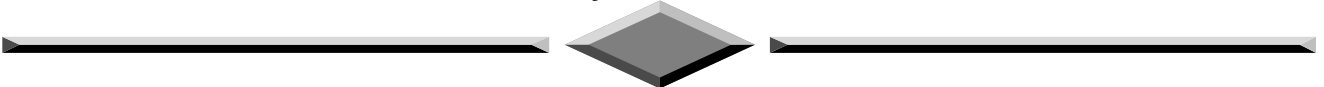


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
MINUTES OF MEETING  
Wednesday, November 18, 2015**



The Board of Administration met on Wednesday, November 18, 2015 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:00 a.m. and the following members were present:

Rob Feckner, President  
Henry Jones, Vice President  
Michael Bilbrey  
Grant Boyken for John Chiang  
Richard Costigan  
Richard Gillihan  
Dana Hollinger  
JJ Jelincic  
Priya Mathur  
Bill Slaton  
Theresa Taylor  
Betty Yee

Board of Administration Members excused: Ron Lind

### **AGENDA ITEM 3 – PRESIDENT’S REPORT**

President Feckner acknowledged and thanked all the veterans in the regional offices throughout the State and in the auditorium for their service to our country. President Feckner thanked the staff for all their hard work at the CalPERS Educational Forum and the Board Members for participating.

### **AGENDA ITEM 4 – EXECUTIVE REPORTS**

#### **a. Chief Executive Officer Report**

Ms. Stausboll thanked Ted Eliopoulos and his team for the instructive Private Equity Workshop.

Ms. Stausboll reported on the following current initiatives and priorities:

- Fourth Annual Report on CalPERS funding levels and risks,
- The final Comprehensive Annual Financial Report,
- Annual Emerging Manager Five-Year Plan Draft Report,
- The 2015 Our Promise Charitable Campaign,
- The California State Employees' Food Drive.

Ms. Stausboll thanked all the Board Members who attended the 16<sup>th</sup> Annual Educational Forum and also thanked all the staff who helped make it successful.

Ms. Stausboll acknowledged CalPERS Employer Response Team, Kellye Smith, Susan Forrer, Patricia Brown and Ryan Digman for always going the extra mile to instill confidence and credibility with our employers.

Ms. Stausboll recognized the Financial Office and the budget team for the Government Finance Officers' Association award they received.

b. Chief Investment Officer Report

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

As of September 30, 2015 for a three-month period, the total fund performance for the fiscal year-to-date is negative 4.9 percent. Importantly, much longer time periods are more meaningful to measure the performance. The 3-year return of the total fund is 7.6 percent and the 5-year return is at 8 percent. The 10-year return is at 5.2 percent and the 20-year return of the total fund is 7.2 percent. All asset class allocations are within policy ranges. The total fund assets are valued at \$283.9 billion.

## **AGENDA ITEM 5 – CONSENT ITEMS**

### **Action Consent Items:**

- a. Approval of October 21, 2015 Board of Administration Meeting Minutes
- b. Board Travel Approvals

On **MOTION** by JJ Jelincic, **SECONDED** by Priya Mathur 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 December 16, 2015 Board of Administration Meeting
- c. General Counsel's Report
- d. External Affairs 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, November 16, 2015.

Additional information may be found in the November 16, 2015 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for December 14, 2015 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, November 17, 2015.

On **MOTION** by Committee and **CARRIED**, the Board approved staff's recommendation to defer further development of a statewide wellness platform due to risks associated with exceeding excise tax thresholds, and instead, endorse the continuation of the California Public Employees' Retirement System Population Health Management Initiative. (PHBC Item 5)

Additional information may be found in the November 17, 2015 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for December 15, 2015 in Sacramento, California.

### c. Finance and Administration Committee

Richard Costigan, Chair, Finance and Administration Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, November 17, 2015.

On **MOTION** by Committee and **CARRIED**, the Board approved the draft California Public Employees' Retirement System 2014-15 Basic Financial Statements. (FAC Item 5a)

On **MOTION** by Committee and **CARRIED**, the Board approved the First Reading of the California Public Employees' Retirement System Fiscal Year 2015-16 Mid-Year Total Budget of \$1,807,600,000. (FAC Item 5b)

On **MOTION** by Committee for the Board to approve the Funding Risk Mitigation Policy Second Reading and the Funding Risk Mitigation Policy with the 2 percent threshold.

On **SUBSTITUTE MOTION** by Henry Jones, **SECONDED** by Priya Mathur, and **CARRIED**, the Board approved the Funding Risk Mitigation Policy with the original 4 percent threshold. (FAC Item 6a)

Christy Bouma on behalf of the California Professional Firefighters spoke in support of the substitute motion on the Funding Risk Mitigation Policy.

Neil Johnson spoke on behalf of SEIU 1000 in support of the substitute motion on the Funding Risk Mitigation Policy.

On **MOTION** by Committee and **CARRIED**, the Board approved the June 30, 2015 Actuarial Valuation report for the Long-term Care (LTC) Program. (FAC Item 7a)

Additional information may be found in the November 17, 2015 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Finance and Administration Committee is scheduled for December 15, 2015 in Sacramento, California.

d. Performance, Compensation and Talent Management Subcommittee

Michael Bilbrey, Chair, Performance, Compensation, and Talent Management Subcommittee, presented the Subcommittee Summary report to the Board. The Subcommittee met on Friday, November 6 and Monday, November 9, 2015.

On November 6, 2015, the Subcommittee met and elected Michael Bilbrey as Chair and Priya Mathur as Vice Chair.

On November 9, 2015, the Subcommittee conducted interviews with the four finalist proposed firms and identified the highest-scoring finalist as the selected firm.

On **MOTION** by Committee and **CARRIED**, the Board approved the awarding of the Board's Primary Executive Compensation Consultant contract to Grant Thornton, and should negotiations be unsuccessful, directed staff to begin negotiations with the next highest scoring finalist, Global Governance Advisors. (PCTM Item 5)

Additional information may be found in the November 9, 2015 Agenda materials and transcripts of the Subcommittee meeting.

The next meeting of the Performance, Compensation and Talent Management Committee is scheduled for December 15, 2015 in Sacramento, California.

e. Risk and Audit Committee

JJ Jelincic, Vice Chair, Risk and Audit Committee, presented the Committee Summary report to the Board. The Committee met on Friday, November 17, 2015.

On **MOTION** by Committee and **CARRIED**, the Board approved the Request for Proposal for the Selection of the Independent Financial Statement Auditor for Audit Years 2017-21. (RAC Item 5a)

On **MOTION** by Committee and **CARRIED**, with one recusal by Richard Costigan, the Board approved the Actuarial Parallel Valuation and Certification Services contract be awarded to Buck Consultants. (RAC Item 5b)

On **MOTION** by Committee and **CARRIED**, the Board approved the Independent Auditor's Report for the Fiscal Years 2014-15. (RAC Item 5c)

Additional information may be found in the November 17, 2015 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Risk and Audit Committee is scheduled for March 16, 2015 in Sacramento, California.

f. Board Governance Committee

Bill Slaton, Chair, Board Governance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, November 17, 2015.

Additional information may be found in the November 17, 2015 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Board Governance Committee is scheduled for December 15, 2015 in Sacramento.

## **AGENDA ITEM 8 – PROPOSED DECISION OF ADMINISTRATIVE LAW JUDGES**

On **MOTION** by Henry Jones, and **CARRIED**, the Board approved the Independent Board Counsel's recommendations and adopted the proposed decisions of Administrative Law Judges (ALJ) for Agenda Items 8a through 8h, and 8j through 8r in their entirety as the Board's own decisions.

On **MOTION** by Henry Jones, and **CARRIED**, the Board approved the Independent Board Counsel's recommendations and adopted the proposed decisions of Administrative Law Judges (ALJ) for Agenda Items 8i in their entirety as the Board's own decisions.

## **AGENDA ITEM 9 – PETITIONS FOR RECONSIDERATION**

On **MOTION** by Henry Jones, **SECONDED** by Priya Mathur and **CARRIED**, with one recusal by Richard Gillihan, the Board approved the Independent Board Counsel's recommendation and denied the petition for reconsideration for Agenda Item 9a.

## **AGENDA ITEM 10 – FULL BOARD HEARING – BRUCE MALKENHORST**

President Feckner moved Agenda Item 10 to be heard after Agenda Item 11.

## **AGENDA ITEM 11 – STATE LEGISLATION**

Mary Anne Ashley, Legislative Affairs Division Chief, provided an update on State Legislation.

## **AGENDA ITEM 10 – FULL BOARD HEARING – BRUCE MALKENHORST**

The following members were present:

Rob Feckner, President  
Henry Jones, Vice President  
Michael Bilbrey  
Grant Boyken for John Chiang  
Richard Costigan  
Katie Hagen for Richard Gillihan  
Dana Hollinger  
Priya Mathur  
Bill Slaton  
Theresa Taylor  
Betty Yee

Board of Administration Members excused: Ron Lind

JJ Jelincic recused himself from the item.

At the September 17, 2015 Board meeting, the Board rejected the proposed decision of the Administrative Law Judge (ALJ) and scheduled this matter for a full Board hearing on the following issues:

- One: Whether the process by which CalPERS staff arrived at the pay rate was arbitrary;
- Two: Whether any of the pay at issue constitutes prohibited overtime for purposes of the Public Employees Retirement law; and,
- Three: Whether CalPERS staff is time barred in recouping any overpayments that may have been made to the member.

Jason Levin of Steptoe and Johnson, appeared for CalPERS staff. John Michael Jensen, Attorney, represented Bruce Malkenhorst.

Chirag Shah, the Board's independent counsel on full Board hearings arising from the proposed decisions of the OAH, was present to guide and advise the Board in these proceedings.

President Feckner reminded those present that the record from the hearing before the ALJ stands as is, but the parties have the opportunity to present oral and written arguments. Mr. Malkenhorst and CalPERS staff had submitted written arguments. President Feckner provided a general outline of the procedures for the hearing and confirmed that all parties received copies of the Statement of Policy and Procedures for Full Board Hearings before the Board.

Mr. Shah provided a brief summary of the case and the substantive facts.

President Feckner noted that Mr. Jensen had submitted a written request to supplement an administrative record dated November 5, 2015. The Board denied that request on the grounds that the evidence was not newly discovered and could have been produced at the hearing. All exhibits attached to the request were stricken from the Administrative Record.

Mr. Levin then presented CalPERS' Staff's arguments.

Mr. Jensen then presented arguments on behalf of Mr. Malkenhorst.

Mr. Levin and Mr. Jensen each presented their rebuttal arguments.

The floor was then opened for questions by the Board.

The attorneys were asked questions by the Board members for approximately 30 minutes.

The Board then recessed into closed session to deliberate on the Full Board Hearing at 11:34 a.m.

The public meeting reconvened at approximately 12:07 p.m.

President Feckner announced that the Board reached a decision by vote of 9 “yes” and 2 “no.”

Henry Jones moved to deny the appeal and revise the proposed decision as argued by staff, including with respect to recoupment of overpayments and accrual and tolling of the limitations period.

#### **AGENDA ITEM 12 – SUMMARY OF BOARD DIRECTION**

No new direction.

#### **AGENDA ITEM 13 – PUBLIC COMMENT**

No public comment was made.

Meeting was recessed to closed session at 12:09 p.m.

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ANNE STAUSBOLL  
Chief Executive Officer

Attachment:  
November 2015 Board Meeting Roll Call Vote



## November 2015 Board Meeting Roll Call Vote

**Meeting:** Board of Administration – Full Board Hearing -- Malkenhorst

**Motion:** Deny this appeal and revise the Proposed Decision as argued by Staff, including with respect to recoupment of overpayments and accrual and tolling of the limitations period.

**Date:** 11/18/2015

**Time:** 11:45 am – 12:15 pm

Board Member	Yes	No	Abstain
<b>Rob Feckner</b>	X		
<b>Michael Bilbrey</b>	X		
<b>John Chiang</b> Represented by: Grant Boyken, Frank Moore, Christina Elliott, Eric Lawyer, Najia Rosales, Collin Wong-Martinusen	X		
<b>Richard Costigan</b>	X		
<b>Richard Gillihan</b> Represented by: Katie Hagen, Ralph Cobb	X		
<b>Dana Hollinger</b>	X		
<b>JJ Jelincic</b> (Excused – did not participate in FBH or vote)			
<b>Henry Jones</b>	X		
<b>Ron Lind</b> (Absent/Excused – did not participate in FBH or vote)			
<b>Priya Mathur</b>	X		
<b>Bill Slaton</b>		X	
<b>Theresa Taylor</b>		X	
<b>Betty Yee</b> Represented by – Karen Greene Ross, Alan Lofaso, Lynn Paquin	X		



## **Meeting Summary**

November 18, 2015

The Investment Committee met on November 16, 2015.

Additionally, the Committee participated in a workshop exploring private equity in more detail. The topics included the benefits and drawbacks of private equity, the role of private equity in CalPERS' portfolio, key legal terms and conditions, and examples of accounting methods. The Committee received several public comments following the workshop.

### **The Committee discussed and approved:**

- Proposed revisions to the Fixed Income and Global Equity Policies
- Staff's recommendation that four portfolio companies are not subject to the California Public Divest from Iran Act
- Proposed updates to the Legislative and Policy Engagement Guidelines
- An update to the Wilshire Associates Key Persons list

### **The Committee received presentations on:**

- A federal legislative update covering recent developments on issues of interest to CalPERS
- The estimated carbon emissions of the public equity component of the CalPERS Public Employee's Retirement Fund
- The Private Equity Annual Program Review by staff and Pension Consulting Alliance
- Proposed revisions to the Private Equity Program policies

### **Highlights of what to expect at the December Investment Committee meeting include:**

- The annual program review for the Real Assets
- The annual report to the California Legislature on the CalPERS Emerging Manager Five-Year Plan
- An update on the Investment Office Roadmap

The next meeting of the Investment Committee is scheduled for December 14, 2015 in Sacramento, California.