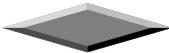


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION**

MINUTES OF MEETING

Wednesday, May 15, 2013



The Board of Administration met on Wednesday, May 15, 2013 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:01 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
JJ Jelincic
Henry Jones
Bill Lockyer
Priya Mathur (via teleconference)
Bill Slaton

Board of Administration Members excused: Ron Lind

AGENDA ITEM 3 – PRESIDENT'S REPORT

President Feckner recognized staff and sponsors for their work and support of the March of Dimes and Susan G. Komen Race for the Cure.

President Feckner mentioned the work relating to the improvement of Board Governance which includes an annual "State of the System" report. The first annual report was delivered through a video and was shared with the Board and published on the CalPERS website.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Anne Stausboll reported on the following:

- We are continuing to work on actuarial policy changes which may affect contribution rates. This will be a transparent process. Towards that end, a timeline has been published on the CalPERS website.
 - A webinar is scheduled for May 16 to help employers understand recent actuarial policy changes.
- The fund has grown to \$264 billion with 11.9 percent returns for the first nine months of the fiscal year.
- Health Program staff is currently negotiating 2014 rates with HMO and PPO plans. Open enrollment begins September 16.
- We are continuing to provide information on the long-term care program and the related 2015 premium increases with articles in all CalPERS publications, letters to policyholders and a fact sheet.
- Preparations for the semiannual Board Off-Site meeting in July. Key topics include:
 - Methodology to review asset allocation
 - Investment Beliefs discussion
 - Strategic Plan Review and Performance Measures Development
 - Stakeholder Relations Program
- CalPERS has been nominated for a global award for its first ever Sustainability Report.
- Coffee sessions have begun.
- Ms. Stausboll recognized the recipients of this year's APEX Awards.

b. Chief Investment Officer Report

Janine Guillot, Chief Operating Investment Officer, presented the Chief Investment Officer's (CIO) report to the Board and reported on the following:

- Year-to-Date March investment performance very strong. Total fund returned 11.9 percent and out-performed its benchmark by 136 basis points.

- Performance driven by very strong equity markets. There is a positive impact on longer term returns.
- 3-Year, 10-year, 20-year and inception-to-date returns are above the target rate of return.
- The fund has 61 percent of its assets allocated to growth. Of the fund's risk measured by volatility, 87 percent is allocated to growth assets.

AGENDA ITEM 5 – CONSENT ITEMS

Action Consent Items:

- a. Approval of April 2013 Meeting Minutes
- b. Board Travel Approvals

On **MOTION** by Henry Jones, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved Action Consent Items 5a and 5b.

AGENDA ITEM 6 – CONSENT ITEMS

Action Consent Items:

- a. Proposed Decision of Administrative Law Judges

On **MOTION** by George Diehr, **SECONDED** by Henry Jones and **CARRIED**, the Board approved acceptance of Independent Board Counsel to adopt the Proposed Decisions of Administrative Law Judges (ALJ) for Action Consent Items 6a1 through 6a4, and 6a6 in their entirety, as the Board's own decisions.

On **MOTION** by George Diehr, **SECONDED** by Henry Jones and **CARRIED**, the Board approved acceptance of Independent Board Counsel recommendation and to reject the Proposed Decision for Action Consent Item 6a5 and refer the case back to the Office of Administrative Hearings to take additional evidence on the following two questions: 1) whether the holiday premium pay constitutes 262 percent of the member's regular rate of pay, and 2) whether the holiday premium pay constitutes one layer of additional pay or two or more layers of additional pay over and above the member's regular rate of pay.

AGENDA ITEM 7 – CONSENT ITEMS

Information Consent Items:

- a. Board Meeting Calendar
- b. Draft Agenda for June 2013 Meeting
- c. General Counsel's Report

AGENDA ITEM 8 – 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, May 13, 2013.

Additional information may be found in the May 13, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for June 17, 2013 in Sacramento, California.

b. Pension and Health Benefits Committee

George Diehr, Acting Chair, Pension and Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, May 14, 2013.

On **MOTION** by Committee and **CARRIED** the Board approved the modified regulatory action to add regulatory sections 579, 579.1, 579.2, 579.4, and 579.24 to the California Code of Regulations (Attachment 1) for posting for an additional 15-day comment period.

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

- The proposed regulations and the initiation of the rulemaking process to add subdivision (b) to section 579.2 and add sections 579.3, 579.21, 579.22 and 579.25 to Chapter 2 of Division 1 of Title 2 of the California Code of Regulations (Attachment 2).
- The adoption of no position for Senate Bill 189.
- To defer action on Senate Bill 598.

- The recommended Supplemental Income Plans (SIP) proposed investment fund line-up change.

Additional information may be found in the May 14, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for June 18, 2013 in Sacramento, California.

c. Finance and Administration Committee

The Committee did not meet in May.

d. Performance, Compensation and Talent Management Committee

Michael Bilbrey, Chair, Performance, Compensation and Talent Management Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, May 14, 2013.

On substitute **MOTION** by JJ Jelincic, **SECONDED** by Henry Jones and **CARRIED**, the Board approved the proposed comparator group for Investment Management positions for base salary benchmarking, and approved the alternative salary ranges to bring those incumbents not at the minimum of range up to the minimum on July 1, 2013.

On **MOTION** by Committee and **CARRIED** with one abstention by JJ Jelincic, the Board approved the submission of the classification Proposal to the California Department of Human Resources and the State Personnel Board, and approve the proposed salary range for the Associate Investment Manager classification.

Additional information may be found in the May 14, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Performance, Compensation and Talent Management Committee is scheduled for the week of June 17, 2013 in Sacramento, California.

e. Risk and Audit Committee

The Committee did not meet in May.

f. Board Governance Committee

The Committee did not meet in May.

AGENDA ITEM 9 – 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:
- External Affairs efforts to help members, employers and stakeholder better understand recent policy decisions and issues
 - State of the System video message with President Feckner
 - Insights: Conversations with CalPERS leaders video
 - Ann Boynton discusses the 2015 premium increases in Long-Term Care
 - Peter Mixon discusses the municipal bankruptcies of Stockton and San Bernardino
 - Webcasts:
 - Webinar on recent actuarial policy changes has over 500 registered to view.
 - Webcast of Board meetings viewership broke new records.
 - Office of Stakeholder Relations hosted the quarterly employer roundtable. Topics include actuarial smoothing policies, PEPR implementation, municipal bankruptcies, health care and future policy reviews and workshops.
 - The Ambassador Program is in its early stages of a partnership with the Statewide Coalition of Retired Employees (SCORE),
 - California Business Leaders Roundtable will be hosted here at CalPERS next week.
 - Next month, online registration for the 2013 Educational Forum will be opened for employers. The Ed Forum will be held October 21 to 23 in San Jose, California.
 - Update on our sponsored bills:
 - SB 215, which is our CalPERS housekeeping bill passed out of the Senate on a bipartisan vote. It is now awaiting referral to the Policy Committee in the Assembly. The bill has been amended to include all the necessary provisions currently identified by CalPERS staff.
 - SB 220, which is our CalPERS conformity bill, is to amend the PERL to assist with PEPR implementation, and it passed the Senate on consent, and now includes over 20 sections.

- AB 373, which is our long-term care eligibility bill, has passed the Assembly and is awaiting referral to Policy Committee in the Senate.
- Update on SB 13, the PEPRA clean-up bill: No change in status since last month. It did pass the Senate 37 to 0, and is awaiting referral in the Assembly. It is expected the Assembly will wait for language for the bill to be settled before it moves through.

Tom Lussier, CalPERS Federal Liaison, provided updates on federal legislation and reported on the following:

- The House will shortly take up legislation that would impose an onerous cost benefit analysis requirement on the Securities and Exchange Commission. Investment staff is working with Mr. Lussier to present these concerns to the California delegation, key committee leaders and the SEC.
- CalPERS is actively communicating with members of Congress on the need for reform of the Sustainable Growth Rate (SGR) and the Medicaid reimbursement for doctors. Current activity in the House Ways and Means Committee and Senate Finance Committee is encouraging, leading us to believe there is potential for meaningful SGR reform.

AGENDA ITEM 10 – PUBLIC COMMENT

Harvey Robinson, RPEA, informed the Board of the passing of Bill Duclus. Bill was quite involved with RPEA and CSR and made a great number of presentations before the Board.

Neal Johnson, SEIU 1000, introduced Miguel Cordova, Chair of Bargaining Unit 21, who was representing Yvonne Walker, SEIU 1000 President. Miguel Cordova, Chair of Bargaining Unit 21 SEIU 1000 and employee of the California Department of Education, informed the Board of a proposal they are putting on the bargaining table. The proposal asks the Governor to jointly, with SEIU, urge the Boards of CalPERS and CalSTRS to take action to recover losses from alleged illegal or unethical acts by financial institutions, such as LIBOR fraud and interest rate swaps. It also asks for shareholder resolutions to increase transparency and accountability in companies in which pension assets are invested. It urges the Governor to sign an Executive Order creating a task force to evaluate the broader set of losses by Californians and the impacts of those losses on homeowners and student loan borrowers.

There being nothing further to come before the Board of Administration, the Open Session meeting adjourned at 10:02 a.m.

The next Board of Administration meeting is scheduled for the week of June 17, 2013 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer