consent calendar at the beginning of the open session for additional discussion. Ted Eliopoulos, Senior Investment Officer, and Randall Mullan, Senior Portfolio Manager, provided an overview of the unique qualifications of Meketa to support the development of a strategic plan for the Forestland Program.

It was noted that Meketa was not the Board Consultant for the Forestland Program and that Wilshire Associates Consulting is the current Forestland Board Consultant.

On **MOTION** by Ms. Mathur **SECONDED** and **CARRIED** to approve staff's recommendation to engage Meketa in the development of the Forestland strategic Plan. Mr. Jelincic voted no.

AGENDA ITEM 3c – POLICY & DELEGATION, Long-Term Care Fund Asset Allocation Policy Revision

Agenda item 3c was removed from the consent calendar at the beginning of the open session for additional discussion. Michael Schlachter, Wilshire Associated Consulting, responded to a question regarding the expected return noted in the meeting materials for the item.

On **MOTION** by Mr. Diehr **SECONDED** and **CARRIED** to approve staff's recommendation to approve the revision of the Long-Term Care Fund Asset Allocation Policy.

AGENDA ITEM 8 – PUBLIC COMMENT

There were no additional public comments.

The meeting was adjourned at 4:28 p.m.

The next Committee meeting is scheduled for June 11, 2012 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer