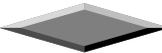


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION**

MINUTES OF MEETING

Wednesday, August 21, 2013



The Board of Administration met on Wednesday, August 21, 2013 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:18 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
Ron Lind
Grant Boyken for Bill Lockyer
Priya Mathur
Bill Slaton

Board of Administration Members excused: none

AGENDA ITEM 3 – PRESIDENT'S REPORT

President Feckner reported that the Board worked on a set of investment beliefs during the July offsite in Petaluma and that the Board anticipates final adoption of these beliefs during the September meeting. The Board also got a demonstration of the asset and liability model which provides a holistic, risk-based view of our pension plan.

President Feckner thanked those who attended CalPERS night at the River Cats.

President Feckner also mentioned the Retirement Planning Fairs happening later in the week. He encouraged members to attend. He commented on the classroom-style breakout sessions at the fairs and how some of the sessions will be webcast. These webcasts will be archived and made available through the CalPERS website.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Anne Stausboll reported on the following:

- Introduced Liana Bailey-Crimmins, who will be overseeing CalPERS Information Technology Services Branch, and provided Liana’s background and experience to the Board
- CalPERS new 2013-15 Business Plan was launched. This Business Plan aligns with the current 2012-17 Strategic Plan, which was adopted last year. Both plans are available on the CalPERS website.
- CalPERS is continuing work on Asset Liability Management, which includes a review later this year of the asset allocation for the Investment portfolio, and a review early next year of the actuarial assumptions.
- Ms. Stausboll attended the National Association of State Retirement Administrators (NASRA) where she was asked to speak on asset liability management. There was much interest in CalPERS efforts in this area and Ms. Stausboll has been asked to speak at other forums on this topic.
- Open Enrollment process has begun. Open enrollment period is September 16 through October 11.
- Internal knowledge transfer for the my|CalPERS system is continuing. This transfer is essential in preparing the CalPERS IT staff to take over the responsibilities of maintaining, operating and supporting the my|CalPERS system.
- CalPERS is preparing to undertake a project to develop a set of pension beliefs. Currently CalPERS is defining the scope of the project and developing a process and timeline.
- Highlights on CalPERS investments in California for the 2011-12 year totaled over \$20 billion – an increase of 6.7 percent from the prior year – resulting in creating or supporting nearly 1.5 million jobs in California.
- Board elections are coming up. CalPERS has two member-at-large positions up for election. The League of Women Voters will host a Board Election Candidate Forum, here at CalPERS on Thursday, September 5.
- CalPERS All-Staff Forum will be held August 27 and 28. The Forum’s goal is to celebrate CalPERS accomplishments from the past year and to take a look at what’s ahead for the organization.

- The Annual Educational Forum for our employers will be held October 21 through 23 in San Jose.
- CalPERS Retirement Fairs begin this week here in Sacramento at the Convention Center.
- Ms. Stausboll recognized the Dependent Eligibility Verification Project (DEV) team.

b. Chief Investment Officer Report

Ted Eliopoulos, Acting Chief Investment Officer, presented the Chief Investment Officer's (CIO) report to the Board and reported on the following:

- Fiscal year-to-date performance is strong at 12.5 percent on a net basis representing a very strong performance of the public equity markets over the last 12 months.
- CalPERS 10-year return is 7.0 percent and since-inception return is 8.5 percent on a net basis.
- CalPERS weak spot continues to be 5-year return performance, which was significantly impacted by the financial crisis.
- A majority of the fund's assets are allocated to the growth risks. Public and private equity assets together comprise 65 percent of the total fund as of June.
- Income assets represent 16 percent of the fund, and real assets comprise 10 percent of the fund. The remainder of the fund's assets are allocated across liquidity, inflation, and hedge fund programs.
- All assets are within their strategic policy ranges.

AGENDA ITEM 5 – CONSENT ITEMS

Action Consent Items:

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

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

AGENDA ITEM 6 – CONSENT ITEMS

Information Consent Items:

- a. Board Meeting Calendar
- b. Draft Agenda for September 2013 Meeting
- c. 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, August 19, 2013.

Additional information may be found in the August 19, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for September 16, 2013 in Sacramento, California.

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, August 20, 2013.

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

- Adoption of an Oppose Unless Amended on Assembly Bill AB 912 because provisions of this bill would restrict CalPERS Board's authority to establish benefit plan designs that are negotiated on behalf of our members.
- Adoption of a Neutral position on AB 1144, because the bill provides the City of Carson with the flexibility to address its post-retirement health benefits, which are the result of collective bargaining, and does not have an impact on the administration of the Public Employee Medical and Hospital Care Act (PEMHCA).

