

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
INVESTMENT COMMITTEE
OPEN SESSION

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

MONDAY, MAY 16, 2016

10:31 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Henry Jones, Chairperson

Mr. Bill Slaton, Vice Chairperson

Mr. Michael Bilbrey

Mr. John Chiang, represented by Mr. Grant Boyken and Mr. Frank Moore

Mr. Richard Costigan

Mr. Rob Feckner

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. J.J. Jelincic

Mr. Ron Lind

Ms. Priya Mathur

Ms. Theresa Taylor

Ms. Betty Yee, also represented by Ms. Lynn Paquin

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matt Jacobs, General Counsel

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Ms. Natalie Bickford, Committee Secretary

Mr. Dan Bienvenue, Managing Investment Director

Ms. Kit Crocker, Investment Director

A P P E A R A N C E S C O N T I N U E D

STAFF:

Ms. Kimberly Malm, Chief, Operations Support Services
Division

Mr. Todd Mattley, Investment Officer

Ms. Anne Simpson, Investment Director

Mr. Wylie Tollette, Chief Operating Investment Officer

Ms. Laurie Weir, Investment Director

ALSO PRESENT:

Ms. Gila Cohen, Courtland Partners

Ms. Janet Cox

Ms. Linda De La Crux, Service Employees International
Union, United Service Workers West

Ms. Sandy Emerson, Fossil Free California

Mr. Allan Emkin, Pension Consulting Alliance

Ms. Christy Fields, Pension Consulting Alliance

Mr. Michael Flaherman, UC Berkeley

Mr. David Glickman, Pension Consulting Alliance

Mr. Thomas Hester, Courtland Partners

Mr. Michael Humphrey, Courtland Partners

Mr. Andrew Junkin, Wilshire Consulting

Mr. Eric Knapp

Mr. Jim Knox, American Cancer Society, Cancer Action
Network

Mr. Dillon Lorda, Pension Consulting Alliance

A P P E A R A N C E S C O N T I N U E D

ALSO PRESENT:

Ms. Jody Macintosh, CEM Benchmarking

Ms. Jane Martin, Service Employees International Union,
United Services Workers West

Mr. Michael Murphy, Courtland Partners

Dr. Kevin Wehr, California Faculty Association

Mr. Dave Wilson, CEM Benchmarking

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2 CHAIRPERSON JONES: I'd like to call the
3 Investment Committee meeting to order, please. The first
4 order of business is roll call, please.

5 COMMITTEE SECRETARY BICKFORD: Good morning.
6 Henry Jones.

7 CHAIRPERSON JONES: Here.

8 COMMITTEE SECRETARY BICKFORD: Bill Slaton?

9 VICE CHAIRPERSON SLATON: Here.

10 COMMITTEE SECRETARY BICKFORD: John Chiang
11 represented by Grant Boyken?

12 ACTING COMMITTEE MEMBER BOYKEN: Here.

13 COMMITTEE SECRETARY BICKFORD: Richard Costigan?

14 COMMITTEE MEMBER COSTIGAN: Here.

15 COMMITTEE SECRETARY BICKFORD: Rob Feckner?

16 COMMITTEE MEMBER FECKNER: Good morning.

17 COMMITTEE SECRETARY BICKFORD: Good morning.

18 Richard Gillihan represented by Katie Hagen?

19 ACTING COMMITTEE MEMBER HAGEN: Here.

20 COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

21 COMMITTEE MEMBER HOLLINGER: Here.

22 COMMITTEE SECRETARY BICKFORD: J.J. Jelincic?

23 COMMITTEE MEMBER JELINCIC: Here.

24 COMMITTEE SECRETARY BICKFORD: Ron Lind?

25 COMMITTEE MEMBER LIND: Here.

1 COMMITTEE SECRETARY BICKFORD: Priya Mathur?

2 COMMITTEE MEMBER MATHUR: Good morning.

3 COMMITTEE SECRETARY BICKFORD: Good morning.

4 Theresa Taylor?

5 COMMITTEE MEMBER TAYLOR: Here.

6 COMMITTEE SECRETARY BICKFORD: Betty Yee?

7 COMMITTEE MEMBER YEE: Here.

8 CHAIRPERSON JONES: Okay. Thank you.

9 COMMITTEE MEMBER BILBREY: Mr. Chair?

10 CHAIRPERSON JONES: Yes.

11 COMMITTEE MEMBER BILBREY: I'm here.

12 (Laughter.)

13 CHAIRPERSON JONES: She missed you.

14 COMMITTEE SECRETARY BICKFORD: Pardon me.

15 Michael Bilbrey. Excuse me.

16 COMMITTEE MEMBER BILBREY: Here.

17 CHAIRPERSON JONES: Okay. Thank you.

18 Okay. The next item on the agenda is Executive
19 Report, Chief Investment Officer briefing.

20 Mr. Eliopoulos.

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, Mr.
22 Chair. As we discussed, we have a very full agenda here
23 today, and we're getting a bit of a late start, starting
24 at 10:30, so I'll defer my comments this morning, and so
25 we can get to our agenda.

1 CHAIRPERSON JONES: Okay. Thank you very much.
2 So the next item on the agenda is the action
3 consent item. Do we have a motion?

4 COMMITTEE MEMBER LIND: Move.

5 COMMITTEE MEMBER MATHUR: Second.

6 CHAIRPERSON JONES: Moved by Mr. Lind, second by
7 Mrs. Mathur.

8 Discussion?

9 Seeing none.

10 All those in favor, aye?

11 (Ayes.)

12 CHAIRPERSON JONES: Opposed?

13 None.

14 (No.)

15 CHAIRPERSON JONES: One no. Record Mr. Jelincic
16 as a no.

17 The item passes.

18 The next item agenda consent items for
19 information. I have no requests to remove anything from
20 the --

21 COMMITTEE MEMBER JELINCIC: I sent you an email.

22 CHAIRPERSON JONES: Which item would you like?

23 COMMITTEE MEMBER JELINCIC: On 4, 4d.

24 CHAIRPERSON JONES: 4d. Okay. So we're going --

25 COMMITTEE MEMBER JELINCIC: It's actually just a

1 question, so you may or may not want to pull it.

2 CHAIRPERSON JONES: It's a short question?

3 COMMITTEE MEMBER JELINCIC: It's a short
4 question.

5 CHAIRPERSON JONES: Okay.

6 Go ahead, Mr. Jelincic.

7 COMMITTEE MEMBER JELINCIC: And it was in the
8 spring-fed pool. It's page 12 of the attachment, 39 of
9 the iPad. And I just want to make sure that those top
10 three items were correct.

11 And the other question that is going to follow,
12 so you may want to answer it at the same time, is in the
13 second and third one, critical time frame, previous entry,
14 what does that mean?

15 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

16 I'll -- Wylie Tollette, Investment Office staff.

17 Can -- is there any way you could give me a
18 little bit more information on what you mean by correct?

19 CHAIRPERSON JONES: Okay. I thought it was going
20 to be quick, so why don't I pull this item and we'll come
21 back to it, Mr. Jelincic, at the end of the -- at the end
22 of the agenda items today.

23 COMMITTEE MEMBER JELINCIC: Okay.

24 CHAIRPERSON JONES: Moving on to action agenda
25 item. Item number 5, Legislation. We have a Assembly

1 Bill 2833, Public Retirement Alternative Investment
2 Disclosure.

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

4 Great. Thank you, Mr. Chair. I'll welcome
5 Laurie Weir and Mary Anne Ashley to the dais.

6 CalPERS supports the disclosure of fees,
7 expenses, and carried interest paid to private equity fund
8 managers, as the proposed legislation requires.

9 Consistent with a Board member's suggestion, staff
10 recommends the addition of appropriate reference to
11 fiduciary obligation in the bill. With the agreed upon
12 amendments, staff's concerns, as expressed in the agenda
13 item, have been addressed. So once the amendments have
14 been approved by the author of the legislation, and we've
15 had a chance to review the revised bill, the Investment
16 Office will be able to fully support AB 2833.

17 CHAIRPERSON JONES: Okay. Mr. Slaton.

18 VICE CHAIRPERSON SLATON: Yeah. I thought I
19 heard you say - I want to make sure just to confirm - that
20 the issue of the sole fiduciary responsibility resting
21 with this Board, your going to be seeking inclusion of
22 that in this bill?

23 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

24 That's right.

25 VICE CHAIRPERSON SLATON: Okay. Thank you. That

1 was my concern.

2 CHAIRPERSON JONES: Okay. We have Mr. Jelincic.

3 COMMITTEE MEMBER JELINCIC: Yeah, I actually --
4 you know, I haven't seen the amendments, so I'm somewhat
5 concerned. But there were a couple of issues in the
6 write-up that got created. And one of them was using the
7 LPA definition of related parties. And if you look at
8 what they have on their website, it's this, this, this and
9 this. And, quite frankly, when you string the conjunction
10 together, you don't wind up with any related parties, so
11 it really does need to be an "or". So that concerns me.

12 As Grant can tell you, I'm one of the few --
13 well, I'm one person who has harped on this since day one,
14 you've got to define what the related parties are,
15 occasionally to the point of being a bit of a pain in the
16 ass.

17 Not limiting it to existing -- or to new
18 contracts only, not dealing with extensions and revisions
19 and amendments, it's troublesome. If -- you know, you
20 point out that some of these are 100 years old. Well,
21 quite frankly, if it's a 10 year old LP that we're
22 negotiating the -- renegotiating the agreement on, then
23 it's essentially a zombie fund. And the GP is looking for
24 something and we ought to be able to get something for it.
25 So that concerns me.

1 The separate reporting of fees and expenses, no
2 problem. I mean, two lines instead of one line. In fact,
3 it's probably more enlightening. And the -- on reporting
4 data as collected by CalPERS, presumably we're calculating
5 it and we ought to report what we have calculated. But I
6 think it also would be valuable to cal -- to report what
7 the GPs are reporting, because obviously they have to give
8 it to us.

9 And if there is a difference between what we
10 calculate and what they calculate, that creates some
11 interesting questions that need to be asked. We say we're
12 using a standardized process. If they're not using a
13 standardized process, then it at least raises questions.
14 So those are the concerns I had that may or may not be
15 addressed in the amendments that I haven't seen.

16 But one of the things that I think is important
17 is that we support this bill, even if we don't get all the
18 amendments that we necessarily wanted. A half of loaf is
19 certainly better than no loaf. And if there's anyone who
20 has been ranting and raving about the need to disclose,
21 it's me.

22 Thank you.

23 CHAIRPERSON JONES: Thank you.

24 Mr. Boyken.

25 ACTING COMMITTEE MEMBER BOYKEN: Thank you. And

1 I wanted to speak a little bit to talk about some of the
2 amendments that our office has accepted. And I also
3 wanted to thank CalPERS staff. They did a lot of work
4 communicating with our office, especially last week, but
5 also in the -- in recent months.

6 So just going kind of issue by issue, the
7 concerns laid out in the memo and how we think we're going
8 to address those. One is on the applicability -- and
9 you're right, Mr. Jelincic, that it would apply to new
10 private equity contracts, but also to new capital
11 commitments, so for existing contracts that existed prior
12 to January 1, 2017.

13 In terms of the definition of related parties, we
14 had included a definition that got dropped. We landed on
15 the ILPA definition, with the exception that we are going
16 to add the word "or", so that it's not a long list and
17 somebody has to meet all of those requirements in the
18 definition.

19 On the -- yes, we -- we're agreeable to
20 separating carried interest from fees. And then the other
21 piece in that section of concern was we wanted separation
22 between the reporting of fees that come from the investor,
23 the limited partner, to the general partner, and fees paid
24 out of the alternative investment fund to the general
25 partner, and related parties.

1 And what we've landed on is agreement, but we
2 haven't worked out the language yet, is that, because it
3 doesn't get reported that way, staff can back out the --
4 they can separate it in-house. And then on the allowing
5 reported -- reporting of data collected by CalPERS. So
6 instead of making it a requirement that the data come from
7 the general partner, we say CalPERS or the general
8 partner.

9 So I think with a lot of work, we've come to a
10 place where we're in agreement, it's workable, and if
11 anybody has questions, happy to answer.

12 CHAIRPERSON JONES: Okay. Thank you.

13 Mr. Costigan.

14 COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.

15 So a lot of credit to the Treasurer's office for
16 do this. I think more disclosure and transparency is very
17 important. Just a few questions.

18 One is what's the penalty if they fail to comply?

19 INVESTMENT DIRECTOR WEIR: Good morning,
20 Committee Members. Laurie Weir, Targeted Investment
21 Programs.

22 On new contracts and new capital going forward,
23 if there is not willingness to agree to the terms, then
24 staff would not go forward with the investment strategy.

25 COMMITTEE MEMBER COSTIGAN: Okay. So the

1 penalty, at this point, would be no additional capital.

2 INVESTMENT DIRECTOR WEIR: That is correct or no
3 new agreement subject, of course, to the fiduciary
4 obligation that Mr. Slaton has raised.

5 COMMITTEE MEMBER COSTIGAN: Okay. Also note, I
6 just want to confirm, there is no listed opposition at
7 this time? I just want to -- I just -- because I --

8 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:
9 (Nods head.)

10 COMMITTEE MEMBER COSTIGAN: That's always
11 important when you look at legislation.

12 So the bill has gone through its committee. It's
13 had its hearing, and so far the trade associations
14 representing the hedge fund, the private equity funds,
15 there was nobody at the hearing that opposed the bill?

16 INVESTMENT DIRECTOR WEIR: (Nods head.)

17 COMMITTEE MEMBER COSTIGAN: That's correct.
18 Okay.

19 And then I just -- I just -- from a statutory
20 interpretation, the only concern I have, and again, is
21 looking for a little more flexibility. And I -- we --
22 I've raised this before. These are very smart people.
23 And what we've done is we've given them a roadmap. And
24 that roadmap says if I comply with A, B, C, and D, I've
25 complied. And then they'll find -- potentially find ways

1 around it. I don't know as the bill moves forward if
2 there's an opportunity to have some additional language or
3 look at have we -- are the four corners of the document
4 covered? Is every -- have we anticipated their move?

5 For example, I know they're going to talk about
6 expenses, but if they set up a subsidiary, a
7 communications firm, for example, they list that as an
8 expense? I'm -- here's -- I'm aware of some private funds
9 that have subsidiary companies, that then are -- is a way
10 to look at lowering overall returns. They move it through
11 a subsidiary company.

12 And then that company is who they contract with
13 to manage their other 10 companies to do all their
14 communications. So when we talk about is that an expense
15 item, for example, under this bill, is that how that would
16 be treated?

17 ACTING COMMITTEE MEMBER BOYKEN: It's your
18 interpretation?

19 COMMITTEE MEMBER COSTIGAN: I just want to make
20 sure we're -- what I don't want, for example, is prior to
21 this bill, they make X. What they do is they set up a
22 subsidiary, call it an expense, and then it's the same
23 general partner of subsidiary A, and it's just a way of
24 moving the dollars around.

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1 Our understanding is that such a subsidiary would
2 be considered a related party, and thus --

3 COMMITTEE MEMBER COSTIGAN: And would be covered.

4 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

5 -- would be covered.

6 COMMITTEE MEMBER COSTIGAN: Okay. That's what I
7 wanted to make sure. Thank you. And again, I think the
8 Treasurer, a great job on additional transparency.

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
10 would echo that and thank you personally to Grant for all
11 of his help and work on this.

12 CHAIRPERSON JONES: Okay. Mr. Slaton.

13 VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.
14 I want to add my compliments. This is a -- this is a
15 difficult thing to do, because it's always going to be
16 imperfect. It's not going to be perfect, because the
17 market moves and it changes and reacts.

18 I want to come back to just one issue that I
19 heard the Treasurer comment on, and that is new capital on
20 existing transactions. I need to understand how that
21 plays out and whether that creates -- is that something
22 we're looking to amend or, you know, what is considered
23 new capital in existing transaction -- legacy transaction?

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: New
25 capital would basically represent capital beyond the

1 original capital commitment that was made when the
2 agreement was entered. So in certain situations a private
3 equity partnership can come back to the investor and
4 request new capital, say, in a workout situation, or where
5 there was a debt covenant due or -- and it -- it's a
6 situation where the investor may have additional
7 bargaining leverage because the partnership is coming back
8 looking for money to continue the life of the partnership.

9 VICE CHAIRPERSON SLATON: So if that were to
10 happen, and -- you know, these are transactions where
11 we're not the sole partner -- we're not the sole limited
12 partner. So they come back and say they need, you know,
13 50 million more from us along with the other partners, but
14 they have the ability to go get the rest of the money, if
15 we say, no, because you won't comply, they can go get it
16 elsewhere, is that correct? So we have limited leverage
17 in that condition?

18 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: No,
19 that's right. We don't have perfect leverage in these
20 situations. Of course, we could be crammed down is what
21 you're describing, but we feel comfortable that that
22 situation gives us enough bargaining leverage to apply the
23 terms of this.

24 The fiduciary -- the additional fiduciary
25 language, however, that has been proposed, would allow the

1 Investment Office to come back to the Board in those
2 situations and request guidance, in terms of how to -- how
3 to proceed if we had one of these conflicts arise.

4 VICE CHAIRPERSON SLATON: So would that -- that
5 got to my second question, which is in the event of a --
6 you face a situation where there's non-compliance, yet you
7 want to go forward, that would then come back to this
8 Committee?

9 CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, I
10 think that's -- that will be in the drafting of the
11 language. Some of these requests for commitments might,
12 you know, come up in between a Board meeting. So I think
13 we want to look at that language carefully to whether it
14 would be to seek approval of the Committee or to notify
15 the Committee, because in those very rare occasions when
16 this might come into play, there is a fiduciary tension
17 around committing the capital in order to preserve your
18 assets and, you know, preserve your current investment,
19 and placing a vote on a deadline. So we'd just want to
20 think about the mechanics of it, but -- and we have some
21 examples in the -- in policy already that --

22 VICE CHAIRPERSON SLATON: But that would be a
23 policy issue for us not a function of the legislation?

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
25 That's right.

1 VICE CHAIRPERSON SLATON: Okay. Thank you.

2 CHAIRPERSON JONES: Thank you.

3 Mr. Lind.

4 COMMITTEE MEMBER LIND: Thank you.

5 To sum up what others have said, you know, great
6 work by everybody involved. It may not wind up being a
7 perfect bill, but I think this is going to be a
8 significant step forward, and I move the staff
9 recommendation to adopt -- or to support, if amended.

10 COMMITTEE MEMBER MATHUR: Second.

11 CHAIRPERSON JONES: It's been moved by Mr. Lind,
12 second by Mrs. Mathur.

13 Additional discussion?

14 Mr. Jelincic.

15 COMMITTEE MEMBER JELINCIC: I would actually like
16 to see us rather than support, if amended, say that we
17 support the bill with the amendments, because I would hate
18 to say -- have staff get to the point, well, we can't get
19 this amendment, and therefore we're not supporting the
20 bill. I think we need to clearly be in support of the
21 Bill.

22 You know, and it's difficult not having seen the
23 amendments, but one of the things they point out is that
24 in the write-up staff is recommending amendments that
25 would eliminate negative impacts, good thing, and align

1 the proposed legislation with CalPERS current reporting
2 standards. And, quite frankly, if our current reporting
3 standards were adequate, we wouldn't be having the bill.

4 And, Rich, one of the issues that you raised is
5 there's a bunch of really smart people out there and
6 they'll try and figure out how to game this bill, and
7 you're right. And not only that, we will have indemnified
8 them, if they succeed.

9 CHAIRPERSON JONES: Mr. Jelincic, we have a
10 motion on the floor.

11 COMMITTEE MEMBER JELINCIC: Okay. I move to
12 amend, so that it is support with recommended amendments.

13 CHAIRPERSON JONES: Okay. So on Mr. Jelincic's
14 motion that's been made by Mr. Jelincic. Is there a
15 second?

16 ACTING COMMITTEE MEMBER BOYKEN: Second.

17 CHAIRPERSON JONES: Second by Mr. Grant Boyken.
18 Discussion on Mr. Jelincic's?

19 Okay. We'll take a vote.

20 Discussion on Mr. Jelincic?

21 VICE CHAIRPERSON SLATON: Yeah. I think our --
22 you know, I think our staff has come up with a position.
23 I think we have reasonable amendments we're trying to
24 obtain. I think the normal protocol is support, if
25 amended. And I think to send a different message than

1 that changes the weight of the argument. And I have
2 confidence in staff that these amendments are appropriate
3 and that we'll get there. So I'd be voting against the
4 motion.

5 CHAIRPERSON JONES: Okay. Ms. Taylor on Mr.
6 Jelincic's motion?

7 COMMITTEE MEMBER TAYLOR: That wasn't originally
8 why I had pushed my button, but however -- I am -- would
9 vote in opposition to Mr. Jelincic's action.

10 Thank you.

11 CHAIRPERSON JONES: Okay. Mr. Boyken on Mr.
12 Jelincic's motion.

13 ACTING COMMITTEE MEMBER BOYKEN: No, I understand
14 standard protocol and understand where you're coming from.
15 I guess personally I was thinking that's the flexibility
16 in case -- I mean, you know, the amendments aren't out,
17 and I wish they were right now. And I don't know if we
18 have the possibility -- June is already going to be in the
19 second house. So from my perspective, the Treasurer's
20 perspective, that would be the cleaner approach, since
21 there are still some moving parts.

22 You know, I can assure you we're going to follow
23 the amendments we discussed here today, and that we've
24 worked out with staff. But if the Board wants to go a
25 different direction, then...

1 CHAIRPERSON JONES: Okay. Mr. Lind on Mr.
2 Jelincic's motion.

3 COMMITTEE MEMBER LIND: (Shakes head.)

4 CHAIRPERSON JONES: Okay. Mrs. Mathur.

5 COMMITTEE MEMBER MATHUR: Thank you. I just
6 wanted to ask Ms. Ashley if she had any comments on that.
7 We have sort of a protocol that's outlined in our policy.
8 This would be deviating from that. We don't actually have
9 a position that we generally take that is support with
10 amendments. Could you comment?

11 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.
12 You can do that, support with recommended amendments.
13 It's not substantially different support, if amended. But
14 since there's been agreement on the amendments and
15 everybody has worked collaboratively, that would be an
16 appropriate position.

17 COMMITTEE MEMBER MATHUR: Okay. Thank you.

18 CHIEF INVESTMENT OFFICER ELIOPOULOS: I guess I
19 would add just -- I don't have a lot of clarification
20 between the two. I know the support, if amended means
21 that we can follow the amended language and see if it
22 adequately responds to the concerns that we raise, as your
23 Investment staff. So that I'm clear on.

24 I have not -- I have not seen us take a support,
25 with amendments position. So I would need some real

1 direction and clarity what that means, if any of the
2 amendments did not meet our Investment staff review. I
3 just want to be extremely clear that we follow the
4 Committee's direction.

5 And I guess what I'm saying is I'm extremely
6 clear on support, if amended what that means. And I --
7 there's a lack of clarity in this case with amendments.

8 COMMITTEE MEMBER MATHUR: It does seem a little
9 bit like a distinction without a difference, that either
10 we're supporting only if the amendments are included or we
11 are supporting regardless. So it seems that there's -- I
12 don't really -- I guess I'm not clear either on the
13 difference between support with -- with the amendments
14 versus support, if amended.

15 CHAIRPERSON JONES: Okay. Mr. Boyken, on the --

16 ACTING COMMITTEE MEMBER BOYKEN: Yes. So I guess
17 one of the thoughts that I had is this is -- the Board
18 staff, you know, kind of work things out with the
19 Treasurer, the sponsor. We're still working with the
20 author. So we were going to circle back with the author's
21 office after this week. You know, I don't anticipate any
22 difficulties with the amendments we've discussed here.

23 And there's also other parties. AFSCME is
24 working with us, with the bill. I mean, clearly if the
25 bill was amended in a way that, you know, then, you know,

1 if there was some significant departure from what we've
2 discussed today, I think there would be time in June, at
3 the June's meeting, to reconsider, but, you know, I really
4 would love to have CalPERS support. I can go either way.

5 But to me, the distinction is if we do support,
6 that's support. Support with recommendations means we
7 support it. We're suggesting these recommendations, these
8 amendments, which to me is slightly different than we
9 support, but only if these amendments are made. But it
10 probably doesn't make a huge difference.

11 CHAIRPERSON JONES: Mr. Costigan.

12 COMMITTEE MEMBER COSTIGAN: I'm going to support
13 Mr. Jelincic's motion for exactly what Mr. Boyken just
14 said. I support the underlying bill. And a support, if
15 amended, means we only support the bill, if it's amended.
16 And so from that direction, I know staff would like
17 greater clarity. But until the bill is amended, and I
18 would argue it should come back in June, is that it's to
19 support the bill in its current form, because I believe we
20 all support the underlying policy. The support with
21 amendments is a limiting -- it's limiting. If the bill is
22 not amended, then you come back and ask us to do what?

23 So I will be supporting Mr. Jelincic's motion.

24 CHAIRPERSON JONES: Okay. Mr. Slaton.

25 VICE CHAIRPERSON SLATON: Yeah. Thank you.

1 Just one last comment. Particularly, the issue
2 that concerns me is the issue of fiduciary duty. And even
3 though it's in the Constitution, I think anytime we have
4 legislation that essentially directs what we can and
5 cannot do, I think it's very important for this Board to
6 have the clarity in statute that we -- that the ultimate
7 fiduciary responsibility ours.

8 And so I would be very uncomfortable -- I'm
9 comfortable with all aspects of this particular
10 legislation, with the exception of the -- that that's not
11 in there. And I trust the ability of our staff to be able
12 to negotiate. But I want to send clarity of signal.

13 And on that particular issue of fiduciary, I
14 think it's very important that that be in the -- in the
15 legislation. And if there's general agreement out there,
16 then fine, it will happen. But I think we need to send a
17 clear voice on what it is we believe needs to be in there
18 to meet our responsibility.

19 CHAIRPERSON JONES: Okay. Mrs. -- Mr. Boyken.

20 ACTING COMMITTEE MEMBER BOYKEN: And on that
21 point, Mr. Slaton, the Treasurer has indicated that he's
22 willing to make it clear in the language that the plenary
23 and fiduciary authority of the Board that's already in the
24 Constitution and in statute will be referenced. And we
25 haven't settled on the language for that.

1 CHAIRPERSON JONES: Okay. Mr. Jelincic.

2 COMMITTEE MEMBER JELINCIC: Yeah. Speaking to my
3 motion, I think it's important that we say we will -- we
4 support this bill. The -- there are details to be worked
5 out. The motion, as presented, says that if we don't get
6 the amendments we want, we will not support the bill.

7 The write-up in front us doesn't actually talk
8 about the fiduciary obligation. Although, that's been
9 mentioned. The write-up does say that we're going to
10 align the legislation to our current reporting standards,
11 which says we really don't need the bill. So I think that
12 it is actually a stronger statement to say we support this
13 bill. There are amendments we like -- we would like.
14 It's not a perfect before, but we support the disclosure
15 requirements. And so I would encourage people to vote for
16 my amendment.

17 CHAIRPERSON JONES: Okay. So I'm going to call
18 for the vote on Mr. Jelincic's substitute amended motion.

19 COMMITTEE MEMBER JELINCIC: It's an amendment.
20 It's not a substitute.

21 CHAIRPERSON JONES: And all those in favor of Mr.
22 Jelincic's amended motion?

23 (Ayes.)

24 CHAIRPERSON JONES: We better do the electronic
25 vote, please, because I didn't hear very well.

1 COMMITTEE MEMBER JELINCIC: Before we vote, I'm
2 aware that there was a public comment on -- desired on
3 this bill.

4 CHAIRPERSON JONES: Correct. Correct. Before we
5 vote, let's hold -- thanks for reminding me. We have one
6 request to speak on this item. Mr. Michael Flaherman.

7 You come down. You have three minutes to speak
8 Mr. Flaherman. And you'll note the clock on the dais
9 here. And when you start talking, the clock will start.

10 MR. FLAHERMAN: Good morning. I have one issue I
11 just wanted to raise, which is that I'm aware that there
12 have been different versions, different proposed
13 amendments floated around for this bill, some of which are
14 very tricky and are intended to undermine the purpose of
15 this bill. And I was hoping actually that one of you
16 might ask what I think is actually a very important
17 question, which is are there any other changes to the
18 latest amendment -- proposed amendment that affect the
19 bill relative to the last version of it that has been
20 posted?

21 Because Mr. Costigan has an excellent point,
22 which is that there's no public opposition to this bill,
23 but there is certainly a lot of unhappiness in the private
24 equity industry. And the effort has been to try to slip
25 in innocuous seeming language that has the effect of

1 undermining the effect of the bill.

2 So if I were you, I would want to get reassurance
3 and confidence that there is no other substantive change
4 to the bill, other than what's already been discussed. So
5 that -- I just throw myself on your mercy and hope that
6 one of you might ask that question before you vote.

7 Thank you.

8 CHAIRPERSON JONES: Mr. Boyken.

9 ACTING COMMITTEE MEMBER BOYKEN: Thank you. I'm
10 not sure where that comes from. There's been no tricky
11 amendments. It's been good negotiations between the
12 Treasurer's office and the author's office. I mean,
13 you're exactly correct. We've seen no opposition on file.
14 Nobody has talked to us. Nobody from industry has gotten
15 to us. There was, at one point, when legislative counsel
16 dropped our definition of "related parties". There were a
17 couple of other things that got amended.

18 Legislation, you know, sometimes the deadlines
19 come quick. It's an iterative process. Things aren't
20 perfect. But fortunately, it's a long process that won't
21 finish until late in the summer, plenty time for input
22 like we have today for CalPERS to come up with a
23 reasonable thought-out plan.

24 So, you know, I can sure this Board there's
25 nothing tricky going on behind the scenes.

1 CHAIRPERSON JONES: Okay. Thank you, Mr. Boyken
2 Okay. So we'll proceed to the voting, electronic
3 voting, please.

4 All those in favor -- well, you will say yes or
5 no on your...

6 (Thereupon an electronic vote was taken.)

7 CHAIRPERSON JONES: The item passes.

8 Okay. So would you like --

9 COMMITTEE MEMBER JELINCIC: Henry, the amendment
10 pass. Now, what's on the floor is the amended motion.

11 CHAIRPERSON JONES: The whole bill, right, right.
12 So we need to vote now on the original motion as amended.

13 All those in favor say?

14 (Ayes.)

15 CHAIRPERSON JONES: Opposed?

16 (No.)

17 CHAIRPERSON JONES: One no. Mr. Slaton. Record
18 Mr. Slaton as a no. And one abstain by Ms. Hagen.
19 Otherwise the item passes.

20 Okay. Thank you.

21 Now, we move to the next item on the agenda,
22 which is 6a -- no, sorry 5b, House Resolution 4718.

23 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

24 Great. Good morning, Mr. Chair and members of
25 the Board. This measure would require the Securities and

1 Exchange Commission to establish a gender diversity
2 advisory group to study and make recommendations on
3 strategies to increase gender diversity among members of
4 the board of directors of issuers to amend the Securities
5 Exchange Act of 1934 to require insurers to make
6 disclosures to shareholders with respect to gender
7 diversity and for other purposes.

8 The Act would be known as the Gender Diversity in
9 Corporate Leadership Act of 2016. The advisory group
10 would be composed of representatives from the government,
11 academia, and the private sector. The group would be
12 tasked to carry out a study on strategies to increase
13 gender diversity among members of the Board of Directors
14 of issuers, and then not more than nine months after the
15 establishment of the group, issue a report to the
16 Commission, the Committee on Financial Services of the
17 House of Representatives and the Committee on Banking,
18 Housing and Urban Affairs of the Senate.

19 The report would be required to include the
20 findings and determinations made in conducting the study
21 and would include recommendations to increase the gender
22 diversity.

23 Then no later than one year following the
24 issuance of the report, and annually thereafter, the
25 Commission should issue a report to the Committee on

1 Financial Services of the House of Representatives, and
2 the Committee on Banking, Housing, and Urban Affairs of
3 the Senate on the status of gender diversity among the
4 members of the board of directors of issuers. The report
5 would be required to be made available to the public and
6 also be available on the website of the Commission.

7 CalPERS federal representatives have met with
8 Congresswoman Maloney's staff and have asked that Ms.
9 Maloney consider expanding the definition of diversity
10 beyond just gender. Ms. Maloney has acknowledged CalPERS
11 recommendation and shown interest in expanding the
12 definition. However, at this time, she is moving forward
13 with the bill as it is currently drafted.

14 Staff is recommending a support position on this
15 measure. And that concludes my report, and I'm happy to
16 answer any questions.

17 CHAIRPERSON JONES: Okay. Before I call, just a
18 question on the recommendation, we use the word "suggest"
19 amendments. That's not in our nomenclature to support or
20 modify a bill. So if we're really saying that we are
21 asking that diversity be -- go beyond gender, we should
22 not say "suggest", we would put in some kind of action
23 word here to amend to include diversity beyond gender.

24 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: We
25 could say support with recommended amendments, just like

1 on the previous bill, so we could support the bill, and we
2 would recommend expanding the definition beyond gender
3 diversity.

4 CHAIRPERSON JONES: Okay. That would work.
5 Okay. Thank you.

6 Mrs. Mathur.

7 COMMITTEE MEMBER MATHUR: Thank you.

8 Well, I strongly support this bill, and also
9 CalPERS efforts to extend -- expand the definition of
10 diversity. As we have seen, as the research demonstrates,
11 diversity really does -- is additive to the performance of
12 companies. And we just heard a presentation just last
13 month on this very issue. And our own global principles
14 have a very expansive definition of diversity, including
15 skill sets, gender, age, nationality, race, sexual
16 orientation, gender identity, and historically
17 underrepresented groups, all of which I think add to the
18 mosaic of a board and can really contribute to diversity
19 of thought and better decision-making.

20 So I strongly support the bill, and I think your
21 recommendation of having it be a support with recommended
22 amendments is appropriate. And so I would so move that.

23 CHAIRPERSON JONES: Okay. Moved by Mrs. Mathur.

24 COMMITTEE MEMBER BILBREY: Second.

25 CHAIRPERSON JONES: Second by Mr. Bilbrey.

1 Okay. Discussion?

2 Ms. Taylor.

3 COMMITTEE MEMBER TAYLOR: So I just wanted to add
4 that I strongly support this bill. I also strongly
5 support CalPERS position moving diversity forward, as Ms.
6 Mathur said. It's very well documented that diversity has
7 positively impacted returns, mitigated risk, et cetera.
8 So I speak in favor of this motion. Thank you.

9 CHAIRPERSON JONES: Mr. Jelincic.

10 COMMITTEE MEMBER JELINCIC: I also am supportive.
11 But this is my ignorance, what's -- what's a resolution?
12 I mean, is it a bill, does it have to go to both Houses,
13 does have to be signed by the governor, does it have the
14 effect of law? I mean, since they control the SEC's
15 budget, it certainly has some weight. But what is a
16 resolution?

17 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: It's
18 like in the State we have Assembly Bills and Senate Bills,
19 we have House Resolution, which is a bill, which would
20 have to go through committees in both the Senate and the
21 House.

22 COMMITTEE MEMBER JELINCIC: So it would create a
23 statute?

24 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:
25 Correct.

1 COMMITTEE MEMBER JELINCIC: Thank you.

2 CHAIRPERSON JONES: Okay. Ms. Yee.

3 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

4 I also support the House Resolution. I guess on
5 Mr. Jelincic's question, so this would be binding law, the
6 resolution, once it's enacted?

7 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.

8 COMMITTEE MEMBER YEE: Okay. And then the
9 factors that Ms. Mathur mentioned with respect to the
10 definition extending beyond gender, have we been pretty
11 specific about what we want to see, how we want to see
12 that defined.

13 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.
14 Yes, we have.

15 COMMITTEE MEMBER YEE: Okay. Thank you.

16 CHAIRPERSON JONES: Okay. Mr. Costigan.

17 COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.

18 Just a couple questions. I note the bill was
19 introduced on March 7th and referred to the House Finance
20 Committee. It's not been set for a hearing. Do you know
21 what the timeline is?

22 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I
23 don't know when the deadline is to hear it in committee.
24 It hasn't been scheduled yet, so the timelines don't
25 coincide with the State timelines. So I believe they have

1 further to hear the bill and discuss it and amend it.

2 COMMITTEE MEMBER COSTIGAN: All right. And I
3 note, just at least on our analysis, it references, as
4 amended, the bill -- or the resolution has not been
5 amended. That was the introduced version on March 7th.
6 So since the introduction, at least according --

7 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:
8 Correct.

9 COMMITTEE MEMBER COSTIGAN: -- to the
10 Congressional website, there are no -- there's been no
11 amendments proposed. So I think one of the things at
12 least I heard is do we think the definition is too narrow
13 and we're offering something broader, which is the CalPERS
14 belief?

15 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: We're
16 suggesting that it be expanded to more than just gender
17 diversity.

18 COMMITTEE MEMBER COSTIGAN: So -- and I
19 apologize. Where is our letter that says that?

20 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: We
21 have engaged -- our federal representative have engaged
22 with Ms. Maloney's staff. So they've personally visited
23 her and her staff.

24 COMMITTEE MEMBER COSTIGAN: No, I understand.
25 Where are -- I think the proposed broadening of it is

1 important. Where is either that letter, where is the K&L
2 Gates memo that says the amendments that they're offering,
3 the fact that CalPERS is suggesting a broader definition,
4 where is that, Mr. McKeever?

5 DEPUTY EXECUTIVE OFFICER McKEEVER: Mr. Chair,
6 members of the Committee, Doug McKeever, CalPERS staff.
7 Based upon the action that's taken today, the next step
8 will be to generate a letter that will be presented to K&L
9 Gates who will then present that to the representative's
10 office for consideration for the amendments that are being
11 taken up.

12 COMMITTEE MEMBER COSTIGAN: All right. So not to
13 get granular, after our last discussion, wouldn't the
14 appropriate motion be not to -- I think as Mr. Jelincic --
15 isn't a support, if amended to include what Ms. Yee and
16 Ms. Mathur and Ms. Taylor raised the broadening definition
17 to just say that we support a House Resolution to expand,
18 shouldn't we be more specific?

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: I think --
20 I'll jump in on this point. Here is the case that we do
21 unequivocally recommend that you support the current bill
22 as it stands. We think gender diversity is an important
23 goal. In addition to that, we think we're recommending
24 that you encourage the congresswoman to include a more
25 expansive definition.

1 That's the motion that would be in front of you.
2 But if the Committee would rather take a stronger
3 position, which would -- or a different position, which
4 would be you would oppose to Congress --

5 COMMITTEE MEMBER COSTIGAN: It's not oppose.
6 It's to support, because it doesn't go far enough.

7 CHIEF INVESTMENT OFFICER ELIOPOULOS: But you
8 would -- but this is the -- this is the really important
9 thing, and it follows on the action you just took five
10 minutes ago, which is do you -- are you directing staff to
11 support this bill whether or not you get the amendments
12 that you're hoping for or are you supporting the bill only
13 if you get the amendments that you're seeking?

14 COMMITTEE MEMBER COSTIGAN: In the last one, I
15 guess the argument, at least I would make, is we wanted
16 more transparency on fees. On this one, if we support
17 merely a resolution that just discusses one aspect, it
18 doesn't go far enough.

19 And actually a stronger signal would be to oppose
20 her bill, and say it doesn't go far enough, and expand it,
21 where in the Treasurer's bill, we support the underlying
22 policy at the end of the day on fee transparency. I mean,
23 it's a -- it's a little bit of a distinction to either say
24 a support if amended, because I do agree we should have
25 a -- the bill should go broader.

1 The bigger question is the bill still hasn't been
2 set. And so by the time this bill gets set, and she comes
3 back and says she doesn't take our suggestions, now, we're
4 sometime in June or July beginning to run out the
5 congressional session.

6 CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, I
7 think the other distinction is, in this case, with the
8 Treasurer's bill and the author of the bill, we have -- we
9 had amendments, and we had a declaration that those
10 amendments would be accepted.

11 In this case, at least in our verbal inquiries to
12 the Congresswoman's office, our expectation is that the
13 amendments will not be taken. So it's really up to the
14 Committee where you'd like to be on that, because it's
15 more -- if nothing changes, it's more likely than not that
16 the resolution will go forward without an expanded
17 definition of diversity. And that's really the choice
18 that's before the Committee. I just wanted to make sure
19 that was clear.

20 COMMITTEE MEMBER COSTIGAN: I just think a
21 stronger --

22 CHIEF INVESTMENT OFFICER ELIOPOULOS: Mary Anne,
23 you look like you want to --

24 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I did
25 want to just note that what the bill says is that an

1 advisory group would be established to study strategies
2 for increasing diversity. So it could be that the studies
3 would show that perhaps the definition of gender diversity
4 should be expanded more so it's --

5 COMMITTEE MEMBER COSTIGAN: And I would say, with
6 all due respect to Ms. Maloney, this Board has already
7 shown that board diversity leads to higher returns. The
8 Board has taken public positions that diverse boards are
9 good. Doing a study I don't think goes far enough.
10 That's all. Thank you.

11 CHAIRPERSON JONES: Yeah. And if the study is to
12 be conducted, I think it needs to be expanded even for the
13 study, because that's one of our core values that we're
14 talking about, in terms of diversity, the definition of
15 diversity. And I think we would be remiss if we didn't
16 require that that be included in order for us to have to
17 support this particular bill. So that's my comment.

18 Ms. Taylor.

19 COMMITTEE MEMBER TAYLOR: Yeah. I just had a
20 quick question. Did K&L Gates give you any insight into
21 why she just moved forward without including what we
22 requested?

23 DEPUTY EXECUTIVE OFFICER McKEEVER: Ms. Taylor,
24 no, they did not.

25 COMMITTEE MEMBER TAYLOR: Okay.

1 CHAIRPERSON JONES: And -- but Mr. Gates -- K&L
2 Gates did make a comment at our previous Investment
3 Committee meeting that he was talking with the
4 congresswoman to include our requests. So we haven't
5 heard back on that, to my knowledge.

6 DEPUTY EXECUTIVE OFFICER McKEEVER: And, Mr.
7 Jones, just to be clear, those conversations are
8 continuing.

9 CHAIRPERSON JONES: Okay. Mr. Boyken.

10 ACTING COMMITTEE MEMBER BOYKEN: A quick
11 question. I forgot. So there's a motion on the table,
12 right?

13 CHAIRPERSON JONES: Yes.

14 ACTING COMMITTEE MEMBER BOYKEN: And then does
15 the motion -- and, sorry, apologies. I've forgotten.
16 Does that specifically refer to our definition that we use
17 of diversity in -- it does?

18 COMMITTEE MEMBER MATHUR: (Nods head.)

19 CHAIRPERSON JONES: I think it does.

20 ACTING COMMITTEE MEMBER BOYKEN: And then the
21 other thing I guess I would throw out there, but I'll
22 leave it up to my colleagues is we recently, at the
23 Controller and the Treasurer's suggestion, expanded, you
24 know, not diversity, but in desirable board attributes,
25 experience and expertise in climate risks of -- I don't

1 know if that sort of deviates from the intention of this
2 resolution, but I would at least throw that out there as
3 something to consider in terms of our recommendation of
4 support.

5 CHAIRPERSON JONES: Okay. But I am correct, Ms.
6 Mathur, that your motion does include the expanded
7 definition of gender?

8 COMMITTEE MEMBER MATHUR: Yes.

9 CHAIRPERSON JONES: Okay. Thanks.
10 Okay. Mr. Jelincic.

11 COMMITTEE MEMBER JELINCIC: I agree the bill
12 doesn't go far enough. On the other hand, I don't think
13 we want to be in a position of saying, well, we're
14 opposing it, because it doesn't go far enough. I think
15 the appropriate approach to take is the one that we have
16 taken is saying we support the bill, but we suggest that
17 you also add these.

18 So I actually would support the staff's
19 recommendation as they had presented it. And, you know, I
20 certainly don't want to put us in opposition to the bill,
21 because we couldn't get it expanded to include other
22 elements of diversity.

23 Thank you.

24 CHAIRPERSON JONES: Okay. So there is a motion
25 on the floor, Ms. Mathur, second by Mr. Bilbrey.

1 All those in favor say aye?

2 (Ayes.)

3 CHAIRPERSON JONES: Opposed?

4 The item passes with the definition.

5 ACTING COMMITTEE MEMBER HAGEN: Abstain.

6 CHAIRPERSON JONES: Abstain from Ms. Hagen.

7 Okay. We now move to Agenda Item 6a, Divestment
8 Review - Proposed Timetable. And this is an information
9 item. And this item is being -- has returned to the
10 Committee based on the request from the Treasurer last
11 month that he wanted to have additional discussion on
12 this. So that's why it's here.

13 And now, I will call on Mrs. Mathur.

14 COMMITTEE MEMBER MATHUR: Thank you.

15 COMMITTEE MEMBER JELINCIC: I have a procedural
16 question.

17 CHAIRPERSON JONES: Yes. Lets -- he has a
18 procedural question. So where is Matt. Is Matt in the
19 audience in case --

20 GENERAL COUNSEL JACOBS: Right here.

21 CHAIRPERSON JONES: Oh. Okay. Thank you.

22 Okay. Go ahead, J.J..

23 COMMITTEE MEMBER MATHUR: Just turn his mic on.

24 CHAIRPERSON JONES: Okay.

25 COMMITTEE MEMBER JELINCIC: Matt had been warned

1 the question was coming up. Is this a motion to
2 reconsider, in which case, it would have to be moved by
3 somebody who was on the prevailing side and take a
4 two-thirds vote, or is this -- if it becomes a motion, is
5 this a new motion, in which case anybody can make the
6 motion and it becomes a majority vote?

7 CHAIRPERSON JONES: Mr. Jacobs.

8 GENERAL COUNSEL JACOBS: I think that's a
9 question for Mr. Boyken. I can advise on how the motions
10 work and what kind of requirement there are -- what kind
11 of requirements there are and who needs to make the
12 motion, but I'm not sure exactly what the motion is. If
13 it's a motion to rescind, then any member can make that
14 motion. If it's a motion to reconsider, then somebody who
15 voted in favor of the motion the first time around needs
16 to be the maker of the motion.

17 CHAIRPERSON JONES: Okay.

18 VICE CHAIRPERSON SLATON: Point of order.

19 COMMITTEE MEMBER JELINCIC: Or it could be a
20 completely new motion, in which case --

21 CHAIRPERSON JONES: Yeah.

22 COMMITTEE MEMBER JELINCIC: -- anyone could --

23 GENERAL COUNSEL JACOBS: It depends on the
24 substance. It could be a completely new motion, but if
25 it's of the same substance as was passed last time, then

1 it's really not a new motion.

2 CHAIRPERSON JONES: Okay.

3 VICE CHAIRPERSON SLATON: Point of order.

4 CHAIRPERSON JONES: Okay. Point of order. Mr.
5 Slaton.

6 VICE CHAIRPERSON SLATON: I just want to make --
7 I just want to make sure on a motion to reconsider,
8 doesn't it have to happen within a certain time period
9 too? Aren't we passed that time?

10 GENERAL COUNSEL JACOBS: We are not passed that
11 time. I think I gave bad advice on that the last time
12 around. It's actually -- when I went to the Board
13 procedures, which is a document that goes -- that dates
14 back to 2001, revised in 2007, but is still in effect, it
15 says that the motion to reconsider can be made at the next
16 scheduled Board meeting or Committee meeting of the Board,
17 either the Board or the Committee that was --

18 VICE CHAIRPERSON SLATON: That took the initial
19 action.

20 GENERAL COUNSEL JACOBS: -- that took the initial
21 action, right.

22 VICE CHAIRPERSON SLATON: Okay. Thank you.

23 CHAIRPERSON JONES: Okay. Thank. Okay. Wait a
24 minute. I asked Mrs. Mathur to wait, so I'm going to go
25 back to her first.

1 Okay. Mrs. Mathur.

2 COMMITTEE MEMBER MATHUR: Thank you. I still
3 stand by my original motion from last month, but I would
4 just ask, Mr. Chair, that perhaps after further reflection
5 that perhaps a shorter time frame for the analysis and
6 study and review would be appropriate. So I would suggest
7 that you direct -- or ask -- request that you direct staff
8 to shorten it to six to nine months from -- as opposed to
9 the 12 to 24 months in my original motion.

10 CHAIRPERSON JONES: Okay. And since this is not
11 voting on a new item. We do have some requests to speak.
12 I'm just providing direction. So, yes, Mr. Eliopoulos, I
13 would support Mrs. Mathur's request to shorten the time
14 frame on the original adopted motion to something around
15 six months, I think, is what she suggested.

16 GENERAL COUNSEL JACOBS: And from a parliamentary
17 perspective, that does not require a new motion.

18 CHAIRPERSON JONES: Right. That's why I'm just
19 giving direction.

20 COMMITTEE MEMBER JELINCIC: Point of order.

21 CHAIRPERSON JONES: Yeah, but --

22 COMMITTEE MEMBER JELINCIC: Point of order. I
23 actually like --

24 CHAIRPERSON JONES: Just a minute. Point of
25 order. Mr. Jelincic.

1 COMMITTEE MEMBER JELINCIC: I actually agree that
2 we ought to shorten and voted so last time. But since we
3 adopted a motion that had a timeline in it, I'm not sure
4 the Chair has the authority to simply overrule the
5 Committee and redirect Chair. I think it may take a
6 motion to -- or to direct staff to do something other than
7 what the motion said. I think it may take a motion to do
8 that. So I just raise that as a point of order.

9 CHAIRPERSON JONES: Mr. Jacobs, can you opine on
10 that?

11 GENERAL COUNSEL JACOBS: I will opine on that.

12 (Laughter.)

13 GENERAL COUNSEL JACOBS: The request, if it's
14 within the general scope of the original motion, and I
15 would say that the time limitation or the time frame is
16 something that it is within that original scope, that the
17 Committee Chair can make that kind of direction that you
18 are proposing to make, you may want to consult with your
19 colleagues. But that's within your discretion, and that's
20 my view on it.

21 CHAIRPERSON JONES: Okay.

22 VICE CHAIRPERSON SLATON: Without objection.

23 CHAIRPERSON JONES: Okay. Without objection.

24 CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair.

25 CHAIRPERSON JONES: Yes, Mr. Eliopoulos.

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: I just
2 wanted to assure you that from the Investment staff's
3 perspective, we can fulfill that six to nine month time
4 frame.

5 CHAIRPERSON JONES: Okay. Thank you.
6 Mr. Boyken.

7 ACTING COMMITTEE MEMBER BOYKEN: Thank you, Mr.
8 Chair.

9 So on behalf of the Treasurer whose views about
10 public fund investing in tobacco, an industry that harms
11 so many, hasn't changed in the last month, I'm actually
12 going to make a motion to rescind the motion that was made
13 last month. I guess I have to address this in two parts.
14 First is make a motion to rescind, and then if that's
15 seconded and it passes, then make a motion for what to do.
16 So I'm making the motion to rescind.

17 CHAIRPERSON JONES: Okay. It's been moved by Mr.
18 Boyken to rescind the original motion.

19 Do we have a second?

20 COMMITTEE MEMBER COSTIGAN: The question before.

21 CHAIRPERSON JONES: Okay. Well, I need to see if
22 we have second first.

23 COMMITTEE MEMBER LIND: Second.

24 CHAIRPERSON JONES: Second by Mr. Lind.

25 Okay. So discussion.

1 Mr. Costigan.

2 COMMITTEE MEMBER COSTIGAN: Because actually I
3 had wanted to get to here before we made this motion. So
4 I just want to understand the process. The Investment
5 Committee is a committee of the whole. As I understood
6 it, you had to make a motion for reconsideration on
7 Tuesday of last Board meeting and that Wednesday was too
8 late.

9 We've now closed the April Board meeting, and we
10 still make a motion for reconsideration at Investment
11 Committee? I just want to --

12 GENERAL COUNSEL JACOBS: Yes. Yes, because this
13 is an investment -- the initial motion was Investment
14 Committee motion.

15 COMMITTEE MEMBER COSTIGAN: Even though we
16 adopted it as the full Board meeting.

17 CHAIRPERSON JONES: No. No, you didn't.

18 GENERAL COUNSEL JACOBS: You didn't adopt it at
19 the full Board meeting.

20 CHAIRPERSON JONES: You adopted it at the
21 Committee meeting.

22 COMMITTEE MEMBER COSTIGAN: As a committee of the
23 whole. So is the Treasurer's motion is it a motion for
24 reconsideration or a motion to rescind with a substitute
25 motion?

1 GENERAL COUNSEL JACOBS: It's initially the
2 motion to rescind, which I understand from Mr. Boyken, if
3 it passes, would be followed with a new motion.

4 COMMITTEE MEMBER COSTIGAN: And if the motion
5 fails, then back to Mr. Jelincic's point, we've defaulted
6 back to the Investment Committee's motion from last month.

7 GENERAL COUNSEL JACOBS: Yes.

8 COMMITTEE MEMBER COSTIGAN: You have to still
9 amend that motion.

10 GENERAL COUNSEL JACOBS: No. You default back to
11 that motion, which is in place. And then there's been a
12 discussion about altering the specific direction within
13 that motion, but you would default to that motion, which
14 would stand.

15 COMMITTEE MEMBER COSTIGAN: Okay. Thank you, Mr.
16 Jones.

17 CHAIRPERSON JONES: Okay. So now before we vote
18 on the motion to rescind, I think we should hear from the
19 public who requests to speak.

20 So the first one is Kevin Wehr, California
21 Faculty Association. And I'm going to call all of your
22 names. So if you could just come on down and be prepared.
23 Janet Cox, Sandy Emerson, Eric Knapp, and Jim Knox.

24 So if you could just sit here and one -- and you
25 will note that there's a clock on the dais here. And you

1 will have three minutes to speak, and then your time would
2 be up. So as -- once you to start to speak, then the
3 clock will start. Okay. So it's on you.

4 DR. WEHR: Good morning, members of the Board.
5 My name is Dr. Kevin Wehr. I'm a professor at CSU
6 Sacramento and an associate vice president for the
7 California Faculty Association, which represents 28,000
8 faculty in the CSU system on all 23 campuses across
9 California.

10 The board of directors of the California Faculty
11 Association is disturbed to learn that in the course of
12 reviewing your policies, you're considering reinvestment
13 in tobacco. Given all that we know about tobacco and its
14 cost to smokers lives in terms of chronic illness, death,
15 and addiction and the cost to families and to society, we
16 conclude that it is ethically wrong to promote that
17 addiction through CalPERS investments.

18 But this action you're taking is doubly
19 disturbing, because CalPERS is not only a public
20 institution that provides retirement benefits, it is also
21 public institution that provides health care benefits for
22 large numbers of Californians, including CSU faculty.

23 Every year, we hear about the difficulties of
24 CalPERS and their negotiations around the cost of health
25 insurance for CalPERS members. And even with the

1 advantages that CalPERS offers, we see faculty and their
2 families struggle with the ever-rising cost of insurance.
3 As has been well established by medical organizations, the
4 cost of medical care is dramatically inflated due to the
5 use of tobacco.

6 Furthermore, CalPERS, as a pension fund, lives in
7 perpetuity. And CalPERS, through its investments, affects
8 future people and shapes society as a whole. Any analysis
9 of the cost or loss of opportunity from not investing in
10 tobacco needs to be offset against the long-term future
11 medical care costs of treating future patients, not to
12 mention the effects on public health.

13 From both short- and long-term views, the
14 promotion of tobacco is harmful, not just to individuals
15 and to society, but to CalPERS itself. It would be hugely
16 ironic for CalPERS to profit from the promotion of
17 sickness on the one hand, while CalPERS and our members
18 confront the astronomical costs of that sickness on the
19 other hand. It is shortsighted and it is wrong. We
20 cannot address financial concerns in this manner.

21 We realize that no investment is perfect and that
22 investment is fraught with conflicts, but some decisions
23 are very easy, and this is an example. We urge you to put
24 to rest today and do not revisit tobacco investments.

25 Thank you.

1 CHAIRPERSON JONES: Thank you for your comments.

2 Ms. Cox.

3 She didn't come down.

4 Okay. Then we move to Ms. Sandy Emerson.

5 Is that Ms. Cox coming down?

6 MS. EMERSON: I'm Sandy Emerson. I'm a taxpayer
7 and I'm affiliated with Fossil Free California.

8 Proposing to reinvest in tobacco makes a mockery
9 of CalPERS role as a public body that claims to be in the
10 service of its beneficiaries. If the only thing that
11 matters is the money, then CalPERS should not only
12 reinvest in tobacco, but also encourage its beneficiaries
13 to smoke. This would have the additional effect of
14 reducing the number of beneficiaries.

15 CalPERS has made great progress in assessing the
16 real risks of various investments. I hope that CalPERS,
17 lead by the Board, will decide to stop bandying words on
18 divestment and embrace its fiduciary duty in the fullest
19 sense of the word.

20 CHAIRPERSON JONES: Thank you. And your name,
21 introduces yourself?

22 MR. KNAPP: Yeah, my name is Eric Knapp, and I am
23 a PERS retiree. Thank you for your diligence in
24 maintaining a secure future for my retirement. That being
25 said, I do want -- I do not want my pension to be

1 dependent upon investments in companies whose core
2 businesses are destructive to people's health and
3 well-being or the ruin of the planet.

4 Your decision today may be about tobacco, but
5 it's about much more than that. Do CalPERS Board members
6 care about where the fund's revenues come from? Do you
7 care about CalPERS reputation as a global leader in
8 socially responsible investing?

9 I do care. I want to be proud of CalPERS and its
10 investments. That is why I support divestment from
11 tobacco. Divestment -- and divestment from fossil fuels
12 especially the dirty fuels derived from coal and tar
13 sands. I especially would like to divestment from Exxon,
14 as they knew about climate change but spent years telling
15 their scientists to publicly deny it.

16 So CalPERS, the world is watching. How you vote
17 today matters. Please vote to stay divested from tobacco.

18 Thank you.

19 CHAIRPERSON JONES: Thank you for your comments.

20 Ms. Cox, you're up. And then Mr. Knox.

21 MS. COX: Thank you, Mr. Chair. I didn't hear
22 you call me the first time.

23 CHAIRPERSON JONES: That's okay.

24 MS. COX: Looking at the measure in the packet,
25 I'm assuming that the Board will continue your intention

1 to separate tobacco from the other divested sectors. And
2 I just want to say that the three options that staff lays
3 out for you, if you do separate tobacco for looking at the
4 other divested sectors, none of those allows you to
5 continue to stay divested without review.

6 And for me, this kind of flies in the face of the
7 notion of divestment as something you do rarely and based
8 on principle. So my hope is that you will come up with an
9 alternative to those three measures that staff proposes.

10 Thank you.

11 CHAIRPERSON JONES: Thank you, Ms. Cox.

12 Okay. Mr. Knox.

13 MR. KNOX: Thank you, Mr. Chair. Jim Knox with
14 the American Cancer Society, Cancer Action Network. And I
15 return this month alarmed, not only by the continued
16 consideration of revisiting your historic ban on tobacco,
17 but alarmed also that a review of your latest annual
18 investment report indicates that CalPERS currently has
19 substantial tobacco holdings, including in Altria, Philip
20 Morris, British American Tobacco, Imperial Tobacco, and
21 Japan Tobacco. Maybe someone can explain why this is.

22 We've also learned that your investment advisor
23 Wilshire Associates has a history of working with Philip
24 Morris to fight tobacco divestment.

25 CalPERS should not be investing in tobacco, not

1 now, not ever. Tobacco inflicts not just an immense
2 public health toll, but an immense financial toll. The
3 tobacco industry wreaks financial havoc on everyone, on
4 your members because of their added personal health care
5 costs, on CalPERS itself as a provider of health benefits,
6 regardless of whether your legal counsel says its relevant
7 to your investment strategy, on all California employers,
8 not only for billions of dollars in health care costs that
9 they have to spend, but also because of about \$10 billion
10 worth of lost productivity from their employees as a
11 direct result of tobacco annually, and on all California
12 taxpayers because of \$3 billion plus taxpayers spend
13 annually on providing tobacco-related disease treatment to
14 Medi-Cal patients.

15 Tobacco kills seven million people a year. A
16 vote now, or later, a year, six months, nine months, two
17 years to reinvest in tobacco is a vote to enable the
18 biggest killer of our time.

19 For 16 years, you've had a policy of not
20 investing in tobacco. We urge you to enforce that policy
21 and to not waiver from it, to rescind last month's motion,
22 and stick to your current policy.

23 Thank you.

24 CHAIRPERSON JONES: Thank you very much.

25 Mr. Jacobs.

1 GENERAL COUNSEL JACOBS: Mr. Jones, I just also
2 wanted to suggest that the Chair acknowledge that we
3 received a letter from Dr. Ganz in opposition -- from, I
4 believe it was, UCSF, that was also consistent with the
5 public comment that we have heard to date -- or this
6 morning, I should say.

7 CHAIRPERSON JONES: Yeah. Thank you Mr. Jacobs.
8 It is on the Board Committee member's desk here. So we do
9 have it. Thank you very much.

10 GENERAL COUNSEL JACOBS: Very good. Thank you.

11 CHAIRPERSON JONES: Okay. So we're back to now
12 the vote on the motion by Mr. Grant, seconded by Mr. Lind.

13 All those in favor say aye?

14 (Ayes.)

15 CHAIRPERSON JONES: Aye -- was that -- we're on
16 Mr. Grant's motion to rescind.

17 VICE CHAIRPERSON SLATON: Okay.

18 CHAIRPERSON JONES: And so I think we should vote
19 by electronic, so we can see exactly, because I hear yeses
20 and noes. I thought I heard yeses and noes.

21 (Thereupon an electronic vote was taken.)

22 CHAIRPERSON JONES: The item fails. Okay. So
23 that's -- the item fails. So now that concludes the
24 discussion on that item. We now move --

25 ACTING COMMITTEE MEMBER BOYKEN: Mr. Chair.

1 CHAIRPERSON JONES: Yeah. Mr. Boyken.

2 ACTING COMMITTEE MEMBER BOYKEN: Thank you.

3 Mr. Chair, if I could, since we're on the study,
4 that's not where the Treasurer wanted to land. Glad to
5 see that we've shortened the time frame, but I'm wondering
6 if we could include in the study, a review of all CalPERS
7 exposure to tobacco through external managers or possibly
8 through other asset classes as well.

9 CHAIRPERSON JONES: Yeah. And I think that
10 that's reasonable in study. So I'm directing staff to
11 include that in their study.

12 Okay. Thank you very much.

13 ACTING COMMITTEE MEMBER BOYKEN: Thank you.

14 CHAIRPERSON JONES: Okay. We're moving now to --
15 is this -- okay. Ms. Taylor.

16 COMMITTEE MEMBER TAYLOR: So I want to speak in
17 favor of Ms. Mathur's recommendation that we shorten the
18 time frame.

19 CHAIRPERSON JONES: It' done.

20 COMMITTEE MEMBER TAYLOR: Oh, it's already done.

21 CHAIRPERSON JONES: Yeah, right.

22 COMMITTEE MEMBER TAYLOR: Thank you

23 CHAIRPERSON JONES: Okay. Mr. Jelincic.

24 COMMITTEE MEMBER JELINCIC: The -- I recognize
25 that the Chair shortened the time frame. I recognize our

1 Chief Counsel said The chair could do that. But I would
2 like to read from the motion, which was adopted by the
3 Board, which is to bring back the divestment from tobacco
4 item in 12 to 24 months with alternatives. And I'm not
5 sure the Chair has the authority to shorten something in
6 direct violation of the motion. So I think we may need to
7 go back and amend that motion.

8 CHAIRPERSON JONES: Mr. Jacobs.

9 GENERAL COUNSEL JACOBS: I stick with my original
10 advice on this. The way I read the transcript, and Ms.
11 Mathur's states her motion twice in different places, the
12 12 to 24 months is an approximate time period, which I
13 believe gives the Chair the ability to shorten that. So
14 I'll stand by my advice.

15 CHAIRPERSON JONES: Okay. Thank you. Yeah.
16 Okay. Thank you.

17 So with that response, we now move on to Item
18 number 7 on the agenda, which is the Investment Office
19 Roadmap and Targeted Operating Model Update.

20 (Thereupon an overhead presentation was
21 presented as follows.)

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

23 Thank you, Mr. Chair, and Investment Committee.
24 Hopefully, a slightly easier topic than the few we've had
25 to consider this morning.

1 Ted and I are pleased to provide the Committee
2 with an update on the strategic planning efforts of the
3 Investment Office, including a recap of our five-year
4 strategic plan, known as the 2020 Vision. We'll discuss
5 the current status of our Target Operating Model. And
6 lastly, we'll close out the 2015/2017 roadmap with
7 highlights of accomplishments from this past year.

8 --o0o--

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

10 This next slide illustrates the high level view
11 of the key elements of our 2020 Vision. Key priorities
12 include reducing risk, cost, and complexity in our
13 portfolio and in our operations by improving investment
14 governance, decision making, and building towards fewer,
15 but more strategic partnerships with our external
16 managers. And we made broadly on track with our high
17 level timeline as we approach the end of the current
18 fiscal year.

19 --o0o--

20 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

21 These are the high level steps that encompass the
22 2020 Vision. And we're doing well. You can see we're in
23 fiscal year 2015-2016, and we're actually a little bit
24 ahead of that particular schedule. We've already started
25 to make progress on the 2016-2017 key objectives.

1 --o0o--

2 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

3 These are the five strategic objectives that we
4 outlined at the beginning of the year for the 2015-2017
5 roadmap. Supporting those five strategic objectives were
6 actually 36 individual roadmap initiatives. It was a lot
7 to bite off this year. And in a few moments, I'll
8 highlight some of the significant progress we've made on
9 those different objectives.

10 --o0o--

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
12 changed our approach this past year to looking at
13 operational risk. You might recall in prior years we'd
14 contracted with outside consultants to do that to help us
15 do some of that risk assessment work. And consistent with
16 the overall trend in the Investment Office, we've actually
17 insourced a lot of that risk assessment work.

18 We'll still occasionally call on outside
19 contractors to look at specific focused areas, but it
20 might be awhile before we do a comprehensive review, as we
21 used to undertake every two years. So now, we've made
22 this more of a continuous process.

23 --o0o--

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

25 This is the Target Operating Model as it stands

1 as of April 2016. This is a chart that the Investment
2 Committee has seen many times over the last three or four
3 years. And you can see we've reduced a couple of key
4 risks in the past year. And in a moment, I'll talk about
5 the areas and the initiatives that were completed that
6 allowed our internal Operating Committee to reduce the
7 risk levels around those particular terms.

8 You'll also notice that close to 80 percent of
9 the key functions we still regard as either moderate or
10 high risk. We're obviously using the high risk functions
11 to direct resources, projects, and initiatives to try to
12 address those things.

13 --o0o--

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: A
15 couple of the key 2015-2017 roadmap fiscal year
16 accomplishments. Most significantly, I think for the
17 internal investment governance and decision making, you
18 can see we've restructured our Investment Strategy Group
19 within the office, and we've created four functional
20 subcommittees that are now all up and running with
21 charters, voting membership, and a defined administrative
22 process that helps make sure all the documents that get to
23 the ISG are in good order for the Investment Office to
24 make investment decisions.

25 And those key -- those four key committees are

1 listed there. We have trust level risk and attribution,
2 which is focused on plan level risk, as well as what's
3 generating returns. We have portfolio allocation, which
4 focuses on strategic allocation and any -- using the
5 available ranges that we have within the strategic
6 allocation to overweight or underweight certain asset
7 classes.

8 We have trust level investment review, which is
9 charged with looking at new investment programs or
10 examining investment programs whose sort of role in the
11 program has come under question or review by the ISG.

12 And last, but certainly not least, we have
13 governance and sustainability, which is really examining
14 the integration of environmental, social, and corporate
15 governance activities into our portfolio.

16 Overall, I think this is one of the areas where
17 we've made the most progress in the Investment Office from
18 where we stood a couple of years ago.

19 Under business effectiveness, under the -- we
20 have the private assets legacy portfolio monitoring and
21 optimization. And this was really centralizing many of
22 the Investment Office's efforts to manage, what we call,
23 legacy assets. And these are programs that -- or
24 investments that may have been made in the past that no
25 longer fit the current strategic role of the asset class,

1 as outlined during the asset liability management
2 practice.

3 We've centralized the team who have really gained
4 expertise on how to manage those types of legacy assets.
5 And essentially, part of our main objective in many cases
6 is to get the money back, so we can redeploy it in
7 strategies that are aligned with our goals. And a good
8 example of that has been ongoing efforts in our Real
9 Estate Program to liquidate in the secondary market many
10 of the old investments in the Real Estate Program that may
11 have been made in, say, development assets, say, in the
12 early 2000s. So have made great progress on that front.
13 You can see almost \$3 billion of progress in that
14 department.

15 --o0o--

16 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

17 Another key objective of the 2020 Vision was
18 really reducing the number of managers. And that wasn't
19 just done because we don't like managers, we need
20 manager's help to execute the goals of our program.
21 However, we want to make sure that those managers are
22 strategically aligned with the objectives and the mission
23 of CalPERS. And in addition, we want to make sure that we
24 have a very solid strategic partnership, that it's not
25 just managing the assets. We want to find a way to make

1 sure that we're really extracting the intelligence from
2 our manager community.

3 It's very difficult to do that, when you have
4 more than 200 strategic relationships. And underneath
5 that are many, many hundreds of individual investment
6 vehicles. So we have a very complex operating model.

7 Last year at this time, we came to the Committee
8 and we reported that we were going to be shooting to get
9 to 100 strategic managers. And we've made great progress
10 over the last year. You can see we've moved from 212, as
11 of June of last year, to about 159 right now. So that's
12 very good progress in a year, and we look to continue
13 that.

14 Under ESG, we've made great progress this year.
15 The Board has definitely been engaged and involved in our
16 Investment Beliefs integration assessment. You might
17 recall we had Towers Watson Roger Urwin come doing work
18 during last July's off-site, and then following up in
19 September with a report to the Investment Committee.

20 And a lot of that work during that Investment
21 Beliefs integration assessment has been integrated into
22 the current strategic planning effort for the global
23 governance team. Something that both Ted and I are very
24 interest and engaged in - in fact, I think we co-chair
25 this committee within the Investment Office - is we formed

1 a Diversity and Inclusion Steering Committee within the
2 Investment Office. And it really relies on a three-legged
3 stool. And the three-legged stool is targeting diversity
4 amongst our board of direct -- boards of directors of the
5 companies we invest in, diversity amongst our external
6 managers, and finally diversity within our own Investment
7 Office staff and team.

8 And we've made significant progress. We now have
9 a plan to execute around all three of those elements, and
10 we're letting the D&I Steering Committee composed of
11 people from throughout the Investment Office at a variety
12 of staff levels participate and help guide our efforts.

13 --o0o--

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

15 Under private markets regulatory compliance, this
16 past year has really focused on progressing the latest
17 version of the Institutional Limited Partners Association
18 template. You might recall that in January the ILPA
19 released their latest template, which is a quarterly --
20 basically a partner level detailed breakdown of the
21 investment fees, expenses, portfolio company fees, as well
22 as profit sharing tracked by partner.

23 This has been a huge effort for ILPA and a huge
24 effort for the Investment Office, and really good payoff
25 from the many years of investment in the ILPA

1 organization.

2 Execution services is a team within our global
3 equity unit goal, whose goal is really to centralize many
4 of the execution and trading functions in one team. And
5 that's really a key element of risk management, which is
6 the centralization of that can allow better risk
7 management, better oversight and control, and potentially
8 better execution. It's saving money and improving
9 performance for the plan.

10 And the global equity team, in partnership with
11 our other public asset classes, have made good progress on
12 that this past year. Although, we have a long way to go
13 before execution services really finally completes and
14 executes its long-term strategy. Another key element of
15 execution services is the integration of risk management
16 personnel who sit on the desk with the trading folks.

17 This is a typical practice at many external asset
18 managers and I think it's a best practice. And it's
19 something that we've implemented with our ESS strategy.

20 And finally the Investment Committee has heard
21 quite a bit about this throughout the year, but it's worth
22 highlighting, that our PEARS system went live in October
23 with its phase one, and we're currently working on phase
24 two, but phase one was really probably the biggest hurdle
25 to get live.

1 And what it really involved was, first of all,
2 working for several years with our general partners to
3 collect information using the ILPA, capital call and
4 distribution template. And then building out a technology
5 platform to capture and track all of that information.

6 Up until this point, for many years, the
7 accounting systems that we've been using for private
8 equity haven't fully met the measure that we needed them
9 to. We're quite happy with PEARS, even though we're
10 only -- we've only been on it for a few months now, and
11 we're looking forward to continued benefits from having
12 that information and accumulating it over time.

13 Currently, we're working on release 2A which is
14 basically building out a report called the Quarterly
15 Management Report, which is one of the core management
16 tools within the private equity team to help manage their
17 portfolio.

18 --o0o--

19 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

20 The liquidity operations was a significant effort
21 this year. It really involved when we reduced the
22 liquidity allocation from two percent to one percent, we
23 knew that we were going to have to improve our forecasting
24 ability around liquidity, and we've done that.

25 Some of the things we've done is we've

1 streamlined a number of accounts that have the ability to
2 access the Investment Office's liquidity pool.

3 We've really beefed up the communication within
4 the office between the different asset classes regarding
5 cash in-flows and out-flows. The one area that really
6 remains very difficult to predict is private asset
7 cash -- cash flows. We've gotten better at that. The
8 partners have been very willing to work with us, but there
9 are some things about the marketplace in that area that
10 are just very difficult to predict.

11 A good example is it's very difficult to predict
12 the exact date that, say, a real estate transaction might
13 close. And if you've ever bought a house, you know what
14 I'm talking about. The dates of those things can move
15 sometimes by weeks. And when you're talking about a large
16 commercial property, they can move, in some cases, by
17 months. So it's very, very difficult to predict the exact
18 dates.

19 But we've built in tools to deal with that, and
20 we now are working successfully around our one percent
21 liquidity target. And finally, performance measurement
22 and attribution. A project and initiative that's very
23 close to my heart is really fully building out an
24 infrastructure for better understanding the details of
25 what's generating returns and what's not in our portfolio

1 across the asset classes.

2 We've had that where the data has been solid in
3 global equity, for example. But as soon as you get where
4 the data is more challenging or the systems are more
5 complex, we haven't had all the information we need. So
6 we're really putting a lot of time and effort into
7 building this out. And I'm hopeful that the Investment
8 Committee will start to see the benefits of that
9 initiative in the program reviews that are coming to you
10 towards the end of the year.

11 --o0o--

12 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

13 Some key next steps. We're now working on the
14 next year's initiatives, and we're looking forward to a
15 July workshop with the Board where we start reviewing some
16 concepts and ideas around managing investments in the year
17 2035. So we have an exciting panel of outside experts
18 coming to talk to us, some futurists around technology,
19 around business model, around locations, how we think
20 technology will influence investing, and whether we
21 actually need additional locations or whether the world is
22 getting flatter as the Internet progresses. It's a good
23 question and we're going to get a chance to talk about it
24 and have good interactions with this panel at the July
25 off-site. So I'm very much looking forward to that

1 discussion.

2 So with that, I'll pause and see if there's
3 questions or comments.

4 CHAIRPERSON JONES: Mr. Costigan.

5 COMMITTEE MEMBER COSTIGAN: Just a comment. You
6 guys, Mr. McKeever, who I don't see and I'll talk about
7 tomorrow, you guys do an amazing job. This report I just
8 think overall -- I think, at times, as you saw in the
9 first two hours of today's meeting, we'll get into some
10 very granular discussions and don't really see what you
11 and the rest of the Investment staff does.

12 And I think this is pretty amazing to see a
13 roadmap created two years ago begin moving forward. And I
14 know we're going to talk a little bit in the next
15 presentation on some of the areas where you guys have
16 saved money. But I always like to point out. You're not
17 a big staff. You're clearly not the highest paid in this
18 type of industry. You work under the constraints of being
19 a State agency. And I just want to say from a comment
20 perspective, great document, great work. I know at times
21 sometimes I'll express some other feelings. I'm amazed at
22 the nimbleness of your office.

23 And I wish we saw more of these reports. And I
24 actually wish our members, our beneficiaries, and our
25 critics would actually look at it and see all the amazing

1 work that, Mr. Jones, you as the leadership of the
2 Investment Committee and the staff are doing. So just
3 fantastic report.

4 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

5 Thank you.

6 CHAIRPERSON JONES: Thank you.

7 Mrs. Mathur.

8 COMMITTEE MEMBER MATHUR: Thank you.

9 I'll just echo a bit of what Mr. Costigan has
10 said. I think this reflects a real commitment that this
11 organization has a continual process improvement and
12 enhancement of controls, and delivery of real performance.

13 And I'm really actually excited about the project
14 around performance measurement and attribution, because
15 that is an area that can help us to hone our investment
16 strategy and approach to ensure that we are investing in
17 the right area to deliver the best returns for our --
18 risk-adjusted returns for our members over the long term,
19 and to meet our obligations.

20 So, you know, so many important initiatives that
21 you can now check off as being complete or substantially
22 complete. The liquidity project was a significant
23 cross-enterprise effort, and I think really reflects sort
24 of a culture shift in the organization around better
25 collaboration across the different branches of the

1 organization and real thoughtfulness around the financial
2 management of this organization. So really support all of
3 your efforts and appreciate your leadership on this.

4 Thank you.

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

6 Thank you.

7 CHAIRPERSON JONES: Mrs. Yee.

8 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

9 I'm also very appreciative of the report and echo
10 what some of the comments have been. And I think it's
11 really important to create, I guess, more transparency
12 about what happens behind the scenes, because there is a
13 lot that does happen. And I had a couple questions with
14 regard to PowerPoint slide 8, if we could flip back to
15 that.

16 And this has to do with we've had a lot public
17 discussion about the integration of ESG considerations in
18 investment decision making. And just wanted to see if you
19 could tell us how far along you are with respect to that
20 just internally?

21 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

22 That's a great question. And I see Ted wants to
23 chime in. I -- from my perspective, I think this
24 Committee that I mentioned a moment ago, it's there -- the
25 Governance and Sustainability Committee that is now a

1 formal and chartered subcommittee of our internal
2 investment strategy function, has been just a very
3 significant development and progress along that front.

4 And I guess the way I would frame it is rather
5 than viewing the integration of environmental, social, and
6 governance activities as sort of something that takes
7 place but is separate from the key investment decision
8 making, I think this Committee is helping to really
9 educate and fully integrate it, so that it's literally
10 part of every decision.

11 You know, at the end of the day, it does need to
12 come back to financial return. That's how -- that's our
13 constitutional mandate, and that's our focus in the
14 office. But the consideration of those risks really needs
15 to be integrated at every decision, not just as a periodic
16 thing or a once-in-awhile thing. It needs to be built in
17 all the time.

18 And this Committee has really made good progress
19 on inculcating that thought process and that culture.
20 There's still a lot of work to do. I don't think this is
21 an area where we'll ever really be done. But I would
22 stack up our development and progress in this area against
23 virtually any other investor. And we -- we continue to
24 see, you know, awards and accolades for our involvement
25 and measurement of this -- of our progress in this area,

1 regarding in comparison to other investors. So, in short,
2 I think we're doing a good job. There's still a lot of
3 work to do.

4 The strategic planning effort that the Board has
5 undertaken and that staff has undertaken over the past six
6 months has been helpful in focusing those areas, because
7 that might be my last comment before I turn it back to
8 Ted, which is the fact that there's so many areas and so
9 many sort of opportunities to engage, that we could spend
10 all of our time doing that, if we weren't careful.

11 And that would be dividing ourselves so finely,
12 that we really wouldn't make significant progress and any
13 area. So I think the ability to focus our efforts in key
14 areas that we know make a difference, and we have evidence
15 to prove they make a difference, has really been the key
16 to success. And I think it will continue to be the key to
17 success.

18 The offset to that, it means there's a lot of
19 things that we're probably going to have to say that's,
20 you know, interesting information, it's helpful, we can
21 understand it, but we just can't focus on it, because it
22 either lacks evidence or we just need -- we need to focus
23 to succeed is really sort of the key message. And I think
24 our Governance and Sustainability Committee would echo
25 that pretty universally.

1 COMMITTEE MEMBER YEE: And I guess, Ted, before
2 you respond, if there's an example that you could maybe
3 shine some light on that speaks to a successful approach,
4 as compared to one that may be isn't. And I think a lot
5 of it probably has to do with the scope of, you know, what
6 you could be doing, but it's just not possible to take on
7 every single issue.

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, I
9 would just underline on process, big improvements by
10 having this Governance and Sustainability Committee across
11 the asset classes. And the Board was able to see that
12 group at our last off-site. I think he can see, you know,
13 how interdisciplinary this topic is across the different
14 the asset classes and parts of the organization.

15 So from a process standpoint, having that
16 committee established and functioning and running I think
17 is really important to the integration part. On the
18 substance piece of it, the strategy -- the ESG strategy,
19 and we'll have the G of the ESG a little later this
20 afternoon, that, too, is really important. The focusing
21 of what -- what are the priorities for us to accomplish
22 together over the next five years is key. And, you know,
23 certainly reflecting on that SASB presentation that we
24 had, that in their testimony to the Committee, they
25 referenced various investors that -- and companies --

1 well, really companies that they had reviewed that had
2 focused either on the right things or the wrong things
3 made such a big difference. And a scatter shot approach
4 tended to harm performance over time on these ESG factors
5 rather than a focus on the material factors that could
6 impact performance of a company.

7 So I think in answer to your question, Madam
8 Controller, I think focusing on the material points, and
9 making a big difference on those through our collective
10 work over the next five years is, by far, the best thing
11 we can do in order to have an impact, and have integrated
12 into our operations those things that are important versus
13 those that are not.

14 COMMITTEE MEMBER YEE: Great. Thank you.

15 And then also on this slide, the decrease in the
16 number of managers from the 212 to the 159, and I guess in
17 terms of this approach of decreasing the numbers, I
18 understand it's probably helped in terms of managing the
19 investments and the costs. But do you believe we've lost
20 any opportunities as a result of the decrease?

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: That's
22 a -- I think the tradeoff -- the tradeoff in concentrating
23 in fewer managers instead of having many, many more
24 managers, I think you do run the risk -- it is a risk that
25 you'll be exposed to fewer opportunities in the globe. I

1 think that's a fair statement.

2 Having said that, given the breadth and quality
3 and depth of the managers that we're contracting with, and
4 the -- this year's scale of dollars that we're investing
5 with them, it's hard to -- it's hard to imagine that we're
6 actually missing any, you know, truly important ideas or
7 investment opportunities. We cover the marketplace pretty
8 extensively.

9 The tradeoff in our benefit is that you have much
10 better transparency and understanding and strategic
11 control over your portfolio construction by having fewer.
12 So that's really the -- that's the tradeoff that we --

13 COMMITTEE MEMBER YEE: The tradeoff.

14 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- that
15 we've balanced and decided on moving on a more
16 concentrated approach.

17 COMMITTEE MEMBER YEE: Good. Good.

18 And then just a couple more questions. Since the
19 diversity forum last September, what has -- what have our
20 outreach efforts looked like relative to our external
21 managers?

22 CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, I
23 think -- and I'll let Wylie -- I know we have a diversity
24 and inclusion update coming to

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1 In June.

2 CHIEF INVESTMENT OFFICER ELIOPOULOS: In June.

3 COMMITTEE MEMBER YEE: Okay.

4 CHIEF INVESTMENT OFFICER ELIOPOULOS: So you'll
5 be hearing more about that next month.

6 COMMITTEE MEMBER YEE: Okay. And then on the
7 PEARS system, just a --

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: Oh,
9 September, sorry.

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

11 I've been corrected. Thank you.

12 COMMITTEE MEMBER YEE: September. Okay.

13 And then with respect to the PEARS system, have
14 we seen much activity with respect to the general partners
15 who are providing the requested information? I mean,
16 what's -- yeah -- and the progress.

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
18 have. We've actually seen very good compliance with our
19 requests around the existing ILPA capital call and
20 distribution template that phase one was built around. So
21 that's the template that ILPA, I think, first produced in
22 2012 and CalPERS adopted.

23 However, it took a number of years to really
24 drive more full adoption by our general partners, and just
25 a lot -- I mean, many of them were very supportive, but

1 they had to build the internal infrastructure to produce
2 it, and they've largely done that. It's important to
3 note, however, that even with good compliance, that's not
4 perfect compliance. There are a small number of partners,
5 particularly in, what I might call, legacy funds, or funds
6 where it's -- we're not going to re-up, or where the fund
7 manager itself is in some state of dissolution, where it's
8 been very challenging to get those templates.

9 But it's well up into the upper nineties, 97
10 percent, in terms of overall compliance with the initial
11 capital call and distribution template from our GPs.

12 COMMITTEE MEMBER YEE: That's terrific. Great.
13 Thank you very much.

14 CHAIRPERSON JONES: Okay. Thank you.

15 Just one follow-up question to Ms. Yee's question
16 surrounding the diversity and inclusion. We've been very
17 successful in having those forums, particularly the one
18 last year. And I was just wondering have we established a
19 hold-the-date yet for our next diversity and inclusion
20 forum?

21 INVESTMENT DIRECTOR WEIR: Yes. May 10th, 2017
22 is our date for our next diversity forum.

23 CHAIRPERSON JONES: Okay. Thank you very much.
24 So we'll clear our calendars.

25 Okay. Mr. Jelincic.

1 COMMITTEE MEMBER JELINCIC: Yeah. I had a few
2 questions, and they're things I had pointed out.

3 On slide three you talk about the trust level
4 investment decision making. Can you talk a little bit
5 about what that means and who the players are and what the
6 topics are and all that good stuff?

7 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

8 Absolutely. So the -- for the -- the Investment
9 Office for a number of years has had a committee called
10 the Investment Strategy Group, or the ISG. And it -- I
11 think for a number of years it was really the forum where
12 a variety of our asset class leads, or the Senior
13 Investment Officers, as they were called at the time, now
14 called Managing Investment Directors, would come to engage
15 and talk about sort of the overall strategic and tactical
16 asset allocation, given outlooks on current economic --
17 the current economic environment.

18 And it was a healthy debate, I guess I would say.
19 And that process, I think, worked well, particularly in an
20 environment where the fund was cash flow positive, because
21 in a cash flow positive environment, the asset class's
22 core function is capital deployment. And in that
23 environment, it's rare that you're going to have to make
24 very significant, say, liquidity provisioning decisions,
25 or that you're going to have to sell something to fund the

1 benefit role to put it sort of in very concrete terms.

2 So with the transition of the plan to a cash flow
3 negative situation, and the reduction of our liquidity
4 target from two percent -- from four percent to two
5 percent to one percent last year, it became necessary, and
6 increasingly clear it was becoming necessary, for our
7 senior leadership in the Investment Office to make more
8 frequent decisions around where to provide liquidity to
9 the plan, to ensure that the Financial Office and the
10 treasury was adequately supplied and had confidence that
11 we could meet the different liquidity requirements and pay
12 the benefits.

13 And that becomes increasingly clear, if you think
14 about it in very concrete terms, when your checking
15 account has less money at the end of the month than it
16 does at the beginning, which is what your're faced with
17 when you're overall cash flow situation is negative.

18 It's -- you're no longer primarily in the capital
19 deployment business. Although, that's definitely on the
20 list. You're really in the investment risk management
21 business, I would argue, and the liquidity management
22 business.

23 And so in order to facilitate those types of
24 conversations and have them result in effective decisions
25 that were well understood and supported by the leadership

1 of the office, we decided we needed to formalize the
2 voting structure of the ISG, and we decided we needed to
3 formalize the way that information was brought forward and
4 presented. And we needed to support that committee with
5 more thorough debate throughout the deeper levels of the
6 Investment Office, and that's why we created those four
7 subcommittees.

8 And to a certain extent they kind of mimic the
9 Committees that the Board has, where they each have a
10 specific focus -- thank you -- and the four subcommittees
11 are presented there. So we went through a process over
12 the last year for each of those committees to define their
13 charter, aligned with the role of the ISG, as well as the
14 role what we need to regularly supply the Investment
15 Committee.

16 So we had a team create a very integrated
17 calendar that actually flows down from the Investment
18 Committee calendar down into the ISG, and then down into
19 the different subcommittees, that really tries to
20 integrate the entire decision-making framework of the
21 office.

22 Finally, we refined the charter of the ISG. We
23 formalized our voting structured. We actually now have a
24 moderator, and a chair, and defined voters with specific
25 voting rights and responsibilities.

1 And interestingly enough, you'll be interested to
2 know that Ted, our CIO, has the ability to defer a
3 decision, but neglected to -- or not neglected, but
4 declined to take on a veto authority. And I think that's
5 really important.

6 The COIO, as sort of the owner of many of the
7 control and monitoring and compliance functions in the
8 office, I do not have a vote, but I do have the ability to
9 request a deferral of a topic. So if we're about to make
10 a decision, and I don't feel like adequate debate or
11 information has been brought forward, I can push it off.
12 And that's the same authority that Ted has -- the same
13 special authority that Ted has requested and that the ISG
14 has provided.

15 So he obviously has a vote. He just does not
16 have a veto. And I think that's important, because the
17 purpose of this committee is really to encourage healthy
18 discussion and debate. In investing, you actually are
19 always essentially driving with the windshield
20 whitewashed. You don't know the future. And in that type
21 of environment, healthy debate is really your best
22 protections. It's your best -- it's your best sort of
23 mirror into where things are going to go. And that's --
24 in order to encourage that type of healthy debate, we
25 really needed to improve the information. We needed to

1 formalize the way that debate takes place. And then
2 finally, we needed to formalize the way that the decisions
3 are actually made. So very significant revamp, and
4 it's -- I think it's already starting to pay dividends.

5 COMMITTEE MEMBER JELINCIC: Thank you. And is
6 ESG part of those discussions both at that level, but also
7 at each of the subcommittees?

8 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

9 Well, each of the subcommittees has a specific
10 focus. The -- each -- and they -- I should highlight that
11 the people on those committees still have a day job. So
12 they're supporting these committees, in addition to their
13 core responsibilities.

14 The Governance Sustainability Committee, its core
15 function is the integration of ESG into the investing
16 process, and the decisions that are bubbled up to the ISG,
17 but we don't necessarily run into ESG topics within, say,
18 trust level risk and attribution, all that often.
19 Although, that is an interesting thought and something
20 we'll have to think about how we can sort of bake that in
21 over time.

22 CHIEF INVESTMENT OFFICER ELIOPOULOS: At the ISG
23 level, Anne Simpson is a member of the ISG, and often, you
24 know, through here lens, brings up specific governance and
25 sustainability issues, as does Dan Bienvenue who's a

1 member and sits a co-chairs of the Committee.

2 COMMITTEE MEMBER JELINCIC: I would observe that
3 if ESG is not considered as part of the work of the Risk
4 and Attribution Committee, then we're missing something,
5 and it certainly ought to be part of the portfolio
6 allocation. So anyhow, I plant that for thought.

7 On the next slide, you -- the enhanced cost
8 effectiveness. I really appreciated the fact that you did
9 point out to increase net returns, because, as I've said
10 more than once, every dime of cost is a dime less return.

11 And then on 6, I just want to acknowledge and
12 thank you for labeling the changes. Since that apparently
13 was done for me, I do want to acknowledge it and thank
14 you.

15 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
16 You're welcome.

17 COMMITTEE MEMBER JELINCIC: It does help to not
18 have to go back and try to figure out what they were.

19 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
20 There's a lot of information on that slide, but
21 we continue to find the Target Operating Model to be a
22 very effective operating risk management tool and resource
23 allocation tool.

24 COMMITTEE MEMBER JELINCIC: Thank you.

25 CHAIRPERSON JONES: Okay. You're welcome.

1 Yeah. And I just want to echo many of the things
2 that were said about how you've taken strategic objectives
3 and identified the various initiatives that you need to
4 accomplish those strategic objectives. And also, with the
5 heat map, as you just described, to provide us a risk
6 status, if you will. That's very informative as we move
7 forward, and as J.J. mentioned, the update. Matter of
8 fact, I was a little confused at first, because I didn't
9 know it was changing to a new risk or changing from a
10 risk, but you've explained that, and I think that's very
11 informative, and also providing the long-termism in terms
12 of your strategy going forward.

13 And so I think this is very well, because not
14 only are you dealing with where we've come from, but
15 you're also keeping in mind where we need to go, because
16 we do know the world we live in is changing, and it for
17 sure is not going to look like it is today, but we don't
18 know how it's going to look. And so we have to be
19 constantly aware of the regulatory issues, and legislative
20 legal issues that's going to inform us as we go forward in
21 the future.

22 So I appreciate you taking the initiative to
23 bring those to us and look forward to that discussion at
24 the off-site.

25 Okay. Mrs. Mathur.

1 COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

2 I appreciate the time that you took to sort of
3 delve deeper into the structure and operations of the ISG
4 and the three subcommittees there.

5 My question is about the ISG itself. And given
6 sort of the composition of the senior leadership team in
7 the Investment Office and the evidence that we've heard
8 around diversity and the importance of diversity in
9 decision making and optimal decision making, how have --
10 how do you ensure that you have a diversity of views,
11 perspectives, ideas, influence through that committee?

12 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

13 That's a great question, and it's actually been a
14 significant focus for Ted and I. It's certainly an area
15 we have some progress to make. A couple of the different
16 elements that we've sought to do is in addition to the
17 Managing Investment Director, each Managing Investment
18 Director has a voting alternate that also attends the ISG
19 with them.

20 They don't vote if the primary is there, but they
21 attend, and can participate in the discussion. So that's
22 an area we've sought to continue to look for diversity or
23 the opportunities to improve diversity.

24 Some of the other things that we're taking a look
25 at is looking at other programs and perhaps diving further

1 down into the organization to pull up folks of more
2 diverse backgrounds up into the discussion. And our
3 subcommittees were a way to begin that progress.

4 So if you look at the composition of our
5 subcommittees, they're quite diverse, again because what
6 we've seen in the Investment Office is as you go sort of
7 further down into the organization, we're in good shape.
8 It's just as it gets sort of closer to the leadership
9 where we have a challenge. And that a lot of times has to
10 do with the tenure required to sort of achieve the
11 Managing Investment Director roles.

12 So it's definitely a focus. It's an area we know
13 we need to make progress, and it's an area that we
14 continue to focus on at our Diversity and Inclusion
15 Steering Committee that we talked about.

16 You'll also hear more about that from Laurie when
17 we come back I guess in September, not June. I don't know
18 if you wanted to add anything.

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: No. I
20 think that states it pretty succinctly. You know, the
21 tension is you want to have a working committee, and you
22 can't grow it to too large and lose its effectiveness. I
23 think the key is to make sure that we build the diversity
24 and inclusion within the office that fosters that kind of
25 input and discussion.

1 And I think all of the work that we've been doing
2 will help that. The only thing -- and it will take time
3 to have its effect. The only other thing I would add in
4 terms of the ISG is we do invite and do have as regular
5 attendees our CFO and our CEO and our General Counsel,
6 which bring other perspectives into the room.

7 COMMITTEE MEMBER MATHUR: But my guess is that
8 they are not voting members of the ISG --

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

10 No, they're not.

11 COMMITTEE MEMBER MATHUR: -- which is
12 appropriate, but -- okay. Thank you.

13 CHAIRPERSON JONES: Okay. Thank you.

14 Seeing no further questions, and looking at the
15 time, we will have to take a break in about 14 minutes
16 anyway, so why don't we use this time to break for lunch,
17 and we will return at 1:15. And then we'll take up the
18 Cost Effectiveness and the CEM Benchmarking at that time.

19 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

20 Great. Thank you.

21 (Off record: 12:16 p.m.)

22 (Thereupon a lunch break was taken.)

A F T E R N O O N S E S S I O N

(On record: 1:16 p.m.)

CHAIRPERSON JONES: I'd like to reconvene the Investment Committee meeting. And we will start with item 7b, Investment Office Cost Effectiveness.

Mr. Tollette.

(Thereupon an overhead presentation was presented as follows.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you, Mr. Chair and Investment Committee. Wylie Tollette, CalPERS staff.

And I'm pleased to present the current year -- thank you, Pam -- Investment Office cost effectiveness surveyor. And following my presentation, I'm also pleased to introduce Jody Macintosh and Dave Wilson from the CEM Benchmarking organization in Toronto. So welcome and welcome to Sacramento. I understand it's about 32 degrees and rainy in Toronto right now.

(Laughter.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: So I think they're quite happy to get a little bit of our spring weather.

So with that, I will dig into the presentation.

--o0o--

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1 So on our agenda today, I'm going to keep my
2 comments relatively brief, because CEM has -- is going to
3 go through their materials, which are included in your
4 board materials in more detail, but I do plan to hit some
5 of the highlights, as well as talk about sort of some of
6 the recent -- more recent trends in our cost effectiveness
7 initiative.

8 --o0o--

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

10 So as we all know, our Investment Beliefs
11 definitely support the cost effectiveness initiative.
12 It's very tightly aligned. Our Investment Belief number 8
13 is that costs matter and need to be effectively managed.

14 And as Mr. Jelincic said earlier, every dollar
15 saved goes directly towards helping to pay benefits,
16 reduce contributions, or defray other necessary expenses.
17 So saving money without impacting investment quality is
18 definitely in everybody's interest.

19 --o0o--

20 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

21 Over the last four years, we've made significant
22 progress in the Investment Office. It's actually quite
23 remarkable. A total of \$790 million in savings over the
24 just the last four years. That boils down to between
25 about 349 million in, what I would describe as, ongoing

1 run-rate savings that we get to continue to enjoy. That
2 situation is where we've reduced the ongoing fee for an
3 investment mandate. And that is in addition to the
4 one-time savings of \$441 million. That's how we got to
5 790 million over the last four years.

6 For -- through Q3 of the current fiscal year, it
7 looks like we're on track to save about 62 million in the
8 current year. And that boils down to one-time savings of
9 about 28 million with the remainder being run-rate.

10 --o0o--

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

12 There's a lot of information on this slide. So
13 I'm going to hit some of the lights and then I'm going to
14 pause to see if there's questions on this one.

15 So if you go to the bottom line, you'll -- in the
16 light blue, you'll notice that our total portfolio
17 management fees and expensive -- expenses without profit
18 sharing was 888 million, representing a savings of 134
19 million from the first fiscal year represented on the
20 slide. So over the last five years, we've basically saved
21 134 million in absolute terms.

22 And that's a particularly significant savings, if
23 you factor in the assets under management, which drives
24 many of those fees. The assets under management during
25 that time have changed -- have moved from 168 million back

1 in 2010 to 301 million as of the time of the -- oh, excuse
2 me, billion.

3 One of the risks of working at CalPERS is
4 frequently confusing your M's and your B's.

5 And so you can see that's particularly impressive
6 progress, where the absolute cost of running the portfolio
7 have actually dropped, while the portfolio has almost
8 doubled in size.

9 The key strategy driving this savings is the
10 insourcing of our public asset classes. And you'll notice
11 that reflected in the personnel services and portfolio
12 management services lines. You'll see that those are two
13 lines that have actually increased over that time frame.
14 That represents the additional staff that the Investment
15 Office has brought in, as well as the infrastructure and
16 the systems and the tools and the research data that is
17 involved in managing those assets internally.

18 So I'll pause for a second, because again there's
19 a lot of data on this slide, and I would imagine that the
20 Investment Committee may have some questions.

21 CHAIRPERSON JONES: Okay. We do. Mr. Costigan.

22 COMMITTEE MEMBER COSTIGAN: Again, I just want
23 to -- first of all, excellent presentation, the documents.
24 I want to again credit you and your staff, also Cheryl
25 Eason and the rest of the organization. Once again a

1 document that reflects the goals of this Board and of the
2 offices to reduce costs and higher level of services. So
3 the fact that year over year you've dropped cost, created
4 more transparency -- I mean just very appreciative of it.

5 And again, I wanted to give a shout-out to Ms.
6 Eason, because I know this has been a collaborative effort
7 across the entire organizations.

8 Thank you, Mr. Chair.

9 CHAIRPERSON JONES: Okay.

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

11 Yeah, I would echo that, Mr. Costigan. The
12 figures presented here really we worked very closely with
13 the Finance Office to accrue and compile this information
14 and to make sure it eventually reconciles back to the
15 CAFR.

16 CHAIRPERSON JONES: Okay. Mr. Jelincic.

17 COMMITTEE MEMBER JELINCIC: Before I get to 5,
18 back on 4, you talked about it says cost effectiveness
19 measures through March 16th have resulted in approximately
20 62. But you said that's really a run-rate?

21 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

22 Twenty-eight million is one-time savings, with
23 the remainder being run-rate.

24 COMMITTEE MEMBER JELINCIC: Okay. So
25 it's -- okay. So since that's nine months. To date,

1 we've saved 60 something?

2 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

3 Something like that.

4 COMMITTEE MEMBER JELINCIC: Okay. And then on
5 the next page, external fees base private equity not
6 counting the offsets, we've had that discussion numerous
7 times. It still fails to reflect what we're paying out.
8 I mean, whether you take it from my right pocket or my
9 left pocket, if you're taking it and transferring it to
10 your pocket, it's a cost.

11 But on 2, I didn't understand the footnote. This
12 is profit sharing accrued private, doesn't include private
13 equity. Is that just real estate or --

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

15 That's just real estate. That's right. Well,
16 excuse me, it's real estate and Absolute Return
17 Strategies, and -- as well as, if you're talking about the
18 private line. But the line with footnote 2 is just real
19 estate.

20 COMMITTEE MEMBER JELINCIC: It's just real
21 estate.

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: All
23 of the profit sharing paid line, that includes real
24 estate, Absolute Return Strategies as well.

25 COMMITTEE MEMBER JELINCIC: All right. I'm

1 sorry, which one has --

2 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

3 That's the line just above it where it says
4 profit sharing paid.

5 COMMITTEE MEMBER JELINCIC: Oh. Okay. That's
6 Absolute Return Strategies.

7 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: As
8 well as any real estate that's been -- real estate fees
9 that have been paid. The line with footnote 2 that says
10 profit sharing accrued, that's accrued. You might recall
11 that in 2014, we changed the accounting policy for the
12 accrual of real estate fees, where historically we waited
13 until the very -- sort of the last years of a partnership
14 before we accrued anything. The idea there was that
15 performance could change and turn around, and thus the
16 profit sharing would not necessarily be payable.

17 And so we -- because of that uncertainty, we
18 waited until we accrued it. I think in 2014, under the
19 Finance's[sic] office's direction, I think we made an
20 appropriate change to the real estate policy around that
21 where we now accrue them every year, based on the
22 performance at that time.

23 It's still possible that those accruals could
24 reverse out, if real estate performance fell for some
25 reason, where we would no longer earn a fee. But if at

1 the end of that period, it looks like we'll have to pay
2 the fee, we accrue it. So in order to catch up with that
3 new accounting policy, in 2014, we accrued multiple years
4 to essentially bring the accrual up-to-date. That's what
5 that large \$632 million figure represents.

6 COMMITTEE MEMBER JELINCIC: And about 400 million
7 of that is essentially a prior period adjustment.

8 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
9 That's right.

10 COMMITTEE MEMBER JELINCIC: So it would have been
11 230 accrued that year versus 450 this year. Real estate
12 is obviously doing much better in '14-'15 than '12-'13.

13 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
14 Yes, that's right real estate is doing well.
15 And, in fact --

16 COMMITTEE MEMBER JELINCIC: And does Paul get all
17 the credit or does the market have something to do with
18 it?

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes.

20 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
21 think you might need to talk -- Paul gets all the credit.
22 Paul and his staff, I should say. Actually, I have a
23 feeling there were many hands involved, including perhaps
24 the man sitting to my right.

25 The other thing I might illustrate here on the;

1 next slide, slide 6, to -- that helps illustrate the
2 overall trends that are represented here in this very busy
3 slide.

4 --o0o--

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

6 Sometimes, I think I looking at the pictures is
7 actually a helpful thing. You can see that the first line
8 I'll highlight is sort of the blue line with little
9 triangles in it for the color blind. And what you can see
10 there is that over that same time period the fees and
11 expenses have moved from 56 basis points at the plan level
12 to about 29.9 rounded to 30 on this slide.

13 You can see the top line that includes the profit
14 sharing -- the real estate profit sharing, as well as
15 absolute return profit sharing that we're -- and any
16 public fee -- or public asset class profit sharing. You
17 can see that reflected up on the top two lines. The blue
18 line that peaks at 64 basis points in 2014, that's when it
19 was actually accrued. The dashed line with the squares in
20 it, that represents as if -- what the total costs and
21 profit sharing would have been if we accrued them in each
22 year ratably.

23 And then finally, the bottom line with the
24 triangles in it, the solid line that's sort of horizontal
25 there that moves from 1.7 to 2.1, that represents the

1 internal office -- the Investment Office costs of running
2 our internal programs.

3 COMMITTEE MEMBER JELINCIC: And that's the bigger
4 assets.

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

6 Significantly. And you'll see that in a slide or
7 two, but that's roughly \$200 billion of the assets is that
8 2.1 basis points.

9 COMMITTEE MEMBER JELINCIC: Thank you.

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: So
11 if there's no more questions, Mr. Chair, I'll progress.

12 CHAIRPERSON JONES: Yeah, please do.

13 --o0o--

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

15 Great. So of those total costs for the last
16 fiscal year of \$1.484 billion, you can see roughly 91
17 percent are external management fees. The remainder being
18 our internal costs. And you can see how those break down
19 in this chart.

20 --o0o--

21 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Of
22 that 91 percent, you can see how that breaks down. And
23 about 88 percent of the 91 percent are actually the
24 private asset classes. And you can see how that breaks
25 down, according to the colored pie chart here.

1 However, you'll also note that the returns for
2 those asset classes, at least over the -- certainly, over
3 the five-year time period for real assets, are actually
4 impressive. So this illustrates something -- one of the
5 sort of careful balancing acts that one needs to employ in
6 terms of cost effectiveness, which is we want to
7 absolutely make sure we're saving money, but not at the
8 expense of overall performance.

9 And there's a metric that is displayed a little
10 bit later in my presentation, and you'll also hear about
11 it from my colleagues at CEM, called value-add that we
12 feel incorporates both the cost element, as well as the
13 return element. And we think it's a very helpful and
14 useful metric for the success of the office or a way to
15 measure the success of the office.

16 --o0o--

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

18 Here's the split out of profit sharing. And you
19 can see private equity profit sharing reflected in this
20 chart of 700 million. That's also known as carry. And
21 you might recall last year we had a challenging time
22 producing and reporting that figure. But I'm pleased to
23 say through the efforts of our private equity team, our
24 partners supplying ILPA templates and other information to
25 us over the course of a very busy year, we are now able to

1 track and report that information.

2 --o0o--

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

4 Private equity profit sharing continues to be a
5 focus in the office. And as of November of last year, you
6 might recall we reported a fairly comprehensive set of
7 information on our private equity profit sharing. The --
8 you can see over the course of the portfolio, over the
9 life of the portfolio from 1990 through last June, for
10 active funds we reported 24.2 billion in net gains.
11 During that same time period, our external partners
12 collected 3.4 billion in carry.

13 Last year, as I mentioned, we -- they collected
14 700 million in carry, and we earned 4.1 billion in net
15 gain related to that.

16 We continue to push for additional disclosure in
17 this space and you'll be hearing about that both here, as
18 well as when we talk about the G a little bit later today
19 of the ESG. You'll also hear our continued efforts to
20 drive for broader and more consistent disclosure in the
21 private equity industry.

22 Specific to CalPERS, there's something I'd like
23 to just highlight here, is that effective this year, in
24 addition to collecting our base fees -- base fee offsets,
25 as well as fee waivers, and carry, all of this using the

1 ILPA capital call and distribution template, we're also
2 now collecting supplemental information around fees and
3 expenses paid directly to general partners or affiliates
4 from portfolio companies.

5 So -- and all of the new agreements that CalPERS
6 is entering into, all the new limited partnership
7 agreements that CalPERS is entering into, these are
8 required disclosures included in a side letter.

9 --o0o--

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

11 Stepping back to the sort of bigger picture, we
12 remain cost advantaged versus peers. And I'll get to the
13 punch line here in just a slide or two. But there's --
14 the primary driver of that is the fact that the bulk of
15 our assets, as Mr. Jelincic mentioned a moment ago, are
16 managed internally. And that is a very economic -- very
17 economic for the State, as you can see the approximate
18 basis points by asset class.

19 Interestingly enough, you'll notice that the
20 peers, we're ahead of the CalPERS peers. And something
21 about the peer group, which again CEM is here and they can
22 talk about our peer group selection, but that's a global
23 peer group that includes sovereign wealth funds, lots of
24 other -- several U.S. funds, several Canadian funds, some
25 European funds and some Asian and middle eastern funds.

1 And last year at this same -- in this same
2 report, that number, in terms of internal management for
3 our peer group, was at 50 percent. So last year our
4 number was 69 percent. So we've stayed roughly about the
5 same place we were. The changes -- we haven't really
6 insourced the management of any new asset classes over the
7 last year. That number changed from 69 to 68 because of
8 the denominator changing a little bit.

9 But our peers have rapidly made progress on
10 insourcing internal management. So they've moved from
11 about 50 percent internally managed to now 59 in a year.
12 So they've been catching up on this path pretty
13 aggressively. You'll also notice compared to our --
14 compared to U.S. funds, that CalPERS, as well as our peer
15 group, are well ahead of the average U.S. peer. The bulk
16 of our U.S. public pension fund peers still have the
17 majority of their assets managed externally.

18 --o0o--

19 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

20 Here, we maintain, and this is sort of the punch
21 line I was mentioning earlier. We maintain a small cost
22 advantage. Last year at this time, that was closer to
23 seven basis points, our cost advantage versus peers, and
24 now it's 1.8 or roughly two basis points. Again, our
25 peers have been catching up a little bit on this front.

1 We're pleased to still be cost advantaged. And
2 that dollar amount represents somewhere near \$52 million a
3 year. So that's a real advantage that because of the size
4 of our fund represents real savings. So over \$50 million
5 a year in additional savings due to that cost advantage.
6 But it's important to highlight that our peers are
7 catching up and I think the pace of our cost-savings
8 efforts have started to slow somewhat.

9 The way I would describe it is a lot of the
10 low-hanging fruit has kind of been picked. So in order
11 for us to continue to make progress on this front, we're
12 having to climb a little higher and higher in the tree.

13 I really think the next opportunity with the --
14 and if you think about our cost structure with 91 percent
15 of our costs being driven by external managers, and 88
16 percent of that cost being in the private asset classes,
17 that's really where we're going to have to continue to
18 look to drive cost savings.

19 We really think that in order to continue to show
20 progress in this front, we're really going to need to
21 begin looking at alternative ways to engage in investing
22 in the private markets, particularly in private equity.

23 So we've started to convene a project team to
24 examine that question. We think that's going to be a
25 multi-year effort to make progress, but we think that in

1 order to continue to see savings, we're really going to
2 have to find new ways to invest in private equity that are
3 more economical.

4 --o0o--

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

6 Here's the value-add metric that I mentioned
7 earlier. The chart on the left-hand side of the slide is
8 the five-year net value-add. And you can see that CalPERS
9 has made slow but steady progress up into that golden
10 upper left quadrant. That golden quadrant represents the
11 quadrant where your costs are less than the peer average
12 and your returns are positive and our costs have been less
13 than the peer average, but we've had a challenging
14 five-year return history, primarily because of difficult
15 times in the mid-2000s in the real estate asset class.

16 As that five year history in the real estate
17 asset class moves off into the past, and recent
18 performance has been solid, we've started to climb back up
19 into that -- closer and closer to that golden quadrant.
20 We're not quite there. I'm hopeful that next year we
21 actually get into that quadrant.

22 You can see the shorter term information there on
23 the right. And over the three-year cycle, the top of the
24 triangle just hits the top of the line, so we're almost
25 there, but not quite. So that's -- this is definitely an

1 area of focus for the office, and this is one of our
2 strategic measures as well. So the Investment Committee
3 and the Board receive regular updates. In addition to my
4 update here, you'll receive this same information, or
5 refreshed information if it's available, as part of the
6 strategic measures effort.

7 --o0o--

8 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

9 Finally, as I mentioned, we continue to build-out
10 our PEARS system. That's where we want to really have as
11 complete transparency as is possible in the private equity
12 industry. We can acknowledge that there remains costs and
13 a lack of transparency in certain areas of that
14 marketplace, and we're trying to make progress there.
15 Like every other investor, we feel very satisfied with
16 what we've been able to accomplish, but we know that
17 there's more to do. Some of that goes to requesting and
18 requiring new agreements to have the necessary disclosures
19 built into them from the beginning.

20 One of the other things I'll highlight, in
21 partnership with the Financial Office, we began to include
22 internal investment expenses in our returns. That's a
23 concept that's consistent with what are called the Global
24 Investment Performance Standards, or GIPS. And so we now
25 have been doing that since last July. And so now our

1 returns are calculated in accordance with GIPS. And we're
2 not beginning to examine the possibility of claiming
3 compliance and requesting third-party verification of
4 those things around our performance returns.

5 That would of course be a decision that we would
6 continue to converse with the Investment Committee about.
7 But we're pleased to be able to now be able to report our
8 returns along those lines. We now have almost a year in
9 the books around that.

10 And we'll continue to provide additional
11 information around the fees, costs, portfolio company
12 expenses and other expenses related to our private equity
13 portfolio in line with the annual financial report from
14 CalPERS. We're looking, and again working, with the
15 Financial Office to figure out how and where to disclose
16 that information, along with all of the other fees and
17 expenses for the investment portfolio in the CAFR, or as
18 supplemental information to the CAFR.

19 So that's my presentation. I'll pause to see if
20 there's questions on my presentation before I turn it over
21 to CEM for the coverage of their executive summary.

22 CHAIRPERSON JONES: Yes. We do have a question.
23 And before we turn it over to CEM, we do have a request to
24 speak on this item.

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1 Great.

2 CHAIRPERSON JONES: So after we hear from Mr.
3 Jelincic, we'll call on the public comment.

4 COMMITTEE MEMBER JELINCIC: On slide 10, third
5 bullet down, you talk about the 70 million in profit
6 sharing, and that's plus 414 in base fees. So if I did my
7 math right, they got 21 percent of the profits, even
8 though we took all the risk. And that doesn't include any
9 portfolio fees that got offset? Am I -- do I
10 understand -- is my math right?

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: The
12 net management fees that were paid in private equity,
13 the -- they do include anything that's been offset. So in
14 other words, that's a net management fee in private
15 equity, net of any offsets. So we're not reporting -- in
16 other words, we're not reporting the management fee gross,
17 and then somewhere else showing a deduction for the
18 offset. We're showing the net of offset.

19 COMMITTEE MEMBER JELINCIC: Okay. So what the
20 GP's received was \$1.1 billion plus whatever fees they
21 took out of the portfolio companies?

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
23 Plus what?

24 COMMITTEE MEMBER JELINCIC: Because that would
25 have reduced the management fee.

1 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
2 think your statement is accurate.

3 COMMITTEE MEMBER JELINCIC: Okay. On the next
4 page, I was kind of surprised that --

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: On
6 slide 11, Mr. Jelincic?

7 COMMITTEE MEMBER JELINCIC: Yes. I was kind of
8 surprise that global fixed income is twice as expensive to
9 manage as equity. What --

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
11 Well, it's probably fair to say that the --
12 that's more a function of the size of the asset class. So
13 if you think about the size of our global equity
14 portfolio, it's 150 -- it's 50 percent of the fund
15 roughly, and it has about 48, 50 people in that team.

16 Well, our fixed income team, which is managed
17 actively, requires additional staff in order to do the
18 research. And it's also -- it's a portfolio that is
19 managed by sector. The fixed income market works by
20 sector, and each sector has very unique characteristics.
21 It's not managed as an -- sort of as a global portfolio.
22 It's managed mortgages, credit, corporate, treasuries,
23 high yield. And that requires a slightly higher level of
24 staffing. And that portfolio is roughly 20 percent of the
25 fund. So -- and it's roughly the same size staff, so it's

1 about 48 people as well.

2 So that's really why the fixed income portfolio,
3 on a basis point level, is more expensive. We still think
4 that's a very competitive fee. And I would add that we
5 have leveraged the fixed income team quite extensively in
6 the different ISG subcommittees that I mentioned earlier,
7 as well as leveraging their research broadly throughout
8 the office. That's something we expect to continue to do,
9 and -- excuse me -- so that is an accurate reflection of
10 the actual costs, but some of the costs probably would be
11 appropriately be regarded as sort of a benefit to the
12 total fund.

13 All the asset classes have some element of that,
14 but in particular, we've leveraged the strengths of the
15 very senior fixed income professionals in our committee
16 structures.

17 COMMITTEE MEMBER JELINCIC: Yeah. And I did not
18 intend to imply any criticism about 4.4 basis points. I
19 mean, that is very economic and efficient. It was just
20 that I was surprised at the contrast. And if I were to
21 rephrase what I heard is in some way the difference is
22 assets managed per employee.

23 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
24 I think that's accurate. That's right.

25 COMMITTEE MEMBER JELINCIC: And that also

1 explains, I think, why the inflation assets are as
2 expensive to manage as the equity.

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

4 That's right. That's a fairly -- that's, I
5 think, six percent of the fund inflation, so a smaller
6 program.

7 COMMITTEE MEMBER JELINCIC: And then on 12, the
8 report you've given us is on a fiscal year --

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

10 That's right.

11 COMMITTEE MEMBER JELINCIC: -- and the report CEM
12 is giving us is using fiscal year data or calendar year
13 data?

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

15 It's actually -- I'll let CEM answer that
16 question directly during their presentation. I think
17 they're actually planning to cover that, so I won't answer
18 that here, but I think -- I think the short story, and
19 Jody and Dave can correct me, but I think the short story
20 is it's a combination of depending on the reporting period
21 of the different participants in the peer group, some are
22 fiscal, some are calendar. Their data is reported based
23 on a calendar year, but some of them report like us, which
24 is we provide fiscal year data, because it reconciles with
25 our CAFR, and then some of their peer group report on

1 calendar, is that right?

2 MS. MACINTOSH: Yeah, that's absolutely correct.
3 We ask for the calendar on -- the date on a calendar year
4 basis. Most clients provide that. Of course, all of the
5 returns data has to be provided on a calendar year basis.
6 The cost data, there's some clients provide it on a fiscal
7 year. And we're okay with that, because there isn't going
8 to be a drastic change between calendar year and fiscal
9 year costs.

10 COMMITTEE MEMBER JELINCIC: Thank you.

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
12 Thank you.

13 CHAIRPERSON JONES: Mr. Slaton.

14 VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.

15 On page 13, which is the peer benchmarking, I
16 just wanted -- I noticed that the upper left-hand corner
17 of these charts is 2020 Vision, and the latest number on
18 here is 2014. So the natural question is from a five-year
19 net value-add, where are we going to be at 2020? What's
20 the goal? What's the objective? Where would we be? And
21 it's somewhat of a rhetorical question. You don't have to
22 come up with an answer today, but to me it's all about
23 where are we trying to get to at a point in time?

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

25 Great question, and not unanticipated. Our goal

1 is to be in that upper left-hand quadrant, which is where
2 our costs are lower than the median peer, and our -- the
3 value-added, or the returns that we generate from
4 investing in those -- those -- that investing
5 infrastructure generates a positive net return. So our
6 goal is to be in that upper left-hand quadrant. As you
7 can see, there's actually not very many peers that are in
8 that box. That's a challenging box to hit, and so our
9 goal is to get there and we've made steady progress, but
10 we still have work to do.

11 VICE CHAIRPERSON SLATON: So once you get there,
12 then we've arrived?

13 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
14 would always, of course, aim for excellence and to aim
15 higher, but I think we can consider that once we get
16 there.

17 (Laughter.)

18 VICE CHAIRPERSON SLATON: We'll have further
19 conversations.

20 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
21 Indeed, we will.

22 CHAIRPERSON JONES: Thank you.

23 Yeah, the request to speak on this item has been
24 withdrawn, so we will go right into CEM benchmarking.

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1 Great. Thank you very much. Turning it over to
2 Jody and to Dave.

3 (Thereupon an overhead presentation was
4 presented as follows.)

5 MS. MACINTOSH: Thank you. Mr. Chair, Committee
6 members, and CalPERS staff, thank you for the opportunity
7 to present to you today. And also thank you for
8 continuing to participate in our benchmarking service.
9 You've been a very long-term client of CEM, and we
10 certainly appreciate your support.

11 For anyone not familiar with CEM, CEM stands for
12 Cost Effectiveness Measurement. We benchmark pension
13 funds around the globe in two area, investment operations
14 and pension administration. That's all we do, so we don't
15 have any conflicts.

16 In terms of your overall results, you'll see that
17 CalPERS is managing its costs effectively. Your costs are
18 somewhat lower than your peers, and they've been trending
19 downward.

20 --o0o--

21 MS. MACINTOSH: This chart gives you a snapshot
22 of our global database, which currently consists of over
23 300 funds, including 155 U.S., 79 Canadian, 60 European,
24 seven in the Asia Pacific region, and two in the Gulf
25 region. Our database includes both public and corporate

1 plans. And from this global group of funds, we selected a
2 peer group to benchmark you against.

3 --o0o--

4 MS. MACINTOSH: Your peer group was selected
5 based on fund size, because fund size has such a huge
6 impact on the costs that you pay. And although we could
7 have chosen an all-U.S. peer group, given CalPERS is the
8 largest fund in the U.S., we decided to go outside Canada
9 and select some international funds as well to bring in
10 some larger sovereign wealth funds.

11 So your peer group consists of 14 funds. They
12 range in size from 117 up to 844 billion. It includes six
13 funds from the U.S., three Canadian, three European, and
14 two from the Asia Pacific region.

15 --o0o--

16 MS. MACINTOSH: This shows us your total
17 investment costs reported by CalPERS, which was close to
18 1.2 billion, or 41 basis points. Not surprisingly, the
19 bulk of the fees, 40 basis points, are for investment
20 management, mainly external investment management. And
21 the rest of the fees, 0.8 basis points, are for oversight,
22 custodial and other costs.

23 --o0o--

24 MS. MACINTOSH: I'm going to spend a little bit
25 of time on this slide to show you what is included in our

1 analysis and what is excluded. In the interests of full
2 transparency, we want to include as much as possible.
3 However, you'll note that we're not including private
4 asset performance fees. The reason for that is most
5 clients have not been able to give us fully disclosed
6 comparable fees in that area. This is an industry wide
7 issue, which I know CalPERS is very familiar with.

8 Our goal is to include private asset performance
9 fees as soon as possible. And to make this happen, we've
10 actually focused on three initiatives. Firstly, we have
11 several clients in the Netherlands, and they've been
12 mandated for several years now to report full costs
13 including performance fees. So we've been working closely
14 with them to understand what's required for full cost
15 disclosure.

16 Secondly, we undertook a study last year with
17 several of our largest clients around the globe, where we
18 asked them to give us a sample of their LP financial
19 statements. We actually went through those statements
20 with the goal to see if we could capture all the required
21 fees, including the performance fees. And our conclusion
22 was that it wasn't possible. There was too big of a
23 discrepancy in terms of the amount of detail among the
24 estate -- among the statements. Some disclose certain
25 fees, some put them in the footnotes, some didn't disclose

1 them at all.

2 So the third, and most importantly, initiative
3 was we worked very closely with ILPA, as did CalPERS on
4 developing the standardized fee template. So we are
5 encouraging all of our clients to endorse that. So far,
6 43 funds have endorsed it, including CalPERS. And I think
7 having CalPERS stamp of approval will go a long way in
8 getting other funds to use it.

9 --o0o--

10 MS. MACINTOSH: If we look at your cost trend, we
11 see that CalPERS costs have decreased significantly from
12 57 basis points in 2010 to 41 in 2014. Your costs
13 decreased primarily, because you decreased your investment
14 in the highest cost asset classes, which are hedge funds,
15 real estate, and private equity from 21 -- sorry from 24
16 to 21 percent. Most notably, you exited hedge funds.

17 You also increased your use of lower cost passive
18 and internal management from 64 to 69 percent. And we
19 understand that cost reduction has been a major strategic
20 initiative for CalPERS. And clearly, you can see that
21 that is paying off.

22 --o0o--

23 MS. MACINTOSH: On this slide, we compare your
24 total costs of 41 basis points to your peer group and the
25 U.S. universe. If we look at the peer group on the left,

1 your costs are slightly below the peer median. If we look
2 at the U.S. universe on the right, we see your costs are
3 well below the U.S. median. And that's not surprising,
4 given the size of your fund compared to the rest of the
5 universe.

6 While these comparisons are interesting, they
7 don't take into account the fact that you have a different
8 asset mix from your peers. So in order to account for
9 that different asset mix, we calculate, what we call, a
10 benchmark cost. And you'll see that on the next slide.

11 --o0o--

12 MS. MACINTOSH: And Wylie already touched on this
13 briefly. So to calculate your benchmark cost, we take
14 your asset mix and we substitute in the peer median cost
15 for each asset class. So it's as if we gave your assets
16 to your peers what would your fees look like. So we
17 calculated your benchmark cost as being close to 43 basis
18 points.

19 And if we compare that to your actual cost of 41,
20 it tells us that you are below benchmark costs by 1.8 or
21 close to \$52 million.

22 --o0o--

23 MS. MACINTOSH: So, on this slide, I'm showing
24 you how that 1.8 breaks down. Having a lower cost
25 implementation style saved 33 million. And paying less

1 than your peers for similar services, such as
2 external/internal management and oversight saved 19
3 million. And on the next few slides, I'm going to go
4 through this in a bit more detail.

5 --o0o--

6 MS. MACINTOSH: So on this slide, we're focused
7 on implementation style. So we're looking at your use of
8 internal management, both active and passive, as well as
9 external management active, active and passive. And of
10 these four styles, of course, external active management
11 tends to be the most expensive.

12 CalPERS used less external active management at
13 31 percent versus the peers at 34 percent. And as Wylie
14 pointed out earlier, there's a stark contrast if you look
15 at the U.S. universe which is still at 72 percent external
16 active management. So you're well ahead of the U.S.
17 funds.

18 Within external active holdings, we also looked
19 at your use of fund of funds, since it tends to be the
20 most expensive way to invest. Looking at your alternative
21 assets, you had nine percent in fund of funds versus 15
22 percents for your peers. And on the next few slides, I'm
23 going to discuss the costs -- the cost impact of these
24 differences.

25 --o0o--

1 MS. MACINTOSH: So the top portion of this table
2 shows how much external active management you used
3 relative to your peers by asset class. For example, if
4 you look at public market equities, the first line, you
5 saved 108 million by using less external active management
6 than your peers. Although, you use less external active
7 management overall, the fact that you used more in some of
8 the more expensive asset classes, so the private asset
9 classes, you ended up with a slight excess cost of 1.5
10 basis points.

11 So, for example, if you look at diversified
12 private equity, you used more external active management,
13 which had a cost impact of 70 million.

14 The next table down the slide shows your use of
15 fund of funds. And by using less fund of funds you saved
16 23 million. Finally, using fewer overlays, you saved 42
17 million. So on a net basis, the overall implementation
18 impact was a savings of 33 million.

19 --o0o--

20 MS. MACINTOSH: So I'm now moving away from
21 implementation style and looking at what you paid for
22 external management relative to your peers. And the table
23 is split between public assets and private assets.

24 So looking first at public assets, we can see
25 that you've paid more in almost every asset class that

1 resulted in an excess cost of 79 million. However, it is
2 important to note that in all those asset classes you paid
3 performance fees. So, yes, you paid more, but presumably
4 you got more in terms of a higher performance.

5 If we look at private asset classes, you've done
6 a good job of negotiating fees there. There was an
7 offsetting impact. So you paid less across the board with
8 a savings of 84 million. So on an combined basis, you
9 saved 5 -- sorry, 4.5 million.

10 --o0o--

11 MS. MACINTOSH: This slide is similar to the last
12 page, only now I'm looking at internal asset management.
13 The overall impact here was an additional cost of 11.5
14 million. So you did pay a bit more, but you are still
15 ahead, given that internal management is so much less
16 expensive than external management.

17 --o0o--

18 MS. MACINTOSH: Here again, a similar slide, but
19 we're now looking at your oversight, custodial, and other
20 costs. And here you saved closed to 26 million compared
21 to your peers.

22 --o0o--

23 MS. MACINTOSH: So just to conclude, our
24 benchmark cost analysis tells us that CalPERS is managing
25 its costs effectively with a total savings of just over 51

1 million. And as stated earlier, your costs are trending
2 downward, and we expect to see further savings as you
3 continue to implement cost savings strategies.

4 That concludes my remarks. Are there any
5 questions or comments?

6 CHAIRPERSON JONES: Yes, we do have a couple of
7 questions. I just want to thank you for your report.
8 Very informative. And it has a lot of information that
9 I'm sure we will be able to use and be commenting on as we
10 go forward. So thank you very much for your presentation.

11 Mrs. Mathur.

12 COMMITTEE MEMBER MATHUR: Thank you.

13 Yes, thank you for bringing this to us today. So
14 the results are really predicated on the peer group that
15 is selected. So I want to probe a little bit on that peer
16 group. You noted that the non-U.S. peers three are
17 European, two are Asian Pacific, and I think it was three
18 or six were Canadian.

19 But how did you come up with that peer group?
20 And for those funds, if you do this kind of analysis for
21 them, does their peer group -- is it identical to ours or
22 do they select -- do you select different peers for them
23 than you do for us?

24 MS. MACINTOSH: It's typically based on fund
25 size, because that's the factor that's going to have the

1 largest impact on what you pay. Clients can choose. I
2 mean, if you wanted us to do your report -- in fact, we
3 used to several years ago do your report purely against
4 U.S. peers. So they have that choice, but, no, we don't
5 let clients sort of cherry pick what peers. And we don't
6 do that either.

7 COMMITTEE MEMBER MATHUR: Okay.

8 MS. MACINTOSH: So really it's based on we would
9 have selected this by, if we look at like all of our
10 global clients, which ones are closest in size.

11 COMMITTEE MEMBER MATHUR: Okay. So if we were
12 to -- obviously, we don't know which are our peers
13 exactly, right?

14 MS. MACINTOSH: Yeah.

15 COMMITTEE MEMBER MATHUR: You've anonymized it to
16 some degree. But if we were to look at those peers, then
17 their analysis would look -- would compare them to us and
18 they might -- some of them will be more expensive and some
19 of them will be less expensive.

20 MS. MACINTOSH: Exactly.

21 COMMITTEE MEMBER MATHUR: Perfect. Thank you.

22 CHAIRPERSON JONES: Mr. Jelincic.

23 COMMITTEE MEMBER JELINCIC: I actually had a
24 number of questions, which if you've ever watched one of
25 our meetings, you probably are not surprised about.

1 But on page five of 15, you're not including
2 performance fees, the -- and I -- well, I'm making an
3 assumption that's because other people don't give them to
4 you. Is that a fair assumption?

5 MS. MACINTOSH: Correct.

6 COMMITTEE MEMBER JELINCIC: And yet, last April,
7 you put out your white paper that talked about the
8 importance of including carry and including the full
9 management fee, even though, accounting -- U.S. Accounting
10 standards allow public funds to exclude material costs.
11 Can you expand on that a little bit?

12 MS. MACINTOSH: I should clarify. Many clients
13 do give us the performance fees, which we have included
14 in -- we have a 200-page report that I know you've been
15 given a copy of. They're included in the back of the
16 report. Until we're comfortable that we're getting good
17 quality comparable data, we're not including them in this
18 benchmark cost analysis.

19 And I'm sorry, the second part of your question,
20 could you repeat that?

21 COMMITTEE MEMBER JELINCIC: If you can expand a
22 little bit on the very nature of this reporting issue
23 that, you know, quite frankly you highlighted very well in
24 your white paper in April. You know, it got you a lot of
25 good press. But I think there's a real issue going on.

1 And I was just wondering if you can expand a little bit
2 on.

3 MS. MACINTOSH: Yeah. And we do believe it's a
4 big issue in the industry. We would like to have full
5 cost disclosure. I mean, that's all that we do really is
6 benchmark costs. So to have a huge portion of the costs
7 missing is really -- is really not ideal. But the very
8 nature of benchmarking, we need to know that we're getting
9 comparable data from peers. Otherwise, it's the garbage
10 in garbage out scenario, right?

11 So like I said, we have been working with our
12 clients in the Netherlands for a couple of years now
13 working through all the nitty gritty details, in terms of
14 what is required to get the full disclosed fees. And
15 that's why we wrote that white paper as well, because we
16 wanted to really raise a flag in the industry to say that,
17 look, you know, we need to, as an industry, know what
18 we're paying for private equity, and that's why we
19 continue to work with ILPA as well. And I know CalPERS
20 was very involved with that. So like I said, we -- we're
21 hoping in the next couple of years that we will be
22 including that in our analysis.

23 COMMITTEE MEMBER JELINCIC: On -- still on page
24 five, on manager base fees, there's a little -- private
25 equity, there's a little asterisk there that says base

1 fees are presented gross contractual management fees, so
2 that's an attempt to avoid the offset issue.

3 MS. MACINTOSH: Exactly.

4 COMMITTEE MEMBER JELINCIC: And when you looked
5 at our data, I noticed a year ago you did not have that
6 comment in there, and which means you read your own white
7 paper and said, hey, that really ought to be in there.
8 But one of the things that I noticed when I looked at our
9 data is the -- while we've changed the definition of what
10 base management fees is, the numbers didn't change. I
11 mean, they're essentially the same when it was gross as
12 when it was net. Did that set off any alarm bells?

13 MS. MACINTOSH: I'm not sure where -- what note
14 you're referring to, but we've always -- for the past
15 several years anyways have been only collecting gross
16 management fees for private equity. And it's for the
17 reasons that you mentioned that if we ask for net, we
18 don't know -- there's no consistency in terms of what one
19 plan might be netting versus another plan.

20 So again, in an attempt to get a better
21 comparator, we're asking for gross fees. And I don't
22 know, Dave, can you comment on how long we've been asking.

23 MR. WILSON: It's been about four years we've
24 been asking, I believe. Four years for gross fees.

25 COMMITTEE MEMBER JELINCIC: Can you pull the mic

1 closer to you.

2 MR. WILSON: Oh, sorry. Four years. I believe
3 we've been asking for three or four years now.

4 COMMITTEE MEMBER JELINCIC: Okay. So you
5 actually had gross fees in your report last year, just
6 hadn't put the footnote, because when I looked at --

7 MR. WILSON: That could have been an omission.

8 MS. MACINTOSH: Yeah, normally we do footnote
9 that, so I apologize if it wasn't there.

10 COMMITTEE MEMBER JELINCIC: And I will concede
11 maybe it was there and I couldn't find it.

12 MS. MACINTOSH: Okay.

13 COMMITTEE MEMBER JELINCIC: You know, so it's a
14 consistent definition, which is interesting.

15 That goes to that. On the -- on our total costs,
16 I mean, you -- I've -- at some point, you find out what we
17 were paying for -- oh, it's on slide 12. We're paying
18 more for our outside managers, in terms of the costs per
19 billion dollars of assets.

20 You note that we were paying performance fees on
21 these assets. Are the peer numbers pre-performance fees
22 or --

23 MR. WILSON: No, those are inclusive of
24 performance fees.

25 COMMITTEE MEMBER JELINCIC: Okay. So we are

1 paying less to outside managers because we are using less
2 of them, even though we're paying a higher cost per
3 billion or whatever.

4 MR. WILSON: Right.

5 COMMITTEE MEMBER JELINCIC: That will do it for
6 now.

7 CHAIRPERSON JONES: Okay. Thank you. You
8 mentioned that the -- there's been success in the
9 Netherlands about full disclosure. So are you aware what
10 CalPERS has been trying -- attempting to do in terms of
11 full disclosure, including being very active in the ILPA
12 study?

13 So what lessons learned from the Netherlands that
14 you believe can be utilized in our efforts to get this
15 broader disclosure here in the U.S.?

16 MS. MACINTOSH: I think most definitely it's
17 using the template, providing the template to the GPs,
18 asking them to complete it. It should help them as well,
19 so they're not getting multiple different templates,
20 right?

21 But I think the Netherlands has concluded as well
22 that it's really a very difficult process to actually get
23 the numbers from the financial statements. Although, it
24 has been done. We do know of a couple of clients that
25 were able to pull the full fees from their statements, but

1 not in all cases. So I think the best lesson learned is
2 to use the template.

3 CHAIRPERSON JONES: Thank you.

4 Ms. Taylor.

5 COMMITTEE MEMBER TAYLOR: Thank you.

6 I had a -- I wanted to kind of drill down a
7 little more on what Ms. Mathur said, which is -- so back
8 on the first page your definition of who the -- our peers
9 were. So when you look at this, you -- what this
10 definition is on page one basically is everybody that
11 you -- that participates with you?

12 MS. MACINTOSH: Correct.

13 MR. WILSON: Yeah.

14 COMMITTEE MEMBER TAYLOR: Okay. But you pick
15 like a subset of that?

16 MS. MACINTOSH: Correct.

17 COMMITTEE MEMBER TAYLOR: Okay. So then -- and
18 it's anonymous, so we don't know who it is, but it's
19 basically out of this for our comparative peers?

20 MS. MACINTOSH: Correct, yeah.

21 COMMITTEE MEMBER TAYLOR: Okay. Then -- and then
22 I was looking at the -- who -- the U.S. funds, which is
23 much lower, right? I didn't see -- am I blind? Maybe I
24 am. Was there a definition of who's in the U.S. funds?

25 MS. MACINTOSH: Again, it would be based on size.

1 So we would be selecting --

2 COMMITTEE MEMBER TAYLOR: Comparable sized --

3 MS. MACINTOSH: -- the large --

4 COMMITTEE MEMBER TAYLOR: -- U.S. institutions or
5 trusts or something like that?

6 MS. MACINTOSH: Correct. So obviously, you're
7 the largest U.S. fund. You can probably guess who the
8 second largest fund would be.

9 COMMITTEE MEMBER TAYLOR: Right, right, right.

10 MS. MACINTOSH: So that would be the nature of
11 the five funds that we've included.

12 COMMITTEE MEMBER TAYLOR: Okay. So it's the five
13 largest U.S. funds.

14 MS. MACINTOSH: Yes, exactly.

15 COMMITTEE MEMBER TAYLOR: Oh. Okay. Okay. So
16 -- wow.

17 MS. MACINTOSH: So there's really no -- again,
18 like we're not cherry picking funds for you. We're simply
19 going with the largest funds in our database in
20 the -- right.

21 COMMITTEE MEMBER TAYLOR: Okay. And then my last
22 question is, based on what Mr. Jones was talking about,
23 the Netherlands funds, and what -- and so they've been for
24 a while using the template. And I had a question, I guess
25 -- and it may not make any sense. But one of the

1 questions is so if they're not complying, then
2 they're -- then the Netherlands funds wouldn't use them,
3 correct, if they're not signing up and using the template.

4 So therefore the Netherlands funds or we or
5 whoever is using this template decides, okay, well,
6 we're -- you're not complying, so we're not going to
7 invest with you, correct?

8 MS. MACINTOSH: I think that would be up to
9 individual funds. I mean, individual clients would have
10 to decide that, right? Not every client is sort going to
11 say that.

12 COMMITTEE MEMBER TAYLOR: So some clients will
13 say, we don't -- okay. You didn't fill this out, but
14 we're going to go ahead and invest with you anyway?

15 MR. WILSON: That could be the case, yeah.

16 COMMITTEE MEMBER TAYLOR: That could be the case?

17 MR. WILSON: Yeah.

18 COMMITTEE MEMBER TAYLOR: Maybe my question won't
19 make a difference then, because what I was going to ask
20 was if that's the case that they are not investing, how
21 many opportunities are we losing out on? But it sounds
22 like we don't actually have a good measure of that.

23 MS. MACINTOSH: But that's a valid point. I
24 think there will be some of our clients who will not
25 insist on GPs using the template for fear of losing out on

1 opportunities. I think that would be clients that are
2 much smaller than say a CalPERS, but that's still to tell.
3 You know, we're hoping all of our clients will use it,
4 and, you know, we're hoping the GPs will get on board and
5 want to use it as well.

6 COMMITTEE MEMBER TAYLOR: Oh, the compliance from
7 the GPs, I think is what --

8 MS. MACINTOSH: Correct, right.

9 COMMITTEE MEMBER TAYLOR: Okay. Great. Thank
10 you.

11 CHAIRPERSON JONES: Mr. Jelincic.

12 COMMITTEE MEMBER JELINCIC: We've used you for
13 years. I don't know how many years, do you know?

14 MS. MACINTOSH: A long time.

15 MR. WILSON: Pretty close to since inception.
16 Our firm was -- in 1991, I think we started and I think
17 CalPERS has been a client since 1991.

18 COMMITTEE MEMBER JELINCIC: Okay. And presumably
19 we will continue to use you. Do you anticipate that next
20 year you will actually include carry in the cost
21 structure? Do you have enough data?

22 MS. MACINTOSH: I think it's going to be a bit of
23 a wait and see. We're going to have to get the clients
24 using the template and see what sort of data they're
25 getting from the GPs, and what they're giving to us.

1 I think that might be a little ambitious to think
2 that we'll include them next year. They definitely --
3 like I said, we are including them in back of the report.
4 For comparator purposes, you can see by asset class like
5 what's the average performance fee.

6 I think it might be a bit ambitious to include
7 them next year, but, you know, definitely we want to do it
8 as soon as possible.

9 COMMITTEE MEMBER JELINCIC: But it is back in the
10 appendix and I just --

11 MS. MACINTOSH: Yes.

12 COMMITTEE MEMBER JELINCIC: -- didn't see it.
13 I'll go looking for it again.

14 And since the Scandinavian countries have said we
15 are mandating this -- I believe Norway said, you know,
16 there's -- the legislature said you either get it or you
17 don't play. Looking at our peer group, we can kind of
18 guess who those three to the right of us are. But if
19 we're getting it and the three to the right of us are
20 getting it, and you average it out, shouldn't you have
21 quite a bit of data as to guess on what the carry is?

22 MS. MACINTOSH: You mean like if we wanted to
23 apply a default or --

24 COMMITTEE MEMBER JELINCIC: Yeah.

25 MS. MACINTOSH: Yeah, we certainly -- we could do

1 that. Our preference is to get the actual data.

2 COMMITTEE MEMBER JELINCIC: Okay. And then,
3 Wylie, this is actually for you. They said that last year
4 they reported fees gross. It's not what understood you to
5 say, but my memory is not what it is.

6 But last year, we didn't -- you told us we
7 couldn't get the number. How did we give it to them if we
8 couldn't get it?

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

10 Carry was the number that we couldn't compile
11 completely and accurately last year. As you know, we had
12 the project underway since 2012. The PEARS project is a
13 four-year effort to pull together both the template and
14 the accounting system in order to be able to report that
15 to our -- both ourselves and the Investment Committee. So
16 that effort, as you know from my earlier presentation,
17 completed this year, so we were able to pull that
18 together. It was carry specifically that we were
19 struggling to compile and pull together.

20 COMMITTEE MEMBER JELINCIC: Well, if -- but if we
21 had the net management fees, why didn't we include that in
22 the CAFR? In the CAFR, we reported it as net.

23 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
24 do actually include the net base management fee for the
25 private equity strategies in the CAFR.

1 COMMITTEE MEMBER JELINCIC: But if we have the --
2 if we have the contractual obligation number, why are we
3 not reporting that, since that's actually what we're
4 paying? It's just a question of which pocket it's coming
5 from.

6 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
7 What we're actually paying is the net.

8 COMMITTEE MEMBER JELINCIC: If I -- if I take
9 your federal withholding out of your paycheck, does that
10 mean you have not paid any federal taxes?

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I'm
12 not sure I completely understand your question, Mr.
13 Jelincic. Maybe you can --

14 COMMITTEE MEMBER JELINCIC: But if they take it
15 out of my left pocket instead of my right pocket, I've
16 still paid it. If I take your federal -- if I take your
17 federal income tax out of your paycheck before you get
18 it --

19 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
20 Yeah, I've still absolutely paid it.

21 COMMITTEE MEMBER JELINCIC: -- you've paid it.

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
23 Yeah.

24 COMMITTEE MEMBER JELINCIC: Well, the -- but the
25 same is true with portfolio offsets. We've actually -- we

1 have paid that. It's just that they've taken it out of
2 the corporates of the fund rather than us writing a check
3 for it.

4 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

5 Yeah, and we've still paid it regardless. And
6 that is the number --

7 COMMITTEE MEMBER JELINCIC: And if we have -- if
8 we have that data, why haven't we chosen to report it?

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
10 have reported it. So the net fee that we paid for each of
11 our private equity strategies is what's included in the
12 CAFR.

13 COMMITTEE MEMBER JELINCIC: And the gross, which
14 you've just conceded, yeah, we actually paid, we're not
15 reporting it. I'm just trying to get a handle on why?

16 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
17 didn't pay the gross free. We paid the net fee.

18 COMMITTEE MEMBER JELINCIC: And the difference
19 between the gross and the net is what they took out of our
20 pocket without ever giving it to us?

21 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
22 think you might be referring to --

23 COMMITTEE MEMBER JELINCIC: It's sort of like
24 your income tax.

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Are

1 you referring to portfolio company fees that the GPs
2 collected?

3 COMMITTEE MEMBER JELINCIC: That's part of
4 what -- that's part of the offsets that reduce the net,
5 but we're actually paying. Waivers reduce the net but
6 we're actually paying them. So why -- if we are trying to
7 make a decision on how we structure the portfolio, we need
8 to know what our costs are.

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
10 Absolutely agree.

11 COMMITTEE MEMBER JELINCIC: And we're -- on one
12 hand we're saying we had the information but we chose not
13 to put it in the CAFR and I'm just trying to get to why.

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
15 don't think there was any information that we chose not to
16 put in the CAFR.

17 CHAIRPERSON JONES: Mr. Jelincic, you know, we're
18 trying to get through this presentation with CEM, and I
19 think that's a question for another day. I'm not
20 suggesting that you don't get an answer to your question,
21 but I just want to move forward.

22 COMMITTEE MEMBER JELINCIC: Put it in writing and
23 we'll have a secret meeting to give me an answer.

24 CHAIRPERSON JONES: No, it won't be secret.

25 COMMITTEE MEMBER JELINCIC: Okay.

1 CHAIRPERSON JONES: Okay. Thank you. Any other
2 questions to CEM?

3 COMMITTEE MEMBER JELINCIC: No.

4 CHAIRPERSON JONES: Okay. Okay. Then so I see
5 no -- I know. I know. I know.

6 I see no further questions from the Committee, so
7 we do have one request to speak from the public.

8 Mr. Michael Flaherman.

9 MR. FLAHERMAN: Good afternoon. I feel like
10 actually this whole thing actually raised more questions
11 than it answered. I think Mr. Jelincic's questions about
12 gross versus net management fees never really got
13 answered. I looked at -- I was actually very confused
14 about what was shown in the CEM report myself. And I went
15 back and I looked at the net numbers in your CAFR for the
16 last three years, and they were within 10 to 20 million
17 dollars of what are being described here as gross numbers.

18 Now, one is fiscal year, and the other is
19 calendar year, so you would expect some discrepancy. But
20 if one is gross and one is net, you should expect a
21 discrepancy of hundreds of millions of dollars, not almost
22 rounding errors. So I'm concerned that a lot has been
23 left on the table here in terms of understanding.

24 Second, I also am quite confused, and I'm
25 actually concerned for you, that carried interest is not

1 shown in Mr. Tollette's total, right? There is a total
2 cost here that you're actually, I presume, going to put
3 out a press release later today saying this was our total
4 cost. And I think you're exposing yourself, because
5 people are going to laugh at you, and say, you excluded
6 private equity, carried interest because why, right.

7 Now, maybe somebody wants to argue private equity
8 carried interest is not an expense, right, from an
9 accounting perspective, but this is not an accounting
10 exercise, as I understand it, right? This is an economic
11 exercise, right? It is an economic cost that you bear.

12 And then finally, if you look at your most recent
13 CAFR on page 54 where it talks about private equity
14 management fees, there is a notation there that private
15 equity management fees are not an expense either. You
16 don't treat them as an expense from an accounting
17 perspective, yet you make a big show of including them.

18 So how do you draw a distinction between counting
19 private equity management fees toward the total and not
20 private equity carried interest. I really think you'd be
21 making a mistake to say that this is the last word on this
22 topic without including private equity carried interest in
23 the total. And I also think you should really get to the
24 bottom of this net versus gross.

25 Thank you.

1 CHAIRPERSON JONES: Mrs. Hollinger.

2 COMMITTEE MEMBER HOLLINGER: Yeah, I appreciate
3 your commentary, but I'd like to applaud staff because
4 this is an issue that is industry-wide, and we're all
5 trying to understand how the private equity industry
6 accounts for their fees, because we really don't always
7 get clear standards. So Ted, Wylie, I really appreciate
8 the effort of that and staff. And I think rather than
9 being divisive, let's collaborate and work together how
10 we're doing to establish ILPA, to establish best
11 practices, and move this ball forward in a very positive
12 direction, because I think we're all on the same side.

13 Thank you.

14 CHAIRPERSON JONES: Okay. Thank you, Ms.
15 Hollinger. Okay. I see no further requests to speak, and
16 so we want to again thank you for your report, and we look
17 forward to receiving your next report.

18 And from one, I -- you know, I know a number of
19 issues have been raised. But, for one, I would not want
20 you to start guessing -- providing us information that you
21 guessed on. I want data that you can substantiate.

22 So, Mr. Eliopoulos, you want to --

23 CHIEF INVESTMENT OFFICER ELIOPOULOS: What -- I
24 would second the thanks to CEM. It's been a terrific
25 partnership for CalPERS for many decades now. The

1 question I would just ask CEM, you know, how many clients,
2 you know, such as CalPERS do you compile this information
3 for, if you presented this information to other
4 institutions? For instance, I know you've presented
5 fairly recently to CalSTRS. And is this nomenclature or
6 the way that you've reported both public equity -- you
7 know, the public asset classes as well as private asset
8 classes consistent? Do you -- is this report similar to
9 the way you're treating expenses and costs and carried
10 interest for your other clients? Maybe you can give some
11 sense of how many times you've made a presentation like
12 this just for context purposes.

13 MS. MACINTOSH: Yes. We use this same
14 methodology across the Board, recognizing that
15 benchmarking is not a perfect science. We try, and we've
16 been working at this for well over 20 years now to
17 continually tweak and improve our methodology and
18 definitions and that. But yeah, you can -- we can safely
19 say that, yes, it's the exact same methodology for all
20 clients.

21 CHAIRPERSON JONES: Okay. Thank you very much
22 for your presentation, okay?

23 Okay. We have one more question.

24 COMMITTEE MEMBER JELINCIC: Am I on?

25 Yeah.

1 You said that in the appendix or the full report,
2 you actually used both carry and fees for us and our
3 peers. And I don't expect you to know off the top of your
4 head what page that is, but if at some point, you could
5 get that to staff, and staff could get it to me, so I
6 could look at it, I would appreciate it.

7 MS. MACINTOSH: Absolutely.

8 MR. WILSON: Okay. Will do.

9 COMMITTEE MEMBER JELINCIC: And I do appreciate
10 your study. Thank you.

11 CHAIRPERSON JONES: Okay. Thank you very much.
12 Okay. Thank you.

13 Now, we will move on to Item 8, Global Governance
14 Strategic Review, Alignment of Interests.

15 (Thereupon an overhead presentation was
16 presented as follows.)

17 CHIEF INVESTMENT OFFICER ELIOPOULOS: All right.
18 Good afternoon, Mr. Chair, Committee members. We're in
19 the homestretch here. This is Item 8a.

20 (Laughter.)

21 CHAIRPERSON JONES: Don't say that, Ted.

22 (Laughter.)

23 CHIEF INVESTMENT OFFICER ELIOPOULOS: I said home
24 stretch. I didn't say how long it would take.

25 (Laughter.)

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: But this is
2 a very important continuation of our effort to look at
3 building our five-year strategy for governance and
4 sustainability.

5 In particular, the last three months we've really
6 taken a focused look at the E, the S, and now the G. So
7 this month today, we'll be focused on the G of the ES&G.

8 --o0o--

9 CHIEF INVESTMENT OFFICER ELIOPOULOS: And I'll
10 begin here before I turn it over to Anne with just this
11 familiar summary chart of the ES&G that we've updated each
12 month as we've gone along.

13 The column under E and the column under S we've
14 concluded, and now today we're looking at that far
15 right-hand column of G. And the particular focus under
16 all things governance under the theme of alignment of
17 interests.

18 And in that regard, we have the first three rows
19 are common to the ES&G. So we'll continue our data and
20 accounting standard and corporate reporting standard
21 efforts across the ES&G. We have the manager expectations
22 pilot that we discussed a little bit earlier today as part
23 of an earlier item.

24 And then we have research decked against all
25 three of these ES&G topics. So that's common to the three

1 parts of ES&G. What really we'll be focusing on today is
2 this bottom right-hand corner of the summary sheet here.
3 And as I turn it over to Anne, what I want to note is
4 really the first four bullet points here. The principles,
5 that's the governance principles document, our policy
6 document, that we spent much of last year reviewing and
7 amending, and proxy voting; proxy access; majority voting;
8 and focus list.

9 That's really the bread and butter of our
10 governance unit for the past couple decades, so that --
11 and it's strategic. So just because it's bread and
12 butter, it doesn't make it any less important. It is part
13 of the core strategic focus of the office for decades.

14 We're adding in two other areas of focus for the
15 coming five years. One, we just had alluded to quite a
16 bit, and one we've been talking about as a system for many
17 years now, which is private equity fee and profit sharing
18 transparency.

19 And I think the dialogue that just concluded is a
20 good example of why we think it remains as a strategic
21 imperative going forward. This is an industry-wide issue,
22 and it's going to take lots of efforts from investors all
23 over the globe, including CalPERS, to really move in the
24 direction of the ILPA transparency document to get not
25 just the template produced, but to get it used

1 industry-wide, so that organizations, like CEM, these
2 independent -- an independent organization that has such a
3 strong reputation in the marketplace for its independence
4 and its ability to accurately bring together reliable
5 information on cost effectiveness by institutional
6 investors, so that they'll have the apples-to-apples
7 comparison to make, so there aren't these frustrating, I
8 think for everyone, conversations around definition and
9 other things.

10 We need one common standard set of information
11 that can get populated in a standard fashion by investors
12 all over the globe, so that it's just a matter -- I don't
13 want to say just a matter. I just did, so I'll say it
14 again. It is a matter of -- I know it's not as easy as
15 this, but pushing a button for CEM to collect the data and
16 produce the information that we're all really longing to
17 get. How much of this -- how much of the fees are going
18 for what purposes and how does that compare? Which
19 investors are doing a better or worse job at managing
20 their private equity portfolios?

21 To do that, we need a real sustained effort by
22 CalPERS, by importantly other investor in the marketplace
23 to get that kind of data collected in a transparent and
24 standardized fashion.

25 Lastly, we also had a bit of a discussion earlier

1 today as well on this topic. We do think over the course
2 of the next five years -- I'm not so sure how much. I
3 don't want to overemphasize it, but there will be a body
4 of work to review our divestment policy as the Committee
5 has directed us to do, and from time to time, review our
6 divestment mandates. We have reports to the legislature
7 under the Sudan and Iran Act. And again bread and butter
8 work that we're doing, we just want to make sure we
9 capture all the important strategic things that we're
10 doing and not leave anything off the table.

11 And with that, I will turn it over to Anne to
12 take us diving into the G of ESG. And our hope is once we
13 complete today, then we'll come back next month in June,
14 actually -- I keep on saying I'll turn it over to Anne --

15 --o0o--

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: But why
17 don't I continue for a second here. This is page four,
18 what I just mentioned, the year that we spent really
19 delving into our principles. And here, on
20 the what's-to-come side, next month we'll bring really the
21 full five-year plan. And we're hopping for a more time
22 spent next month talking about KPIs. Having kind of done
23 a first brush through the ES&G process this last three
24 months, really with a look to finalizing the strategic
25 plan, having one more conversation, look at it, and

1 discussion at the off-site in July, and then the hope is
2 that we would bring in August to the Investment Committee
3 for adoption a strategic plan.

4 So that's the road ahead for today, and the road
5 ahead through August. And with that, I would turn to the
6 presentation over to Anne, unless there's questions for me
7 at this point.

8 CHAIRPERSON JONES: Okay. One question here
9 before.

10 Mrs. Mathur.

11 COMMITTEE MEMBER MATHUR: Thank you. Just a
12 question on this page five. For June, the third bullet
13 says divide initiatives and partnerships into strategic
14 and core activity. Now, my understanding is that the
15 recommended strategic priorities listed on page three are
16 the strategic elements. Obviously, there's a whole other
17 piece of workload that's already underway or continuing.
18 So can you just explain a little bit more what you mean by
19 that bullet?

20 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes. I'm
21 so glad you pointed that out. That very bullet point is
22 something that we had quite a bit of a conversation about.
23 That bullet point has remained the same since we really
24 kicked off this process. And now that we're at our point
25 in time today, what you'll see in June is a probably more

1 specific way of describing that, where we'll present for
2 the Committee really what is strategic and core all in one
3 strategic plan. That's a better way of saying it than
4 dividing it into two.

5 COMMITTEE MEMBER MATHUR: Great.

6 CHIEF INVESTMENT OFFICER ELIOPOULOS: So the
7 strategic plan will include both strategic and core
8 activities.

9 COMMITTEE MEMBER MATHUR: Okay.

10 CHIEF INVESTMENT OFFICER ELIOPOULOS: The other
11 part is we don't expect that we'll be able to talk about
12 our external partnerships, you know, so that web of
13 partnerships. And we're going to put that conversation,
14 at least as part of our July off-site just to sequence out
15 the amount of discussion that we have to go forward. So
16 you're exactly right to point out the clarification that
17 was needed.

18 COMMITTEE MEMBER MATHUR: Okay. Great. Thank
19 you.

20 CHAIRPERSON JONES: Okay. Proceed.

21 INVESTMENT DIRECTOR SIMPSON: Well, Anne Simpson,
22 Global Governance. And I'm joined here by Dan Bienvenue,
23 head of Global Equity. So thank you very much, Ted.

24 --o0o--

25 INVESTMENT DIRECTOR SIMPSON: The slides which

1 follow the timetable which Ted was just explaining, which
2 has had a little bit of a tweak along the way as to when
3 we think we can best come to some of the big topics like
4 partnerships, the slides that follow are a recap of our
5 Investment Beliefs. And as we've gone through these
6 presentations to you and conversations with you on E and S
7 and G, it really does reinforce that this thinking about
8 sustainable investment is woven right through the
9 Investment Beliefs as a whole body of work.

10 So if I was to spend 20 minutes on those, you'd
11 probably never forgive me, and we'd never really get to
12 the whole point. So take it as read that when Dan and I
13 were sifting through the Investment Beliefs, it was hard
14 to know which ones to leave out, as opposed to which ones
15 we should choose.

16 So let me just skip ahead, if you'll bear with
17 me to slide 11.

18 --o0o--

19 INVESTMENT DIRECTOR SIMPSON: Again, this is
20 something you've seen before, but just because we're
21 getting a tradition rolling here, talking about under the
22 G we want a cross-cutting theme, which is relevant to all
23 the asset classes, and which ties in with own investment
24 objectives.

25 So alignment of interests is a very old notion in

1 economics in the formation of the company, but it has new
2 relevance for us as fiduciaries. And as Ted was
3 explaining, it really is going to be the focus of some
4 continuing substantial work. Just to recap, our three
5 channels that we can have an influence are integration.
6 And I think Wylie earlier really spoke eloquently about
7 the effort that we've put into this new architecture in
8 the Investment Office to really enable us to integrate.

9 Much of the CalPERS governance work has been
10 outside, external facing, the advocacy, the engagement,
11 the partnering with others, but really now by turning
12 inwards to our own processes, we've got new challenges and
13 new work to do. And that means we've got our own internal
14 governance arrangements that have been refreshed and
15 renewed. And that's, I think, very significant.

16 And I -- you know, and it's just terrific being
17 able to co-chair that committee with Dan, because we're
18 bringing together the governance team, and the largest
19 asset class by value into working together. And that
20 committee, as Ted said, who you met many of at the
21 off-site, brings strong representation from all the asset
22 classes and programs. So I think it's a very significant
23 step forwards.

24 --o0o--

25 INVESTMENT DIRECTOR SIMPSON: So with that said,

1 this is -- this next slide, number 12, just gives us a
2 snapshot of the slide that Ted just took you through, so
3 that you can see under each of those three channels that
4 we feel reflect what CalPERS can do as a major long-term
5 asset owner, where we can play to strength.

6 So just in summary form on advocacy, we see in
7 almost every discussion today the question of transparency
8 and relevance of data has been at the heart of almost
9 every conversation during this meeting.

10 And, of course, often what we're stumbling
11 against is that what we're stumbling into a curtain of
12 uncertainty about the data, or they aren't even there. So
13 this crosscutting theme in governance about identifying
14 the data that are material, and then getting market-wide
15 standards, whether it's the ILPA framework or it's
16 accounting standards, we know that's now got to be a major
17 focus of attention. But CalPERS hasn't gathered itself
18 with its partners to really do work in that arena before.

19 We've, I think, had an impact on specific issues
20 at specific times, but we haven't thought about it as a
21 strategic plan.

22 And I think that's innovative and it's exciting,
23 and it has huge potential for us as a fiduciary.

24 What's going to guide us in thinking through how
25 we respond on advocacy, CalPERS federal and legislative

1 guidelines, I think as Ted pointed out, this is really our
2 bread and butter work. Sometimes it just feels like bread.
3 I don't know that we get the lavish butter on top, because
4 it's just getting it all done.

5 CalPERS has a set of priorities for the SEC.
6 Some work has been accomplished successfully. Thank you
7 to all the SEC people who worked hard on that. We've got
8 more left to do. And the SEC has just opened up this very
9 significant disclosure effectiveness initiative. I think
10 it's a great example where we can have our own plan, and
11 then the world offers you something that you really didn't
12 realize how much you needed.

13 I don't think in our wildest dreams six months
14 ago we would have said, well, wouldn't it be a good idea
15 if the SEC, under all the pressure it's under, would just
16 open up the whole question of disclosure for a fresh look,
17 including topics around sustainability? So that's a great
18 example where we have to be ready to respond to
19 opportunities that come our way.

20 And then we do want to highlight on advocacy that
21 as we're turning to our own internal processes, we want to
22 be very thoughtful about working with the asset classes to
23 better support the good staff that they're doing on
24 advocacy, which can be very, very specific to what a
25 particular asset class needs.

1 Engagement. I think everyone knows this word
2 very well. And then on integration, I think Ted has
3 actually covered the key points of the work. But with a
4 few exceptions, this gives a pretty good overview of what
5 we're doing at the moment in the governance field.

6 --o0o--

7 INVESTMENT DIRECTOR SIMPSON: So I put this
8 slide -- well, we put this slide together really just -- I
9 would say just for fun. 1776 is one of those dates that I
10 was taught was rather important in America. But at the
11 same time a moral philosopher and economist was toiling
12 away in the rain at the University of Edinburgh, Adam
13 Smith, writing the Wealth of Nations, which came after the
14 Theory of Moral Sentiment, which is why I always thought
15 the ethics and economics came together so well.

16 But he pointed out way back then why alignment of
17 interests needed to be the first issue for attention for
18 those who give money to companies. And he said very
19 correctly, "The directors of companies being the managers
20 of other people's money, it cannot be well expected that
21 they would watch over it with the same anxious vigilance
22 with which the partners watch over their own". And here's
23 the thing. "Negligence and profusion therefore must
24 always prevail more or less in the management of the
25 affairs of such company".

1 I know in the Investment Office, Ted and Wylie
2 have had something from Peter Drucker on a white board,
3 which sounds like more or less the same thing, which is
4 that left to its own devices any arrangement falls into
5 inefficiency, private interests take over. So really this
6 question of accountability, of alignment of interests, has
7 mattered for well over 200 years, and it will continue to
8 matter. And we're starting to understand how it matters
9 in all the asset classes.

10 And the other quotes are really one from Japan,
11 which I think illustrates this is now a global agenda.
12 And I think you all know we took the focus list to Japan
13 two years ago and are making great progress with our
14 partners there. There's also a very nice quote from the
15 Harvard Business Review talking about asset owners being
16 at the top of the investment chain, and they're the ones
17 to drive this agenda.

18 And finally, even the financial analyst community
19 is wise to this advice from Adam Smith. And we've given a
20 quote from analysis that they provided showing how proxy
21 access in public markets is such an important tool for
22 bringing that alignment of interest in.

23 --o0o--

24 INVESTMENT DIRECTOR SIMPSON: So what follows is
25 we have -- if you thought of this as our book of

1 initiatives on alignment of interests, we've got a chapter
2 on each of the main areas of activity. And we've tried to
3 be very clear in the layout. So we state what the
4 objective is, what the initiative itself will involve, and
5 we hesitate, because we're just dipping a toe into some
6 cold water here. But we've put a couple of thoughts on
7 the page of what we're thinking about on KPIs. But we
8 know we've got a big discussion on that next month.

9 And then we've also rolled out for each of the
10 chapters or each initiative a timeline just to give you an
11 idea of the sequence what is it we would need to do first,
12 second, and third across the years ahead?

13 As Ted said, our plan once we've finished
14 discussing all these ideas with the Board and gathering
15 all your input is we wrap all of these timelines up into a
16 five-year plan, where we can then start to be very
17 specific and very practical about the order, the sequence,
18 the resources that we'll need to marshal.

19 So I don't know, Ted, if you're content with
20 that. My thought is to take these next pages as read and
21 spend the rest of our time together being able to answer
22 your questions. Does that seem -- ted, does that seem
23 sensible?

24 CHIEF INVESTMENT OFFICER ELIOPOULOS: It's up to
25 the Chair.

1 CHAIRPERSON JONES: Yes. Mrs. Mathur.

2 COMMITTEE MEMBER MATHUR: Thank you. Well, this
3 is important work, and I really appreciate the report --
4 or the proposal that you're outlining here. I just have a
5 question, and this is I guess getting back to my earlier
6 question as what is strategic and what is core. Because
7 there are certain advocacy efforts that we have been
8 involved in and -- or active around where we have not
9 achieved full success, carbon pricing, for example.

10 INVESTMENT DIRECTOR SIMPSON: Right.

11 COMMITTEE MEMBER MATHUR: And so how does that
12 fit in? I know we're talking about governance here, but I
13 just -- there's -- the advocacy piece across all three
14 elements is this data and corporate reporting, the SASB --
15 the SASB reporting. And so we haven't incorporated any of
16 those other elements. Could you just speak to that a
17 little bit?

18 INVESTMENT DIRECTOR SIMPSON: Yes, it's -- thank
19 you. That's a very good question. It's always difficult
20 when we put real focus on to one theme, and, in fact,
21 everything is connected. You know, the knee bone
22 connected to the hip bone, and so on and so forth. And
23 you can you get -- lose a sense of the whole by the deep
24 dive into a particular topic.

25 To Ted's point about strategic and core, what

1 we're thinking about, and this is early stage, and we'd
2 love to hear your thoughts is strategic is where we
3 develop an initiative and we push the boat out. And core
4 is where we're carrying out our day job, our absolutely
5 central function on behalf of CalPERS working for the
6 Board.

7 And we take CalPERS legislative and policy
8 engagement guidelines that were most recently agreed and
9 updated in November, you remember it was part of the Ad
10 Hoc Global Governance Committee, reviewed the principles
11 in great detail, and then also took another look at the
12 legislative and policy guidelines to check that they were
13 all synched up. And the idea of those legislative and
14 policy guidelines, was so that in talking to regulators,
15 and people in Congress or the European Commission, we'd
16 actually got a document which actually drew all the
17 strands together, not just for investments, but for health
18 and for pensions too.

19 So to your point, if you look at the appendix,
20 we've actually put the whole of the investment section of
21 those guidelines on -- from slide 38 onwards. And I know
22 for sure -- and I'm sorry I can't remember the number. I
23 know for sure carbon pricing is in there.

24 COMMITTEE MEMBER MATHUR: That's fine. You don't
25 have to --

1 INVESTMENT DIRECTOR SIMPSON: I found it. So
2 it's, here we go for the record, Section D, number 1, B.
3 We say, "Support proposals to foster a strong and durable
4 global economy". And point B is, "Provide stable,
5 reliable, and economically meaningful carbon pricing that
6 helps redirect investment commensurate with the scale of
7 the climate change challenge.

8 So the way we're thinking about this, and Ted
9 please add to this if I've not got it quite right. But if
10 we have a mandate or a policy from the Board, our job is
11 to fulfill that, both responding to opportunities and --
12 that present themselves. And the strategic work is where
13 we've sat down to say how do we take this forward, how do
14 we move the ball? And that's where we're talking about
15 the engagement work with the Montreal Pledge companies
16 through the PRI, that's where we're talking about the
17 diversity engagements that we want to move. Introducing
18 this new strategy around data and corporate reporting, we
19 think is going to tie together all these many different
20 initiatives and actually take us to the next level, but it
21 requires thought and strategy to make it happen.

22 Is that fair, Ted?

23 CHIEF INVESTMENT OFFICER ELIOPOULOS: It's more
24 than fair, more than fair. I think what we've tried to do
25 here is summarize it all under the topic of the CalPERS

1 legislative and policy engagement guidelines and that has
2 its own process to establish any given year, any given
3 years what will be the topics that are put into those
4 guidelines, because we need to coordinate with the health
5 initiatives as well as other parts of the organization.
6 So it's an enterprise effort.

7 So -- and as Anne mentioned, currently that
8 consists of many of the things that we were just talking
9 about that can change over time, so -- but it is a level
10 of effort and work. And the way we're handling it as part
11 of this strategic plan is to carve out time, because we
12 know we're going to have to spend some amount of time and
13 staff resources in order to accomplish the work under
14 these guidelines, knowing that they'll change over time.

15 But the workload we need to plan for, because if
16 we put together a governance strategic plan that doesn't
17 anticipate having legislative advocacy or policy advocacy,
18 then we won't have any bodies to do it. So we need to
19 plan for it --

20 COMMITTEE MEMBER MATHUR: Right, absolutely.

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- but not
22 making prescriptive what is in the bucket.

23 COMMITTEE MEMBER MATHUR: I full endorse planning
24 for it. I think the Committee really wants to have that
25 conversation about what are the resources necessary to

1 achieve the strategy that we all come to at the end of
2 this process. So I very much support that.

3 I just wanted to make sure that we weren't sort
4 of losing sight or it wasn't falling off the table some of
5 these important efforts that we've had underway around
6 engaging with regulatory bodies and, you know, writing
7 comment letters and things like that that are -- that
8 support our overall work in this area.

9 So thank you.

10 CHAIRPERSON JONES: Mrs. Taylor.

11 COMMITTEE MEMBER TAYLOR: So I also want to thank
12 you for this roadmap forward. I think it's very
13 impressive. And I do appreciate the work you put into
14 moving this forward. And there's a couple of things I
15 think I want to say in addition to what Ms. Mathur said.
16 You guys are planning strategically to move this forward.
17 You're including the legislation and working with our
18 federal regulators I assume, of course.

19 INVESTMENT DIRECTOR SIMPSON: Right.

20 COMMITTEE MEMBER TAYLOR: One of the questions I
21 had, and I guess it comes from my past experience is, are
22 we looking at perhaps working with other large
23 institutional investors to help move these things along,
24 such as on page 12 and 22 we were talking about
25 encouraging the SEC to secure sufficient resources for

1 both examination and enforcement.

2 If we're working alongside some of our other
3 sister funds et cetera, I would think that would help our
4 strategy move forward, am I correct in thinking that?

5 INVESTMENT DIRECTOR SIMPSON: Yeah, thank you. I
6 think we know at times that the responsibility of being
7 fiduciaries for close to \$300 billion sounds like a large
8 sum of money, but in financial markets of what \$300
9 trillion, we're a drop.

10 COMMITTEE MEMBER TAYLOR: Right.

11 INVESTMENT DIRECTOR SIMPSON: But we have the
12 ability to form alliances and to be thought leaders and to
13 convene. And I think that's something that CalPERS has
14 learned to do very well, being a founder of CII, a
15 founding signatory of PRI, pulled the founding meeting for
16 the ICGN, and, of course, had played -- has played such an
17 important role in the getting ILPA off the ground.

18 COMMITTEE MEMBER TAYLOR: Right.

19 INVESTMENT DIRECTOR SIMPSON: So I think it's
20 back to the old adage, if you want to go far, go together.
21 If you want to go fast, go alone. But we can't go very
22 far on our own, because these are market challenges. And
23 slowly but surely in partnership, we can move a lot of
24 things, but we have to spend time listening, and we have
25 to spend time building those alliances.

1 Partnerships I know is up. I think is -- Ted's
2 just going there.

3 CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll just
4 add on to that, because it can't be underscored enough to
5 our strategy.

6 --o0o--

7 CHIEF INVESTMENT OFFICER ELIOPOULOS: And there's
8 the work-through partnerships to leverage resources, an
9 impact that cuts across the bottom. And that's what we
10 plan on having a fuller discussion at the off-site in
11 July.

12 COMMITTEE MEMBER TAYLOR: Awesome.

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: We have a
14 large network of partnerships that we work through, CII,
15 others. And what we need do is look through the strategy
16 this -- our strategic imperatives for the next five years
17 and review that web of partnerships, as we've done in the
18 past, to identify what are the web -- you know, who are
19 the partners that we have to work with, want to work with
20 to be successful to succeed with these strategies.

21 And those partnerships might flex over time, at
22 certain points in time. Perhaps accounting standards are
23 more important than, you know, other topics over the
24 years. And that's why we want in July, you know, really
25 to look at the web of partnerships that we have and talk

1 about which ones are going to be critically important.

2 COMMITTEE MEMBER TAYLOR: You know what, I was
3 also kind of thinking about making sure that these
4 partnerships are moving legislation or moving enforcement
5 that helps us mitigate our risk. For example, had we
6 maybe been doing this before in 2008, we would have been
7 able to mitigate some of the risk, because we would have
8 had some enforcement of these markets going on that
9 currently -- or wasn't going on at the time. So that's
10 part of what I was looking at as well is are we working
11 with folks to look at enforcing Dodd-Frank or something
12 like that to avoid systemic risk in the future.

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: So
14 financial market reform is an area CalPERS has been a
15 partner of a network of institutions to try and improve
16 the safety and security of the financial marketplace, with
17 a very intense focus this past five years on Dodd-Frank.

18 We have had a very aggressive effort with these
19 partnerships. So the short answer is yes, absolutely.
20 You're exactly -- exactly right. I would only add to it
21 that these networks are only as effective as we can -- as
22 we can work with them on our side is to focus the number
23 of topics that we're interested in.

24 COMMITTEE MEMBER TAYLOR: Right.

25 CHIEF INVESTMENT OFFICER ELIOPOULOS: If we're

1 too diffuse in the things that we want to work in, then
2 the number of partners that we work with and the
3 multiplication of CalPERS knocking on folks doors asking
4 to work on this issue or this issue or that issue our
5 impact gets lessened. And part of this effort is to
6 really identify a limited number of topics that are of the
7 greatest strategic importance to CalPERS, so that we can
8 go about building this network of allies to actually make
9 an impact, because it is a big marketplace out there and
10 we are just one small player in a very large marketplace.
11 And we have to have successful partnerships with others.
12 And part of that is -- is focus, so that you don't
13 overburden your partners and then distract from what is
14 really important.

15 COMMITTEE MEMBER TAYLOR: Sure. Absolutely.
16 Thank you.

17 CHAIRPERSON JONES: Mrs. Paquin.

18 ACTING COMMITTEE MEMBER PAQUIN: Thank you and
19 thank you again, Ms. Simpson. This is another great
20 report this month, and to you and your team. It's been a
21 great process. My question is about looking back at the
22 global governance principles and policies. And I notice
23 on page 26 your presentation you have listed that that is
24 something that you plan to do in each of the years. And I
25 was curious if you were planning to assign specific topics

1 in a given year or to just look at it as a whole and make
2 incremental progress?

3 INVESTMENT DIRECTOR SIMPSON: Thank you. Just to
4 make sure I'm looking at the right thing, are you thinking
5 about the list of -- oh, thank you, Wylie -- the list of
6 what Ted calls the parking lot --

7 ACTING COMMITTEE MEMBER PAQUIN: Exactly.

8 INVESTMENT DIRECTOR SIMPSON: -- which is what
9 are we leaving and we need to return to? These were
10 topics that were raised during the principles review. And
11 I said to Ted some of them are quite straightforward
12 issues. I can imagine us working during a quiet couple of
13 weeks in the summer to pull material together and come
14 back to the annual review of the principles. Others are
15 fiendishly complex and require serious work and we'll need
16 to carve out time to address them.

17 I think one example of that is the topic of
18 compensation, which was raised. We've got certain areas
19 really well thought through and others where we've -- you
20 know, there's new things to talk about that came through
21 the review under the human capital management theme.

22 Another example is we said, well, we want to take
23 a fresh look after the Paris agenda to see what else we
24 need to put forwards around environmental risk management.
25 And there's an enormous amount that goes into that.

1 Another very substantial topic is supply chain, where
2 again I think CalPERS has done good work. We've been a
3 pioneer, but we're humble. We know that this isn't
4 something that can be done quickly, if it's to be done
5 well.

6 So as we wrap-up into the five-year plan, we're
7 going to have to be thoughtful about which topics need
8 work and can compete their way into the work program with
9 all the other possibilities, and then see how we can bring
10 them to the Board in that orderly manner through the
11 annual review of the principles.

12 ACTING COMMITTEE MEMBER PAQUIN: Great. Thank
13 you.

14 CHAIRPERSON JONES: Mr. Lind.

15 COMMITTEE MEMBER LIND: Thank you. You know, I
16 certainly support the process that we've outlined here
17 going forward, and acknowledge the tremendous body of work
18 that's involved here, particularly in the G, which has
19 been our sweet spot. That's why CalPERS is a global
20 leader in this work.

21 And as so often happened Anne -- happens Anne,
22 your report is a little bit later in the day, we're up
23 against a time certain, and you've -- you know, we've got
24 this appendix, which has a huge number of important issues
25 that we really didn't talk about, but are important, and

1 kind of help, you know, guide us as to what the big kind
2 of bunch of issues that we have to deal with going
3 forward.

4 And I shared Priya's concern by making sure that
5 as we do these priorities that we're not losing some
6 things that we've all agreed are important that we've
7 done. And it sounds like you're trying to assure us that
8 that's not going to happen. And as part of the
9 deliberative processes, we'll deal with all of those in
10 one way or another. And I agree with Ted, it's a matter
11 of priorities, what we can really focus on.

12 I also, through this process going forward, hope
13 to have further discussion about resources for this work
14 that we all believe is important, this integration of the
15 ESG stuff, and then also, you know, going forward the role
16 of the Board. And, you know, I've raised the issue a
17 couple times about a closer role of the Board, whether
18 it's a subcommittee or a committee around global
19 governance or sustainability or whatever we want to call
20 it. And I hope to continue to have that conversation.

21 But overall, just the way that everybody in the
22 Investment Office has kind of come together and worked and
23 put this plan together, along with the Board, I think it's
24 been a great process so far. I look forward to continuing
25 the next couple of months, and whether it's -- is it

1 August we said we're going to try to -- we're going to
2 agree on the final sort of strategic plan?

3 INVESTMENT DIRECTOR SIMPSON: Yes.

4 COMMITTEE MEMBER LIND: I think it's going to be
5 a great body of work that we're all going to be proud of.
6 And there will be a lot of work to do and, you know, we
7 have to figure out how and when we're going to make it
8 happen.

9 INVESTMENT DIRECTOR SIMPSON: Thank you.

10 CHAIRPERSON JONES: Seeing no further questions.
11 Okay. So we will now move forward to Item 8b.
12 Ms. Simpson, you're still on the stage.

13 INVESTMENT DIRECTOR SIMPSON: Oops.

14 (Laughter.)

15 INVESTMENT DIRECTOR SIMPSON: Oh, I'm sorry. I
16 do care about quarterly proxy voting. I promise. I don't
17 know if Todd Mattley would like to join me. Is he here?

18 Thank you very much, Chair, for stopping me
19 running away.

20 CHAIRPERSON JONES: By the way, gauge your time.
21 We do have a time certain at 3:30.

22 INVESTMENT DIRECTOR SIMPSON: Yeah, very good.

23 CHAIRPERSON JONES: So all right.

24 INVESTMENT DIRECTOR SIMPSON: So thank you,
25 Chair. Anne Simpson again, and with Dan Bienvenue. And

1 I'm joined by Todd Mattley who's our head of proxy voting.

2 I hope that the attached report is
3 self-explanatory. We're right in the middle of the
4 season, in the middle of I think 31 campaigns on climate
5 risk and board diversity and proxy access. And we've had
6 some extraordinarily good results, and others where we've,
7 you know, barked our shins against some obstacle. But I
8 think we really got the season off to a flying start. And
9 I think the new refreshed principles have been a fantastic
10 framework. We've certainly found them very good for
11 engaging companies. We've got much more clarity and
12 brevity around the thinking that CalPERS has.

13 In the attached quarterly report, which we make
14 to you as part of the investment policy, we've given you
15 the overall numbers. And you'll see that at this time of
16 the year, in fact, we're right in the middle of it, the
17 whole team, one way or another, is involved in exercising
18 votes at over 7,000 companies. And that includes proxy
19 solicitations, votes, company engagements, attendance at
20 AGMs. So it really is all hands on deck. And I'd just
21 like to applaud everyone who's been involved, including
22 our Legal Office and our Public Affairs team, because this
23 is something that many parts of CalPERS have to work
24 together to get it all happening and out the door.

25 Todd has put together some illustrative examples

1 of how we voted on pay at the U.S., overseas, and some
2 high level numbers for our levels of support. I do want
3 to apologize, more haste less speed. We've got Rio Tinto
4 named as a company where we voted against. And, in fact,
5 we co-filed a climate risk proposal there with the CCLA
6 who we've been working with, and we won over 90 percent
7 support, largely due to the fact that management worked
8 with us on this, and it wasn't a fight with the company.

9 So with that, I think -- unless there's anything
10 you'd like to add Todd.

11 INVESTMENT OFFICER MATTLEY: No.

12 INVESTMENT DIRECTOR SIMPSON: We'd be glad to
13 answer any questions.

14 CHAIRPERSON JONES: Seeing no questions, thank
15 you very much for that brief report.

16 INVESTMENT DIRECTOR SIMPSON: Thank you, Chair.

17 (Laughter.)

18 CHAIRPERSON JONES: At this time, I think we --

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair?

20 CHAIRPERSON JONES: Mrs. Mathur.

21 COMMITTEE MEMBER MATHUR: No, I'm sorry. I
22 didn't get to my button quick enough, I guess. I just
23 wanted to -- I just wanted to say how -- what a
24 significant effort it was this year. And it really
25 evidences how much our partnerships matter. And that we

1 really collaborated with a number of different important
2 institutional investors around these issues, so that
3 our -- our scope is actually broadened by that.

4 INVESTMENT DIRECTOR SIMPSON: Yes.

5 COMMITTEE MEMBER MATHUR: And I really -- I just
6 wanted to acknowledge all the efforts of our own internal
7 team as well as our partners.

8 CHAIRPERSON JONES: Mr. Jelincic.

9 INVESTMENT DIRECTOR SIMPSON: Yes. Thank you for
10 that.

11 COMMITTEE MEMBER JELINCIC: And on seven of nine,
12 attachment 1, I assume that it's just missing a heading.
13 Those are ones we voted against.

14 INVESTMENT DIRECTOR SIMPSON: Yeah, we're saving
15 paper and eliminating the occasional title.

16 (Laughter.)

17 INVESTMENT DIRECTOR SIMPSON: But yes, thank you.
18 It just dropped off.

19 CHAIRPERSON JONES: Okay. So thank you for the
20 presentation again, and we're going to take a --

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair.

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Mr.
23 Chair, we had an item pulled from consent earlier
24 that rolls to the end of the day.

25 CHAIRPERSON JONES: Thank you. Yeah, I think we

1 can get to that before we have to take a break. Yes.

2 Okay. That was -- what was that, J.J.?

3 COMMITTEE MEMBER JELINCIC: It was 4d.

4 CHAIRPERSON JONES: 4d.

5 COMMITTEE MEMBER JELINCIC: Let me get my agenda
6 back up. Okay. It's page 12 of, I don't know, 15, I
7 guess, 39 of the iPad. It's the spring-fed pool
8 contracts.

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

10 Yes. And your question was, Mr. Jelincic?

11 COMMITTEE MEMBER JELINCIC: Are the top three
12 accurate, and what does selection -- under selection
13 request mean critical time frame previous entry, what does
14 that mean?

15 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

16 Critical time frame previous entity.

17 COMMITTEE MEMBER JELINCIC: Entity.

18 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

19 Yeah, entity. That just relates to the fact that
20 it's an entity that we've done contracting with before.
21 And critical time frame just has to do with the fact that
22 we've specified a time frame for the LOE to complete. So
23 if we adjust the time, we would come back and note that.
24 There is -- there was one typo under the Cambridge
25 Associates, LLC, where the LOE amount was listed as

1 3,000 -- LOE balance was listed as 30,000. They should
2 both be 3,000. There was an extra zero slipped into the
3 LOE balance column.

4 COMMITTEE MEMBER JELINCIC: And given that the
5 balance is the same as the amount, that means we haven't
6 paid anything on those contracts?

7 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
8 That's accurate. That's right.

9 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

10 CHAIRPERSON JONES: Okay. Thank you. And thank
11 you very much. Okay. So we will take a break and we have
12 to give the reporter time, 10 minutes. So we will
13 reconvene at, let's say, 3:25 and be ready for our 330:

14 (Off record: 3:07 p.m.)

15 (Thereupon a recess was taken.)

16 (On record: 3:26 p.m.)

17 CHAIRPERSON JONES: Okay. I would like to
18 reconvene the Investment Committee. We have a time
19 certain on our agenda today to deal with the contract
20 administration real estate Board investment consultant
21 interviews and the intent to award. So we have a couple
22 of minutes and then we will start our process, so -- but
23 the candidates are in the room, correct?

24 Okay. Thank you.

25 Okay. Thank you. It is now 3:30 and today the

1 Investment Committee is interviewing the finalists for the
2 real estate Board investment consultant request for
3 proposal number 2015-8014. Committee members, in
4 accordance with the RFP, we, as a group, will determine an
5 interview score for each finalist and make a motion to
6 adopt the interview score with a maximum points of 700.

7 At this time, I would like to ask Kit Crocker,
8 Investment Director of the Investment Compliance and
9 Operational Office to provide a summary of the RFP
10 activities to date and the logistics of the interview
11 process.

12 Ms. Crocker.

13 INVESTMENT DIRECTOR CROCKER: Thank you, Mr.
14 Chair. The CalPERS Board of Administration has delegated
15 to this Committee the authority to conduct the selection
16 of a consultant to act in the role of the private asset
17 class Board consultant for the real estate portfolio.

18 In September 2015, staff obtained approval to
19 issue RFP number 2015-8014, which solicited bids from
20 qualified firms to act as the Investment Committee's
21 consultant for the real estate portfolio.

22 In December 2015, at close of the final filing
23 date, six firms had submitted proposals. Investment
24 Office staff evaluated proposals as outlined in the RFP.
25 And at the Committee's April meeting, staff presented two

1 firms as finalists for the Committee's consideration for
2 interviews. The Committee selected both firms for
3 interviews.

4 Please note there was an error in the agenda item
5 relating to this RFP. The Board will be using the
6 consensus scoring methodology, as stated in the RFP, not
7 the trimmed average methodology, as stated in the agenda
8 item.

9 Each finalist will be allotted 30 minutes for the
10 interview and scoring. At the conclusion of the
11 interviews, the Committee's scores will be combined with
12 each finalist's fee proposal and incentive points. The
13 Committee will then be asked to make a motion recommending
14 the Committee award the contract to the finalist with the
15 highest overall score subject to final negotiations and
16 satisfaction of all requirements.

17 At this time, I would like to remind the
18 finalists that each of your firms signed and submitted the
19 CalPERS full Board of Administration interview form with
20 your proposals. This form represents a pledge by each of
21 you that you will not make any attempt to listen to or
22 watch the interview with the other finalists nor will you
23 allow anyone to do so on your behalf.

24 Failure to adhere to this requirement will result
25 in your firm's disqualification from this engagement. I

1 would also like to take the time to update the Committee
2 on the current scores for the firms. In alphabetical
3 order the scores currently are Courtland received 300 for
4 their fee proposal score and 30 points for committing to
5 participate in the DVBE, or disabled veteran business
6 enterprise preference program. The combined subtotal for
7 Courtland, including DVBE preference points, is 330.

8 PCA received 191 for their fee proposal and 30
9 points for committing to participate in the DVBE
10 preference program. The combined subtotal for PCA,
11 including DVBE preference points, is 221.

12 CHAIRPERSON JONES: Thank you.

13 Thank you, Ms. Crocker, for the overview.

14 CHAIRPERSON JONES: I want to remind the
15 Committee that once we start the process, please stay
16 through the entire period of interviews. I would now ask
17 that the roll be taken, so that the record reflects the
18 Investment Committee members present and participating in
19 the interview and selection process for this contract.

20 Roll call, please.

21 COMMITTEE SECRETARY BICKFORD: Henry Jones?

22 CHAIRPERSON JONES: Here.

23 COMMITTEE SECRETARY BICKFORD: Bill Slaton?

24 VICE CHAIRPERSON SLATON: Here.

25 COMMITTEE SECRETARY BICKFORD: Michael Bilbrey?

1 COMMITTEE MEMBER BILBREY: Here.

2 COMMITTEE SECRETARY BICKFORD: John Chiang
3 represented by Frank Moore?

4 ACTING COMMITTEE MEMBER MOORE: Here.

5 COMMITTEE SECRETARY BICKFORD: Richard Costigan?

6 CHAIRPERSON JONES: Excused.

7 COMMITTEE SECRETARY BICKFORD: Rob Feckner?

8 COMMITTEE MEMBER FECKNER: Good afternoon.

9 SECRETARY BICKFORD: Richard Gillihan represented
10 by Katie Hagen?

11 ACTING COMMITTEE MEMBER HAGEN: Here.

12 COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

13 COMMITTEE MEMBER HOLLINGER: Here.

14 COMMITTEE SECRETARY BICKFORD: J.J. Jelincic?

15 COMMITTEE MEMBER JELINCIC: Here.

16 COMMITTEE SECRETARY BICKFORD: Ron Lind?

17 COMMITTEE MEMBER LIND: Here.

18 COMMITTEE SECRETARY BICKFORD: Priya Mathur?

19 COMMITTEE MEMBER MATHUR: Here.

20 COMMITTEE SECRETARY BICKFORD: Theresa Taylor?

21 COMMITTEE MEMBER TAYLOR: Here.

22 COMMITTEE SECRETARY BICKFORD: Betty Yee?

23 COMMITTEE MEMBER YEE: Here.

24 CHAIRPERSON JONES: Okay. Thank you.

25 We will now conduct the interviews in

1 alphabetical order. Courtland Partners will be first and
2 PCA will be the last interview.

3 Each finalist will have 10 minutes for
4 introductory presentation and 20 minutes for a question
5 and answer period. The clock located in the front will
6 show the time remaining in each segment.

7 Committee members, please note that sample
8 questions that we can ask are -- all finalists are
9 included in your iPads at the link in section two. Scores
10 will be determined as a group after all finalists have
11 been interviewed. A score will be motion for discussion
12 and then second and voted upon or a substitute motion will
13 be made. Discussion of scores should only be done via
14 motion.

15 If there are no questions at this point, we will
16 now begin the interviews. Does anyone have any questions
17 or concerns?

18 Okay. So seeing none, I would like to invite the
19 representatives of Courtland to come forward and ask that
20 the representatives of PCA please leave the auditorium.

21 (Thereupon Pension Consulting Alliance
22 representatives left the auditorium.)

23 (Thereupon an overhead presentation was
24 presented as follows.)

25 CHAIRPERSON JONES: Okay. Courtland, you have 10

1 minutes for your presentation. Please start the clock for
2 the 10 minutes when the representatives from Courtland
3 starts to speak.

4 MR. HUMPHREY: Good afternoon. I am Michael
5 Humphrey founder and managing principal of Courtland
6 Partner. I reside in Cleveland, in our Cleveland office,
7 but I travel a great deal and spend a lot of time in
8 California.

9 MR. MURPHY: Hi. I'm Mike Murphy, Senior
10 Consultant and Courtland. I work -- also work out of the
11 Cleveland office.

12 MR. HESTER: Tom Hester, Senior Vice President.
13 I'm based in Los Angeles, California.

14 MS. COHEN: I'm Gila Cohen. I'm a client
15 executive and head of corporate strategy at Courtland.
16 I'm in the New York office.

17 MR. HUMPHREY: We're very pleased to be here.

18 On page one of the presentation book, we have a
19 brief firm overview. I think the most important point
20 that is made on this page one of the overview is that we
21 are a real assets firm that has evolved from real estate
22 consulting, which still remains our focus. In other
23 words, about 90 percent of the services and activities
24 that we undertake are real estate consulting.

25 As you can see, we have, over the last 20 years,

1 developed a firm with about 20 or 30 plus professionals
2 who have diverse real estate backgrounds. This has been
3 an important focus of ours, given the volatility and the
4 multiple market cycles that we've gone through.

5 The people with our firm have diverse backgrounds
6 in real estate, including operating company experience,
7 asset management, property management, development, as
8 well as valuation and work out.

9 We have over 30 retainer clients, approximately
10 35 at this point. We have over 80 billion of asset
11 allocations that we advise on. We are an independently
12 owned firm by active employees. We are currently in the
13 process of expanding our ownership to other senior
14 employees in the firm.

15 Importantly, we are a fiduciary first. What this
16 means to us is that we put our clients interests ahead of
17 our own. We're not looking to become a manager. We're
18 not looking to develop or sponsor products. And to us
19 that's very important in maintaining our status as a
20 fiduciary and a consultant. We avoid conflicts.

21 Importantly, we also have significant investment
22 evaluation experience. We've recommended or evaluated
23 over \$80 billion of investments since 2000.

24 Lastly, we are sensitive to cost. As you just
25 heard, our fee was well received. We strive to be cost

1 effective. That is something that we have historically
2 done. And as we noted in your Investment Beliefs, costs
3 to us matter.

4 --o0o--

5 MR. HUMPHREY: If you go on to the next page
6 then, you can see our map that indicates the offices of
7 Courtland Partners that are located in London, Cleveland,
8 and Los Angeles. We also have personnel located in New
9 York City, Philadelphia, as well as San Francisco. I
10 think it's important to note that the London office is a
11 more recent expansion for us. And from that office, we
12 cover all of Europe.

13 Going forward, if we were to be selected by you
14 to be your consultant, we would also open an office in
15 Sacramento. If you'd move on to page three --

16 --o0o--

17 MR. HUMPHREY: -- what you see before you is a
18 summary of the consultant team that we propose from
19 Courtland. Bios of other team members are found at the
20 end of the materials. I would be your lead consultant
21 person. I have 25 plus years of experience. I've been
22 working as a CalPERS fiduciary since 2003. And with that,
23 I'll pass it over to Mike.

24 MR. MURPHY: Yeah. I'm Mike Murphy. And I would
25 serve as the principal assistant on the account. I'm

1 located in Cleveland with Michael. I'm one of Courtland's
2 longest tenured employees and a voting member on our
3 investment committee. I've worked with CalPERS since
4 2006, and have been one of the primary team members for
5 CalPERS since 2011.

6 MR. HESTER: Tom Hester. I'm a Senior Vice
7 President and based in Los Angeles. I joined Courtland
8 Partners in January of this year. I would be the local
9 principal assistant on the account. I have 30 years of
10 real estate experience, 20 of it institutional. And I
11 graduated from San Diego State University, attended and
12 completed graduate course work at UCLA.

13 And I want to add also that back in the nineties,
14 I used to math check the performance returns for the plan
15 when PCA was so small they had to outsource that work to
16 Kenneth Leventhal and Company. I was an associate many
17 years ago, so.

18 MS. COHEN: I'm Gila Cohen. I'm a client exec
19 and head of corporate strategy at Courtland.
20 Additionally, I lead our ESG practice and co-lead our
21 emerging practice. I have over years -- I have over 20
22 years of experience in financial services, alternative
23 assets, and real estate.

24 Mike.

25 If you see the next page, you'll notice that we

1 have over 35 clients that are both discretionary and
2 non-discretionary and manage approximately 83 billion of
3 client assets. We represent many other State public
4 funds, including four here in the State of California.

5 MR. MURPHY: If you move to slide 5, you'll see
6 that over 70 percent of our retainer clients have been
7 with Courtland for over five years, which we believe is
8 due to our collaborative approach to consulting.

9 Four of our five largest public pension fund
10 clients have been with us for over a decade. And our
11 largest pension fund client has been with us for over 15
12 years, and just renewed us for five additional years. We
13 have a long track record of assisting large public pension
14 fund clients with value creation.

15 Moving on to slide 6 --

16 --o0o--

17 MR. MURPHY: -- you'll see that Courtland has
18 enjoyed a long relationship with the Investment staff of
19 CalPERS. We wanted to highlight a few of the many
20 projects we've partnered on over the years.

21 Our annual investment plan reviews have provided
22 us with valuable insight into CalPERS Real Estate Program
23 and partners. Courtland was selected to develop with
24 staff an industrial sector plan that is currently being
25 carried out by your industrial partners.

1 And finally, we conducted a full due diligence
2 review and recommended the initial \$500 million allocation
3 to the Innovative Tech Corps Program.

4 --o0o--

5 MR. MURPHY: Moving to slide 7, we have
6 recommended over \$85 billion of allocations, including
7 experience with separate accounts, direct investing, joint
8 venture and operating companies. We have experience with
9 the traditional property types that CalPERS has exposure
10 to, such as office. In addition, we have meaningful
11 exposure -- experience in sectors that aren't as prevalent
12 in the CalPERS portfolio, such as student housing and
13 manufactured housing that are complementary to traditional
14 real estate, and we think could add value to your
15 portfolio.

16 --o0o--

17 MR. HESTER: On slide 8, we see that Courtland
18 Partners has significant experience, over \$45 billion
19 dollars to date, underwritten on domestic investments.
20 And our experience extends internationally with nearly 40
21 billion underwritten on global strategies and
22 international specific investments. In the last two years
23 alone in Europe, we have conducted over 200 manager
24 meetings and recommended 25 investments to clients, and
25 have emerging markets investment experience and

1 relationships on the ground in Asia, Latin America, and
2 Africa.

3 Turning to slide 9 --

4 --o0o--

5 MR. HESTER: -- Courtland Partners has developed
6 several proprietary manager performance databases, as well
7 as an extensive research function all focused on real
8 estate. The research team's library includes primary and
9 secondary research, including cycle analyses, capital
10 flows tracking, pricing, and geographic and demographic
11 data.

12 Each part of the team prepares a thorough market
13 conditions overview covering all property types in real
14 asset categories, as well as domestic and international
15 economic conditions and trends.

16 On the investment side, the Courtland Partners
17 investment performance database tracks investment returns
18 dating back to the mid-1970s, and currently contains 460
19 investments totaling 600 billion in gross asset value.
20 The breadth and depth of this information for separate
21 accounts fund, co-investment, and other structures allows
22 the firm to index specific investments and opportunities,
23 and calculate quartile rankings by strategy and vintage.

24 And lastly, the firm's senior professionals
25 participate in over 500 meetings, update calls, and

1 investor conferences annually across the globe, of which
2 10 to 15 percent would represent emerging managers events.

3 MR. HUMPHREY: On page 10, you can see the --
4 --o0o--

5 MR. HUMPHREY: -- summary of points that we would
6 like you to remember. Number one, again, our real estate
7 focus. It is something that differentiates us as a firm.
8 We're a niche firm focused largely on providing real
9 estate services. And as a result, our personnel and our
10 resources are organized around that effort. Also, the
11 firm is independent. It's owned by active employees and
12 that's the way it's going to say. We're going to maintain
13 that independence. We think we need it to be a good
14 fiduciary.

15 We have a strong fiduciary focus, and we have a
16 high integrity and a reputation for telling people what we
17 think. We're not afraid to express our opinion. If
18 selected, we would open a Sacramento office to facilitate
19 our interaction with you.

20 Lastly, we have a history of being cost
21 effective, as reflected in our fee proposal. Again, we
22 agree that all costs matter. In closing, we appreciate
23 this opportunity. We're confident that we can add value
24 to your portfolio. We would very much like to have the
25 opportunity to work with you. And at this time, we'll

1 take any questions that you may have.

2 CHAIRPERSON JONES: Okay. Thank you. Okay. We
3 will -- you can't carry over your 31 seconds, so...

4 (Laughter.)

5 CHAIRPERSON JONES: We will now proceed to the
6 question and answer segment of the interview. You will
7 have 20 minutes. Please start the clock for 20 minutes
8 when Courtland starts to speak. So Committee members, you
9 may now ask your questions, and I will go to Mrs. Taylor.

10 COMMITTEE MEMBER TAYLOR: Yes. I wanted to ask
11 your fees are significant lower than the proposed fees of
12 the incumbent. How are you able to perform services for a
13 lower cost? And is that going to impact the level of
14 service you're going to be giving us?

15 MR. HUMPHREY: It will not impact the level of
16 service that we provide. I think what we have found is
17 our fees have historically tended to be lower. We have
18 most of our people located in the Cleveland office. The
19 cost of living there is a little bit lower than what we
20 see on the coasts, and that's reflected. And I think it
21 makes us more cost effective.

22 Also, we have to say that it's important for us
23 to be cost effective. We're mindful of that when we quote
24 our fees. In putting that fee proposal together, we took
25 a look at what the team involvement would require, in

1 terms of time, travel, et cetera, and we think we've
2 provided a very reasonable fee. And the answer is we can
3 very much provide you superior quality services for that
4 fee level.

5 MR. MURPHY: I'd just simply add that we have a
6 lot managers that come into our office and provide us with
7 a lot of market intelligence. And we're able to
8 disseminate that very effectively and efficiently across
9 our client base as that research is very important and
10 we're able to do it very efficiently, and, you know, to
11 add on to what Michael was saying.

12 CHAIRPERSON JONES: Okay. Thank you.

13 Mrs. Mathur.

14 COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

15 So as -- if you were sitting in the audience
16 today, you heard -- you would have heard part three of our
17 ESG strategy development. And ESG is an area that we
18 really focus on because of the long term systemic risks.
19 Could you talk about -- maybe this is to you, Gila -- your
20 experience around ESG integration, carbon footprinting of
21 real estate portfolios, decarbonization, basically
22 consideration of the significant risks that might be
23 facing a real estate portfolio.

24 MS. COHEN: Sure. Happy to talk about it. As
25 fiduciaries, we look at the ESG contracts, portfolios, and

1 concerns that our managers come and present to us with.
2 We track whose ESG compliant and who isn't. It's part of
3 our DDQ process. It's part of our manager interview
4 process. And it is also very important to us, especially
5 for our clients who we are fiduciaries for.

6 So we work hard to understand what our fiduciary
7 client's ESG policies are and what they're looking to
8 achieve. And then we work towards gaining that
9 information and then putting it into practice together
10 with the managers that we are considering. We work hard
11 to ensure that we understand all of the parameters. And
12 then we go and we data and tabulate what information that
13 we have for each manager that we meet with.

14 To that end, I'm a member of the ULI, Urban Land
15 Institute, trying to understand trends that are up and
16 coming in the market, and what is the new requirements for
17 ESG across the Board. Environment, social, and governance
18 pieces are all important and are different for each of our
19 clients. I would say that there is no standardized ESG
20 policy that I've seen. And every country and investment
21 firm and public pension fiduciary looks at it a bit
22 differently.

23 So we try and track a very wide sector and keep
24 the information handy, so as we work with our clients who
25 have ESG requirements and are interested in looking at the

1 environment, not just right what we're doing now, but what
2 will happen for the next 25 years and investing
3 responsibly, we're able to provide them with data that
4 makes easier investment decisions for them.

5 MR. HUMPHREY: The other thing that I would add
6 about ESG is candidly we've been involved in ESG
7 activities long before it was first being talked about.
8 We've had some clients who have been very much focused on
9 the standard of living, for example, associated with
10 people in emerging markets. And one of the things that
11 we've been doing for a long time, 15 years or so, is
12 evaluating first-time housing programs in emerging
13 markets. This is Bogotá, Lima, as well as in China, as
14 well as in other markets like Vietnam. And more recently,
15 we've done some in South Africa, as well as Morocco.

16 And I can't tell you what the feeling is when you
17 take a look at a project that's just recently been
18 developed that's comprised of 500 and 600 square foot
19 units that are two bed rooms, and that have the rebar
20 still on the top of the -- on the top of the buildings so
21 that people can build out the second story.

22 But meeting with some of the buyers and
23 developers and finding out that this was such an
24 enhancement of the standard of living primarily because
25 for many of these buyers, it was the first time that they

1 had a cement floor. So the immediate upgrade in health
2 and sanitary was tremendous.

3 That, and in addition to a lot of the work that
4 we've done on projects where collateral benefits such as
5 job creation have been significant. And we have done --
6 we, I think, have compiled a pretty good record, and
7 understanding some of the collateral benefits that go
8 along with good returns.

9 MS. COHEN: And just on closing on the carbon
10 footprint and discussion about that, we see so many
11 managers that are coming into the market. We get a
12 preview of who's coming into the market that is really
13 thinking about the environment. And most recently we met
14 with a manager who builds industrial sites. They buy land
15 and they specifically look to build them out in standards
16 that are not even yet contemplated, but are good for the
17 next 25 to 30 years. And this is a European manager,
18 where ESG happens to be a little bit ahead of where we are
19 in the states in a lot of places, not everywhere.

20 But whatever they don't see that as law already,
21 they expect to become law very shortly, and they are now
22 building their sites with ESG compliant materials,
23 carbon-reducing emissions, solar panels in order to
24 recirculate and heat the water in them, and roads
25 specifically built for carpooling so they can have buses

1 come as opposed to having individual car ports and
2 electrical plugs for cars and outdoor gyms.

3 So these are really the cutting edge managers
4 that are coming into play. And we're meeting them up
5 front. So when we meet with our clients and talk about
6 what you should have in your ESG portfolio, we already
7 have a list of interesting options and opportunities that
8 we can bring to the table. So hopefully that answers the
9 question.

10 COMMITTEE MEMBER MATHUR: Thank you. It does.

11 CHAIRPERSON JONES: Thank you.

12 Mr. Jelincic.

13 COMMITTEE MEMBER JELINCIC: I actually have two
14 questions. One is responds -- is directly out of your
15 presentation. The other one is a more general question.
16 I'll give you both, so you can think about the second one
17 while you're answering the first.

18 In this role, you would be the Board's
19 consultant. You said you would open an office in
20 Sacramento. Why and how would you staff it?

21 And the other question is what do you bring to
22 the table that PCA doesn't?

23 MR. HUMPHREY: We would -- sure. We would open
24 the office in Sacramento just to let you know as trustees,
25 that to the extent that there's expectation that we're in

1 the area for meetings and other activities to interact
2 with you, we're going to be here. This is really
3 important to us. We want to be your consultant, and we
4 thought that opening the office in Sacramento would just
5 help us to facilitate and provide a better relationship.

6 MR. MURPHY: As far as to take a start at the
7 second question, there are a couple things that we offer
8 different from PCA is one, as Mike was talking about,
9 since 2014, we've opened the European office there, which
10 enables us to both source investments for our clients that
11 are interested in European space, as well as service our
12 clients over there.

13 In addition, we're totally focused on real
14 estate. Our personnel are 100 percent involved in real
15 estate and real assets services for our clients. And so
16 all 30 people are doing that as opposed to some of our
17 people are doing real estate and some of our people are
18 doing other things

19 MR. HUMPHREY: And I think that's the biggest
20 point. The fact is even though you see us in front of you
21 today, and there's some people shown in biographies, we
22 bring in the whole team when we need to.

23 Just to give you an example of the types of
24 diversity that we have, one person who works with us was
25 formally the CEO of his on operating company that was

1 started on behalf of a European institutional investor.
2 He bought and sold about billion and a half dollars
3 through 2005.

4 Another person who works with us was the former
5 head of asset management at one of the better known value
6 managers that was recently acquired by a bank. He's
7 worked with us for a number of years. He also has been
8 involved in buying, managing, and selling and property
9 managing real estate.

10 We have people located in the major markets, and
11 then we've got people in Las Vegas and New York City who
12 are focused on real estate. To us, the thing that we
13 bring is people with significant histories in real estate,
14 meaning they've lived through multiple cycles. And given
15 the market today and the potential for volatility that we
16 see, we think it's really important to have some gray hair
17 and people who can look back a couple of different cycles
18 and have some feelings about where we're at currently and
19 what's appropriate.

20 Our clients currently expect us to help them at
21 the asset level in terms of reviewing investments. One of
22 our clients, for example, made -- an investment in a mall
23 portfolio over the last couple of years. Prior to doing
24 it, they had us go in and take a look at every single
25 Mall. At the same time, we have significant experience

1 with separate accounts and operating companies, which are
2 preferred investment mechanisms for a number of our public
3 fund clients.

4 MS. COHEN: Let me talk about the staffing piece,
5 because you asked how we would staff that office. So in
6 addition to our disabled veteran partner, who would be
7 here in California and up in Sacramento with us as needed,
8 you would have access to all four of us. Tom Hester who
9 is in our Los Angeles office would be here on a regular
10 basis, and we would determine, based on the need of the
11 Board, how many hours that would be per month, per week,
12 as necessary.

13 Additionally, I would spend time, as would Mike,
14 and, of course, Michael who's the lead on the account. So
15 we would work to determine based on the needs of the Board
16 and working with the staff what the time -- the time
17 strength would be needed from us and we would ensure that
18 we could accommodate that.

19 Thank you.

20 CHAIRPERSON JONES: Mr. Slaton.

21 VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.
22 Thank you for your endorsement of gray hair. I totally
23 agree with you.

24 (Laughter.)

25 VICE CHAIRPERSON SLATON: So based on today's

1 economic conditions and the market conditions, you know,
2 we have a portfolio, we have an investment policy. So
3 what would you change? What would you recommend changing?

4 MS. COHEN: Do you have an hour?

5 VICE CHAIRPERSON SLATON: Well, maybe just a
6 couple of thoughts that you might have. I always like to
7 get the freebies, you know.

8 MS. COHEN: That's a great question.

9 MR. HESTER: Well, I'll go first. I think that
10 domestically I think that as a firm, we like
11 grocer-anchored retail properties, as well as low to
12 moderate income infill multi-family projects in gateway
13 cities and primary markets, particularly Los Angeles and
14 San Francisco.

15 I think it also -- you know, if you look at a
16 market cycle peak to peak, in terms of a nine inning
17 baseball game, I would -- at least in my view, I think
18 we're probably in the 7th inning stretch. So we don't
19 know how long those last couple innings are going to last,
20 by I think it might be appropriate to start feeling and
21 thinking a little defensively about your positions.

22 So personally, we've recommended to clients, you
23 know, I like income focused debt funds, and select core
24 office investments in the U.S., and also internationally.
25 I think in Asia there are some core markets there. I

1 mean, there are only a handful of really core markets.

2 But Seoul, Korea, for example, has Seoul, Korea,
3 for example, has the highest per capita income and the
4 highest per capita GDP in the world. It's a technological
5 powerhouse, and it's something worth -- a market worth
6 looking at, as well as Tokyo and Osaka, and I think
7 possibly Melbourne and Sydney too.

8 MR. HUMPHREY: There are a number of things that
9 we would look at with your portfolio. And obviously, we
10 don't know it as well as your existing staff and
11 consultants on a comprehensive basis, but in preparing for
12 this meeting, we did do some analysis. And we read as
13 much as we could get off of the website, and
14 what-have-you.

15 In terms of the CalPERS business model where
16 there's a focus on separate accounts, basically two-thirds
17 of the portfolio is separate accounts, just over 20
18 percent in pooled funds, 10 percent in REOCs. I think
19 we're in agreement with sentiment that your biggest
20 advantage comparatively in our view is your size, and the
21 fact that you're a long-term patient investor.

22 And we think that your business model should take
23 advantage of that advantage, to the extent that you can
24 take a look at, for example, operating companies and
25 separate accounts and joint ventures that in a

1 programmatic way permit you to develop relationships with
2 groups that provide for a good alignment of interests, a
3 skilled team locally focused on certain sectors with the
4 ability to have reasonable control, and the ability to
5 have exits that are multiples, such as at the asset level,
6 at the portfolio level, at the company level. You can, in
7 our view, build a long-term portfolio with individuals who
8 again are well aligned, and over time, and I mean 10 years
9 plus, really build out one heck of an organization that's
10 not just a real estate portfolio, but it's also a
11 portfolio of skilled management that you can draw upon
12 going forward.

13 And so for us, that's -- with respect to the
14 business model, that's important. In terms of the core
15 value and opportunistic, we're moving towards core. We're
16 increasing core exposures. And largely we agree with
17 that, given that prior to the beginning of the downturn,
18 many public funds got into too much development, too much
19 high risk, and we paid the price.

20 At this point in time though, at this point in
21 the market cycle, we're six years in. We're a little bit
22 long in the tooth in this cycle. We need to take a hard
23 look a core values, we need to look at cap rates, and we
24 need to understand whether we're -- whether we're -- we
25 want to continue to own assets at these values. And to us

1 that's very important.

2 One of the things that we're doing with our
3 clients on a routine basis is we're questioning what are
4 the core holdings, what are the valuations, and should we
5 be harvesting? Arguably, we probably already reached peak
6 liquidity last year. Going forward this year, you're
7 still going to have some interesting times. We have a
8 number of non-U.S. clients, for example, right now, and
9 the amount of capital coming into the U.S. is
10 unprecedented.

11 In 2014, we had cross-border investment in the
12 U.S. of roughly around 40 billion. In 2015, it doubled.
13 We are still seeing a very significant amount of capital
14 come. I had a recent meeting with a sovereign fund that
15 indicated they're looking at doing well over \$20 billion
16 in the United States.

17 We're going to continue to see that equity come.
18 So when we look at core values, we want to really dig down
19 and understand them, and we want to look at value, and we
20 want to look at income. We agree with your focus on
21 income. To us, that's one of the most important things,
22 and it should be the center of your portfolio strategy in
23 how you're building it. In other words, how resilient is
24 it income stream? And that, in our view, goes to property
25 types that you're looking at, how resilient are these

1 property types, how necessity based are they, as well as
2 locations.

3 One of the things that we're seeing and that we
4 saw in your materials lots of people now are focused in
5 looking at portfolios on a regional basis. We think
6 looking at market by market makes more sense and ranking
7 the markets. What are the top markets that you want to be
8 in in the U.S., what are the secondary markets, and then
9 globally what should your exposures be?

10 In terms of -- in terms of the different -- in
11 terms of the different investment structures then, with
12 respect to equity and debt, as Tom referenced, we're
13 looking a little bit for downside protection right now.
14 There could be some volatility that comes here.

15 When I take a trip to Europe I come back saying
16 deflation all the time. I don't know what happens. But
17 when we come here then, we see oil is up over 46, 47 bucks
18 a barrel today. And so could we be seeing inflation here?
19 Will we see the Fed increase interest rates again this
20 year? How many times? What would the impact be? What
21 would the impact be on your core portfolio?

22 So we want to take a look at debt as well as
23 equity and make sure that we've got a versatile portfolio
24 that can help us to sustain returns, particularly income
25 returns, through whatever volatility comes.

1 MR. MURPHY: And one other thing we've been
2 looking at on behalf of our clients or, what we call,
3 alternatives, like student housing, senior housing,
4 medical office - I kind of like to use the term next core
5 for these - these have strong long-term fundamentals,
6 strong income, and as Tom and Mike were saying are very
7 defensive in nature. And so that's something that you
8 guys don't have a lot of right now in your portfolio that
9 we think are very attractive things to consider going
10 forward.

11 CHAIRPERSON JONES: Okay. Mrs. Hollinger.

12 COMMITTEE MEMBER HOLLINGER: Thank you. Thank
13 you. One of the challenges that we have is that in
14 competing with sovereign wealth funds, and these other
15 sources of capital, they're really looking to just park
16 capital, while we -- we're managing to a seven and a half
17 percent discount rate. So it's hard for us to be as
18 competitive in the acquisition.

19 Do you have the -- so how -- number one, how do
20 you see us competing for deals, and do you have unique
21 access to sourcing real estate deals for us that other
22 people currently aren't seeing in the marketplace?

23 MR. HUMPHREY: We think today you have to be
24 disciplined. And there's a lot of capital coming, not
25 only from the sovereign wealths, but from pension funds

1 and what have you. And as a result, again, it's time to
2 be disciplined. And your main discipline should be your
3 income return. You're going-in yields should be driving
4 the portfolio going forward. And that should all link up
5 to what objective returns are with respect to your real
6 estate, your core, your value, and your opportunistic,
7 especially that income return.

8 And that income return is going to determine the
9 values that you're going in with right now. In 2006 and
10 '07, one of the biggest sets of mistakes that we saw being
11 made was managers started to say things like we're going
12 to leverage up, we're not so sure -- we're not so
13 concerned about the income, and we're going to buy up in
14 value, and they paid the price.

15 We can't do that now. So to beat the sovereign
16 funds and the others, we have to be more disciplined. And
17 it may mean we need to pace in, and we need to take a
18 longer term view. And given that your long-term patient
19 capital, we would think that's -- that makes a lot of
20 sense.

21 MS. COHEN: Because of the access that we have
22 and the number of managers that we see a year, and the
23 fact that we've been in this business for 20 years, we do
24 see deals, many deals, that come across the table that
25 get -- we get to see a first look at. So if you talk

1 about having different --

2 COMMITTEE MEMBER HOLLINGER: Right, because it
3 makes no sense if everyone has looked at it, and then
4 we're looking at it.

5 MS. COHEN: Correct. And having CalPERS as a
6 client, I'm sure would encourage a lot of people to come
7 to our door if we were to show them that that -- you know,
8 that's something we were interested in.

9 So in addition to what we already have, we would,
10 I'm sure, get additional looks and early looks.

11 MR. HUMPHREY: Well, one other point there. I
12 alluded to it before. Organizationally, you can build, so
13 that you have skill sets of management under different
14 relationship structures with you constantly searching on
15 your behalf for deals.

16 And building out that organization over time is
17 the way that we think you can best approach it. Now, we
18 do have a lot of access and we can bring some of those
19 groups to the table. But over time, just building those
20 groups out in some of our other client relationships has
21 really produced strong results --

22 MS. COHEN: Yeah.

23 MR. HUMPHREY: -- in terms of accessing deal
24 flow.

25 COMMITTEE MEMBER HOLLINGER: Thank you.

1 CHAIRPERSON JONES: Okay. Well, thank you very
2 much. Your time has expired.

3 MR. HUMPHREY: Thank you ver much.

4 MR. MURPHY: Thank you.

5 MR. HESTER: Thank you.

6 MS. COHEN: Thank you

7 CHAIRPERSON JONES: Courtland, this concludes
8 your 30 minute interview. And I would like to thank the
9 representatives from Courtland for the time today, and ask
10 them now to please leave the auditorium.

11 (Thereupon Courtland representatives left
12 the auditorium.)

13 CHAIRPERSON JONES: And at this time, I would
14 like to ask staff to invite the representatives of Pension
15 Consulting Alliance, LLC to join us in the auditorium.

16 (Thereupon Pension Consulting Alliance
17 representatives entered the auditorium.)

18 (Thereupon an overhead presentation was
19 presented as follows.)

20 CHAIRPERSON JONES: Pension Consulting Alliance,
21 LLC you will have 10 minutes for your presentation.
22 Please start the clock with 10 minutes when Pension
23 Consulting Alliance, LLC starts to speak.

24 MR. EMKIN: Mr. Chairman, members, Allan Emkin,
25 PCA. You're quite familiar with me and the team up here.

1 This is your real estate team. To my right, Christy
2 Fields who heads our real estate consulting group, Dillon
3 Lorda and David Glickman. They have been your team since
4 day one.

5 In many ways, without question, and you know I
6 have a lot of history, this is probably the most
7 fulfilling consulting assignment that I've ever been
8 involved in, because six or seven years ago, the mention
9 of real estate caused enormous pain, aggravation, and very
10 strong feelings. Now, it's one of the best, if not the
11 best, performing part of the portfolio. I'm pleased to
12 have been a small part of that along with our team. And
13 we take great pride in that and truly value the
14 relationship.

15 We share your Investment Beliefs. We were
16 involved in creating them, and they're reflected in the
17 way we manage the company. We have a board of directors.
18 Forty percent of that board is made of women, and it's
19 something we care about.

20 I'm going to turn it over to Christy, then it's
21 going to go to Dillon, end with David, and we're here to
22 answer your questions.

23 MS. FIELDS: Good afternoon. Christy. Thanks
24 very much for having us here. I'm going to take just a
25 few brief moments to review the scope of services that we

1 provide and the work we do for the System.

2 Most of our tasks revolve around three primary
3 duties. The first is strategy and portfolio analysis, in
4 which we've been kind of heavily embedded this last few
5 months. The second is performance, analysis, and
6 monitoring that we do on a formal basis quarterly through
7 the quarterly performance reporting process, but on kind
8 of a continual basis between those periods. And the third
9 is acting as an independent advisor to you, the Board.

10 You see us here at the Investment Committee
11 meeting once a month, but that's really the small part of
12 our job, kind of the top of the iceberg. On a day-to-day
13 basis, we're working with staff on all the mundane and
14 profound sometimes tasks that are required to invest and
15 manage a global sophisticated property portfolio of your
16 size.

17 We bring the senior resources to bear for each of
18 these activities and we try and do so in a very thoughtful
19 and engaged manner. We don't always agree with staff.
20 But when we do have points of differences, we try and make
21 the discourse very collaborative and very striving towards
22 solution finding, always with the ideas of trying to
23 protect and preserve the values and the short- and
24 long-term interests of the System.

25 Dillon will provide another example or two of

1 work we've been able to provide.

2 MR. LORDA: Good afternoon. Dillon Lorda,
3 Pension Consulting Alliance. As Christy mentioned, a lot
4 of the work we do for you doesn't necessarily rise to the
5 level of visibility for this group. We do reporting
6 review and we work with Paul and Wylie's team identifying
7 issues that may arise.

8 Because we dedicate senior professionals who are
9 experienced, we are able at times to identify symptoms of
10 deeper underlying issues, and through our discourse with
11 staff, work towards resolutions and ensure that there are
12 no reporting problems, or at least that they are resolved
13 in a swift and efficient manner.

14 In another instance, while reviewing an incentive
15 fee for you, we found that there was an anomaly that was
16 accruing more than \$10 million a year to the advantage of
17 a manager unintentionally. We dug in, we identified the
18 cause of the problem, and we developed a solution. We
19 then supported staff and external consultants in
20 developing a system-wide resolution.

21 We're also advantaged by virtue of the fact that
22 we are part of a broader consulting platform. We work
23 with our general side colleagues to help develop an
24 understanding of the role of real estate within your
25 portfolio, as well as prevailing market conditions.

1 This helps us to understand more acutely asset
2 allocation, investment pacing, as well as ESG and RCP,
3 which we have been very involved with for your System.

4 There have been a lot of investment decisions
5 made since we've joined this team, which have accrued to
6 your benefit, some of which include reducing leverage
7 within the real estate portfolio, exiting your exposure to
8 non-strategic commingled funds, and increasing exposure to
9 core assets that provide stability and income.

10 We believe that this has been demonstrated over
11 the last several years, but will be most visible during
12 the next correction whenever that comes, as a result of
13 having a lower risk profile portfolio, and better
14 alignment of interests with your current managers.

15 MR. GLICKMAN: Thank you for having us. I'm
16 David Glickman. Why PCA? It's pretty straightforward.
17 We think it's because during the last eight years, PCA has
18 performed and earned your trust. In tough times and in
19 better times, PCA has acted exclusively in the best
20 interests of CalPERS.

21 We've collaborated in the design of the
22 appropriate real estate strategy. We regularly verify
23 that staff's actions are within the delegated authority
24 permitted by the Board, and are consistent with the
25 Board's investment policies and beliefs. We have

1 expertise in confirming compliance with responsible
2 contractor, emerging managers, and the ESG programs.

3 During periods over the last eight years of great
4 economic crisis and recovery, PCA has vigilantly assisted
5 staff, and in so doing represented the Board, especially
6 when unforeseen circumstances twice moved Ted to the role
7 of Acting CIO as well as the head of real estate. PCA's
8 counsel was crucial in maintaining equilibrium in the
9 unit.

10 As was mentioned a little earlier today, we're
11 also students and fans of the management consultant Peter
12 Drucker. He said something which we believe is very
13 germane to our mutual success. He said, "The most
14 important thing in communication is to hear what isn't
15 being said". The value we add as your Board consultant,
16 working with staff, is that we are able to hear and parse
17 what isn't being said, even though it affects the risk and
18 returns for the portfolio. And sometimes the best
19 investments are the ones you decide not to make.

20 The four individuals here today have accumulated
21 significant institutional memory about the System, the
22 Board members, the staff, and the portfolio. We have
23 firsthand knowledge of CalPERS unique opportunities, and
24 challenges, and how these affect the investment process.

25 The Board consultant's function is a unique and

1 discrete service. It's not a commodity. The why, as in
2 why PCA is straightforward, a track record of delivering
3 and earning your trust.

4 In closing, we enjoy working with you. The proof
5 is in the pudding. While PCA has been you Board
6 consultant, the portfolio has made significant strides in
7 achieving real estate's primary roles, diversification and
8 reliable current income.

9 CalPERS returns have exceeded the benchmark and
10 risks have been reduced. You now have investment policies
11 and procedures which will protect the system in the
12 future.

13 One more quote from Professor Drucker,
14 "Management is doing the right..." -- see, one last one.

15 Okay. One last question from Professor Drucker,
16 "management is doing things right; leadership is doing the
17 right things".

18 Thank you for your attention, and we look forward
19 to answering any questions that the Committee may have.

20 CHAIRPERSON JONES: Thank you. And your time
21 will not carryover.

22 (Laughter.)

23 CHAIRPERSON JONES: Okay. All right. We will
24 now proceed to the question-and-answer segment of the
25 interview. You have 20 minutes. We'll start the clock

1 for 20 minutes when Pension Consulting Alliance, LLC
2 starts to speak. So Committee members now is an
3 opportunity to raise your questions.

4 I call on Mrs. Taylor.

5 COMMITTEE MEMBER TAYLOR: Hi. Thank you. So my
6 question is you guys have been the Committee's consultant
7 for a really, really long time, and some people might say
8 that can cause relationships to become stale, you become
9 too comfortable. What would be something that you could
10 tell me that you could bring as a fresh perspective for
11 the Committee or can you rebut that this could be a stale
12 relationship.

13 MS. FIELDS: Well, I'll give it a start. Thank
14 you. I agree that that's a valid point. It's been
15 anything but a stale environment for the last eight years.
16 And there's been tremendous change in both who's been
17 leading the program and also within the program itself
18 people changing roles. So we really haven't had to be
19 terribly concerned with that at this point.

20 I think also that it is a very collaborative
21 relationship that not only extends to staff, but also to
22 the other -- the System's other consultants as well as
23 internal and external legal, sometimes the auditors,
24 industry participants, and your investment managers.

25 And so there's always a very kind of dynamic

1 process that's helping to cultivate fresh ideas that I
2 think will also help kind of counteract that tendency.

3 MR. EMKIN: Sometimes I wish it would get a
4 little stale. If anything, this place is so fraught with
5 excitement and challenges that one never knows what to
6 expect. The staff has changed, the Board has changed, the
7 portfolio has changed, the asset allocation has changed.
8 As consultants that care about what we do, we -- the
9 furthest thing we are is stale. If anything, we're too
10 much on the tips of our toes most of the time.

11 COMMITTEE MEMBER TAYLOR: Thank you.

12 CHAIRPERSON JONES: Okay. Mrs. Mathur.

13 COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.
14 Thank you, all, for being here this afternoon.

15 Could you talk about your experience with ESG
16 issues as it relates to real estate portfolio integration,
17 carbon footprinting, decarbonization water risks - that's
18 not an exhaustive list - and how you would bring that to
19 bear for CalPERS?

20 MR. GLICKMAN: I'll try. That's a pretty wide
21 brief. Real estate was fairly early on of all of the
22 asset classes in recognizing the benefits of a Responsible
23 Contractor Program. And we helped staff formulate that.
24 So that's an example at the operating level of how we've
25 tried to bring forward one of the key values.

1 Another way that we believe we've assisted in
2 ESG, and I'm going to leave it -- be with the G on this
3 one is we've advocated long and strong for a smaller
4 number of managers, because staff has limited resources.
5 And in order to be effective in managing your assets, the
6 idea that they were spread so thin across so many
7 relationships tended to be not optimal at all.

8 So one of the benefits we saw in reducing the
9 number of managers and having them be more substantial
10 accounts was the governance, and being able to get what
11 you want.

12 Similarly, again in governance, the idea of
13 removing yourselves from being fairly impotent limited
14 partners in large commingled funds and moving towards a
15 separate account business model was another place that we
16 believed we could add to the alignment and the benefits
17 that will accrue to the System from alignment.

18 In terms of the environmental, the assets that
19 CalPERS seek, and seeks according to the 2011 strategic
20 plan and the 2016 plan that you approved, are slanted
21 towards the highest and -- highest quality and most
22 efficient buildings. And so the ability to offer a
23 product to the market that is of the highest quality, and
24 attracts the highest rents, and the highest levels of
25 occupancy because you're operating partners understand

1 what the market seeks the most, and will pay the most
2 dearly for, is another part of the way in which this
3 portfolio has been geared and modeled and positioned in
4 order to be efficient in that regard.

5 COMMITTEE MEMBER MATHUR: Thank you.

6 CHAIRPERSON JONES: Mr. Jelincic.

7 COMMITTEE MEMBER JELINCIC: Hi. I have two
8 questions. One is very specific, the other one is
9 broader. I'll give them both to you, so that you can
10 think about the second one while you're answering the
11 first one.

12 David, you are currently the president of
13 Ambassador Capital Management. And so the question is
14 does that create conflicts, and if not, why not?

15 And then the broader question is what do you
16 bring to the table that Courtland doesn't?

17 MR. GLICKMAN: Is it okay if I answer the first
18 one, J.J.?

19 COMMITTEE MEMBER JELINCIC: Please. It was kind
20 of aimed at you.

21 MR. GLICKMAN: Ambassador Capital Management does
22 not have any conflicts whatsoever with my function as a
23 consultant for the Board. Ambassador Capital Management
24 has three clients, each of whom is a family member of mine
25 and no institutions are clients. It does not occupy a

1 significant amount of my daily time whatsoever, and it
2 only invests in securities of publicly traded REITs.

3 COMMITTEE MEMBER JELINCIC: Thank you.

4 And the other question, what do you, as a group,
5 bring to the table that Courtland doesn't?

6 MR. GLICKMAN: Oh, let me count the ways.

7 COMMITTEE MEMBER JELINCIC: Please.

8 MR. GLICKMAN: As part of a larger general
9 consulting firm, we have a breadth and perspective that
10 few others have. And as Dillon and Christy mentioned, we
11 can apply many of the lessons that we see from broader
12 markets, and asset allocation, and portfolio modeling that
13 might not be available to a shop -- and I'm not speaking
14 of Courtland specifically, but a shop that only did real
15 estate consulting.

16 We have continuity of personnel. Okay. The
17 people you see in front of you have been working together
18 as a team since January of 2009 on your matters. And that
19 institutional knowledge, that in-the-weeds knowledge of
20 the assets in your portfolio, and the managers in your
21 portfolio, and your staff, and their strengths, and their
22 challenges is something that would take quite a while for
23 another firm to gain.

24 We are a relatively small firm insofar as the
25 number of clients that we have. PCA has four full-time

1 retainer real estate relationships, four. And so the
2 amount of time that we can designate and delegate to your
3 matters by the most senior people in the firm is extremely
4 large.

5 I think those are some of the ways in which we
6 might differentiate ourselves from another firm.

7 MR. EMKIN: Let me just follow up on that.

8 This Board has discussed the challenge of the S
9 in ES&G. I think we're the only consulting firm that
10 works with large public pension plans that have addressed
11 the S, because as many of you know, I helped draft the
12 first RCP program 20 years ago, or almost 20 years ago,
13 and I continue to be involved in it.

14 And I think all the parties involved, both the
15 trades, the developers, the investment managers, and your
16 staff would all say that I've played an important role in
17 that. There's not another consulting firm who has that
18 experience or knowledge, to the best of my knowledge.

19 We have a full-time staff person committed to
20 ESG. And every day we get a report from that person on
21 matters that affect our clients, and that includes real
22 estate. We're completely unconflicted. We get no revenue
23 from anyone but people such as yourselves. None. And we
24 never will and we never have. We have no conflicts. We
25 only work as fiduciaries for you.

1 And I think those things combined truly
2 differentiate us, not just from Courtland who I highly
3 regard, but from many of our competitors.

4 COMMITTEE MEMBER JELINCIC: Thank you.

5 I didn't mean to cut you off.

6 MR. LORDA: This is a matter in which we've given
7 a lot of thought to. And I think it's, in some ways,
8 difficult to articulate what our special sauce is. But
9 we, as individuals, have coalesced as a very strong unit,
10 and we are very engaged with all of our clients. We have
11 a small number of clients, but we don't take anything that
12 we do lightly.

13 When we review an information item that's going
14 to you, we don't gloss over it, we don't put a rubber
15 stamp on it. We have a thoughtful dialogue with the staff
16 member, whether it's an IO, or Paul, or Wylie. And
17 that -- those little moments where we pay attention, where
18 we change data into information, where we find little
19 things that are wrong and we tease them out, end up
20 identifying meaningful value for the System, and we do
21 that consistently. It doesn't always happen, but our
22 consistent practice of being thoughtful, being engaged,
23 being available to all of your staff over time adds value.

24 CHAIRPERSON JONES: Okay. Thank you.

25 Ms. Hollinger.

1 COMMITTEE MEMBER HOLLINGER: Thank you. Being as
2 you are all so familiar with our real estate portfolio,
3 based on the current economic and market conditions, what
4 are some of the changes you would make or suggest to our
5 current real estate portfolio?

6 That's it. That's all.

7 MS. FIELDS: Well, hopefully most of those we've
8 helped capture in the strategic plan update. But I think
9 we would say that a lot of what you're doing right now is
10 working. And so I think it's -- a lot of it is around the
11 edges fine-tuning those things, and continuing to work
12 towards some of the objectives that were discussed
13 earlier.

14 Primarily, it's really continuing to source and
15 monitor your key strategic relationships with your
16 investment managers as those relationships are becoming
17 larger and more meaningful, but also more closely aligned.

18 So I think everywhere, and there's currently a
19 few projects that are being worked on now towards those
20 efforts, towards further alignment, towards considering
21 different fee structures, towards continuing to strengthen
22 those partnerships will be something that we continue to
23 stay focused on.

24 MR. GLICKMAN: I would add that looking forward
25 with the resources that you have available and the kinds

1 of programs that you want to instill, continuing to reduce
2 the number of managers and increase the size of each one
3 will be useful. We would also say looking forward you
4 should become a little bit more defensive. It's unlikely
5 that the returns of the past year and the past three years
6 are going to -- necessarily going to be achieved in the
7 next three to five years.

8 And so by shifting the portfolio as it has begun
9 to be shifted, and putting yourself in a place where the
10 diversification that core real estate offers the rest of
11 the portfolio is, in fact, meaningful, those are things
12 looking forward that we would encourage you to keep on
13 doing.

14 COMMITTEE MEMBER HOLLINGER: Thank you.

15 CHAIRPERSON JONES: Mr. Slaton.

16 VICE CHAIRPERSON SLATON: Thank you.

17 So you've had a long and a very successful
18 relationship with CalPERS, with this Board, as well as
19 with the management team. So my question is help me
20 understand how given that long relationship, how you
21 maintain a level of independence, so that we're
22 comfortable that you are truly independent from staff as
23 the Board consultant?

24 MS. FIELDS: This is an interesting thing about
25 the role, because we report to you as the Board, but

1 really on a day-to-day basis we're working very closely
2 with staff. It's a very interesting assignment.

3 I think how we do it is that as Dillon was trying
4 to describe, we think very thoughtfully between the three
5 of us and with the rest of the real estate team about
6 things, and we come back with very strong opinions. And
7 sometimes those opinions are aligned with those of staff,
8 and sometimes they're not. But Allan constantly reminds
9 us who we report to, and that we need to voice those
10 opinions, and that we need to work in -- through all
11 channels available to us to make sure that the
12 beneficiaries are the ones who we are reporting to through
13 you.

14 So it's just a constant discipline. It's part of
15 our culture. And I think staff would attest to the fact
16 that we're not a -- we're not a rubber stamp consultant.
17 Although, they might like us to be a little bit more
18 often.

19 MR. GLICKMAN: We take seriously the notion that
20 we are a fiduciary for the plan's beneficiaries. We never
21 let go of that. Wylie said earlier today that healthy
22 debate is good protection. And we believe that part of
23 our charge is to engage in healthy debate.

24 Our experience in the market, our points of view
25 coming from having actively worked, either as fund

1 managers ourselves, or in the development business, in the
2 hotel business, we have a very unique collection of prior
3 experiences that allow us a vantage point and a
4 perspective that so long as we listen to what Allan says,
5 which is represent the beneficiaries, be a good fiduciary,
6 we don't have trouble raising our hand and saying things,
7 in we hope is a collegial and productive way, did you
8 think about this, have you considered that, what happens
9 if it doesn't turn out to be according to the base case
10 pro forma. Let's explore what might otherwise be the
11 risks.

12 And I would tell you that we spend more of our
13 time - and this is a place where independence I think is
14 important - trying to identify and quantify, and then
15 ultimately mitigate risk than we do on how much reward a
16 particular transaction or a particular relationship might
17 offer. And because we focus on risk, I think that helps
18 us maintain our sense of independence from what the staff
19 might or might not want to do on any given day.

20 VICE CHAIRPERSON SLATON: So let me just ask a --
21 just a follow up to this. So in the time I've been here
22 is I see letters from PCA on a staff recommendation, and I
23 don't recall seeing a, "I "disagree. Now maybe I have,
24 but I can't recall that.

25 So is the process that you use to hash it out

1 until there's agreement and then it comes to us? I'm
2 just -- I'm wondering, because I have not seen where the
3 disagreement has risen to the level of the Board.

4 MR. GLICKMAN: So your System provides that
5 should there be a disagreement between staff's
6 recommendation and the Board consultant's view, you're the
7 tie-breaker. And you're correct that has not arisen in
8 the last several years.

9 There are a lot of things that never got here
10 though. And so you are correct in inferring that if
11 there's a really significant disagreement, we it --
12 doesn't come forward, and we try to work out what might be
13 an alternative or have more study, more investigation, and
14 make sure that the concerns that one side or the other has
15 are properly understood and measured. And that's why you
16 haven't had to break any ties about recommendations that
17 have come with our consultant's letter.

18 You will notice though in the consultant letters
19 that come to you, that we often say here are things about
20 which we have concerns. And notwithstanding, we agree
21 with staff's recommendation to move forward, we think
22 these things, these items should be monitored very closely
23 to confirm that the concern doesn't become a worry.

24 VICE CHAIRPERSON SLATON: Okay. Thank you.

25 CHAIRPERSON JONES: Mrs. Mathur.

1 COMMITTEE MEMBER MATHUR: Thank you. In your
2 opinion, should CalPERS be a buy-and-hold investor or
3 should we be selling in up markets and trying to buy in
4 down markets and try to do more of market timing approach?

5 MR. EMKIN: You're a long-term institution. A
6 majority of your assets should be long-term assets.
7 You're buying assets which have a life of 60 or 70 years,
8 if things work right. And that's going to give you what
9 you're looking for in terms of risk and return in the
10 portfolio.

11 But it's important to remember, to get that
12 right, you have to get the selling point right and then
13 you've got to get the rebuying point right. And there's
14 no evidence that anyone has the ability to do that
15 consistently. And the cost of being wrong is phenomenal.
16 And so we would argue that, yes, you should be a
17 buy-and-hold investor. At the same time, are there --
18 when there are opportunities to sell that are too good to
19 walk away from, you should take advantage of them. But
20 recognizing you have to reinvest that money and that
21 reinvested money has to do as well as that asset would
22 have done to justify the time, effort, and the incremental
23 cost associated with a transaction.

24 MR. GLICKMAN: The other element, Priya, is as
25 your character has changed from being someone who was

1 worried about deploying assets to being someone who is
2 worried about making sure that there's sufficient and
3 revenues and income to pay, holding on to these assets has
4 an extra allure, because each of them is throwing off
5 current cash flow that can be used to pay benefits.
6 That's changed over the last couple of real estate cycles
7 at least.

8 And you've also learned more about risk, and the
9 idea of doing more aggressive market timing on these
10 assets with all the transaction costs in order to get a
11 bigger total return, you found you were duplicating risk
12 that you had in your private and public equity and not
13 really delivering the kind of diversification that overall
14 lowered the risk of the portfolio.

15 COMMITTEE MEMBER MATHUR: Thank you.

16 CHAIRPERSON JONES: Okay. Anything else you'd
17 like to add, you have 18 seconds?

18 (Laughter.)

19 MR. EMKIN: No, matter the result, on behalf of
20 myself, but most importantly this team, thank you. You
21 have been a wonderful client. Without question, one of
22 the most challenging and fulfilling assignments in my
23 career and thank you for the opportunity to rebid for this
24 business.

25 CHAIRPERSON JONES: Thank you.

1 Okay. Your time has expired. Pension Consulting
2 Alliance, LLC this concludes your 30-minute interview. I
3 would like to thank the representatives from Pension
4 Consulting Alliance, LLC for their time today and ask them
5 to please leave the auditorium.

6 (Thereupon Pension Consulting Alliance
7 exited the auditorium.

8 CHAIRPERSON JONES: Okay. Thank you.

9 Okay. We will now determine an interview score
10 as a group for each of the finalists. The maximum number
11 of points is 700. Would anyone like to motion a score for
12 Courtland Partners, Limited?

13 And once we make a motion and have a second for
14 that score, then we'll ask for a motion and a second for
15 PCA. And then staff will leave and give us the totals
16 based on those numbers.

17 So, Ms. Hollinger.

18 COMMITTEE MEMBER HOLLINGER: This isn't motioning
19 a score, but I was curious, I don't know if it's
20 appropriate or not, to get staff's reaction that has to --
21 does that not -- no, no.

22 Got it. Okay.

23 CHAIRPERSON JONES: No, I think. I'm getting a
24 sense from the Committee members, I see a majority saying
25 no, not at this time, because we've -- you know --

1 COMMITTEE MEMBER HOLLINGER: Okay. Got it.

2 CHAIRPERSON JONES: We had an opportunity to ask
3 all the questions we could have asked. Okay.

4 So now back to the question. A motion for
5 Courtland, would anyone like to make a -- score a motion
6 with a number?

7 VICE CHAIRPERSON SLATON: Is it appropriate to
8 have a conversation?

9 COMMITTEE MEMBER JELINCIC: I'll --

10 CHAIRPERSON JONES: Yeah, sure. And that's when
11 we -- J.J..

12 COMMITTEE MEMBER JELINCIC: I'll throw out a
13 number for Courtland. We have 700 points to allocate?

14 CHAIRPERSON JONES: Each one.

15 VICE CHAIRPERSON SLATON: Up to 700 per?

16 CHAIRPERSON JONES: Per.

17 COMMITTEE MEMBER JELINCIC: Per, yeah. So I --
18 given that we have 700, I'm going to suggest a score of
19 500, which is, you know, a significant percent, but gives
20 us room to move. I like the fact that they are real
21 estate only. I like the fact that they're going to bring
22 a fresh perspective. One of the strengths that I think
23 they indicated was quite frankly their European exposure.
24 And as we're moving there more, I think that's got some
25 value. So that's sort of why I'm picking that number

1 high, but, you know, room to maneuver around it.

2 CHAIRPERSON JONES: Okay. So is there anyone who
3 would second that motion?

4 COMMITTEE MEMBER FECKNER: Second.

5 CHAIRPERSON JONES: Second by Feckner.

6 Okay. So any further discussion on that?

7 COMMITTEE MEMBER JELINCIC: Yeah, I think
8 we -- you know, it's probably not consistent with Robert's
9 Rules, but I think we also need to have a discussion on
10 PCA to kind of balance where the two are.

11 CHAIRPERSON JONES: Yes, we will. The way that
12 they've set it out is that we are going to also have a
13 motion for the score for PCA.

14 COMMITTEE MEMBER JELINCIC: Well, you know, but
15 if -- you know -- okay.

16 CHAIRPERSON JONES: And certainly we -- after we
17 get -- we could go ahead and get the motion for PCA and
18 then have the discussion to see how you feel on that.
19 Okay. Unless you have some other comments at this stage?

20 Mrs. Mathur.

21 COMMITTEE MEMBER MATHUR: Thank you. If I could
22 suggest, I think it would be more helpful to have a
23 discussion of both -- of the proposers and then -- and
24 wait to have a motion until after we've had a bit of a
25 discussion.

1 So I guess I would suggest that we either table
2 or ask the maker of the motion to withdraw, until we've
3 had a discussion of both of the proposers, and then make
4 two separation motions around the scoring.

5 COMMITTEE MEMBER HOLLINGER: I agree with that.

6 CHAIRPERSON JONES: Okay. All right.

7 COMMITTEE MEMBER JELINCIC: I'm perfectly willing
8 to withdraw it since I -- that gets to what I was trying
9 to do that, you know, you can't score either in an
10 absence.

11 COMMITTEE MEMBER MATHUR: Yeah. It's not about
12 the merits of your motion, just more about the process.

13 CHAIRPERSON JONES: Yeah. Okay. Okay. Then
14 that's what we will do.

15 So J.J. had some comments. Now, I'll open it up
16 to Dana.

17 COMMITTEE MEMBER HOLLINGER: Yeah. While I agree
18 with J.J. regarding Europe, and they have a deeper bench
19 and concentration, there's a lot of weight that I give to
20 PCH[sic], who are already -- there is no ramp up. They
21 have knowledge of our staff. They've worked together.
22 They've been successful for us. They transitioned us out
23 of the bad times. So what I struggle with in thinking
24 about this also, I noticed that, you know, their fee is --
25 is it almost double?

1 COMMITTEE MEMBER JELINCIC: It's 50 percent
2 higher.

3 COMMITTEE MEMBER HOLLINGER: Yeah, yeah, 50
4 percent higher. So what I struggle with is how much
5 weight do you give the incumbent who we know, and has
6 worked with us, and been successful with? And the other
7 firm has 35 clients versus four, so...

8 CHAIRPERSON JONES: Okay. Ms. Taylor.

9 COMMITTEE MEMBER TAYLOR: I agree with Dana and
10 J.J.. I think a fresh perspective is a great idea. But
11 on the other hand as I look at the fees, I'm just -- I'm a
12 little astonished at the discrepancy between the fees.
13 And it makes me wonder if they're so desperate to get our
14 business so they can get other business that they're
15 cutting a fee in half? And would they give us the kind of
16 service that we would actually need? I mean, they're
17 saying they would. They absolutely would. They'd open an
18 office here. They'd commit to the senior staff to working
19 with us.

20 And then my last concern is that PCA was and is
21 the consultant that worked with us throughout our
22 responsible contracting program, and how -- and it was of
23 their making, along with staff, and how would a new
24 company come in and be able to manage that and work
25 through that and make sure that they're doing what needs

1 to be done to continue the program?

2 So those are some of my concerns with Courtland
3 versus PCA. I think PCA has always done a great job for
4 us, in terms of our real estate. Are they a little
5 comfortable? Probably. I think, however, that we have
6 seen -- I've seen, at least that I can recall, at least
7 one time where they had some concerns on their letters
8 that I can recall. So it doesn't seem like it's a rubber
9 stamp relationship, and I think it has been a good
10 relationship, so...

11 CHAIRPERSON JONES: Okay. Mr. Lind.

12 COMMITTEE MEMBER LIND: I think Courtland made a
13 very good presentation. And I think they would be -- they
14 would represent us well as a consultant around real
15 estate. I do feel the same way that others have expressed
16 around the fees, and then the offering to open an office
17 in Sacramento. I almost felt like that was kind of like
18 pandering in someway, and that -- you know, it seems that
19 they really want to build their resume by having CalPERS
20 as a client, as all consultants want to do. But again, I
21 think they would do a fine job.

22 PCA, you know, I certainly respect institutional
23 memory. And our real estate portfolio, our real estate
24 program there have been a lot of moving parts over the
25 last several years, a lot of changes, a lot of things that

1 we've had to go through. And PCA has been there all along
2 that process.

3 I think maybe the next time around when we've
4 seen the fruits of that labor, that we and PCA and our
5 staff have worked on together, might be a time to make a
6 change. But I would, you know, give the -- I would give a
7 lot deference to the fact that they have worked through
8 this process with us over a very difficult time with
9 respect to real estate.

10 CHAIRPERSON JONES: Okay. Thank you.

11 Mrs. Mathur.

12 COMMITTEE MEMBER MATHUR: Thank you. Well, the
13 good news is is that we have two very strong proposers.
14 And I think they both exhibit a lot of deep knowledge of
15 the real estate marketplace. And certainly PCA
16 demonstrated significant knowledge of our own portfolio,
17 but I thought that Courtland did a very good job of just
18 using what they could glean off of our website and really
19 applying some thought to our portfolio.

20 Obviously, with the benefit of further, you know,
21 exploration of our -- of the details of our portfolio,
22 they could give us more tailored advise, I'm sure.

23 I do worry about this question of whether we
24 will -- sort of our credibility as an organization in
25 terms when we go out to market whether new bidders will

1 come forward, new credible, good, strong bidders will come
2 forward, because we have such long relationships with some
3 of our consultants. And, you know, they've been long for
4 a good reason, we've had good experience. But I do wonder
5 about the value of making a change, sometimes maybe just
6 for change sake, to send a signal that we really are open
7 to new ideas and to new relationships.

8 The other piece that I'm -- I'm not quite sure
9 where I sit is around this real estate only versus the
10 broader perspective. I see value in both sides.
11 Courtland certainly came in and shared quite a number of
12 sort of areas that they thought we might focus on from a
13 real estate perspective. And they certainly have, you
14 know, sort of deep knowledge in different market sectors.
15 But then, again, PCA had sort of that broad view, the sort
16 of cross-asset class view, which is also helpful. So
17 that's -- I don't know that I'm giving a very definitive
18 perspective at this point, but that's -- those are some of
19 the things I'm thinking about.

20 CHAIRPERSON JONES: Mr. Jelincic.

21 COMMITTEE MEMBER JELINCIC: Well, the 50 percent
22 difference in fees, I think, has got to be something we
23 really have to give hard thought to. I agree with Ron
24 their comment about -- Courtland's comment about opening a
25 Sacramento office I think really was a bit of pandering.

1 You know, most of the Board is not here in Sacramento. So
2 if you're serving as the Board's consultant being in
3 Sacramento, I don't know has significant value.

4 And I agree with Dana that PCA helped us get out
5 of the weeds, but you've got to remember PCA was the
6 consultant when we got into the weeds. So, yeah, I think
7 that kind of balances out.

8 One of the other things we need to keep in mind
9 is that Allan will continue to be around. They are the
10 back-up consultant -- general consultant to the Board. So
11 it's not like we're losing PCA if we go the other way.
12 And Allan's original development of the responsible
13 contractor was back when he was a consultant to the Board.
14 It wasn't that he was the real estate guy. So the -- he's
15 done significant work there, but we're not losing him.

16 So in -- you know, PCA has done a good job. I
17 think Courtland could do a good job. Fifty percent higher
18 fees. Not really losing the expertise. I think there's
19 something to be said for let's bring in some new blood.

20 One of the issues that Priya has raised is we do
21 RFPs all the time, and always wonder how come nobody ever
22 bids? And when we go out and do a survey, we find out,
23 well, they don't bid, because the consultant has got it
24 locked up.

25 And, you know, that perception -- there's at

1 least valid reasons to have that perception, whether it's
2 actually what drives it or not is a different issue. But
3 given the consistency with which we choose incumbents,
4 there is valid reason to say I really don't want to spend
5 the money to put together an RFP. So that's sort of where
6 I'm coming from.

7 Either one I believe would do a good job. But
8 all in all, I think Courtland would be a better option for
9 us.

10 CHAIRPERSON JONES: Ms. Hagen.

11 ACTING COMMITTEE MEMBER HAGEN: Thank you. I'm
12 not sure I can offer much more than what's already been
13 covered. But I guess the only thing I didn't hear was the
14 reference to our Investment Beliefs. I felt that
15 Courtland, although they indicated they'd done some
16 research, I didn't hear that they were focused on what's
17 important to us as clearly as I hear it, and have heard
18 it, from PCA.

19 That being said, I'm not sure that's what \$2.5
20 million worth of a difference in cost. So those are my
21 comments.

22 CHAIRPERSON JONES: Okay. Mr. Slaton.

23 VICE CHAIRPERSON SLATON: Well, I think I'm torn
24 like many of us are a little bit torn on this situation.
25 You know, Courtland gave a good presentation. The --

1 again, I -- my reaction was the same on the issue of the
2 office. And now I've kind of just -- and I live in
3 Sacramento, but you don't need to have an office here the
4 way the world works today.

5 I really wanted to drill into PCA's issue on the
6 debate, how they work with staff, and what ends up coming
7 to us. And I was satisfied with the answer I got. You
8 know, there's an old saying in the west, "You dance with
9 who brung ya". And, you know, they've been through a lot
10 of cycles with us, and so they know where the bodies are,
11 they know the mistakes that have been made, as well as the
12 good things that have occurred.

13 And I just -- at the end of the day, I have to
14 say -- and I understand the dollar difference, but at the
15 scale we're dealing with, you have to kind of put it in
16 perspective. And the question is who do we get
17 comfortable with is going to give us the best independent
18 advice going forward? And by a nose, I would give that to
19 PCA, but it's by a nose.

20 CHAIRPERSON JONES: Ms. Yee.

21 COMMITTEE MEMBER YEE: Thank you. I think just
22 based on what Bill was saying, I'm wondering if the desire
23 for a fresh perspective, at least for me, is really about
24 which of the two really can exercise the greatest degree
25 of independence, in terms of providing advice?

1 I think there's been a comfort that's been
2 developed with PCA certainly with having been our
3 consultant, but I also think there's value with just the
4 institutional knowledge that they have. And certainly at
5 this stage of where -- if we were to select them, I'd like
6 to have probably a more in-depth conversation with them
7 about expectations, and maybe just trying to reset them a
8 little bit differently to have them, you know, not be
9 so -- just have them kind of take a step back. You know,
10 I feel like there's a lack of independence going forward,
11 because I know they've known the history and lived the
12 history.

13 CHAIRPERSON JONES: Okay. I hear everyone, and I
14 kind of agree with most of the things that have been said.
15 I guess I have a question. If we were to recommend PCA
16 and we do indicate negotiate the contract, how hard can we
17 push to modify their bid number?

18 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

19 Wylie Tollette, CalPERS staff. I think you can
20 push as hard you'd like, Mr. Chairman.

21 (Laughter.)

22 CHAIRPERSON JONES: Okay. Well, that helps a
23 lot.

24 (Laughter.)

25 CHAIRPERSON JONES: Because I certainly have some

1 of the same concerns that Ron and J.J. mentioned also
2 about the -- reaching out about establishing an office in
3 Sacramento, et cetera. And I think the value that PCA
4 will continue to provide us is huge. And so I would like
5 to move -- you know my preference would be PCA, if I can
6 get their bid down.

7 Mr. Jelincic.

8 COMMITTEE MEMBER JELINCIC: I want to go back to
9 Bill's point, because I think it is -- it's really a valid
10 point about the conflicts and the disagreements, and it
11 also goes to the issue Betty raised. When you look at all
12 of our consultants, we consistently get, well, we worked
13 things out. But the one time that we didn't get that was
14 actually Wilshire. And I don't even remember what the
15 issue was, but Wilshire and staff both presented very
16 different positions. And it actually led to one of the
17 better discussions on this Committee. The issues were out
18 there.

19 If they work it out, I mean, yes, that's probably
20 a good thing. But on the other hand, if this Committee
21 doesn't get to understand what the issues are, then I'm
22 not sure that we're being well served. You know, I've
23 given the -- you know, the example of, you know, if you
24 ask me how to get to the Capitol, I can tell you. Now, is
25 that necessarily the best way? Well, it might depend on

1 the time of day.

2 But there's really some value in having the
3 disagreements come forward, so that we at least have a
4 better understanding of the issues.

5 You know, I think -- you know, my own feeling is
6 that PCA has just gotten too comfortable with staff and
7 staff too comfortable with PCA. Staff has clearly worked
8 with Courtland. We saw a list of things, so there's some
9 relationship there. But I think there's some value in
10 stepping back and saying, well, let's try a different way.

11 CHAIRPERSON JONES: Okay. So there are no
12 additional requests to speak. So now, I will entertain a
13 numbered motion. We can go back to Mr. Jelincic who
14 originally made a motion. You asked him to withdraw it.
15 So, Mr. Jelincic, do you want to restate?

16 COMMITTEE MEMBER JELINCIC: Well, let me -- are
17 we going to -- are we going to have a motion that says
18 we're give Courtland this many points and PCA this many or
19 are we going to have two separate motions?

20 CHAIRPERSON JONES: Two separate motions, one for
21 PCA and one for Courtland. And then staff will take those
22 two numbers and add it to what has been calculated
23 already.

24 What do you mean?

25 VICE CHAIRPERSON SLATON: Any reason we can do it

1 as a single motion?

2 CHAIRPERSON JONES: No, I -- well, I don't think
3 so in terms of -- have we advised -- have we advised on a
4 process that we are using that we would be violating
5 anything?

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
7 Mr. Jacobs might want to weigh in, but I believe
8 that you can make one motion with both scores. You don't
9 have to have two separate motions.

10 CHAIRPERSON JONES: Yeah. Yeah. Okay. But it
11 is two different numbers though. That's all.

12 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
13 Legal is shaking their head yes.

14 CHAIRPERSON JONES: Okay. Dana.

15 COMMITTEE MEMBER HOLLINGER: I was just thinking
16 that isn't it better to vote for the firm first, because
17 if we all of a sudden -- no, it doesn't work. Oh, we
18 can't.

19 CHAIRPERSON JONES: No, you've got numbers.

20 Ms. Hagen.

21 ACTING COMMITTEE MEMBER HAGEN: I just had a
22 question, Mr. Chair. So you referenced possibly having
23 staff talk with PCA about adjusting their quote. I would
24 be interested in the outcome of that before I assign a
25 score. So I don't know --

1 CHAIRPERSON JONES: I don't know how you'd reach
2 that point.

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

4 Yeah. Typically, the interview score is distinct
5 from the fee score. And so in addition to that, the final
6 motion that once you've arrived at a consensus based
7 score, the final motion that you make includes language
8 that provides that if the fee negotiations are not
9 successful, the second bidder sort of is automatically
10 engaged in a -- as the contractor, or at least to engage
11 in another fee discussion with the second bidder.

12 And so it's sort of an automatic process,
13 something you could consider as to sort of set a target
14 level of fees where you feel like you'd like to arrive at.

15 ACTING COMMITTEE MEMBER HAGEN: So can I ask
16 another question?

17 CHAIRPERSON JONES: Yeah.

18 ACTING COMMITTEE MEMBER HAGEN: So should we be
19 assigning a number based solely on what we heard in the
20 interview, not based on prior relationships or fees.

21 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
22 think that's the idea. Yeah, that's right. That's the
23 idea behind the interview to provide as fair and unbiased
24 a representation or decision about the particular firm
25 based solely on what you heard during the interview

1 process.

2 ACTING COMMITTEE MEMBER HAGEN: Thank you.

3 That's helpful.

4 CHAIRPERSON JONES: Hold on, J.J.

5 Theresa.

6 COMMITTEE MEMBER TAYLOR: Yeah, I just -- I think
7 the score for the pricing is already figured in. We -- I
8 think PCA has 119 points -- or 221 point deficit. So --
9 yeah, 119 point deficit.

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

11 That's accurate.

12 COMMITTEE MEMBER TAYLOR: Yeah.

13 CHAIRPERSON JONES: Okay. J.J.

14 COMMITTEE MEMBER JELINCIC: Okay. I'll make a
15 motion then I. Will move that we give Courtland 500
16 points and give PCA 550.

17 COMMITTEE MEMBER MATHUR: Second.

18 CHAIRPERSON JONES: Okay. It's been moved by
19 J.J. and seconded by Mrs. Mathur to give Courtland 500
20 points and PCA 550 points.

21 And it's been moved and seconded. So now we --
22 at this time, we have to ask staff --

23 COMMITTEE MEMBER JELINCIC: Can I speak on the
24 motion?

25 CHAIRPERSON JONES: Oh, yeah. Sure.

1 COMMITTEE MEMBER JELINCIC: Yeah. The -- I think
2 those are both very good scores. They also reflect that,
3 you know, PCA has some advantages as the incumbent and the
4 better knowledge. And so I tried to reflect what I heard,
5 you know, from the group. I don't think anybody thought
6 one was just blew the other out. And so I just tried to
7 get the points relatively close to reflect that while I
8 actually like Courtland better than PCA, I don't think
9 that's what I heard from the Committee.

10 CHAIRPERSON JONES: Okay. Mr. Moore.

11 ACTING COMMITTEE MEMBER MOORE: I'd like to make
12 a substitute motion actually. I agree with Courtland 500,
13 but I think PCA I would give them 650, not 550, with
14 proviso that they -- you go back to PCA and renegotiate
15 the fees with an amount to be determined.

16 COMMITTEE MEMBER TAYLOR: Second.

17 CHAIRPERSON JONES: Okay. Mr. Moore and second
18 by Ms. Taylor, 500 for Courtland 650 for PCA with the
19 proviso of negotiating the fees.

20 Okay. Mr. Feckner.

21 COMMITTEE MEMBER FECKNER: Yeah. Thank you, Mr.
22 Chair. I would just like to offer a friendly amendment to
23 that last motion. If we were to do that, I would like to
24 us set an amount. So I would like to say that we look for
25 a 15 percent reduction in their fees.

1 CHAIRPERSON JONES: Okay. Friendly amendment,
2 you accept that?

3 ACTING COMMITTEE MEMBER MOORE: Yes.

4 CHAIRPERSON JONES: The seconder accepts.

5 COMMITTEE MEMBER TAYLOR: The seconder accepts.

6 COMMITTEE MEMBER HOLLINGER: Just a minute. I
7 didn't hear the --

8 CHAIRPERSON JONES: Wait just a minute. Fifteen
9 percent.

10 Mr. Jelincic.

11 COMMITTEE MEMBER JELINCIC: Yeah. Frank, I'd
12 just like an explanation on the amount. Why do you think
13 that PCA's interview was 40 percent better than
14 Courtland's?

15 CHAIRPERSON JONES: Mr. Moore.

16 ACTING COMMITTEE MEMBER MOORE: Well, I
17 believe -- on the fee question I thought it was a softball
18 that they were given, and I didn't think they give a
19 sufficient answer. We really want the job is not a
20 sufficient answer to that question, so I would discount
21 their answer on that question.

22 As for the work that they do, whether it's real
23 estate totally, Courtland, or a variety of different issue
24 areas, I think I would give the edge to PCA in that
25 category. I think the wide variety of work they do brings

1 something to the table that Courtland doesn't bring to the
2 table.

3 So for those two reasons, I would give PCA a
4 higher score.

5 COMMITTEE MEMBER JELINCIC: But I don't disagree
6 with the higher score, but 40 percent higher?

7 ACTING COMMITTEE MEMBER MOORE: Yes.

8 COMMITTEE MEMBER JELINCIC: Okay.

9 CHAIRPERSON JONES: So we have a motion on the
10 floor, 500 for Courtland, 650 for PCA with the proviso
11 that the negotiations include a proviso that it be a 15
12 percent reduction in fees. That's what we're voting on.

13 Okay. So all in favor of that motion?

14 Oh, wait a minute. And if they don't accept
15 that, then do you automatically go to the next bidder?

16 ACTING COMMITTEE MEMBER MOORE: (Nods head.)

17 CHAIRPERSON JONES: Okay. So that's clear.

18 Okay. So that's what we're voting on.

19 All those in favor?

20 (Ayes.)

21 CHAIRPERSON JONES: Opposed?

22 (Noes.)

23 CHAIRPERSON JONES: Two knows. And it passes.

24 Okay. So Ms. Crocker.

25 INVESTMENT DIRECTOR CROCKER: Thank you, Mr.

1 Chair. I will now read the interview score points for
2 each finalist in alphabetical order.

3 CHAIRPERSON JONES: Oh, do you need to bring them
4 back in, at this point?

5 INVESTMENT DIRECTOR CROCKER: Yes. Thank you.
6 (Laughter.)

7 CHAIRPERSON JONES: Okay. At this time -- are
8 you ready?

9 INVESTMENT DIRECTOR CROCKER: Yes.

10 CHAIRPERSON JONES: Okay. At this time, I'd like
11 to ask Ms. Kit Crocker to please announce the final
12 interview score for the finalists.

13 INVESTMENT DIRECTOR CROCKER: Thank you, Mr.
14 Chair. I will now read the interview score points for
15 each finalist in alphabetical order. Courtland Partners,
16 Limited received 500 points for its interview score.
17 Pension Consulting Alliance received 650 points for its
18 interview score.

19 Accordingly, adding together the points from all
20 phases of the RFP, Courtland received 300 points for its
21 fee proposal score and 30 points for committing to
22 participate in the DVBE preference program for a current
23 subtotal of 330 points. The Committee awarded Courtland
24 500 points for the interview for a combined total of score
25 of 830.

1 PCA received 191 points for its fee proposal
2 score, and 30 points for committing to participate in the
3 DVBE preference program for a current subtotal of 221
4 points. The Committee awarded PCA 650 points for the
5 interview for a combined total score of 871 points.

6 This is subject, however, to a 15 percent
7 reduction in fees with PCA at the time of negotiating the
8 contract, failing which the bid will go to Courtland.

9 CHAIRPERSON JONES: Okay. That describes the
10 action that we took. So thank you very much.

11 So now we move -- that concludes the interview
12 portion of the Investment Committee agenda, and we now
13 will move to the next item on our agenda, which is -- no,
14 we've got one more -- summary of Committee direction.

15 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

16 Thank you, Mr. Chairman.

17 I think we have -- I have two items for Board
18 direction. And while Ted is retrieving his notes to make
19 sure that - excuse me - we caught everything, the first
20 was to shorten the time frame for the study to six to nine
21 months.

22 I've got a frog in my throat.

23 (Laughter.)

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

25 Lack of use. And then second to include in that

1 study the tobacco holdings that are invested in by our
2 external managers, as well as in the other asset classes.
3 Those are the only two that I was able to capture.

4 CHAIRPERSON JONES: Thanks. I think that's it.

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
6 Very good.

7 CHAIRPERSON JONES: Okay. So now we have public.
8 Comment. We have a request to speak Michael Ring and
9 Linda De La Cruz.

10 Okay. So I see there's a substitute for Michael
11 Ring. And it will now be Jane Martin, and Linda De La
12 Cruz.

13 MS. MARTIN: Good afternoon. I'm Jane Martin
14 from SEIU, United Service Workers West. And as always,
15 we're very excited to continue our collaboration with you
16 all to raise standards for property service workers and
17 add value for investors. We're focused right now on
18 trying to lift Sacramento janitors out of poverty. And so
19 I'm here basically to introduce Linda who some of you
20 already know. She's a janitor here in this building as
21 well as one of our member leaders.

22 MS. DE LA CRUZ: Good afternoon, I'm Linda De La
23 Crux. I am a member of SEIU local -- or USWW. I have
24 worked here in CalPERS since 1993. And I thank you for
25 letting me speak today. In California, we have 45,000

1 members. And as you know, CalPERS contributed to settling
2 contracts for janitors in the Bay Area and Los Angeles.
3 Workers want family health care, better benefits, better
4 workload, immigration rights, and protection against
5 sexual harassment.

6 Now, we're negotiating here in Sacramento and San
7 Diego. As a CalPERS janitor, I make at least \$16.55 an
8 hour and have good benefits. And I thank you for
9 recognizing our good work -- our work and the importance
10 of it, but my brothers and sisters who work in other
11 buildings here in Sacramento only make 10.75 and many of
12 them only work part time.

13 I am here to ask CalPERS to use your voice as a
14 responsible investor and employer in Sacramento and San
15 Diego for better wages, better benefits, and conditions
16 for good workers and also for CalPERS results.

17 Thank you.

18 CHAIRPERSON JONES: Thank you very much.

19 So no comments from you, Ms. Martin?

20 MS. MARTIN: No.

21 CHAIRPERSON JONES: Okay. Well, thank you very
22 much for your time and continue to work with staff on
23 these important issues and thank you for sharing your
24 views with us.

25 Okay. That is the end of open session, and we

1 will take a 10 minute break and go in --

2 COMMITTEE MEMBER JELINCIC: Can I --

3 CHAIRPERSON JONES: Wait just a minute. You need
4 to -- just a minute, Mr. Jelincic.

5 Mr. Jelincic.

6 COMMITTEE MEMBER JELINCIC: Yeah, I'd like to
7 offer the suggestion that given the time, and the fact
8 that we have a very short day tomorrow, we move closed
9 session of the Investment Committee till tomorrow.

10 CHAIRPERSON JONES: Well, we have consultants
11 here that they're scheduled to be here today, and they
12 will be leaving tomorrow. So looking at the agenda, it's
13 not that long.

14 COMMITTEE MEMBER JELINCIC: Okay. I just offered
15 a suggestion.

16 CHAIRPERSON JONES: It was a good suggestion.

17 Okay. So now we will go -- move into closed
18 session. After we give the opportunity for people to
19 leave the auditorium, we will move into closed session.

20 (Thereupon California Public Employees'
21 Retirement System, Investment Committee
22 meeting open session adjourned at 5:15 p.m.)

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C E R T I F I C A T E O F R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Investment Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of May, 2016.



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