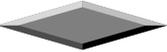


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
MINUTES OF MEETING
Wednesday, June 18, 2014**



The Board of Administration met on Wednesday, June 18, 2014 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:02 a.m. and the following members were present:

Rob Feckner, President
Priya Mathur, Vice President
Michael Bilbrey
John Chiang
Richard Costigan
George Diehr
Darlene Schell for Richard Gillihan
Dana Hollinger
JJ Jelincic
Henry Jones
Ron Lind
Grant Boyken for Bill Lockyer
Bill Slaton

AGENDA ITEM 3 – PRESIDENT’S REPORT

President Feckner recognized and welcomed Dana Hollinger to the Board, appointed by the Governor as the Insurance Industry Representative. President Feckner congratulated and thanked Ruth Holton-Hodson for her service and genuine care for public employees. President Feckner also noted CalPERS night at the Sacramento River Cats and the CalPERS forum for CalPERS employees who are active or veterans of the military.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Ms. Stausboll reported on the following:

- Welcomed Dana Hollinger as the new Board Member and Matt Jacobs as the new General Counsel,
- Two new reports from the Investment Office, the CalPERS Initiative Report and the CalPERS for California Report,
- Health care premiums and CalPERS open enrollment period,
- CalPERS Compare, a new two-year pilot program,
- Comprehensive Annual Financial Report (CAFR),
- Annual business plan,
- CalPERS environmental efforts and water conservation,
- Summer performance series,
- Facebook milestone of 10,000 likes.

Ms. Stausboll recognized and thanked Ruth Holton-Hodson for her outstanding work representing the Controller and all she has done for our members.

Ms. Stausboll also recognized Gary Bush and Larry Jensen for their hard work and dedication to CalPERS.

Ms. Stausboll gave a special thanks to Gina Ratto for her hard work and commitment as Interim General Counsel.

b. Chief Investment Officer Report

Ted Eliopoulos, Interim Chief Investment Officer, reported on the portfolio:

As of April 30, 2014 the total fund has returned 13.9 percent, outperforming the policy benchmark period by 16 basis points. Public equity returns have been 19.4 percent with the 3-year and 5-year returns at 8.6 percent and 12.3 percent respectively. The 10-year return is at 7 percent and the 20-year return is a solid 8.2 percent. Since-inception return is 8.77 percent.

All asset class allocations are within policy ranges with the total fund assets at \$290.5 billion.

AGENDA ITEM 5 – CONSENT ITEMS

Action Consent Items:

- a. Approval of May 2014 Meeting Minutes

President Feckner asked that the minutes be revised for PHBC Item 10, which would implement high performance generic step therapy for CVS Caremark in 2015, to reflect that a motion was made by Michael Bilbrey to table PHBC Item 10 until the June meeting. Motion to table carried.

On **MOTION** by JJ Jelincic, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved adoption of the revised May 2014 Meeting Minutes, Action Consent Item 5a.

- b. Board Travel Approvals
- c. Establishment of Chief Investment Officer Search Committee

One additional travel request was submitted for Henry Jones. The request is attached to these minutes.

On **MOTION** by Priya Mathur, **SECONDED** by Grant Boyken and **CARRIED**, the Board approved the amended Action Consent Items 5b and 5c.

AGENDA ITEM 6 – CONSENT ITEMS

Information Consent Items:

- a. Board Meeting Calendar
- b. Draft Agenda for August 2014 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, June 16, 2014.

The Committee approved the initiation of the General Pension Board Consultant Request for Proposal process using the amended Statement of Services to be Provided discussed by the Committee.

Additional information may be found in the June 16, 2014 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for August 18, 2014 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, June 17, 2014.

On **MOTION** by Priya Mathur, **SECONDED** by Darlene Schell and **CARRIED**, the Board approved to take from the table, Item 10 from the May Pension and Health Benefits Committee.

On **MOTION** by Priya Mathur, **SECONDED** by Darlene Schell and **CARRIED**, the Board approved the Committee's recommendation to adopt proposed 2015 Health Maintenance Organization and Preferred Provider rates inclusive of benefit design changes as contained in PHBC Items 5a, 5b, and 5c.

- Agenda Item 5a
The proposed 2015 Health Maintenance Organization (HMO) risk adjusted premium rates for Anthem Blue Cross, Blue Shield of California, Health Net, Kaiser Permanente, Sharp, and United Healthcare (Attachment 1), inclusive of the benefit changes contained in the agenda item.
- Agenda Item 5b
The proposed 2015 Preferred Provider Organization (PPO) rates for Anthem EPO, PersSelect, PersCare, and PersChoice (Attachment 2), inclusive of the benefit changes contained in the agenda item.
- Agenda Item 5c
The Proposed 2015 rates for the California Association of Highway Patrol (CAHP) Health Benefits Trust, the California Correctional Peace Officers Association (CCPOA) Benefit Trust Fund, and the Peace Officers Research Association of California (PORAC) Insurance and Benefits Trust (Attachment 3).

Clarification made at the August 20, 2014 Board meeting for Agenda Item 7b:

PHBC agenda items 5a and 5b included a benefit change to implement High Performance Generic Step Therapy with Selective Therapeutic Class Grandfathering. Under Selective Therapeutic Class Grandfathering, current utilizers of targeted medications in six categories, shown shaded on the attached chart, would be selectively grandfathered to continue on the brand name if there is a filled prescription for that medication between October 1, 2014 and December 31, 2014. A

new prescription for the targeted brand with a different dose or any new prescription for a different targeted brand in the same therapeutic class is not eligible for continued Selective Grandfathering.

The committee deferred Agenda Item 6, Assembly Bill 2533 (Ammiano), in order to continue to watch the bill as further changes are made to it during the legislative session.

On **MOTION** by Committee and **CARRIED**, with one abstention by CalHR, the Board approved to adopt a support position on Senate Bill 1182 (Leno), if the bill is amended to exclude CalPERS. (PHBC Item 7)

Additional information may be found in the June 17, 2014 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for August 19, 2014 in Sacramento, California.

c. Finance and Administration Committee

Bill Slaton, Chair, Finance and Administration Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, June 17, 2014.

On **MOTION** by Committee and **CARRIED**, the Board approved staff's recommendation to authorize an increase of an existing contract amount for Altus Group U.S., Inc. from \$8.3 million to \$35.5 million. (FAC Item 3b)

On **MOTION** by Committee and **CARRIED**, the Board approved to adopt the actuarial assumption changes and the asset method changes along with the employer and employee monthly premiums for Fiscal Year 2014-15 as set forth in the table on page 2 of the agenda item and in Attachment 2. And approval of the corresponding transmittal letter to the Governor and Legislature. (FAC Item 5a)

On **MOTION** by Committee and **CARRIED**, the Board approved the schedule of events, evaluation process and scoring method for three Federal Policy Representative Request for Proposals, and for a Spring-Fed Pool of additional Federal consultants as outlined in the item with the addition that the technical score hurdle be 70 percent or 105 points for the Federal Policy Legislative Representative, and 70 percent or 50 points (rounded) of the total technical score for the Spring-Fed Pool, and the addition of the two board members to the technical scoring process. (FAC Item 6a)

Additional information may be found in the June 17, 2014 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Finance and Administration Committee is scheduled for September 16, 2014 in Sacramento, California.

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 Monday, June 16, 2014.

On **MOTION** by Committee and **CARRIED**, the Board approved the Revised Executive Compensation Policy. (PCTM Item 3b)

On **MOTION** by Committee and **CARRIED**, the Board approved the 2013-14 Third Quarter Status Report for the Chief Executive Officer. (PCTM Item 5)

On **MOTION** by Committee and **CARRIED**, the Board approved the 2014-15 Performance Plan for the Chief Executive Officer, and the 2014-15 Performance Plan for the Interim Chief Investment Officer as Amended in Attachment A. (PCTM Item 6)

Additional information may be found in the June 16, 2014 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Performance, Compensation and Talent Management Committee is scheduled for September 2014 in Sacramento, California.

e. Risk and Audit Committee

George Diehr, Chair, Risk and Audit Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, June 17, 2014.

On **MOTION** by Committee and **CARRIED**, the Board approved the proposed changes to the Risk & Audit Committee Delegation Resolution for the Board of Administration. (RAC Item 5a)

On **MOTION** by Committee and **CARRIED**, the Board approved the proposed Audit Plan for Fiscal Year 2014-15 and 2015-16. (RAC Item 6a)

On **MOTION** by Committee and **CARRIED**, the Board approved the External Auditor's Annual Plan for the audit of the Financial Statements as of and for the year ending June 30, 2014. (RAC Item 6b)

On **MOTION** by Committee and **CARRIED**, the Board approved the proposed 2014-16 Risk Assessment Plan. (RAC Item 7a)

On **MOTION** by Committee and **CARRIED**, the Board approved the proposed 2014-16 Compliance Plan. (RAC Item 7b)

The next meeting of the Risk and Audit Committee is scheduled for September 16, 2014 in Sacramento, California.

f. Board Governance Committee

The Committee did not meet in June.

The next meeting of the Board Governance Committee is scheduled for September, 2014 in Sacramento.

AGENDA ITEM 8 – PROPOSED DECISION OF ADMINISTRATION LAW JUDGES

On **MOTION** by Priya Mathur, **SECONDED** by Grant Boyken and **CARRIED**, the Board approved acceptance of the Independent Board Counsel recommendations and adopted the proposed decisions of Administrative Law Judges (ALJ) for Agenda Items 8a through 8d as the Board's own decisions in their entirety.

AGENDA ITEM 9 – PETITIONS FOR RECONSIDERATION

On **MOTION** by Priya Mathur, **SECONDED** by Michael Bilbrey and **CARRIED**, the Board approved to accept the recommendation of the Independent Board Counsel to deny the petitions for reconsideration under Agenda Items 9a through 9d.

AGENDA ITEM 10 – EXTERNAL AFFAIRS/STATE AND FEDERAL LEGISLATION

Robert Glazier, Deputy Executive Officer, External Affairs, provided an update on our Insight videos, promoting the long-term care program, stakeholder outreach activities, the Ambassador Program, and legislative updates. Mr. Glazier also recognized and thanked the social media team for their work.

Tom Lussier, CalPERS Federal Liaison, provided updates on federal legislation.

AGENDA ITEM 11 – PUBLIC COMMENT

Public Comment by Neal Johnson, SEIU 1000

Neal Johnson, representing Service Employees International Local 1000, State Employees, thanked staff members for their service.

There being nothing further to come before the Board of Administration, the Open Session meeting adjourned at 10:06 a.m.

The next Board of Administration meeting is scheduled for August 20, 2014 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer

Attachments:

1. Jones travel request to Chicago to attend the Pension Bridge Conference – 7/20-22/2014.
2. Customized CalPERS High Performance Generic Step Therapy (HPGST) Proposal: Estimated 2015 Member Impact* with No Grandfathering, Selective Grandfathering, and Full Grandfathering for 15 Drug Classes



Board of Administration

California Public Employees' Retirement System

Agenda Item 5b

June 18, 2014

ITEM NAME: Board Travel Approvals

PROGRAM: Board of Administration

ITEM TYPE: Action Consent

RECOMMENDATION

Approve travel requests as required under the Board of Administration's travel policy.

Over \$500/Out of State/Country Travel Requests Approved by Board President:

Board Member	Date	Destination	Purpose of Travel
Priya Mathur	6/27/14 – 7/4/14	New York, NY	Attend PRI Board and Advisory Council Meetings
Henry Jones	7/20/14 – 7/22/14	Chicago, IL	Attend Pension Bridge Private Equity Exclusive Conference
Ron Lind	10/11/14 – 10/13/14 11/14/14 – 11/16/14	Columbia University, NY	RFK Compass Sustainable Investing Education Program

Rob Feckner, President
Board of Administration

Customized CalPERS High Performance Generic Step Therapy (HPGST) Proposal: Estimated 2015 Member Impact* with No Grandfathering, Selective Grandfathering, and Full Grandfathering for 15 Drug Classes

Condition Treated	Drug Class (Examples of Targeted Brands)	Potential additional labs, physician visits, or other monitoring	Steps	No Grandfathering*	Selective Grandfathering*	Full Grandfathering*
Depression	SNRIs (e.g., Pristiq)	Possible additional physician visits	One	2,092	0	0
Depression	SSRIs (e.g., Viibryd)	Possible additional physician visits	One	369	0	0
Glaucoma	Prostaglandin Analogs (e.g., Lumigan)	Intraocular pressure check	One	433	0	0
High Blood Pressure	ACEs/ARBs (e.g., Micardis HCT, Tekturna/Tekturna HCT)	Blood pressure should be monitored regularly	Two	812	0	0
High Cholesterol	Fibrates (e.g., Fenoglide)	Cholesterol and triglyceride blood checks	One	94	0	0
High Cholesterol	Statins (e.g., Crestor - excluding 40 mg, Simcor, Vytorin)	Liver function and cholesterol blood checks	One	2,884	0	0
Acid Reflux	PPIs (e.g., Nexium, Prilosec Packets)	None	Two	4,232	4,232	0
Acne	Anti-Acne Medications (e.g., Akne-Mycin)	None	One	407	407	0
Allergy	Nasal Steroids (e.g., Beconase AQ, Omnaris)	None	One	645	645	0
Headache	Triptans (e.g., Axert, Frova, Relpax)	None	One	422	422	0
Insomnia	Hypnotics (e.g., Edluar, Intermezzo)	None	One	457	457	0
Osteoporosis	Bisphosphonates (e.g., Fosamax Plus D)	None	One	76	76	0
Pain	Cox-2 Inhibitors/NSAIDs (e.g., Celebrex, Flector, Pennsaid, Voltaren Gel)	None	Two	2,541	2,541	0
Prostate Enlargement	Alpha-Reductase Inhibitors (e.g., Avodart, Jalyn)	None	One	450	450	0
Urinary Incontinence	Urinary Antispasmodics (e.g., Toviaz, Vesicare)	None	Two	535	535	0
Total				16,449	9,765	0

* That is, the estimated number of members taking the targeted brands as of 12/31/2014 who would be subject to HPGST on 01/01/2015.

Source of opinions in "Potential additional labs, physician visits, or other monitoring" column: CVS/caremark and CalPERS clinical staff, May 2014. Source of estimated member impacts in "No Grandfathering" and "Selective Grandfathering" scenarios: CVS/caremark, May 2014.



Meeting Summary

June 18, 2014

The Investment Committee met on June 16, 2014.

The Committee approved:

- The initiation of the General Pension Board Consultant Request for Proposal process using the amended Statement of Services to be Provided discussed by the Committee.

The Committee received presentations on:

- Key accomplishments and upcoming initiatives of the Investment Compliance Program.
- The Targeted Investment Programs including the findings of two recent surveys focused on peer exposure to women and minority owned investment managers and CalPERS' recent accomplishments and continued commitment to diversity and inclusion.
- The 2013 CalPERS for California Report.
- A conflict with the current timeline for the annual rebalancing of the Terminated Agency Pool Portfolio and core, cyclical workloads for the Actuarial Office. It was noted that staff will return with a change to the Terminated Agency Pool Statement of Investment Policy to resolve the scheduling conflict and better align with existing workloads and resources.

The Committee heard public comment on:

- CalPERS' efforts to increase pension benefit security.

Highlights of what to expect at upcoming Investment Committee meetings:

- In August, the Committee will receive updates on the performance and risk of the Total Fund from the Chief Investment Officer and Board Consultants, as well as an update on the Global Governance Program.
- Additionally, the Committee will identify the Infrastructure Board Consultant finalists for interview.

The next meeting of the Investment Committee is scheduled for August 18, 2014 in Sacramento, California.