- Adoption of a Neutral position on AB 1346, because the bill provides the Sacramento Metropolitan Fire District with the flexibility to address its post-retirement health benefits, which are the result of collective bargaining and do not have a direct impact on the administration of PEMHCA.
- Adoption of a Neutral position on Senate Bill SB 277 because the bill proposes policy changes that if signed into law would reflect agreement between labor, as the bill's sponsor, and management, assuming the Legislature passes the bill and the Governor signs the bill.

On **MOTION** by Committee and **CARRIED** with abstentions from Richard Costigan and Bill Slaton, adoption of an Opposed, Unless Amended position on SB 598. The bill should be amended to remove the language requiring physician notification.

Public Comment

Geoffrey Eich, Executive Director at Amgen, a developer of biosimilars, spoke to uphold biosimilars and the physician notification requirement.

Mandy Lee, California Retailers Association, spoke to support biosimilars, but oppose the physician notification requirement – supporting the committee's opposed unless amended recommendation.

Melissa Cortez-Roth, GlaxoSmithKlein, spoke in support of biosimilars and the physician notification requirement.

Eve Bukowski, Vice-President of State Government Affairs at California Healthcare Institute, spoke to support biosimilars and the physician notification requirement.

Richard Engelhardt, Vice-President for Governmental Affairs for BayBio, spoke in support of biosimilars and the physician notification requirement.

Peter Kellison, Walgreen's, spoke in support of biosimilars but opposes physician notification – supporting the committee's opposed unless amended recommendation.

Rick Knapp, Executive Director of State Government Affairs for Novartis Pharmaceuticals, attests that until the FDA provides guidance on these substitutions, they should be treated no differently.

Shane Gusman, United Food and Commercial Workers, California Teamsters Public Affairs Council and Express Scripts, supports the committee's opposed unless amended recommendation.

Brynna Clark, Generic Pharmaceutical Association, supports the committee's opposed unless amended recommendation.

Cheyenne Cook, Director of National Government Affairs Boehringer Ingelheim Pharmaceuticals agrees that this recommendation is premature.

Barry Brokaw, Kaiser Permanente Medical Group and TEVA Pharmaceuticals, supports the committee's opposed unless amended recommendation.

On **MOTION** by Committee and **CARRIED** with abstentions from Richard Costigan and Bill Slaton, the Board approved the adoption of support position on SB 746.

Public Comment

Beth Capell, UFCW, UNITE HERE, and the Teamsters, co-sponsors of this measure, and also AFSCME, Health Access California and California Pan-Ethnic Health Network spoke in support of this measure.

On **MOTION** by Committee and **CARRIED**, the Board approved regulatory action to be submitted to the Office of Administrative Law for its final review and addition to the California Code of Regulation, if approved, as seen in Attachment 1.

Additional information may be found in the August 20, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for October 15, 2013 in Sacramento, California.

c. Finance and Administration Committee

George Diehr, Chair, Finance and Administration Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, August 20, 2013.

Additional information may be found in the August 20, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Finance and Administration Committee is scheduled for September 17, 2013 in Sacramento, California.

d. Performance, Compensation and Talent Management Committee

The Committee did not meet in August.

e. Risk and Audit Committee

The Committee did not meet in August.

f. Board Governance Committee

George Diehr, Vice-Chair, Board Governance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, August 20, 2013.

Additional information may be found in the August 20, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Board Governance Committee is scheduled for September 17, 2013 in Sacramento, California.

AGENDA ITEM 8 - PROPOSED DECISION OF ADMINISTRATIVE LAW JUDGES

On **MOTION** by George Diehr, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved acceptance of Independent Board Counsel to adopt the Proposed Decisions of Administrative Law Judges (ALJ) for Agenda Items 8a and 8b and 8d through 8h in their entirety, as the Board's own decision, and the proposed decision of Agenda Item 8c with minor changes argued by staff to correct a typographical error.

AGENDA ITEM 9 – PETITIONS FOR RECONSIDERATION

On **MOTION** by Henry Jones, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved acceptance of the recommendations of independent Board counsel and deny the petitions for reconsideration at Agenda Item 9a and 9b.

AGENDA ITEM 10 – DESIGNATION OF PRECEDENTIAL DECISION – ROBERT VANDERGROOT

On **MOTION** by George Diehr, **SECONDED** by Michael Bilbrey and **CARRIED**, the Board approved acceptance of the recommendations of independent Board counsel and directed the CalPERS Legal Office to solicit written comments from the public on whether or not to designate the decision at Agenda Item 10 as a precedential Board decision.

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:
- Press releases and proactive promotion of items of interest to CalPERS members were recently issued – upcoming retirement fairs, open enrollment for health plan choices, special enrollment in light of the Supreme Court ruling on the Defense of Marriage Act, and the CalPERS for California Report.
 - Media has been focused on the activities in Detroit’s bankruptcy proceedings. These proceedings may provide direction on the bankruptcies of San Bernardino and Stockton. San Bernardino’s next hearing on bankruptcy eligibility is set for August 28.
 - Other hot topics include Long-Term Care and the Dependent Eligibility Verification Project (DEV). DEV project is already saving money and will help keep health care costs down for all CalPERS members.
 - In Stakeholder Relations, CalPERS is building upon the ambassador program – having met with California State Retirees (CSR) Chapter 21 in Santa Rose and Retired Public Employees Association (RPEA) Chapter 6 in Sonoma. Staff from Stakeholder Relations will continue to meet with local chapters CSR and RPEA.
 - The Ambassador Program will also have information tables at the upcoming retirement fairs this week in Sacramento and next month in Long Beach, and there will be exhibits at the Employer Education Forum in October.
 - The Stakeholder Operations Unit closed 37 Public Records Act requests last month – which is the highest amount since this unit took over the process in April 2011.
 - State Legislative Update on the status of the three CalPERS sponsored bills:
 - SB 215 Beall has passed both the Policy and Fiscal Committees in the Assembly. It is currently on the Assembly floor, where a final set of amendments was taken up last week. These amendments will make conforming change to the PEMHCA for ACA Implementation for our employers and add a technical provision for the 1937 Act systems.
 - SB 220 Beall, CalPERS conformity bill to amend the PERL to assist with PEPRA implementation, passed both Policy and Fiscal Committees in the Assembly. It is now on the Assembly floor and CalPERS will be making one last amendment after which it will move off the Assembly floor and back to the Senate for concurrence.

- AB 373, the Long-Term Care Eligibility bill passed both the Policy and Fiscal committees in the Senate. It is now on the Senate floor awaiting action after which it will go to the Governor's office for signature consideration.
- Other bills of interest:
 - SB 13, the PEPRA clean-up bill, was placed on the Assembly Appropriations suspense file to be considered next week. CalPERS anticipates a final set of amendments to the bill. Once the suspense file is taken up for consideration, the deadline to move it out of Fiscal Committee is August 30.
 - AB 160, which provides an exemption from PEPRA for transit workers, was amended with an urgency clause which allows the bill to be moved before the end of the session deadline. Meanwhile the Federal Department of Labor has been withholding \$1.6 billion in transit grants while it decides whether PEPRA violates the federal collective bargaining rights of transit workers.

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

- The Social Security Administration's Death Master File was, up until a year ago, available to State and local pension plans with the goal of preventing fraud and abuse in the administration of death benefits. Since then, the SSA no longer allows access to the Death Master File for reasons that are still unclear. Legislation has been introduced to remedy this problem.
- Congress is moving forward with a solution to the Medicare payment process known as the Sustainable Growth Rate. It is unclear whether this legislation will pass. Congress' consideration of this issue creates an opportunity for CalPERS to talk to committee staffs and California delegation members about CalPERS' great work in Health Benefits quality and value purchasing ideas and initiatives.
- CalPERS had a very successful meeting with the SEC's new Chair.

AGENDA ITEM 12 – PUBLIC COMMENT

Fred Seavey, Research Director at National Union of Healthcare Workers, reported on the DMHC's ruling on Kaiser Permanente's substandard mental health practices that

Mr. Seavey brought before this Board in November 2011. The DMHC validated the NUHW's allegations and levied a \$4 million fine against Kaiser. The DMHC also ordered a cease and desist from committing further violations of California statutes and regulations. Additional developments in a \$9 million lawsuit settlement Kaiser recently reached for withholding services from children with autism in California.

Harvey Robinson, President of RPEA and candidate for Board Position B, spoke regarding the prospective release of information in regard to confidential member information.

There being nothing further to come before the Board of Administration, the Open Session meeting adjourned at 11:43 a.m.

The next Board of Administration meeting is scheduled for the week of September 16, 2013 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer