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, JUNE 13, 2016

9:45 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

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. 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

Mr. Alan Milligan, Chief Actuary

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Mr. Eric Baggesen, Managing Investment Director

Ms. Natalie Bickford, Committee Secretary

Mr. Dan Bienvenue, Managing Investment Director

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

STAFF:

Mr. Réal Desrochers, Managing Investment Director

Ms. Diane Sandoval, Investment Manager

Ms. Anne Simpson, Investment Director

Ms. Laurie Weir, Investment Director

ALSO PRESENT:

Mr. Al Darby, Retired Public Employees Association

Mr. Allan Emkin, Pension Consulting Alliance

Mr. Steve Foresti, Wilshire Consulting

Ms. Alyssa Giachino, UNITE HERE

Mr. Andrew Junkin, Wilshire Consulting

Reverend Kathryn A. Obenoar, CLUE, UNITE HERE

Mr. Michael Ring, Service Employees International Union, Capital Stewardship Program

Ms. Blanca G. Rugerio, UNITE HERE

Mr. Tom Woelfel, Pacific Community Ventures

I N D E X

		PAGE
1.	Call to Order and Roll Call	1
2.	Executive Report – Chief Investment Officer Briefing	2
3.	Consent Items	12
	Action Consent Items:	
	a. Approval of the May 16, 2016 Investment Committee Meeting Minutes	
4.	Consent Items	14
	Information Consent Items:	
	a. Annual Calendar Review	
	b. Draft Agenda for the August 15, 2016 Investment Committee Meeting	
	c. Monthly Update – Performance and Risk	
	d. Monthly Update – Investment Compliance	
	e. Federal Investment Policy Representative Update	
Action Agenda Items		
5.	Asset Allocation, Performance & Risk	
	a. Interim Asset Allocation Targets Review (Including Capital Markets Outlook)	15
6.	Legislation	
	a. Assembly Bill 2348 (Levine): CalPERS Investments in California Infrastructure Projects	118
Information Agenda Items		
7.	Legislation	
	a. Assembly Bill 2833 (Cooley) Public Retirement Alternative Investments Disclosure – Update	124
8.	Program Reviews	
	a. Global Governance Strategic Review: Key Performance Indicators	79
	b. Targeted Investment Programs Update	140
	c. CalPERS for California Report 2015	157

I N D E X   C O N T I N U E D

	PAGE
9. Policy & Delegation	
a. Revision of Real Assets Policies – First Reading	162
10. Summary of Committee Direction	163
11. Public Comment	165
Adjournment	171
Reporter's Certificate	172

P R O C E E D I N G S

CHAIRPERSON JONES: I'd like to call the Investment Committee meeting to order. First order of business is roll call, please.

COMMITTEE SECRETARY BICKFORD: Henry Jones?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY BICKFORD: Bill Slaton?

VICE CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY BICKFORD: Michael Bilbrey?

COMMITTEE MEMBER BILBREY: Good morning.

COMMITTEE SECRETARY BICKFORD: John Chiang represented by Grant Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Here.

COMMITTEE SECRETARY BICKFORD: Richard Costigan?

COMMITTEE MEMBER COSTIGAN: Here.

COMMITTEE SECRETARY BICKFORD: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY BICKFORD: Richard Gillihan represented by Katie Hagen.

ACTING COMMITTEE MEMBER HAGEN: Here.

COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY BICKFORD: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY BICKFORD: Ron Lind?

COMMITTEE MEMBER LIND: Here.
COMMITTEE SECRETARY BICKFORD: Priya Mathur?
COMMITTEE MEMBER MATHUR: Here.
COMMITTEE SECRETARY BICKFORD: Theresa Taylor?
CHAIRPERSON JONES: Excused.
COMMITTEE SECRETARY BICKFORD: Betty Yee?
COMMITTEE MEMBER YEE: Here.
CHAIRPERSON JONES: Okay. Thank you.
The next item on the agenda is the Executive Report, Chief Investment Officer Briefing. Mr. Eliopoulos.
CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific. Good morning, Mr. Chair. Good morning, members of the Investment Committee.
(Thereupon an overhead presentation was presented as follows.)
CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific. I was just about to ask for this slide to be -- to put up. We're a very well-oiled machine.
I wanted to spend a few minutes this morning as we kick off our Investment Committee agenda to reflect on one of our Investment Beliefs, Investment Belief 10, in particular. It's been some time since we focused on Investment Belief 10. And I think it's a good idea to refresh our practice of taking up an Investment Belief

from time to time and think about it in the context of our investment decision making, and particularly the work of the Committee and staff today, as the agenda goes forward. And we have a very important agenda -- substantive agenda to get to today.

And as I put my remarks together, I'm always struck and impressed at really how relevant and how well done our Investment Beliefs are and were constructed when we collectively put them together. I've never been either surprised or left wanting when I see these Investment Beliefs in action as we have in investment decisions to make.

And I think that really underscores the really important work that we did together in putting together the Investment Beliefs together with their sub-beliefs, in particular. It's very, very important work. And as the Committee knows, your Investment senior team has those -- has those 10 Investment Beliefs together with their sub-beliefs, you know, posted in our Investment Committee room, where we convene to make our most important delegated staff decisions around investment decisions.

And in the course of those discussions, we frequently debate and discuss the Investment Beliefs as we approach decisions. And I think that's also impressive that we put together a really strong governing structure and belief structure that, as I said, knits together well really whenever we're faced with any important decision to make.

I thought it was important to reflect on Investment Belief number 10 in particular, as we take up our mid-cycle review of our asset allocation today, and really with a look forward to July at our off site as well when we will be continuing our discussion on portfolio priorities, as well as risk factor work in July at our off-site.

In addition, we're also nearing the end of our current fiscal year, which I know the Committee is well aware of. And at the July off-site, we will be communicating and reporting out our fiscal year return for that period as well.

As I turn to Investment Belief number 10, and why I think it is especially relevant to highlight today, it is important to think of the context for our work in the coming months, in the coming hour -- in the coming months, as well as the coming years. Really, as we've been discussing and highlighting and watching, particularly over the past two years, we continue to remain in a very low yield environment and a low return market environment.

And as we reviewed particularly last month, and in many previous reviews, our returns are reflecting some of the consequences of the return environment we're currently in, particularly the performance of the global equity markets. And as we have talked about over the last few months, in particular, and as is reflected in the numbers that we're looking at today, are just picking one time period out of many, our 10-year return is approximately 5 percent in what's reported in this month's return numbers.

Last fiscal year, our return was 2.4 percent, and this year -- this fiscal year, as we head into July, as we've discussed, we're likely to be flat, which is a nice way of saying 0, so -- you know, more or less. We'll see what the global equity markets do for the next couple of weeks. But, of course, we like to keep a lot longer lens than, you know, what might happen over the next couple weeks for sure.

And that's a transition point as we look backwards at our return profile for the 3-, 5-, and 10-year looking backwards today in our mid-point asset allocation review, we take another moment to look out and peer at our capital market assumptions for the next 10 years, as well as other very relevant information.

And one point of review in the asset allocation work that I'm foreshadowing in my comments today and we'll get to it very -- in very near time to talk about the substance of it, but one of the points of information that I think is important to underscore is that the 10-year forward capital market projections of a variety of independent third parties that Eric has put together for the Committee are materially lower than what we forecast just two years ago.

One of the pieces of information in Wilshire's report is that if you just accepted our current asset allocation, if you transposed these market -- these new market assumptions for the capital market assumptions that we had two years ago, that would project a total fund return over the next two years -- or the next 10 years of 6.4 percent, rather than the 7.1 that we assumed just two years ago.

And I think the point that I'm trying to highlight today and really is a continuing important communication for us to confront and to discuss is that really the coming 3- to 5-year period really is shaping up to be a challenging market environment for us. Now, of course -- or for investor -- not just For CalPERS, for all investors, but a particularly challenging environment for institutional investors, as well as for pension funds. It is going to test us.

Now, of course, we can't predict the future. And we hope we're surprised to the upside for sure, but we need to plan for -- we need to plan for our, you know, base case assumptions over time. And I think as we've worked through many challenging times in the past, this time period going forward is going to present some challenges to investors and to pension funds in particular.

And really that's what brings me to in a long circuitous way to Investment Belief number 10. And really the teamwork -- Investment Belief 10 is all about teamwork. And as we really move and pivot from closing the chapter of the last, you know, 5 to 10 years at CalPERS and look forward to this next chapter, I fundamentally believe for the Investment team, your staff, for the organization as a whole, and for the big team that we all play on, CalPERS, really having strong processes and a commitment to teamwork is going to be needed in order to achieve our goals and objectives over time.

We're going to be facing, I think, a challenging market environment going forward. And to be successful and to be as successful as we need to be, we are going to need to work very effectively as a team together, as an Investment Committee, as a CalPERS executive team, as an CalPERS Investment Office. It, more than ever, is going to test our collective selves whether or not we can work together for the greater good of our beneficiaries.

And in that regard, as I said, every time I reach back and look at the Investment Beliefs, Investment Belief 10 really provides, you know, one piece of the overall answer, which is this is -- this is the belief we all agreed to. These beliefs are what we all agreed to. When we recruit people to come to CalPERS in the Investment Office, we talk about these Investment Beliefs.

And certainly for us going forward in this environment, I really believe this teamwork is necessary for us to succeed, not just in the overall Beliefs statement at the top, but all of the sub-beliefs that go into it.

I think we can do better in terms of drawing more diversity of talent into the Investment Office. I think we all know that. And we are committed to bringing as many different voices and perspectives into the Investment Office. And that is one area I think going forward we can do better.

I do think we must consider, as we look at our strategic asset allocation and investment strategies, we must consider the constraints -- the government agency constraints that we operate in. We are tested monthly, sometimes weekly, sometimes daily with challenges with our transparency. I think it's a strength in so many ways for

CalPERS. We are literally at the forefront of managing a massive investment portfolio in a public realm. And for the most part, I think it benefits us.

We're able to receive input literally from the globe, those that are watching us on the webcast and otherwise. And as, you know, other parts of our Investment Beliefs say, we listen to the stakeholder's comments that come here. And I think in the big picture of our institution, we are strengthened by having the transparency that we have, but we also need to focus on the work that we have in front of us and stay disciplined to our strategies.

And I think as we look at our strategic asset allocation and the Investment Strategies that we employ, as we review our annual asset class strategies, we always need to keep an eye on whether or not a particular strategy or even a particular asset class are we going to be able to invest efficiently, successfully in that strategy, in that asset class, in the government agency context that we operate. And I think we need to come back to that from time to time as we are effectuating our strategies.

Last, again, I think another area we're just impressed by the Investment Belief work that we did, as you look at what we all greed to in adopting these

Investment Beliefs, how we think CalPERS would be best positioned for success as an Investment Office, and again, impressed with the work that we collectively did.

Strong governance. We need this process. We need this Investment Committee and your senior investment team to be working together with strong and robust governance for the portfolio and our operations.

We must have, given the size and complexity of our portfolio, very effective and clear processes to do the work that we do. And I believe we have those in place. And last, I believe we need to focus our collective resources, and this is -- this is one of our greatest resources are the time that we share together on what are our highest value activities, what are the strategic priorities, what are the big picture strategic macro issues that will drive the success of the investment portfolio and your Investment staff that works for you over the long term?

And I think that we unquestionably have the architecture for a very strong governance system here. We have the policies and delegated authority, and checks and balances, and independent consultants and parts of the organization that have been architected very well to perform the work on your behalf. We have very clear policy and decision making in place and governance structure within the Investment Office to make as best decisions as we can make with appropriate reviews built in.

You have independent investment consultants in the variety of asset classes and at the total fund to work with you as a Board and to oversee the work that we do. So I think we have the architecture of governance. We have the architecture of policies and procedures in place that allow us to do the work on behalf of our beneficiaries.

And if I could just underscore the last piece. I think we need to focus our attention and our resources on really what moves the needle and look at the big picture of the work that we have to do going forward, because we're going to be challenged. We have been challenged in the past, and we've risen to the occasion.

I think as we now go into the conclusion of this fiscal year in looking at the market environment that we're likely to face over the next 10 years, it is a particularly important that we work together as a team in order to be as successful as we can.

So with that, Mr. Chair, those are my remarks and we're ready to begin the agenda.

CHAIRPERSON JONES: Okay. Thank you very much, Mr. Eliopoulos. And I just want to echo your comments about the Investment Beliefs, how well they have been serving the institution, because when we adopted them it was to address the requirement of balancing multi-related decision factors, and it was the -- provide a context for action. And I just want to applaud the staff how you have integrated all of these Investment Beliefs into your daily operations, because I think it will serve us well, particularly as we embark upon, as you said, this uncertainty that's right before us. So thank for your comments.

Okay. With that, we'll move to the next item on the agenda. And, by the way, because of a travel arrangement request, we're going to move Item 8a to be discussed after 5a, just so that you know where we're going when we make that change.

Okay. So now we move to action consent items. Approval of the May 16, 2016 meeting minutes. Do we have a motion?

VICE CHAIRPERSON SLATON: Moved.

CHAIRPERSON JONES: Moved by Mr. Slaton.

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON JONES: Second by Mr. Feckner.

Seeing no discussion -- just a minute. Discussion. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: A couple of things.

On page 2 of the minutes, 7 of the iPad, 5b, in the second paragraph, "The Chair requested a roll call vote", but there was no roll call vote included in the minutes.

CHAIRPERSON JONES: Okay. We will review that and return to that at a later date. Okay.

Any other comments?

COMMITTEE MEMBER JELINCIC: Yes. And then on page 4 of the minutes, page 9 of the iPad, 9a, the third paragraph down, "A substitute motion". Actually, it was -- since this is an official document, it was not a substitute motion, it was an amendment. A substitute motion changes the whole subject of the amendment. It's sort of a gut and amend that we're familiar with in the legislature. If you were simply changing the verbiage, but staying within the context, it's an amendment. And since it is an official document, I would like to suggest that we eliminate substitute motion and say, "On an amendment by".

CHAIRPERSON JONES: Is that a motion?

COMMITTEE MEMBER JELINCIC: Unless, the Chair will so direct.

CHAIRPERSON JONES: Okay. Accept the change. Okay.

COMMITTEE MEMBER JELINCIC: Okay.

CHAIRPERSON JONES: Okay. Accept the change.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I just -- I have no objection to it. I just don't remember specifically as Mr. Jelincic does. So maybe with these two things -- and I haven't had a chance to review where the roll call vote was, maybe we can just bring this back at a future Investment Committee --

CHAIRPERSON JONES: Right. That's what I was going to suggest.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- meeting, so we can check the record and do that on both these topics.

CHAIRPERSON JONES: Right. So we'll bring it back at a future and look at both items that Mr. --

COMMITTEE MEMBER JELINCIC: Okay. That's fine.

CHAIRPERSON JONES: Okay. Let's do it that way.

Okay. Thank you.

So all those in favor?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none, the --

VICE CHAIRPERSON SLATON: No, we're bringing it back.

CHAIRPERSON JONES: Oh, that's right. That's right. Okay. So that's direction, not a motion.

Okay. We have consent items. I've received no request to move any of the information consent items off.

So now, we'll go to Item 5a.

(Thereupon an overhead presentation was presented as follows.)

CHAIRPERSON JONES: And before we get to 5a, I would like to ask the Committee members to hold their comments and questions until after staff and consultants completed their presentations, and then we will open up the floor for questions.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. I'll just -- I will turn it over to our head of Asset Allocation and Risk Management, Eric Baggesen, to present the information and our team.

Hi there. Good morning.

For the Committee's benefit, I'll just mention, this is our mid-cycle review. As the Committee will remember when we brought -- we elongated the ALM review from 3 years to 4 years, we agreed at the 2-year point we'd get together and review the capital market assumptions and make any recommendations with respect to the asset allocation. What you'll see from our recommendation is that the Committee basically reaffirm and readopt the interim asset allocation that we have in place today.

And with that, Eric, I'll turn it over to you and the team.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Perfect. Good morning. Eric Baggesen, Managing Investment Director for Asset Allocation.

For this agenda item, we're going to be joined by a couple of folks. First, we have Diane Sandoval who's an Investment Manager in the Asset Allocation team.

We've also got Steve Foresti from Wilshire Associates. And Steve will be speaking about some of the capital market assumption information.

This agenda item has 3 parts to it. So the first is a section that Diane will present on market valuation. And that's one of the elements that we explicitly called out to review during the mid-cycle of the ALM process, if you will, just to understand how the market has evolved since the last time that we went through the ALM process.

After the ALM -- excuse me, after the market valuation section, we'll briefly review the interim targets. I think I'm going to cover that material, and I think Ted has some comments that he would like to make in relation to private equity on that topic.

And then we're going to touch on sort of expectations for the future. And Steve Foresti from Wilshire is going to present information - and we have a few slides from the material that Steve has assembled - as to how the marketplace is sort of currently shaping up from an expectational standpoint for the next 10 years.

And it's actually very important to understand though that when we actually adopt capital market assumptions, which were last adopted in 2013, within the Investment Office and with the investment consultants, we go through a consensus-building process to establish what do we think the marketplace has to offer for the next 10 years?

On top of that, the Actuarial staff add another 50 years of expectations. So we're literally adopting a set of assumptions that we think extend almost over a 60-year period. So a very, very long run time period.

We are specifically not attempting to adopt new capital market assumptions at this point in time, because quite honestly that would just be redoing the ALM work and the asset allocation work currently. Instead, that capital market assumptions section is really to provide a preview as to how the marketplace is shaping up, because about a year from now, we will be going into this in preparation for our next iteration of the ALM work. So it's important for the Investment Committee to understand just what the marketplace actually appears to have to offer from a return perspective.

So I think basically on that, I will turn this over to Diane to begin the section on market valuation. We're going to put up some slides from the -- from I believe it's Attachment 3 of the agenda item. And this will be the main material that we work our discussion from.

--o0o--

INVESTMENT MANAGER SANDOVAL: Good morning, Investment Committee members. It's very good to be here today. My name is Diane Sandoval. I'm an Investment Manager in the Asset Allocation and Risk Management Team. Thank you for the opportunity to talk to you again this time about our market valuation-based analysis.

Henry and Ted both mentioned earlier this morning how well the Investment Beliefs have really served CalPERS, so I wanted to start this discussion by emphasizing that none of us should be overly swayed by the short-term impact that current valuations have on our forward-looking returns, because CalPERS is a long-term investor and has the opportunity to profit from earning a risk premia over various business cycles, so long as we're able to carefully manage our liquidity. And this is expressly stated in Investment Belief number 2, that a long-term investment horizon is a responsibility and an advantage.

That being said, it's still important to understand that the path of returns matter, and it will matter more as the cash shortfall needed to cover pension benefit payments increase. And Wilshire will go further into depth on this issue later on.

With that, let me turn to page two of Attachment 3 where we've created this graph you see on the Board. It really has quite a lot information on it. What we've done here is we've used commonly used valuation metrics for each asset class, and we've shown the 2013 and 2016 levels as a percentile of their historical values from 1995 and the change in their rankings from 2013 to 2016.

We used a 22-year period as the longest comparable period for which we had the available data across these asset classes. And we also happily and with their permission adopted PCA's valuation metrics approach, because we just thought it was a great way to illustrate where current valuation metrics lie relative to their historical range.

And we simply adopted this picture to more closely reflect our specific investment exposures. And we calibrated the directions of the graph such that the bottom implies undervaluation and the top implies overvaluation.

So let me walk you through an example using the fixed income yield to maturity. If you look at the chart, in 2013, which is represented by this dark blue bar, yield to maturity levels for fixed income were at 2.17 percent. And that reflected and 87 percentile relative to the returns over that 22-year period. By 2000 -- by the end of 2016, that number was -- sorry. I think I said that backwards.

Sorry. It was 2.48 percent in 2013, and it became 2.17 percent in 2016, worsening in valuation levels by 3 percent, because it increased the percentile ranking from 87 percent to 90 percent. So that little red arrow that you see reflects that 3 percent worsening in pricing for fixed income returns.

I guess a general comment that I wanted to make about this picture is that similar to the economic background that existed when we established our latest set of capital market assumptions, which Eric referred to, in 2013, those were what we used to set our current asset allocation policy, that the current market pricing and valuation levels really remain challenged by a very low yield environment. Despite a slight tightening in December by the U.S. Federal Reserve, global monetary policy remains quite accommodative and asset prices continue to price in much lower probabilities of a pending Fed rate hike.

In fact, following last week's payrolls, the probability of a rate hike later this week has collapsed to near 0 percent, compared to 30 to 50 percent probability of a rate hike just in January, depending on what day you looked at the data.

In particular, valuation metrics for private equity, real estate, and U.S. fixed income have been affected by Fed policy, and are at all-time high levels, which is what you see in this chart here.

To give you an example, private equity valuations, which were at 8.4 times EV/EBITDA in 2013 are now at 9.9 times EV/EBITDA multiples, which surpasses even the last peak in 2007. And these higher public market valuations have really facilitated the exit and sales of domestic private equity deals resulting in large distributions to CalPERS.

To give you an example, by the end of this year, our pacing model for private equity estimates that our next cash flow will provide 7.1 billion roughly in cash flow back to CalPERS.

Low fixed income yields have also led to high demand for other income-producing assets, such as real estate, and have resulted in high valuations for these assets. Cap rates are at 4.6 percent as of the end of March, well below the historical average of 6.6 percent over this 22-year period.

What's interesting to note is also how relatively attractive low fixed income yields have made global equities whose dividend yields during the same period went from being -- so during the same 3-year period went from being 5 basis points below the fixed income yield at 243 percent to being 53 basis points above the fixed income yields at 2.7 percent. And dividend yields are really an important valuation metric, because they have historically contributed between 35 and 40 percent of total returns in global public equities. And that they're also the most reliable source of return for global equities, as opposed to priced return that has historically been a very volatile contributor to equity returns.

Another point I'd like to make is that while fixed income assets are at high valuation levels, investment grade spreads have widened from their 2013 levels leading to more favorable valuations, which is what you see here on this chart. And this may reflect the market's expectation that the business cycle has matured and could be approaching a turning point, and the potential for a global economic slow down.

This is not surprising, given that we are now in the 7th year of an equity bull market. And as our economist, John Rothfield, described in his presentation to the Board in February, tighter labor conditions could challenge costs and profitability.

The final comment I wanted to make on this page is that commodity prices had the most extreme movement over the 3-year period. Oil prices reversed from being well above historical averages at close to $98 a barrel in 2013 to collapsing to $38 a barrel as of the end of March.

And this really reflects the structural shifts in supply and demand brought about by weaker demand from a cooling Chinese economy and ample supply from OPEC countries.

--o0o--

MANAGING INVESTMENT DIRECTOR BAGGESEN: Thank you, Diane.

Following on from the information that Diane provided about the market valuation structure, the first part of the discussion for the interim asset allocation targets, I would refer to the chart that we have in the third page of the attachment number 3. And on this page, we literally have a graph that shows the interim targets, the strategic targets, and the range around the targets.

And I would suggest that, as staff, we believe that we actually have sufficient range with the current target levels. I would point your attention to the table of information below the graph, especially the last two lines of that table.

The bottom line represents the strategic target that we placed at the last ALM exercise. And that strategic target was -- then had some modification to it, which created the first level of interim targets. And that modification was a reflection of the valuation metrics and the ability to potentially control the asset allocation or the degree by which we would try to control the asset allocation or acquire assets.

So you'll notice that the private asset segments of private equity, real estate, and infrastructure all had reductions from their strategic target to represent the fact that those assets, even in 2013, appeared to be relatively fully valued.

As Diane has just pointed out with the market valuation metrics, those conditions absolutely continue today, and, if anything, have become even a little bit more extreme than existed in 2013.

The offsets to the reduction that we had for those private asset segments was predominantly in the global public equity area. So we increased the target weight for public equities from 47 percent to 51 percent to accommodate the offsets to some of the private assets.

The last activity that we took on interim asset allocation targets was last year, when we reduced the target for liquidity from 2 percent to 1 percent. And that 1 percent was shifted into the global fixed income arena, basically to -- again, to attempt to at least maintain the same kinds of risk characteristics, albeit a slightly higher return. And we also shifted the benchmark on the liquidity asset segment last year to really being a cash benchmark. It used to have a 2 to 10 treasury component, which was an effort to retain -- have an asset that would retain revalue, but that really made very little sense when we've reduced this target to 1 percent.

So the long and short of the interim asset allocation target discussion basically is that we think we should maintain the existing targets as they were decided upon last year. Attached to that is basically an understanding or an element that, even given the interim asset allocation targets that we have, for private equity, even though we have reduced our strategic target from 12 percent to a 10 percent interim target, that still implies that we would be contributing capital and participating in some of the private equity vehicles that are out there, including many of the elements attached to the fee structures and the terms and conditions that we, as an organization, have obviously been wrestling with for really probably the last year or so. We've been going around and around on just how favorable those terms and conditions are to the general partners relative to the limited partners, of which CalPERS is one those limited partners.

And we thought it was important though to recognize -- and you can see this in the table at the bottom of page 4 of the attachment -- that the private equity segment has been the excess return equity investing area, if you will, for CalPERS. So you see anywhere from a 1- to a 20-year time period, there's a bunch of elements. The 1-year period is not particularly meaningful, but certainly if you look at 3, 5, 10 and 20 years, you're literally seeing an increment of excess return net of all of those terms and conditions, and all of those egregious conditions that we find so problematic. This asset segment has provided almost an average of approximately 500 basis points of additional return on top of what we've been able to extract with our current definition of what the public equity market is all about, and the opportunity there. And that's not an insignificant spread. We're not aware of any easy way to attempt to gain that incremental value added on top of public equities.

If we made a move to -- because of the terms and conditions, if we decided to try to, whatever, back away from the private equity market or something of that nature, there's a real significant impact obviously to

CalPERS, both on an expectational basis, and if the past is any indication of the future, on probably the realized basis as well.

So our set of expectations for private equity relative to public equities are shown on page 5 of the attachment. So the little blue square box at the center of this graph are the assumptions that we used in the ALM exercise for the characteristics of private equity.

And what you see here is a volatility and a return assumption. What you don't see here is actually a correlation number.

What you can see though is that from our assumptions, our actual outcome that we have had happen over the last 10 years from private equity has been a higher level of return and a lower level of volatility than the assumptions that we went into the ALM exercise with.

If you look at the little red diamond, which is in the lower left-hand quadrant, that represents the historical global equity characteristics. And we literally view, from an asset allocation perspective, private equity as being a higher return substitute for public equity investing. It's a value-added component with similar volatilities and similar potential risk characteristics.

What you see on this page also in the upper left-hand quadrant is the green dot, which represents the benchmark for private equity which has had 2 or 3 or maybe 4 even different iterations over the history of CalPERS. I would argue that that benchmark isn't particularly meaningful to CalPERS. I think what's more meaningful is understanding private equity as a substitute for public equity investing. It's really an opportunity cost.

If we didn't have private equity, our next best alternative would be to invest in the public equity markets. So the increment that you see or the characteristics that you see on top of that I think are the more relevant aspect to think about.

--o0o--

MANAGING INVESTMENT DIRECTOR BAGGESEN: And I think with that, I think maybe Ted has a couple of comments he would like to make in relation to private equity, and then we'll go on to some of the capital market assumption material.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific. Thank you, Eric.

In the agenda item itself, not on these slides, we spend a 2 or 3 pages to talk about the current marketplace for private equity investing, really meant as an update from our really thorough discussion back in our workshop in November.

And the reason that I and the team wanted to include that material again is, as I said at the beginning, this agenda item, which is an action item, is for this Committee to vote to -- our recommendation is to reaffirm the interim asset allocation.

Part of that asset allocation is private equity, as well as other private asset classes. I'll discuss private equity in particular. And as Eric mentioned, and I think that what we all realize is that there are challenges in these illiquid markets. And particularly in private equity, we spent quite a bit of time discussing it at our workshop back in November.

And this update really is meant to say those challenges are not going away. In fact, if anything, given the return in risk and capital market assumption information that you're seeing, the flows into private equity are increasing rather than decreasing.

So the supply/demand equation of general partners and limited partners, hoping to reserve a coveted spot in these funds is -- the dynamic is becoming, as I said, more challenging than not -- than better. So the challenges that we face with the fee structures and all of the terms and conditions that we list in our agenda item really is meant to make sure there's absolutely no misunderstanding, there's no miscommunication, there's no point for doubt by this Committee in reaffirming its commitment to asset allocation that you are reaffirming and telling your staff that you want us to go participate in the private equity marketplace.

And for the most part, we'll participate in the private equity marketplace as it exists, not as we hope it to be, not as we think it ought to be, but as it exists. Because certainly over the course of this next two years, the terms and conditions around these fee structures and other opaque structures that are part of the private equity industry are not going to get better.

Now, your staff will do everything we can on the edges to negotiate the best terms and conditions that we can. But as we've said, we are a small player within the overall marketplace. And I don't want any expectations over the course, at least of this next 2-year run, as we go -- as we come forward with our ALM in two years that miraculously we'll be able to negotiate significantly better terms and conditions than what exists in the marketplace.

We will do our best, as I said, on the edges, as we have in the past, to seek better terms and conditions, but it's going to be a challenge, particularly over the next 2 years.

We also will look at other business models for private equity, as we've discussed. That's going to take time. We're not going to have a new structured business model over the course of the next 2 years to replace our overwhelming investment in the current market terms and conditions, which as we covered in our November workshop as well, even other investors that have tried other models still have significant capital in these existing private equity funds, significant capital, even those that have very large scale direct investments. And that's because of the track record and talent level that resides at many of these private equity general partners.

So again, I don't want any miscommunication, any misunderstanding, any chance of doubt that we're going to miraculously come up with a different business model in the next two years. We're not. We need to explore it, and that's going to be a long-term effort on our part to construct something that, in the context of our public agency setting, can compete with these other opportunities in the private equity marketplace.

But as I said, even those that have put together quite sophisticated direct investing capacities in the private equity markets still invest quite meaningfully and materially in these very same terms and conditions that are presented for you.

So really, this -- my comments are meant to underscore something about -- something very important about this asset allocation for this Committee. If in reaffirming and readopting voting on this asset allocation -- this interim asset allocation for the next 2 years, we're asking you to give us direction as staff that you are also reaffirming that we are going to participate in the private equity marketplace as it exists with all of the challenges and all of the newspaper articles that will come with it over the course of the next 2 years, as this industry continues to come under a review by regulators and others.

So with that, I'll end my comments there and I think we have the next section to go on.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Thanks, Ted. The next section of this material would be to get into some of the capital market assumptions, so the expectations about how the marketplace is shaping up for the next few years.

--o0o--

MANAGING INVESTMENT DIRECTOR BAGGESEN: At this point, I'm going to just skip this slide for a moment and go on to the material that Steve Foresti from Wilshire Associates has contributed. And Steve, I'll pass you the clicker and invite you to go through your material.

MR. FORESTI: Great. Thanks, Eric. Good morning. Steve Foresti from Wilshire.

As noted, I'll spend a few minutes and just 3 slides, so hopefully fairly briefly and succinctly to talk a bit about the forward environment. And I guess in that regard I have the dubious honor of kind of being the bearer of some of the news about how modest forward-looking returns look, at least over the 10-year horizon. I think the news may get a little brighter if you stretch the horizon out.

And we start here just showing the chart is Wilshire's capital market assumptions on some of the major asset classes, indeed many of those that are within the CalPERS portfolio, going all the way back to the early eighties, and bringing those assumptions forward. So start at the bottom, there's -- you know, we start with inflation, but building onto that, if you think about moving up a capital markets line, cash, high quality fixed income, and then moving into some of the equity classes real estate, public market equity.

We don't -- I don't have graphed here the private market return, but picture another line across the top of this. And there's two things that I'm trying to illustrate with this particular exhibit. One is the downward trend across these assumptions in recent time.

And I'll spend a minute or two on the next slides talking about that.

The other observation I'd make here is that while they have some variability between the relative assumptions through time, they do tend to move together. And I'll also, you know, comment on that a bit on the next slide.

But thinking about the market environment will hopefully be very helpful in terms of understanding why is it that this is a downward trend, that at least we see as we look forward into market.

So moving to the next page.

--o0o--

MR. FORESTI: And if I leave you with nothing else today, really hopefully the one thing that you take away is the chart here on the top right. And we often hear, and this has been a common theme over the past, you know, 5 plus years, low yield, low return environment. These two terms kind of connected to each other. And I'm not aware of a chart that illustrates that any better than this chart here.

And what I have graphed for you, the blue line that runs along this chart is the yield on the Barclays Aggregate Index. The red line is the return 10 years subsequent to that yield.

So if you just, in your return model, said, well, whatever the yield to maturity is on the index, I'm going to use that as my return assumption, the relationship between these 2 lines is essentially a signal of how strong a forecasting model that would be. And rarely in finance do you see models with this sort of strength. So just a very, very strong relationship between the, I'll call it, going in yield on a high quality fixed income investment, and what the subsequent return experience proves out to be.

You can see there's a little less volatility to the return target versus -- to the subsequent return versus what the wiggles you might see in the yield. But nonetheless, that yield environment is essentially, for high quality bonds, your return destiny.

That changes a bit as you change the maturity of fixed income. So if we're talking about cash, changes in yield are going to have a much bigger impact in terms of what your experience might be on the return to cash over 10 years. Likewise, if you stretch it out to much longer duration, fixed income again more of an impact from a changing yield environment.

So as we look at this picture, and the chart kind of shows where we are in current dates, but the table just showing yields on some of the major indexes moving anywhere from, you know, call it 1¾ percent on a diversified treasury portfolio to still under 4 percent on a corporate bond portfolio essentially sets the range of expectations you might see across, in this case, U.S. high quality fixed income securities.

So as we move forward from this in moving to the next page, it kind of begs the question, okay, well, that's -- you know, that's high quality fixed income. What about other investments within the portfolio, growth assets, equity, whether that's the public or private markets?

--o0o--

MR. FORESTI: And I wanted to spend a minute or two on this page, which now looks at are there opportunities for equity to kind of run away from this yield environment and deliver returns that would be substantially higher.

And I'll approach this in a couple of directions. First, the chart at the top, the line that's graphed here is essentially a 20-year rolling differential between U.S. stocks and U.S. core fixed income. So think about this as the equity risk premium to holding equities versus holding high quality bonds. And you can see there's quite a bit of variability. Even in a 20-year roll, that line moves quite a bit.

The dashed line that runs horizontal across this is graphed at a 3 percent level. That happens to be in line with where our typical forward-looking assumptions are on our expectations for equity against fixed income. Not always 3 percent, sometimes higher, sometimes a bit lower, but I think that anchor is essentially what that premium looks like.

And you can kind of see through time how that compares with this historical rolling 20-year environment. Periods of time where the 20-year equity performance has been well, well above that 3 percent. You know, most recently you can look at the 90's environment coming into the technology rally and subsequent bubble of the late 90s. But you can see the 20-year roll moving above and below that 3 percent line.

So as we look at markets, there's several models we use to get signals on what the public equity markets might return going forward. Down in the lower right is one of those models, which is a component model listed here as IGV. That stands for income, growth and valuation. So we look at those 3 components and how they might stack up to assemble an equity return. And what I have graphed here, the column chart to the left is the return experience from these components, how they contributed to returns from the 1951 forward period. So

65 or so years, how those components have contributed to an almost 11 percent return over that period of time, and to the right would be how those components, as we look forward 10 years out, stack up to derive a return on U.S. public equities, and that's the 6½ number.

And if you look at it, and this builds off of some of the yield conversation that I just was talking about, starting at the bottom, the purple would be income, which we just think about that as the yield, or the dividend yield, on equities. And you can see comparing the two columns that on the left, in terms of the historical contribution over this period of time, in the ballpark of 3 percent from income, and to the right, when you look at current yields and expected yields on equities going forward, something in the 2, just over 2 percent range.

So if you compare component to component, we start with income, the current or the forward-looking environment versus what has been realized in the past, you're giving up -- call it a percent or so, a little over a percent just on income.

A really big contributor to this is the inflation environment, both in what's looking forward and, for our purposes, we tend to look at a so-called break-even inflation rate. And that's very, very modest looking forward versus what the historical record looks like. And that's that blue -- gradient blue area. The 2 blues together are nominal growth. Solid blue would be real growth in earnings, and the graded area there would be inflationary growth.

And you can see from this that that is a 2½ or so percent net spread between historically what inflation has added to nominal returns of equities versus as we look forward. And the red arrow that I have graphed there is Essentially again to try to connect those 2 pieces, income, or dividend yield, and the inflation area component. Historically, what they've contributed, which is in the neighborhood of 7 or so percent, comparing that to looking forward what -- at least in our view as we look forward, which doesn't differ much from other advisers that we've looked at, is about a 4 percent -- call it just under 4 percent.

So the difference in those 2 things is quite significant. And again, attaching that to the conversation about fixed income, those two things essentially anchor equity returns. We've got 2 more components left, the dark blue would be real earnings growth, and then the yellow-ish piece would be multiple expansion or contraction.

And as you can see from the line at the top, there's periods of time where that adds a lot of volatility to equity returns. The question is can you, while that can either add or detract over short periods of time, how much can we expect that to add over on a going-forward basis?

So if you look at the 6½ percent, how those pieces add up to it, you're thinking about, well, is there a way that equities can do much better than that? The answer is yes, but you have to think about it, or I would suggest you think about it from the perspective of some of these components.

To do much better than that, do I expect valuation or multiple expansion? Do I expect some period of rapid real earnings growth, et cetera?

So I say -- I think as you look at it from this perspective, the point I'd make is the yield environment from cash into high quality fixed income into some of these growth assets, these asset classes are all competing for capital against one another. So there is a consequence to the low yield environment on high quality fixed income assets and cash, what that does to the pricing of growth assets. You think about investing, you're putting assets to work and hopefully being compensated for the incremental risks that you take as you move from one investment class to another.

And those assets quite naturally will then be priced by market participants to deliver an expected premium for absorbing that risk. So if those additional premiums are stacked on top of a 0 or low cash environment and a low fixed-income environment, I think it becomes quite intuitive that even on growth assets we can expect that the current pricing prices in a more modest going-forward return.

Final point before I wrap-up, so that if we begin just focused on that column for the 10-year forward environment, it's a unique period of time in terms of where yields are, and what that means for the future. As we think about it in terms of the agenda item and the discussion today, while our forward-looking returns are a bit lower than 3 years ago, which would have been, you know, part of what went into your current asset mix, this environment has been in place. This low-yield environment has been in place for a number of years going well back before 3 years ago.

So while it's a unique period in time, it's not materially different from the period of time that was in place when you did your last asset ability study.

So with that, Eric, I don't know if I'm passing back to you?

MANAGING INVESTMENT DIRECTOR BAGGESEN: Sure. I actually think, Allan, did you want to make a comment?

MR. EMKIN: Very belief. Allan Emkin, PCA.

Steve's 100 percent correct on the ability to look at the future of fixed income and that the yield to maturity is a really good indicator. There's no evidence that the consultant community, the investment manager community has any accuracy of predicting the performance of other asset classes.

And although I agree completely with the methodology, and we have similar assumptions, it's really important to be humble and just to recognize that there's just no evidence that we have any ability to forecast the future.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Thanks very much Steve -- Allan.

The last piece of material that I'd like to bring is this chart --

--o0o--

MANAGING INVESTMENT DIRECTOR BAGGESEN: -- that was on page 6 of the attachment. And this chart has obviously a lot of information on it. For the most part, why don't we ignore the vertical bars. Those illustrate volatilities from 2013, the assumptions that we used at that time, to the volatility assumptions that currently exist.

And again, the currently exist assumptions are just a simple average from a half a dozen market intermediaries. We have not customized these, if you will, to the actual exposure that CalPERS has in place, which is an exercise that we'll be engaging in next year.

I think the more relevant information on this, or the little triangles and the points, the triangles represent the assumptions that we had in 2013 for the return levels for the different asset segments. The dots represent again that simple average from those market intermediaries. The horizontal black line at 7½ percent is overall discount rate assumption that we use as a return assumption as well, or maybe we use that as a return assumption and then it becomes a discount rate assumption.

You can see from this picture though, the only asset segment that is actually higher than that assumption currently is the private equity area, which is one of the reasons that we really wanted to emphasize private equity in this agenda item. It is the existence of private equity in the excess return that we aspire to extract from that asset segment that actually allows us to have any real diversification away from equity risk in this fund.

The only way we can afford to have any fixed income exposure or even some of the real asset exposures is because of that excess return. The next highest expectational return is for the public equity area. And as you see, that number is just a little bit below that 7½ percent line.

So it's just very important that you understand that it -- in order to have any degree of diversification in this portfolio. And I would encourage you to think that we actually have relatively minimal diversification relative to that equity risk. But what diversification we do have is because of the existence of being able to earning excess return on top of the public equity area from that allocation, which is one of the reasons that we recommend, even given the ugly set of terms and conditions that exist within the private equity arena, we continue from an asset allocation perspective to recommend participating in this asset segment. We just don't have an easy substitute for that type of return characteristic.

And I think with that comment, I would open this up to any questions that Board members have. And obviously, we also have Andrew Junkin from Wilshire Associates here to answer potentially any questions you have.

CHAIRPERSON JONES: Okay. Thank you. Thank you for really a wonderful presentation. It's very informative and straightforward and the charts are easy to understand, so we appreciate that. We do have a few questions.

Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Well, I didn't know I was going to be first up. I thought I was late in the queue.

Excellent report. And I guess just some questions I have. And, Allan, you're right. If we all could predict the future, we wouldn't be sitting here. We'd be sitting somewhere else.

So just -- I just want to understand a few things. When you look at the Wilshire report and the page that you were just talking about, this is a 10-year look back to where we get the expected returns, correct? I just want to make sure I'm reading the chart properly.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Steve, do you want to answer that one?

MR. FORESTI: The assumptions as we step through them would be a 10-year forward.

COMMITTEE MEMBER COSTIGAN: Okay. So that's what I was trying -- so what we're looking at across the total fund is a 10-year forward with the allocation, as you guys are discussing, we're looking at about 6½ percent return?

MR. FORESTI: Over 10 years, correct.

COMMITTEE MEMBER COSTIGAN: Over 10 years, except on the next chart -- I just want to make sure I understand -- on 7 of 9, all the trends continue to be downward. And so I guess one is the 6½ percent seems optimistic, I guess, given 2 things, based upon Mr. Eliopoulos's comments earlier this morning about the total fund, and then what the expected return is going forward. I'm not an economist or a mathematician, over that 2 years, we'd actually have to average, what, a 15, 16 percent return across the whole portfolio to make up for this year and next year?

So you're already telling me that going forward, we're looking at lower discount -- a lower rate, a lower return of 6½, we've got 0 right now, we're at 7½ across the fund right now. Okay. So I'm just trying to say over the next -- what do we have to make up next year? The worlds are colliding, what's the return need to be for the next 12 months to achieve the current discount rate?

MR. JUNKIN: Can I just make a couple of clarifying points?

COMMITTEE MEMBER COSTIGAN: Yeah.

MR. JUNKIN: Andrew Junkin with Wilshire.

So the black line on this chart is the discount rate, which is not necessarily tied to our forecasted return. Our forecasted return is in our opinion letter, which shows over the next 10 years, 6.4 percent using our assumptions only. These are the median assumptions. So there's a little bit of kind of a mismatch of data there, but I --

MR. FORESTI: And those assumptions do not include any incremental return from active management or the like.

MR. JUNKIN: Right. But I understand your point. If we started measuring the 10-year window at July 1, 2015, so we're fundamentally a year into it --

COMMITTEE MEMBER COSTIGAN: Correct.

MR. JUNKIN: -- and you needed to make 7½ and you've made 0, you'd have to make probably 8½ on average over the next 9 years to catch up.

COMMITTEE MEMBER COSTIGAN: And what at least this document is forecasting is that we're going to average somewhere around 6½.

MR. JUNKIN: Our view is over the next 10 years we think 6½ is the right number. 6.4 was the number, if you go back to our opinion letter which contains that. So -- but it doesn't have to be over every single 10-year period.

COMMITTEE MEMBER COSTIGAN: Correct. And then just sort of the last point. The presence of private equity has actually helped us achieve -- that almost looks under this document -- I hate to use the word savior. But from the standpoint of it is the one asset class that has helped us achieve over the last 10 years, and even sort of on a going-forward basis, being able to even achieve the lower forecasting.

MR. JUNKIN: I think it has been important. I think there's -- the staff cites 30 to 70 basis points of contribution to the return historically. Let me give you a different way to look at it going forward using our assumptions, that 6.4 percent number with 12.4 percent risk, which is in our opinion letter, which is on page 66, or page 2 of 3 of Attachment 1, so I'm looking at the middle, March 2016.

If you were to say X out private equity, we'll do everything else, can we get to the same return? Using our assumptions, you can. You can get to that 6.4 percent return. You have a 13.9 percent risk now, instead of 12.4, and you have precisely 6 percent of your portfolio in fixed income.

So the next time the 100-year flood happens in the equity market, which happens about every dozen years or so, you're going to have a lot of equity exposure. You'd have 75 percent in public equity at that point, and the rest would be real estate and inflation assets and things like that. Can you get to the same risk? So that's the way consultants think about asset allocation.

Can we get to the same return, can we get to the same risk?

You can get to the same risk, that 12.4 percent, with no public -- with no private equity. You have 65 percent in public equity, so equity goes from 51 plus 10 for private equity. So it goes up, 12.4 percent risk, the return drops to 6.1. So 6.1 versus 6.4 doesn't sound like that big a deal, until you realize that that's a billion dollars a year. Over a 10-year window you're talking about $10 billion. And if you've got benefits to pay, you know, there are 2 places the money can come from, investment returns or contributions. And if it doesn't come from investment returns, guess where it's got to come from?

COMMITTEE MEMBER COSTIGAN: Okay. And then just -- and I appreciate -- and then just one last question. This does not take into consideration the November election, which the market seems to be taking some concern with. But when you guys drafted this, there is no sort -- sort of the political component.

MR. JUNKIN: This does not. And my experience, my view is that politics tend to be kind a short-term blips, right? So there's uncertainty that the market doesn't like. Once someone is elected the market can reprice everything based on a better sense of how things are likely to move forward. And so I think between now and November, you'll actually probably start to see the equity markets solidify as the election becomes clearer.

COMMITTEE MEMBER COSTIGAN: Thank you.

Thank you, Mr. Jones.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. I'd like to go back to page 9, which has the IGV chart at the bottom. This really looks at sort of the various components of return. I guess what I would like to get a better handle on is what are some of the underlying economic and systemic factors that are driving these sort of indicators and these components of return? And as a long-term asset owner, engaged in the markets, engaged in the regulatory environment, and policy making, I'm always interested in sort of how can we impact some of those long-term factors that are driving what is a periodic challenge in the markets?

MR. FORESTI: So I think the yellow piece I didn't spend much time talking about, which is the valuation component. And in previous conversations that I've had with your Board, we talked about these components. And here is how they've contributed to return. If you think about how they contribute to volatility, over the very long run, you would expect valuations, sometimes valuation levels expand, sometimes they compress. Over the very long term, you would expect that to be a wash. So it has very little impact on the very long term expected return of an investment in the public stock market, but it is actually by far the largest contributor to the risk.

So to the extent that some initiatives, in terms of making markets more transparent, and more reliable in terms of, you know, the rules of the game, et cetera. Then, you know, there's a component that I wouldn't say would do much in terms of changing the return outcome, but potentially the risk outcome.

You know, other factors -- inflation is a big part of nominal growth. That's not something I think that's, you know, easily controllable by any investor. But the blue pieces is real earnings growth. And that is over time not a large contributor to volatility. It is a contributor, but nowhere close to what valuation changes. But it's the most meaningful long-term contributor to the return outcome.

So to the extent that that becomes -- there's an environment for growth, it's well supported by capital markets and capital is moving in a very efficient way. I would say those are the two components. On the risk side, the valuation, what's going on with multiples. And on the return contribution side the real growth environment.

COMMITTEE MEMBER MATHUR: So if I could let me ask a -- maybe a slightly more specific question. Many companies are holding on to very large cash reserves at the moment, not deploying capital, not investing in the growth of their business. To what degree do you think that is impacting company valuations at the moment and what can -- and any ideas -- I mean, is that something that we as an active owner of these companies, in terms of being a major -- being a stockholder, what do you think we can do to help impact that or other such factors, either specific to companies or more broad economic concerns?

MR. FORESTI: Well, I think that hanging onto cash is essentially natural, I think, reaction to the risks that were in the market coming out of the financial crisis, and making sure that there's stability to be able to meet needs. I also Think it's a consequence of looking around and seeing what the opportunities are for further reinvestment.

So, you know, that is -- that's a hard -- that's a hard ship to turn. But cash starts to get deployed and moved off of balance sheets when there's perceived opportunities to get a return on investment. And I think those are the two biggest factors that would be locking cash on balance sheets just, you know, insulation against a future rainy day, but also looking around and seeing risk, but not necessarily a high return on capital invested.

MR. JUNKIN: And I would just add, because when Steve first presented this, I began to think about, quite frankly, income inequality was one of the things --

COMMITTEE MEMBER MATHUR: Exactly.

MR. JUNKIN: -- that popped into my head. And I kind of sensed that maybe your questions were headed there. And if you think -- if you look at the last 65 years, and real growth versus inflation, but then think about the last 10 years where we've had very little inflation, but a lot of productivity gains, that's kind of the trade-off that we've seen. And so specifically to your question about cash on balance sheets. If you were able to spur companies to go make investments that required labor, rather than productivity enhancements, you might actually kind of move the entire market.

And so back to politics again. You know, to the extent that we can generate infrastructure projects across the country, I think that's a great way to do it. But if you spur people to make investments that make them more productive could actually lead to a worsening labor situation.

So it's a tricky balance. I don't -- I prefer to stick to the bar charts, which are a little bit easier than the actual policy and leave the policy to people smarter than me.

COMMITTEE MEMBER MATHUR: Paper and numbers is definitely easier.

Okay. Well, I think, you know, you've asked the question about whether -- you've asked this Committee to reaffirm this -- the allocation -- the interim allocation targets for the next 2 years, which effectively is changing our asset allocation from 2 years ago, because -- because we don't believe the targets that we originally set are actually feasible. Is that a fair thing to say?

CHIEF INVESTMENT OFFICER ELIOPOULOS: (Nods head.)

COMMITTEE MEMBER MATHUR: Well, I, for one, think that that is the appropriate path forward, particularly given the information that is before us. It is clear to me that it would not be prudent for us as an organization to cease our investment in private equity. Clearly, private equity is an essential component of our long-term strategy and in our ability to achieve our objectives, both on the return and risk side. And I just don't see anyway to change that path.

I -- you know, it is very challenging for us, because, of course, we want to see the best possible behavior in our partners, the best possible terms, the most fair sharing of economic rents. And I know that our staff is committed to that as well, and will continue to advocate for that and negotiate for that to the extent possible.

But I recognize that we're in an imperfect marketplace here, and that we have to proceed under the conditions that exist while trying to, as you say, make inroads at the margin.

So I don't know if it's appropriate to make a motion at this time.

CHAIRPERSON JONES: Not yet.

COMMITTEE MEMBER MATHUR: Not yet. Okay, then I will stop my comments there. Thanks.

CHAIRPERSON JONES: Thank you.

Okay. Mrs. Hollinger.

COMMITTEE MEMBER HOLLINGER: Thank you.

I really appreciate the report. It's excellent. And I appreciate also all of staff effort in this industry. And you asked, Ted, you know, where we stand on private equity. And I recognize fees are high. I recognize it's an evolving marketplace. My role as a fiduciary on this Board is to maximize our ability to pay benefits when they come due. And I think it's imperative to include this asset class. While it's not perfect, it's part of that equation.

Net of fees, it's still our best performing asset class by a significant margin, and it doesn't mean that we can't continue to improve transparency and reporting issues. And I think the other thing people have to consider is if we didn't have this asset class, what asset class would we have to consider in its stead? And if it's public equity, just by way of example, we may be reducing our return, not necessarily our risk.

Also, I wanted to follow-up. So I, similar to Ms. Mathur, would support private equity. But into what Mr. Costigan said, you know, one of the things that I just want to make sure we have a clear handle on when let's say we have a return of -- are experiencing low returns and what we need to make up. My concern is when we were getting back to Mr. Costigan, so what would we have to earn to like get back to if in 20 -- if last year it was 2.4 and then we're flat this year, I want to make sure that we're factoring into the fact that we've entered a place where we're cash flow negative, because I think that exacerbates the catch-up. And I need -- I want to make sure that that's quantified, because this is very similar to a life insurance contract or an annuity in where you get into increasing mortality costs in later years.

And, you know, if our investment returns aren't what we're projecting, and we have to look at -- Mr. Emkin once pointed out there's only 3 areas, investment returns, contributions, or distributions, that we're weighing in owl those things in an effort to not push the can down the road, but actually taking active steps now to mitigate those consequences down road.

Thank you.

CHAIRPERSON JONES: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: So there's no doubt, yes, we are. And that the negative cash flow situation is a very important inflection point as we've discussed. And this Committee has taken some important measures on the risk mitigation side just recently. But we'll need to do -- we need to have more discussion coming up over the next 2 years. That's really what we're highlighting here in the forward projections. You've added another layer in terms of our negative cash flow position, our unfunded status as well is another factor that makes the pathway of returns so important.

CHAIRPERSON JONES: Thank you.

Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

Just following on to Ms. Hollinger's point. But before I do that, thank you for the report. This has been very helpful. And I guess what I wanted to just find out with respect to the 6.4 percent 10-year return in the Wilshire report, and the relationship to the risk mitigation strategy that we've recently adopted, whether that policy is sufficient to meet the funded status. And I guess at what point are we going to have to revisit that in the near term?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll jump right in with the easy question, that's for sure. Madam Controller, thank you.

I think, number one, we're not recommending making any changes to the asset allocation or the capital market assumptions today. I think in two years, we will be wrestling with the issues that you just brought up in terms of what is the risk appetite of this Board, what is the asset allocation, and what's the resulting, you know, return and risk component of that choice, which will be significant. So that kicks off next year.

In terms of its relationship to the risk mitigation policy and strategy that we've adopted, I think that policy stands up with these current assumptions in the sense that its main architecture is that in really good years, we'll take some chips off the table and reduce the volatility of the fund.

And even though a 6.4 return over 10 years looks like a straight line across a 10-year period, we all know that it likely won't be 6.4 at the end and I won't be 6.4 in any given year. We're going to have some zeros and we're going to have some 11s, and some other -- you know, some other returns. So that in the good years, in that 10-year period, as I said, we take some chips off of the table.

So I think that architecture works well in a 7.1 forecasted environment and a 6.4 forecasted environment. I think the main arena for the really important questions that you're posing is going to be in the next ALM cycle in 2 years. Of course, the Committee can always revisit the risk mitigation strategy to see whether the Committee would like to be more aggressive or not, you know, in conjunction with that or at any time. But as I said, I think in terms of focusing on the architecture of how it's supposed to work, I think it meets the objectives that we set out last year.

COMMITTEE MEMBER YEE: Okay. Great.

And then my next question is also related to private equity. And I agree with the points that have been made by Ms. Mathur and Ms. Hollinger. And first, I just have to thank the staff for all of the proactive things that we've done, certainly the tracking system for fee disclosure is up, and obviously the ILPA template, and all of that is going to continue to probably help in some fashion, but challenges will remain.

And I guess what I just want to say is that we're not the only ones facing those challenges. And so I, for one, would wholeheartedly support that we continue our activity in the private equity asset class. I'm at a loss to think of what alternatives there might be that would bring us the high returns and the relatively low degree of volatility. So very, very supportive of that.

But I guess also just continue to see where we have places where we can push to obviously make that environment better. But I think this is imperative that we remain in this asset class.

And then lastly, this is a tough conversation to have as we look forward. And I just want to be sure that at the relevant points in time that we do participate or lead relevant stakeholder engagement, as we see changes down the road that we're going to need to be sure that our members and beneficiaries will need to understand.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, Madam Controller. On that point for sure we absolutely will be engaging with stakeholders and giving them briefings. In fact, just had -- we have regular briefings for them and we included a synopsis of this forecast in our last one and we'll continue to have robust dialogues moving up to the 2-year period for sure. So I just want to assure you of that.

And then on the private equity side, I want to assure you as well, Madam Controller, because I know you and the Board members share in the desire and our -- for our efforts to be maximized at trying to drive change and transparency in this industry. And we will continue to do that, are doing that, are planning a leading role in doing that across the industry. And we will continue that effort. In fact, the agenda item that we'll be taking up out of order on corporate governance, as you know, in our 5-year plan, that's one of our key strategic initiatives over the next five years. So I'll assure you of that.

COMMITTEE MEMBER YEE: Great. Thank you.

CHAIRPERSON JONES: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: One, I would like to thank our actuaries for giving us a 60-year projection.

(Laughter.)

COMMITTEE MEMBER JELINCIC: I will point out that even Bob Carlson didn't make it 60 years, so none of us will be here when we find out how right or wrong they were. But we -- it is important that we do, in fact, look at the long term.

On Wilshire's 9 of 9, it looks to me like half of the reduction is coming from reduced inflation in rough terms. And so my question is our goal is to pay the benefits. If inflation is coming down, shouldn't the benefits come down? Shouldn't we also -- shouldn't inflation have an impact on both the asset and the liability side? And I was going to ask the consultants, but I see that Alan is coming up to bail you out.

(Laughter.)

MR. JUNKIN: Thank goodness.

CHIEF ACTUARY MILLIGAN: So the inflation does impact both the asset and liability sides of the equation. The impact on the liability is both through salary increases as well as cost of living adjustments. So both of those, there's very much a transmission through to the liability side as well.

One of the significant improvements that we're looking at, we're working with a couple of academic institutions, is to really help quantify these relationships in our model, so that we can more accurately do that.

Having said that, the reduction in inflation may well be -- an inflation assumption, may end up being a recommendation of the next ALM cycle. Certainly, it's too early to make that recommendations, but that could be -- that could be part of the mix.

And it will -- a reduction in the inflation assumption, does cause a reduction in the discount rate, but the impact on employer contribution rates is significantly less than if you just lower the discount rate.

So if you lower both the inflation as well as the discount rate evenly, it has a significantly smaller impact on employers because of the very factor that you identified, which is that both the assets and the liabilities -- it impacts both the asset and liability sides of the equation.

COMMITTEE MEMBER JELINCIC: Okay. And to expand a little bit on that. Because we define contributions as a percent of payroll, the contributions as a percent of payroll is likely to not be impacted because of the offsetting balance.

CHIEF ACTUARY MILLIGAN: It will be impacted less than just a drop in the discount rate, but it will -- generally, a lowering of the inflation assumption does result in higher contributions as a percentage of payroll. It's just not -- the impact is significantly less than just dropping the discount rate, but it still has an impact.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

And then on attachment 5 -- or attachment 3, 5 of 9, the -- which is how -- you know, the volatility. If in fact, the volatility in private equity is less than the volatility in global equity, then all the academic work is wrong, because private equity has more leverage, and therefore should have more volatility, has -- tends to be smaller, and therefore should be more volatile. So it strikes me that this is really a measurement issue really rather than, you know, a fact. I don't know how you get around the measurement issue, but either that's wrong or every academic is wrong. And so I don't know if you wanted to comment on that or just acknowledge that's the way it is and we're kind of stuck with it.

MR. JUNKIN: Back in the Wilshire attachment, I think you see we try to adjust for that. Our assumed volatility for public equity is 17, private equity is 27. So you're exactly right, the observed volatility, what goes onto your CAFR, what goes onto your quarterly investment reports, is just the marks that come through the private equity portfolio. If it were daily valued accurately, we think it would be closer to this 27 number

And so as you're working -- I think most importantly, as you're working with asset allocation, because we use the higher risk number, it is appropriately factored into your decision-making process.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah, just -- excuse me, just to expand on that exact question, Mr. Jelincic, you know, I'd again point out that the square box at the origin of this graph, right in center of it are the -- is the assumptions that get used in the ALM exercise. So we both, as Andrew just pointed out, we increase the volatility assumption for exactly the economic reasons that you point out, and we bring down the return assumption.

So we, in essence, are -- try to be more conservative on both of those dimensions. That's one of the reasons. If we literally utilize the characteristics that are actually observed in the accounting for private equity -- you know, we end up being constraint bound in this case, anyway, but if we had those conditions literally any form of an optimizer would want to place exactly zero in public equities and it would want to basically try to own whatever, 60 or 70 percent, in private equity as an offset to that, and then just a fixed income portfolio off to the side of that. I mean, it would literally just squeeze out every other asset segment, so it ends up being a constraint-bound problem. But your observation is correct.

COMMITTEE MEMBER JELINCIC: And then on 3 of the agenda item, where you talk about cap rates being at historically low levels, one of the other things that gets looked at is cap rates relative to the 10-year treasury.

And how do cap rates relate to the 10-year treasury?

MR. EMKIN: We do that in our charts on a monthly basis. And the yield on real estate is still attractive relative to bonds. And I think that's why many large institutions continue to invest in what is most people considered very, very expensive real estate, because relative to other asset classes, it is attractive.

COMMITTEE MEMBER JELINCIC: Okay. I want to say that I thought this agenda item was actually a really good discussion on where staff is on private equity. In fact, I will tell you I have recommended that people look at this and read it, because I think there's a lot of good information there.

I have been accused periodically of being anti-private equity, and I'm not, but I do have some real concerns. Every dollar that we pay out in fees is a dollar less that we have to pay benefits. It's a dollar less return. And so we really do, in fact, need to focus on that.

I am willing to pay reasonable fees. But sitting here as a trustee saying I don't know what I'm paying makes it really difficult to say that I'm paying reasonable fees. Of course, on the other hand, it makes it really difficult to say I'm paying unreasonable fees, because I just don't know. And as a trustee, and a fiduciary, and somebody responsible for other people's money, that is really, really troublesome.

You know, the fact that more money is flowing into private equity says that going forward returns are likely to be lower. And I think we need to really think about what that means.

In the agenda item, you talk about the importance of being in the top performing funds. And yet, the academic work says that since, you know, 2000, so the last -- you know, nobody has got '16 year -- '16 data. So the last, you know, 15 years, there is no persistency. And so I'm not sure that we really should be paying up to be in top quartile. Although, it is interesting that there is real persistency in the bottom quartile. So we do want to stay out of that.

We have a -- we tend to focus on the IRRs. And that's, you know, the standard measurement, but we need to understand that that is a measurement that encourages people to pull money out as quickly as possible, because if I put on leverage and pay myself a dividend cap, I may weaken the company, I may hurt the employers, I may hurt the suppliers, but it helps my IRR. And that goes back to its impact on real growth, which is part of the reason I keep harping on where is our money coming from? Are we hurting ourselves in the much bigger public market to get these numbers in the private markets. So I will continue to harp on that.

I notice that you talk about the returns and not particularly talk about the risk-adjusted returns. And part of that is I'm not sure we have a good handle on the risks we are talking, and -- which makes it hard to deal with risk adjusting the returns, if you don't know what the risk is. I recognize that we've been being told, for quite awhile now, PEARS is going to help solve that problem, but it continues to be a problem.

One of the things I again react to is, well, we're a small player and so we're term takers. And depending on the measurement, we're 1 to 3 percent of the private equity market, depending on the year, and the time frame, and all that good stuff.

But I would point out that on the public or on the -- yeah, on the public equity market, we're probably not even a tenth of 1 percent of the total market, and yet we did have a real impact by driving down the fees. You know, fees in Europe are -- European based private equity are much lower, and in part, because of the exposure and the disclosure. And I think, you know, we continue to need to point that.

One of the -- and I asked about this on the briefing, but I think it's important to make, staff notes that staff has received ILPA fee reporting information on slightly over half of the CalPERS private equity portfolio. Previously, that number that we are putting out there publicly was 95 percent. And so I -- you know, we're -- it turns out it's not an apples-to-apples comparison. So can you comment on that?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure. Let me take -- comment on the ILPA template. So the 95 percent plus capture rate was on the capital call distribution ILPA document. The -- roughly 50 percent is on the new template that we and many others in the industry have endorsed, both on the LP side and the GP side that has all the more robust reporting and disclosure on portfolio companies and the rest. That's one of the areas in response to the Controller's questions that we will be focusing on trying to drive the industry to report on all of the lines that are in that ILPA template.

Our hope is that we can get from the 50 percent, the new template is just released in January. So we're a couple quarters into it, drive that to the same 90-plus percentile across our portfolio looking backwards as the success we had before. But that's going to take lots of movement within the overall industry as well.

Going forward, we're requiring all of our managers that we do business to report that information to us.

COMMITTEE MEMBER JELINCIC: So in rough numbers, we have about half that are doing the new ILPA template. We have half that are not, but we had 95, so we have about 45 percent doing the old one still. And then we have basically five percent that said, no, we ain't going to do either.

CHIEF INVESTMENT OFFICER ELIOPOULOS: (Nods head.)

COMMITTEE MEMBER JELINCIC: Okay.

You know, I -- yeah, I do not think that we ought to be pulling out of private equity, but I think we -- quite frankly, I don't think we have the information we need to make that decision. I'm not sure we have sufficient information to actually say, yeah, it's a great asset class that we ought to be in. There's lots and lots of questions. But, you know, I do not, at this point, think we have enough to say, "No, we shouldn't be there". So I'm going to ultimately support the motion to continue this.

Thank you.

CHAIRPERSON JONES: Thank you. The -- you mentioned about the updated market outlook and the interim asset allocation suggests a 6.4 percent forecast return today versus 7.1 three years ago. And I think it's clearly going to be a challenging time that we face in the next few years. And we will be facing some difficult decisions as we move to our 2017 asset allocation exercise. And I totally support remaining in private equity moving forward -- going with the private equity component.

Having said that, I keep remembering the chart at our off-site that John Cole put up that equation. It's 3 components: It's contributions, it's returns, and benefits. And we talked about two of those to today. But I think we need to start talking about what if either one of those don't deliver. We've got to deal with the third part of that equation.

So as we move to 2017 and beyond, I think we need to start -- at least start talking about that third component of that chart, because I think it's telling.

And so, okay, that's my comment there.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Would a motion now be in order?

CHAIRPERSON JONES: Not yet.

COMMITTEE MEMBER MATHUR: Still not in order.

CHAIRPERSON JONES: I'll call -- I'll call on you.

COMMITTEE MEMBER MATHUR: Then just hold me.

Thank you.

CHAIRPERSON JONES: Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.

Thank you for this presentation. And I want to come back to the -- take into account what Mr. Jelincic said. I want to come back to the comments that you made, Mr. Eliopoulos, when we started this conversation this morning. And that was that we want to invest in private equity as it is not as we want it to be. And I think that applies to the entire marketplace, not just private equity.

I think that -- and I believe -- you know, I can count enough noses that, you know, we're going to affirm this interim asset allocation. But I think it affirms something else at the same time when we make that vote. And that is that we have confidence in you and the staff to manage this process. And including managing private equity. We've had a lot of conversations about how we need more transparency. And I think there are 13 people here who absolutely agree that we need more transparency, but we have to come back to the issues the market is as it is, and we're going to use our influence to try to modify it.

And I just hope that what we're saying in making that vote is that you and your group we have absolutely confidence in your ability to manage it, your ability to influence this marketplace to the greatest extent possible, so that we end up, at the end of the day, not only being able to take advantage of the returns, but at the same time being able to bend the curve along with the rest of our partners around the world. So thank you for the presentation.

CHAIRPERSON JONES: Okay. Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. So I understand your need, your desire to sort of raise this issue of private equity in this discussion. And you really kind of characterized it as almost a necessary evil. But I think the numbers speak for themselves. And Andrew I think best sort of summed it up. We could get to the return without private equity, but it would blow up the volatility, and the converse is also true.

Mr. Jelincic continues to raise legitimate issues, as do others, around the transparency, and the fees, and all the problems that we've identified around private equity. But my observation is that staff agrees with all of those concerns and has continued to demonstrate its work around those concerns and its desire to make a difference and make a change. And, you know, I applaud the staff for doing that.

You know, it's almost -- I sort of -- it's the equivalent of our engagement work around global governance. If we're not at the table doing that work, that's one less voice that's there, a very powerful leading voice. So, you know, I'm confident that CalPERS will continue to lead in that area of trying to make changes in the -- you know, the private equity arena.

But I -- we do need to all move forward together. So I'm glad that you raised it in this way. I think it's been a great discussion. And so I will ultimately be supporting what I think Ms. Mathur's motion is going to be.

CHAIRPERSON JONES: Okay. We do have a request to speak on this from the public. Mr. Jelincic, you have one more question?

COMMITTEE MEMBER JELINCIC: Yes.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER JELINCIC: You might -- it's short. You might have them come on down.

CHAIRPERSON JONES: No, that's okay. You go ahead.

COMMITTEE MEMBER JELINCIC: The -- I agree with Bill, the market is what the market is. But if we don't keep pushing, the market will stay where the market is or get worse, so I think we need to push.

I also think that -- and would like to

acknowledge the article in Buyout Magazine where Réal felt we were getting charged for fees that hadn't been agreed to and he pushed back. And I would encourage staff to keep doing that kind of thing. You know, hopefully, the other limited partners will see that -- something there and get behind us. But I do want to commend Réal for actually pushing back and trying to get what he perceived to be an overpayment.

CHAIRPERSON JONES: Okay. Thank you.

The request to speak, Mr. Al Darby, if you will come down over here to my left, your right. And you will have 3 minutes. And the clock will start after you start speaking.

MR. DARBY: Al Darby, vice president, RPEA. I didn't expect to be speaking in such a friendly environment today. In reading and hearing the CalPERS consulting reports viewed -- and I viewed them as very favorable to private equity, and I believe the Board considers it to be a high-flying asset class, and probably the premier asset classes over the past several years.

We the Dow stalled at around 17,800 for the past 2 years and not expected to resume strong growth any time soon, and it is maintaining this level after regaining most of the 2,000 points it lost in early 2016, global equity has been less robust -- a less robust asset class over the past 2 years, while private equity has performed equities in all other -- and other asset classes for a much longer period.

Current research shows that equity -- private equity, particularly in Europe, Asia, and India, is potentially poised for significant growth. With the pattern of superior growth in private equity now clearly established, coupled with stronger measures to deal with private equity's penchant for undisclosed fees, it is possible that this asset class could be an even greater contributor to the growth of the PERF.

The evidence on private equity appears to be in. It has the greatest growth potential in the current environment of financial markets. Global private equity should be seriously considered for a greater role in the overall CalPERS investment mix.

While the current private equity allocation of CalPERS is -- gives a minor role to global private equity, it should be a much -- it's considered for much greater role. Private equity fees in Europe-based private equity firms versus U.S.-based private equity firms are much lower, thereby significantly adding to the overall performance of the asset class in that area.

I would emphasize that Asia and India appear to be the most favorable markets at the present time for global -- private equity. Thank you.

CHAIRPERSON JONES: Okay. Thank you, Mr. Darby.

Okay. Then, Mrs. Mathur, you now can make a motion.

COMMITTEE MEMBER MATHUR: Would you recognize me?

CHAIRPERSON JONES: Oh, okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair?

CHAIRPERSON JONES: Just a minute.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Just one comment on the Investment staff and our private equity staff in particular, because I very much appreciate all of the comments by all, you know, 13 members of the Board and those that spoke today in that regard. And it is important to reaffirm the work of our whole team, including private equity. And many times, what I find us collectively is we're in violent agreement with each other.

(Laughter.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Which is really a difficult spot to be in sometimes, particularly in a -- you know, a public setting. And going forward, what I'd hope for is less violent and more working constructively with each other, because I do believe we agree wholeheartedly, collectively that we'd like to improve the terms. We'd like to have better data, so that we have better performance attribution on what is driving these returns in private equity.

That's going to take time on both fronts. And it's frustrating. It's frustrating for your staff as professionals in this industry. And I know it's frustrating for every Board member here that wants to make changes, both in the industry itself, and in the information that we have to do our jobs. It's coming. It's going to come -- it's going to take time.

If we could use our dialogue constructively together to get there, I think we'll get there much faster, much more efficiently, and much more successfully over the long term. So I really -- I really appreciate all the comments from each and every one of you today, and it's important for our staff to hear. So thank you.

CHAIRPERSON JONES: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. I move that this Committee reaffirm the interim strategic asset allocation targets as approved in 2015 with no change, and that the staff continue their really important efforts around transparency, attribution analysis, and negotiation of appropriate terms that -- and the sort of movement of the whole industry as they've already undertaken, and that the -- and report regularly as they currently are to this Committee, and that the Committee itself exhibit some patience and discipline around private equity in particular, and avoid overly taxing the team that is working so hard to implement our objectives.

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON JONES: Who seconded down here?

Mr. Feckner.

Moved by Mrs. Mathur, seconded by Mr. Feckner.

All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Thank you very much. It passes. Thank you.

On that last item, please change Mr. Jelincic's vote from a yes to a no.

Thank you.

CHAIRPERSON JONES: Okay. Next item.

Hello, Ms. Simpson.

(Thereupon an overhead presentation was Presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. Mr. Chair, as you mentioned at the beginning of the agenda, we're moving Agenda Item 8a here to accommodate some important travel for CalPERS that Anne Simpson will be undertaking to attend some very important meetings in London on accounting changes on -- with respect to climate change accounting. So thank you for doing that.

What I will do, if I can reclaim the clicker for a second, I thought I'd just start this off before we turn it over to Dan and Anne

--o0o--

CHIEF INVESTMENT OFFICER ELIOPOULOS: Our thought is we'd start here on page 3. Our hand -- it's been page 3 every month for the last 3 months. This is our handy summary of our 5-year plan. And having now gone through, you know, a very thorough process, including the last 3 months of walking through the E, S, and the G, this page summarizes the really key strategic items that we hope to take up over the next five years in this plan across ES&G.

And then following up on some really good suggestion from Board Member Mathur last month, we've really tried to put on one page, both the strategic as well as the core, work of the global governance unit in addition to coordinating these ESG matters strategically across the total fund. So this page now attempts to do that. I think it does it well. It's a good handy cheat sheet for all of us to have now as we go into the -- into this plan as it gets adopted.

So I won't stop on this, because I know the Committee is well -- you know, very familiar with this page now and understands it well.

--o0o--

CHIEF INVESTMENT OFFICER ELIOPOULOS: The next thing just to comment on is our time frame going forward. That just looks at the past history, you know, all we did together in 2015 and now coming to the current.

--o0o--

CHIEF INVESTMENT OFFICER ELIOPOULOS: We are really reviewing today the topic of key performance indicators, how are we going to measure our success in these key -- really the key strategic ESG items that we're about to undertake together over the next 5 years, how do we measure whether we've succeeded or not?

Now, of course, in the big picture of things, one of the really terrific things about the investment world is you get a measurement every day, every month, every quarter, every year. And in the big picture of whether we're being successful or not, we measure the returns of the fund and the risk components of the fund.

What we're trying to do now as we launch into these strategic areas that are of importance to us, is there a way for us to really understand whether we're actually moving the needle or performing well separately from the traditional investment performance measurements?

And today, we kick off that for the strategic items that have been identified. We present a framework and a big dose of humility in terms of trying to really come up with specific KPIs for these strategic endeavors. As you'll notice, we have not yet identified what I would term as very specific -- what we would all term as very specific performance indicators.

We do think that it's important to have this conversation and discuss it. And certainly with respect to these strategic initiatives, there will be stopping points over the next 1, 2 years that we think would be appropriate to come back and see whether we could then overlay and put in some more specific indicators of whether or not a very specific strategy has been successful or not.

And in that regard, really the page 3 that we looked through as our strategy for the next 5 years, what we'll doing over the course of the next year is really developing detailed plans for each one of those. And those will be coming before this Committee. And I think once we have a real detailed plan for a particular strategy, that would be the time as well to revisit this KPI question, and more specifically assigned some KPIs for a very specific plan of action.

So with that, Mr. Chair, I would turn it over -- is it first to you, Anne, or first to Dan?

To you. First to Anne.

INVESTMENT DIRECTOR SIMPSON: Thank you.

Alphabetical order by first name. Thank you Mr. Bienvenue. So thank you to the Committee.

We're -- as said Ted, we did a lot of work last year, and we've heard a very wide-ranging discussion on strategy. We've got, I think, a very challenging and comprehensive strategy, which is summed up on page 3. And what I would just like to talk to you about is the framework for developing the KPIs. Now, a key performance indicator sounds like a beguilingly simple thing to do. We want to try and separate out luck from judgment, and understand the framework for these strategies.

What we've done is go to the World Bank's logical framework approach for project management, partly because I'm familiar with it. I used to work at the World Bank. But it seems to me that looking at how a global financial institution takes on highly complex projects with ambitious goals, and understands that their own activity is just one component piece. In all the sequence of activities that are needed to fulfill that objective, that's seems to us to be very close to how CalPERS is operating.

We know we deploy our own resources with these ambitious goals, but we know we have to work with others. We also know that the wider environment can change, and it's not something that we're in control of. So we want to present this logical framework really out of which these KPIs will emerge as we get to the planning stage of each of the strategies that the Board has overseen the development of.

So let me just...

--o0o--

INVESTMENT DIRECTOR SIMPSON: Now, we could have given you the wonderful treat of a 75-page appendix, but we thought it was better to give you the link to the World Bank Logframe itself. And I'm sure some of you have taken an opportunity to dip into it.

But their definition of a KPI I think reflects quite well for the strategy that we're developing for this new phase of ESG at CalPERS.

And here's the quote. It says that, "KPIs are measures of project outcomes, outputs, and inputs that are monitored during project implementation to assess progress toward project objectives".

Now, if I said that too quickly, it would turn into a tongue twister, I'm sure, outcomes, outputs, and inputs. But we just have to forgive the World Bank their vocabulary, because I think there's some very useful, practical thinking and experience which is behind those different terms. And I think they could help us navigate the new strategy.

--o0o--

INVESTMENT DIRECTOR SIMPSON: So On slide 7, you'll see that we start with the outcome. And you'll see if you go to the original document that the World Bank has many more levels and layers of complexity. But we think this is the bones of the structure for identifying KPIs.

The first is straightforward, and it says that we set the project objective, and we're highlighting that we want to ensure that this is aligned with our investment objectives, of course, and our Investment Beliefs.

However, the outcome that we want is the intended goal. And it's not something that CalPERS will control. And even if we're thinking about some of our most successful work, even this season, we have to, with that tone of humility, say we have less than half a percent of a company's voting shares. So anything we do has to be building an alliance, winning the support of others, navigating opportunities.

It isn't something where we can just bang the gavel and make something happen in the world. The markets are complex. But we do -- we have ambition, and that's where we articulate the objective and the outcome that we want.

The input, this is really the project design and the plan. And although we've had a lot of discussion about strategy, we haven't yet Doug down into the detail of developing plans, nor should we. That's really something that staff has to work on, and then come back to the Board to be tested and challenged on what we're proposing. But in order to design that plan, obviously, we to have marshal the resources, and that's internally throughout the staff across the asset classes as well as within the Global Governance Program.

We also need to marshal resources through our partnerships that we have, and also, there are several areas where we're entering into new territory. So we're going to have to delve into the analytics. We're actually going to have to do work ourselves internally to better understand the topic, or we're going to have to commission work externally.

What those inputs, in World Bank lingo, lead to are outputs, the things that we do, the activities that we undertake, for which we should be held accountable. That gives us the opportunity then to set out the key performance indicators and the specific metrics for each of those activities.

Now, as the name of the World Bank framework suggests, in *Logical Framework*, the way this is designed is to set out risks and assumptions, a logical sequence that if we marshal inputs, for example, to run a shareholder campaign, this will result in an output which is the proxy solicitation, for example, and our logical assumption is that that will lead to, for example, an improvement in investor rights, and that's going to be aligned with CalPERS Investment Beliefs and our investment objectives.

So you roll up through the hierarchy of a logical framework, you should at each stage be able to test your assumptions as you go along. So, for example, if you run into a barrier, and you're finding that your investor rights are not improved, for example, even if we have a shareholder proposal that passes, companies sometimes, you know, quietly decide to ignore that unwelcome news, and don't implement.

So that's the point at which, as the World Bank would have it, you look at your leading indicator. In other words, are your outputs actually having an impact on the outcome that you're seeking.

So enough with the jargon. And I hope -- thank you for bearing with us for a few minutes on that.

--o0o--

INVESTMENT DIRECTOR SIMPSON: Here on slide 8 -- Excuse me, let me get the clicker -- what we've done is take the outcome, the input, and the output framework to the key parts of the hierarchy and the Logframe analysis that the World Bank has developed and give a couple of examples from the strategy just to see how this works for the strategy that we're proposing.

And in a moment, I'm going to hand over to Dan, and he's going to walk you through the thinking that we've developed so far on how the different strategic initiatives could roll through this process, this Logframe, and where the KPIs would be developed.

So the first example we're taking is diversity. So we're saying what is it that we want to achieve on diversity through the Governance Program and the asset classes, and the measures that would describe the objectives of the strategy, and we want to articulate the value, the benefit, or the return on investment to CalPERS risk management and investment objectives.

I'm just giving you a very high level view, and Dan will take you through more details in a moment.

So on the diversity example, we're saying that corporate boards, particularly in the U.S., where we don't have regulatory pressure on this, will become more diverse. And this is -- in turn, our assumption is this will improve risk management at those companies. And that, inn turn, will improve performance on CalPERS portfolio firms. So that's the outcome that we're looking for.

Likewise, strategic initiative on data and corporate reporting. The outcome that we want is that our investment staff have access to corporate reporting, which integrates ES&G risks, which enables us to allocate capital with a better level of insight on sustainability issues. And we're assuming that that's going to improve our investment decision making.

So if we were going to say if that's the outcome we want, on inputs what is it that we need to marshal by way of resources in a plan. So on the diversity example, developing the plan is going to mean that we have to identify the companies which are going to be chosen for an engagement. We will have to analyze what elements of diversity are lacking from the boards where we choose to focus our attention.

We have important new Board attributes that have been introduced, such as climate, competence, which is becoming an increasingly important topic of attention but it's new territory for definition. And then we have to identify resources, not just the internal resources for our team at CalPERS, across the asset classes, but our partnerships and that takes obviously time.

On data and corporate reporting, I'll just give an example. If that's our example from engagement, this is our example from advocacy. The first thing, if we want to improve corporate reporting is we need to understand what's out there. The Financial Stability Board has just done an overview on climate risk reporting, and they found 400 different initiatives globally, which are attempting to capture this. So this is no trivial task.

We'd have to identify the best practices, which are best aligned with our investment objectives, and we then need to develop an engagement strategy with regulators. And CalPERS already has some very strong relationships in that regard. But again, we'd need to make sure that we develop an alliance through our partnerships with other organizations.

So with that plan in hand, the next thing would be what we produce or what we deliver, that the project -- all the team members of that project across CalPERS Investment Office can be held accountable for producing. So on the diversity example, it would be KPIs along the progress of this multi-year engagement with companies on diversity. And on the data example, it would be a multi-year set of KPIs to track progress towards delivering the plan that we've developed under the input phase.

--o0o--

INVESTMENT DIRECTOR SIMPSON: So let me just finish with a reminder of the strategic initiative. As

Ted said, and thank you for the input that we've had, we have listed out the core work program, which is covered by existing investment policies, existing commitments, and also we've highlighted partnerships, which we'll be coming to next month to talk about in more detail.

But these are the strategic initiatives where in the discussions we've had in recent years, we really think that there can be a significant impact through CalPERS putting its full attention on some specific themes. The first is data and corporate reporting standards. And we know on many areas where we're attempting to address the critical areas on risk and return, we simply don't have the data. We have to invent proxies. We have to combine sources. And the overall lack of connection with the financials is a real barrier.

So this is probably more than a 5-year plan. This is probably something which will require attention for more than decade to come, but we think this is strategic, because of the potential impact it could have, not just for CalPERS. We think this could have market impact.

Manager expectations. This is a project we started in May, and we're in the midst of a pilot. Again, this is very significant for CalPERS to articulate its expectations in this arena, both internally and externally, and then begin to think for purposes of KPIs how would we know that we have fully integrated? What are the metrics that would allow us to track progress on that ambition?

On research, we have carried out two major market-wide assessments of research in this field through the Sustainable Investment Research Initiative. I think that's had breadth, but it hasn't had a specific connection to questions that we've been posing. So although I think we feel very well briefed on the amount of research that's out there, we still have questions. So the research theme will continue for CalPERS.

We've listed some of the examples here. But we also want to be sure when we have the frame work of the global governance principles that we're testing our own assumptions about what matters. And that's really where research can be most useful.

The next strategic issue is engagement. There was important work that was carried out in the global equity holdings under CalPERS becoming a signatory to the Montreal Pledge. It was a head of the Paris Climate Change Agreement. And this was an important result. We found 80 companies responsible for 50 percent of the emissions associated with our 10,000 company portfolio.

So developing a plan for engagement of those companies to ensure that their strategies are aligned with the Paris transition is going to be some significant and serious work, but extremely high for potential impact.

We have just talked about diversity and inclusion. There's copious evidence about the potential beneficial effect and the Board had presentations on that theme recently to show how fast the research is progressing. But we need to develop an engagement strategy to reflect that.

And finally, as was talked about this morning, we are taking the issue of fee and profit sharing transparency in the private equity asset class as one of the issues in our alignment of interests theme, under G. So G is not just for the public markets. It's very important to the private asset classes too.

But that again is a serious piece of work that we want to assemble the resources for impact. We want to assemble those resources to develop the input, the plan, and then the output will be the activities around which we will build the KPIs.

So I'm happy to take any questions or to hand over to Dan to talk about each of those strategic initiatives and discuss work in progress.

CHAIRPERSON JONES: Okay. Why don't we go ahead and take questions now for this first part.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. My first -- First, I just wanted to turn back to page 3 which outlines on one page the strategy. And I appreciate your putting it on one page and incorp -- and identifying what is strategic and what is core.

I do have a question. It doesn't say anywhere explicitly policy advocacy with legislative bodies and regulatory agencies. I'm not sure if that's under the federal and legislative guidelines tracking and comments, but that seems a lot more passive as a opposed to active. And certainly providing written comments is an active action, but there might be more proactive engagement as opposed to just tracking and monitoring. So I just wanted to --

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll start first, then I'll let Anne come, because the tracking and comments I agree look a little lackluster compared to that, but that wasn't the intent.

COMMITTEE MEMBER MATHUR: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Really, everything we do under the federal and legislative guidelines, that's our architecture to convene whether we're commenting or doing something more.

COMMITTEE MEMBER MATHUR: Okay. Great.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Anne, does that --

INVESTMENT DIRECTOR SIMPSON: No, I think -- I completely agree with -- on Friday, we were busy working on 4 different responses to 3 hostile bills coming up next week -- or hostile to CalPERS guidelines, I should say. So that's -- so tracking and commenting is not passive. I know that.

And another example where we've been taking the initiative with other funds is around the SEC petition on diversity disclosure, which Mary Jo White has given such a positive response to in recent months.

I think that language we might be able to pep it up a little bit.

COMMITTEE MEMBER MATHUR: Fair enough. I figured that was probably what you intended, but I just want to make sure that that was crystal clear. So thank you for that.

I'm sorry, Dan. Did you have something on that?

MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah, I was only going to add that we would really view advocacy under many of these, right? So under data and corporate reporting, certainly there's an advocacy component there.

COMMITTEE MEMBER MATHUR: Sure.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Under the diversity, there's an advocacy component there. So I mean, we would see that really being a -- you know what we're trying to achieve -- you know, the initiative is just the high level bullet, but advocacy is going to be one of the channels that we use to achieve that initiative in many of these.

COMMITTEE MEMBER MATHUR: Fair enough. Then I wanted to just ask about this framework for KPIs, because right now the way you've laid it out, as I -- if I understood correctly, is that what you're really suggesting we measure is the outputs of our direct staff activities. So did we -- did we do what we said we were going to do in the strategic plan, as opposed to the actual impact or outcome of those activities?

And I actually think it's important to do both. I think it is important for us to be measuring what is the carbon intensity of our portfolio today, a year from now -- so sort of -- to have a target for what -- how much perhaps -- I'm not saying we adopt a target today, but at some point to adopt -- perhaps adopt a target for carbon reduction in our portfolio and then work towards that. Are our activities congruent with that target?

That's just one example. And so I guess I would like to see some element of measuring the impact, whether or not the staff are held directly accountable for what is, you know, the result of both our own internal activities and exogenous activities --

INVESTMENT DIRECTOR SIMPSON: Right.

COMMITTEE MEMBER MATHUR: -- but I think we should at least be measuring them and assessing whether our activities are contributing to those important outcomes and impacts that we are trying to achieve.

INVESTMENT DIRECTOR SIMPSON: Yes. I think the point is very well taken. To be honest, we have focused on the implementation of KPIs, what should you be able to flog us for and hang us high if we haven't fulfilled what we're meant to do? But I think the point is really well taken. And in the World Bank framework they use a slightly different term for that, which I think we could -- which we could include, which is your leading indicator.

So have your activities led to an impact which you can measure, exactly the way that you say? So we could -- I'm thinking, you know, your KPI for your program would be have you identified these companies, have you engaged them, have you done what you needed to do? You've delivered on your plan.

And then your leading indicator would be what has been the impact on carbon emissions at those companies. And I think when we did the Montreal Pledge analysis, when

Divya Mankikar presented that, she was able to show that among the companies in that list, there's a six percent commitment to reduce emissions, which has come out of becoming signatories to the CDP, for example, or I think one effect of the carbon asset review that Ceres has led.

So I don't know, Ted, if you'd like to have a view -- if you have a view here, but that does sound like a helpful idea.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah. I think -- I think we'll need to, as we bring our plans forward, probably have a more specific discussion on the overall outcome, and see whether we want to link it perhaps to some investment outcomes as well as important objectives. So reducing the carbon intensity is important as a societal goal and as a way of tracking our emissions within our portfolio. I think we'll need to think on that one in terms of what's the linkage between their reduced carbon intensity within these 80 companies and the investment performance of those companies as well, because that -- ultimately, that is our objective in engaging in these from the Investment Office's perspective.

So I say yes and yes, and I think it will lead to a better discussion around what is the overall outcome, what is our objective, and how does it tie to our investment portfolio.

COMMITTEE MEMBER MATHUR: I don't disagree with that. I would just suggest that what might be a short-term impact objective for example using the carbon issue, reducing carbon intensity might have longer term investment implications. So we just -- obviously, that would be part of the discussion.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, absolutely.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON JONES: Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Ms. Mathur, for your comments. This is exactly the point that I was getting ready to address. And I think -- and again, I tend to be more of a strict constructionist on the topic of KPIs, that it's really about the outcome. From the standpoint of my role as a Board member, it's to say what outcome do we want to see achieved? How do we want the world to be different as a result of your actions?

In my way of thinking, it's management's responsibility to determine what outputs you're going to come up with in order to do the daily work to move the needle? But from our standpoint, what I'm interested in, and it does have to tie back to investment results, clearly it does.

But if we want -- for example, when we say, we want corporate boards to be more diverse, well, that's a constant target that is moving, that is undefined under the word more. So in my way of thinking, what does a more diverse -- what's the target we're trying to get to?

I'll give you an example which maybe relates somewhat. It's been in the press recently about the City of Sacramento Police Department and its level of diversity. And, of course, again, the objective is having a police department that well represents your community means a better performing police department. And so we think a more diverse board results in a better performing company.

But when the police department issue is discussed, it can be measured. We can say what do we want it to look like. And in that case, it's we want it to look like the community it serves. And that can be measured. So, to me, that's an outcome. And what I want to see in each one of these, to the extent possible, is where are we -- what are we driving to? What is the result that we're trying to get to, and then periodically, how are we measuring up in moving that needle?

INVESTMENT DIRECTOR SIMPSON: Right.

COMMITTEE MEMBER SLATON: And we all understand that this is not under our complete control. You know, there's a marketplace out there and we're trying to influence it. But the progress that's made, the only way you can look at it is on the outcome side. And to me, from a Board governance standpoint, that's the focus -- that should be our primary focus of are you moving the needle?

The how to get there, to me, that's a management function, a staff function. I may be in the minority on that. But I'm less interested in that and more interested in how are we moving toward a future that we have defined.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, those are very thoughtful comments both Ms. Mathur and Mr. Slaton. We'll need to think about that, and we're -- I think we'll have more discussion at our off-site, a little bit about that, because you can hear, as I said, very thoughtful in the sense that -- and it's very helpful feedback for us, because as staff we obsess about our plans and our -- you know, what we're going to do, and the things that are in our control and not in our control. And we want to identify an outcome, but acknowledging these unknowns that we all have.

And it gives us the freedom to think about it a little bit more, especially if that's sort of the consensus of the Committee that you'd like to have, you know, more thought on the outcome side. And maybe we can think about it in terms of this framework. Maybe we can be less intense on our KPI on the output side as we would be, and just come back with plans that, you know, we'll measure how we do, but have maybe a more in-depth discussion around outcomes that we'd like to see, acknowledging all the pieces that are out of our control as a half of one percent investor in companies, for instance.

Does that -- so that's -- that's the type of feedback we were hoping to have here, and it gives us some food for thought to think through, as we get back together in July and talk in August. Certainly, I don't know -- it might be that we can't come to a conclusion, my sense is, by July and August solve this riddle. But I think if we put into our plan that we want to have, and I think we need to have, very thoughtful discussions on why are we doing this, and what is the outcome that we hope to see, and how can we, you know, collectively measure how that's going while we're doing our part in the marketplace to move the market in a direction?

CHAIRPERSON JONES: And Ted, unless I see otherwise, I think I'm going to suggest that that's the path to go down, because I don't see -- I see heads going like this, so that's the direction.

Okay. Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

And I do agree with that direction. I mean there's a lot of activity here, and I just want to be sure that, you know, we are, in fact, moving the needle and having impact. And so I also agree that the focus should be on the outcome. And I actually think that will help better focus the inputs and the outputs as well. So if we can kind of better articulate, you know, what we want to see relative to outcomes.

But I was curious with respect to on page 3 you list the core work as well as our strategic initiatives. And might it be instructive, I guess, to look at the existing performance metrics that already exist for the core topics or the core areas, and whether those could be framed in the way that we've just described where we're looking at outcome -- I mean, what -- kind of to see what the impact of all this work has been so far, given the existing performance metrics?

And I guess my bigger question is how are those going to be incorporated in terms of the KPIs that are ultimately developed for our strategic initiatives?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific question, and I'll again frame the -- frame the beginning of the answer and turn it over to Anne to add to it.

The core activities are those activities that are already in existing -- existing investment policies of

CalPERS and current day-to-day workload, and really focus on many of the day-to-day activities of what, you know, we used to think of and we used to call for the last couple decades corporate governance.

COMMITTEE MEMBER YEE: Right.

CHIEF INVESTMENT OFFICER ELIOPOULOS: So we don't have existing, you know, KPIs attached to those decades old activities in a way. I do know that there's much more information and data on the result of the collective activities of those in the marketplace and corporate governance over time that has made us -- has led us to the conclusion that this activity is worthwhile.

But maybe with that process, what we decided obviously by framing it this way is that we'd spend our time and resources and attention with this Committee on the new strategic objectives to really frame those and make sure we -- you know, as we embark on really new efforts to spend our time on those rather than to perhaps revisit the, you know, hoped for outcomes on the traditional corporate governance, where we believe we've really achieved those outcomes of better governance. But certainly on topics like proxy voting, there's really, you know, depending on the proxy voting season and what initiatives we have, there's different emphasis we're putting on any given corporate governance topic.

So that, Anne, maybe you can --

INVESTMENT DIRECTOR SIMPSON: No, no. I think that's very well said. And I just have to say from the team's side, we've been preparing a report for the Board every month since early last year, and also going through a huge advocacy project with the run up to Paris, and then launched into a very ambitious and, I think, pretty successful proxy season.

So just to be very honest, I would say what I liked about Ted's guidance to me here was we could take it in stages. And it's so important that we do this in a thoughtful way, and -- because we've had the day job going on in the background while we're trying to do strategic work, this is something I'm looking forward to getting to the end of the proxy season. We've come out of Paris with some important results.

And, you know, in the July, August, September period being able to think, talk, you know, gather the INVO team around to get feedback as well. I don't see any reason why we wouldn't be able to roll this out to the core. To me, at the moment, it's about, you know, having the time.

COMMITTEE MEMBER YEE: Yeah, and I wasn't suggesting adding to the work. I had just thought that there was, I guess, already a process in place with respect to performance metrics on the core.

INVESTMENT DIRECTOR SIMPSON: Right. In some areas there are. I mean, as in a good example, proxy voting, as Ted said, we get audited. And all praise to Todd Mattley and Tiffany Pokk, they check that there are no failed votes, that we -- they do sample tests that we voted in line with our principles. On the shareholder campaigns, majority voting, we've taken 50 companies a year. So that was implicitly a target. Proxy access, ditto.

As Ted said, we took climate risk and diversity this season as well. The focus list has had its own specific targets. And with divestment, it's been very much a compliance with the law or the policy, but I do think it's just in that little box, but -- so I do think it could be fruitful or valuable to articulate what we have embedded in the system, because there are very specific quality controls and results that we're looking for, but they've been developed -- they've been identified over time, and they haven't been rolled up into a big plan like this.

COMMITTEE MEMBER YEE: Okay.

INVESTMENT DIRECTOR SIMPSON: But I wouldn't want the Committee to think that we're just sort of improvising in the core work. It's all disciplined and carefully worked out.

COMMITTEE MEMBER YEE: No, that certainly was not what I was implying. I was trying to see whether it -- there was anything already developed with respect to the core work that could help get us a little bit further with respect to the KPIs on the strategic initiative.

Thank you.

INVESTMENT DIRECTOR SIMPSON: Thank you.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I agree that we need some performance indicators for the outcomes, that those are also things that are not completely within our control, but we also need performance indicators to the outputs, because those are the things that we're in control, those are the things that we can hold you accountable for.

But if we don't have the indicators for the outcomes, then we don't know whether the outputs actually make a difference. I mean, we can have it as an output that you're going to contact everyone in the S&P 500, because our goal is to have more diversity. We can measure whether you contacted them. Whether they have more diversity or not is something not in your control.

INVESTMENT DIRECTOR SIMPSON: Right.

COMMITTEE MEMBER JELINCIC: But if it turns out our -- the program we set up and the outputs we are producing don't move towards the outcomes we want, then we need to sit back and say does this -- is this the output we want, and how do we make adjustments?

Reading the World Bank thing, it was really kind of interesting when they talked about performance indicators and the inputs. And I'm -- I only read it once, and I'm not sure I understood how you measured the indicators for the inputs. But in some ways, that goes back to the Board, have we provided you the resources you need to do the things to get the outputs that we have -- we're going to hold you accountable for. And so as you grapple with it, if you can enlighten me, I would appreciate it.

Thank you.

INVESTMENT DIRECTOR SIMPSON: Yeah, I like that section too. And I was greatly amused to see that they quote from Immanuel Kant, ought implies can. So can't unless you have the resources.

I would just say that there is a slight variation on a theme on KPIs for outcomes, which are the leading indicators. And we haven't put that here yet, but I think the feedback that we're getting, Ted, is that that would be a really helpful additional piece from the World Bank framework to bring in. So this has been a good starting point.

Thank you.

CHAIRPERSON JONES: Okay. Thank you. No more questions on this piece. So, Dan, you're up.

--o0o--

MANAGING INVESTMENT DIRECTOR BIENVENUE: All right. Thank you. So it struck me as we were talking through this that maybe some of the disconnect is coming actually down to semantics. And I found that John Cole and I, a lot of times when we think we disagree, we actually don't disagree. We're just using different language, and it's because he comes from a more fundamental background of investment management, I come from a more quantitative one.

And so as we were talking through these, it strikes me that when Mr. Slaton you were talking about KPIs as being the outcomes, that's probably one kind of KPI. And maybe that's a leading indicator. And I think we were perceiving KPIs as being more this year, this is what we're going to do and how do we hold ourselves accountable for those.

So I think we should think through the semantics and figure out how we get ourselves all on the same page. And as I say, I do think that it's probably as much semantics as anything else.

CHAIRPERSON JONES: Are you finished?

MANAGING INVESTMENT DIRECTOR BIENVENUE: I think Mr. Slaton wanted to make a comment.

CHAIRPERSON JONES: I want you to finish your presentation.

MANAGING INVESTMENT DIRECTOR BIENVENUE: I'll finish mine and then we'll go from there.

CHAIRPERSON JONES: And then I'll call for questions.

(Laughter.)

MANAGING INVESTMENT DIRECTOR BIENVENUE: Okay. So as we said earlier, we talked through the strategic and the core. Ted covered all of that, and then Anne talked through the framework. I'll talk through what we had envisioned as sort of one year type KPIs for this first year, and then we can obviously continue the discussion from there.

So the first strategic initiative that we had was on data and corporate reporting standards. And the outcome that we're trying to get here is getting that integrated corporate reporting, so that it's inclusive of sustainability factors and then really allow us to use those factors to inform our decision making around investments.

The -- you know, as discussed in March, this is really a heavy lift. There's a lot of, you know, different groups to engage with, whether it's our regulators, whether it's companies, you know, all of the above. So we view this as a heavy lift. And we would actually envision our first year sort of KPI, in the space of just a one-year what we hold ourselves accountable for, is really developing that plan to get that engagement going and figuring out how to make it most effective to achieve the outcome.

--o0o--

MANAGING INVESTMENT DIRECTOR BIENVENUE: The next strategic initiative to discuss is the manager expectations pilot. And really what we would see this as a graduation. We've been running it as a pilot. We think we've been fairly successful in this space. And so what we would see is just really adopting this as our set of expectations for our managers across the board.

Now, again, the outcome to achieve here is the interest between CalPERS managers and CalPERS ourselves are aligned, so that we can understand and manage our sustainable investment risk and opportunity across the portfolio.

This year, we would see the KPI being to have documented an implemented set of procedures in each asset class, such that we have, you know, a real set of procedures around due diligence, around contracting, and around monitoring that are inclusive of relevant ESG factors. And again, that's really just kind of graduating the pilot to being part of the mainstream work.

--o0o--

MANAGING INVESTMENT DIRECTOR BIENVENUE: Okay. The next that Anne discussed briefly was sustainable investment research. So really the category here is research. The idea of the outcome to get is to strengthen our understanding of ESG factors and how they impact the portfolio and the performance of the portfolio. What we would envision in terms of KPIs is three-fold.

Number 1, conclude the SIRI initiative. SIRI being the Sustainable Investment Research Initiative. So that refresh that's been going on.

Number 2, a set of research within global equity into possible strategies based on ESG factors. We don't know where that research will lead us. But to the extent it leads us to someplace where we think that we have a Strategy that we can launch, we would do that.

And then number 3 would be to develop an action plan as supported by the research. So that would be the third KPI in that space in this first year.

--o0o--

MANAGING INVESTMENT DIRECTOR BIENVENUE: Okay.

The fourth strategic initiative has to do with the Montreal Pledge companies. So remember, these are the 80 companies that produce 50 percent of the carbon footprint in the global equity portfolio. The outcome that we would want to achieve here would be to manage and mitigate adverse financial impact of climate change and reduce our carbon intensity.

Again, in order to add 80 companies to engage, in addition to all the other engagements and work and everything else that's going on, you know, advocacy and everything in the Global Governance Program and in the Investment Office, really we would view this first year being developing this strategy again.

So in year one, we would develop the strategy of how we're going to take this on, you know, what we're going to engage on each of the 80 companies, and how we're going to do it.

--o0o--

MANAGING INVESTMENT DIRECTOR BIENVENUE: All right. The next strategic initiative that we've already spent quite a bit of time on is diversity and inclusion. And again, the outcome desired here is to increase the diversity of our portfolio firms, so that's both at the Board level and at the C-Suite level, and increase the diversity of our external managers by integrating diversity research into risk management, and thereby enhancing the fund's performance and the portfolio company performance.

So again, we would envision articulating a strategy here in this first year, and then beginning advocating for the rule-making as we discussed earlier and really making -- you know taking that engagement and that advocacy forward to try to really increase diversity across our portfolio firms.

--o0o--

MANAGING INVESTMENT DIRECTOR BIENVENUE: And then the final strategic initiative again is something that has received quite a bit of time this morning, but is very important to discuss, and that has to do with private equity fee and profit sharing transparency.

And the outcome to get -- that we wanted to get is to achieve widespread adoption of the Institutional Limited Partners Association, or ILPA, framework for transparency of fees and profit sharing across private equity managers within the industry.

Now, as we've discussed, that is a heavy lift and there's a lot of challenge there, and the industry is the way that it is now, and it's going to take time to get there. We would envision 2 KPIs happening in this first year. And again, these are what we would say as year 1

KPIs.

First, tracking and reporting the number of managers that complete the ILPA fee reporting template, and provide that profit-sharing information. So we would view that as PKI number 1. And then secondly to review the private equity policy as part of the annual program review and determine whether changes related to transparency are appropriate as part of the new policy.

So that takes me to the end of what we were going to talk through with the 6 strategic initiatives and potential KPIs, and we'll take questions from there.

CHAIRPERSON JONES: Well, I'm going to -- we are over our 2-hour period of time, so we need to break. And so we're going to break and break for lunch. We'll return at 1:30, and we will follow up on any additional questions. Mr. Slaton said he could ask his off-line. The only other person I saw up there was J.J. Is it a question you can ask off-line also, J.J.?

COMMITTEE MEMBER JELINCIC: I can ask it off-line. I may want to ask it on-line because, I think it's information that's vital.

CHAIRPERSON JONES: Okay. Okay. So we'll reconvene and ask his question, and then move to the next item on the agenda at 1:30.

Thank you.

(Off record: 12:28 p.m.)

(Thereupon a lunch break was taken.)

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

(On record: 1:30 p.m.)

CHAIRPERSON JONES: We'd like to reconvene the Investment Committee meeting. And we left on the last item of part of the global governance strategic review. And there was one more question. So Mr. Jelincic had a question that I indicated we'll come back and have him ask his question before we move to the next item on the agenda.

COMMITTEE MEMBER JELINCIC: Yeah. On the carbon footprint issue, obviously we're going to measure it. But Allianz, at least is the one I'm aware of, is actually doing some interesting work on trying to measure not just the size of the footprint, but the investment aspects of the footprint going forward. And I'm just wondering if we have worked with them? And I assume they are not the only ones doing it, but somebody whose actually trying to quantify that.

MANAGING INVESTMENT DIRECTOR BIENVENUE: So yeah, Allianz actually is one of our -- one of our global managers. And we're, you know, definitely very well informed on some of the stuff they're doing on the ESG space. They're not the only ones that are doing that. We've had a number of managers through to talk about that.

And really that's -- you know, your question speaks really specifically to what we're trying to do is not only understand the -- you know, the footprint itself or other topics, but what are the investment implications? That's really the crucial point.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Okay. Thank you.

Okay. So now we will go back to Item 6, Legislation. Assembly Bill 2833, Public Retirement Alternative Investment Disclosure Update.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good afternoon, Chair Jones and members of the Committee. Mary Anne Ashley, CalPERS staff. I'm presenting Item 6a, which is an action item. Assembly Bill 2348 by Assembly Member Levine would authorize the Department of Finance to identify and evaluate infrastructure projects in California for which it would guarantee a rate of return on investment in that project by CalPERS.

The rate of return guaranteed would be subject to the availability of special fund monies in a newly created reinvesting in California special fund. The measure stipulates that no general fund monies can be deposited into that special fund. And it also expresses the intent of the legislature to identify and deposit special fund monies into the fund possibly through a budget act or other available means, such as trust fund monies. There's no direct impact to CalPERS, as the measure does not mandate CalPERS to invest in any of the projects.

The Department of Finance is in opposition of the measure, noting that the bill does not provide sufficient detail and criteria for evaluating the infrastructure projects. And Finance also notes that CalPERS already has the necessary mechanism and associated resources in place to identify and evaluate projects for investment.

Staff is recommending a neutral position on this measure. And I am happy to answer any questions.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Since it doesn't mandate anything, neutral makes a lot of sense, except that it's the nose under the tent. The other -- and I will point to the fact that guarantees. You know, we've had the New Jersey case, we've had the Illinois case where the courts have said, well, a current legislature can't bind a future legislature. They haven't done than in California yet, but I think we need to be concerned about that.

But a bigger issue, and I'm -- this isn't the place to talk about it, and I'm not sure where it is, so I'm looking for some guidance, is I think we ought to adopt a policy that if you have a bill that applies only to CalPERS, we're going to oppose it. If it is good policy, then it ought to apply to everybody public agency -- pension plan. And if it's not good policy, then it shouldn't apply to us.

I'm not sure what forum we have that discussion in, but I think at some point we need it. So having said that, I will support staff's motion to take -- adopt a neutral position.

CHAIRPERSON JONES: Okay. Is that a motion?

COMMITTEE MEMBER JELINCIC: Yes.

CHAIRPERSON JONES: Okay. It's been moved by Mr. Jelincic. Is there a second?

COMMITTEE MEMBER LIND: Second.

CHAIRPERSON JONES: Second by Mr. Lind. Okay. Further discussion.

Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.

So just a couple questions. First of all, I do want to say I think the intent of Mr. Levine's bill is very good, but one of the struggles -- and a couple years ago I met with one of the Energy Commissioners who, was really trying to determine the ROI. I mean, it's like the left is playing -- paying from the right. Asking us to invest, and then the rate of return comes from the general fund. So when you look at the issue of the general obligation bond, it's the same thing. So they'll issue $10 billion in GO bonds with a 5 or 6 percent return, and then go out and do an infrastructure project. I mean, I like the guarantee.

The bigger concern I just have with this bill, and I just don't see it addressed, is while we may take a neutral position on it, till the IRS does something. So is there a companion strategy that Mr. Levine's office is looking at or -- my understanding is given some of the IRS prohibitions on the ability to do this, is this discussion premature, is it -- where are we on federal side or where are they on the federal side?

INVESTMENT DIRECTOR WEIR: Laurie Weir, Targeted Investment Programs. We purposefully raised this issue in the agenda item, because we know that the agenda item will be -- we assume that it will be read by folks in the legislature, so we purposefully raised the safe harbor limits required associated with the prohibited transaction rule.

So while we haven't raised it directly and personally with the author, we did want to make sure that it was part of our communication out to the world broadly around this.

COMMITTEE MEMBER COSTIGAN: I mean, I appreciate and commend you all for doing that. I mean, I know this issue has been out there a few years ago. When I was in the Governor's office, we dealt with this with the Lottery Commission, because they were looking at the State to invest in some of the stuff -- and ran into the same issue about it.

But I think from an infrastructure standpoint, at some point it would be if we could work through having our system be able to invest rather than a GO bound, because at the end of the day, I think what often gets lost in the discussion, even in a general obligation bond, it is still the State's General Fund that's making the contribution.

And so whether it's to our members and to this fund or to a bond holder, if we could affect a greater return on the investment, that is something to look at. So I would just encourage, Mr. Jones, at some point a little bit stronger policy of even engaging, whether it's with Finance or others, on how to get the system to invest on infrastructure. So I will be supporting the motion.

Thank you.

CHAIRPERSON JONES: Okay. And that's for a later discussion. Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair. I also would support the motion. But having spent 30 years in tax-exempt public finance, you know, as I read this, I see a lot of challenges in it. One that you mentioned subject to availability of funds. It doesn't matter if you can guarantee a rate, if the funds aren't there. So -- and as Mr. Jelincic pointed out, the issue of binding a future legislature raises challenges as well.

That being said, I understand the logic behind it and the desire behind it to improve the ability to do infrastructure projects. My own sense is there's more money out there than there are projects to be done. Finding the money is sometimes the least of the problems in getting a transaction structured, and having it set up where it makes sense and for both the investors and for the agency that's bringing it forward.

So, you know, we'll see if it does anything going forward. But since we're not mandated either from the standpoint of federal challenges, as well as just the -- whether it really is a guarantee or not, then I'm fine with going ahead and proceeding with a neutral position. So I think it was a good analysis on your part.

Thanks.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On other issues I'd like to raise. In the legislative history, having been around here a long time, a lot of people don't realize that the Resource Building at 9th and O Street was funded by CalPERS on a mandate by the legislature. For some reason the legislature only mandates it when they're looking for cheap money.

Thank you.

CHAIRPERSON JONES: Okay. It has been moved and second. So all those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none, the item --

(No.)

CHAIRPERSON JONES: One no from Katie Hagen.

The item passes.

Okay. We will move now to Item 8 -- 7a, Assembly Bill 2833.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: So this is an informational item to update the Committee on the status of AB 2833, which is sponsored by the State Treasurer and the American Federation of State, County, and Municipal Employees.

The CalPERS Board adopted a support with recommended amendments at the May meeting. The analysis of the measure that's included in your Board materials notes what the recommended amendments included. And CalPERS staff has been working diligently with the Treasurer's Office on the amendments.

And as of the end of May, it appears that all of CalPERS recommended amendments, with the exception of the recommendation to include reference to fiduciary duties and responsibilities, have been agreed to be included in the bill language.

And that's the status of the measure. Now, there are no amendments in print as of yet.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, I was going to ask if we had seen the amendments, because obviously the devil's in the detail. If they amend it my way, it's going to be more transparent not less. And I would -- I think the Buyout Magazine piece actually really pointed to the importance of this. When we don't know what we have agreed to until somebody points this out to us. So I think the transparency is even more important.

Thank you.

CHAIRPERSON JONES: You're welcome.

Just a clarification, did you say support with amendments, because the previous agenda item said support, if amended?

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: The support if amended was the staff recommendation. However, I believe that the Board did adopt a support with recommended amendments.

CHAIRPERSON JONES: Okay. Got it. Okay. Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you. So I just wanted to thank CalPERS staff. And, yes, we had been working very closely for a number of weeks, but especially last week. And I think we got through there were four issues identified, and we got through three of them. The one hanging chad is the fiduciary language. We can discuss that.

But in terms of the -- yes, they've seen the language. We can't guarantee that's what's going into print, but that's what we're recommending to the author. So right now I think we've satisfied all of the -- all of the concerns, except the fiduciary language, which, in our view, and the Treasurer's view the fiduciary language stems from the plenary authority and the sole fiduciary responsibility that is authorized under the Constitution, and no statute changes that. So if we leave it out, the Constitutional authority of the System still stays.

CHAIRPERSON JONES: Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: I think that while I appreciate the Treasurer's comments, the fact is we have a lot of issues from time to time that come up where the legislature expresses an intent. And I think it's important in every time that occurs that affects our ability to either -- to make an investment or to decide not to make an investment, that we repeat that authority that we have in the legislation. So I would move that we -- given the current status -- and I appreciate the other issues have been taken care of, that we change our position to support, if amended, for the fiduciary language.

COMMITTEE MEMBER PAQUIN: Second.

CHAIRPERSON JONES: Okay. It's moved by Mr. Slaton, second by Ms. Paquin.

Okay. Discussion?

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, this isn't exactly on the amendment, but I'd like to request that the Chair direct staff to bring it back once the amendments are in print, so we can see what is actually there.

CHAIRPERSON JONES: Okay. Yeah, I don't -- that's fine, but -- Mr. Lind.

COMMITTEE MEMBER LIND: I'm going to be voting against the motion. I understand the nuances of all this, but I sort of trust the Treasurer's office on this one, and so I'll -- as I said, I'll be voting against it.

CHAIRPERSON JONES: Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

May I ask a question of the Treasurer's Office through the chair

CHAIRPERSON JONES: Sure.

COMMITTEE MEMBER MATHUR: So my question is how confident are you that the authors will accept your recommendation? Sorry, my question is to you, Grant. How confident are you that the authors will accept your recommendations? Have you already shared your -- the Treasurer's Office recommendations with them? Henry, can you turn on his mic?

Thanks.

CHAIRPERSON JONES: Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: So we were waiting. So far, we've been working very well with the Assembly Member Cooley's office, and we were waiting until we got to kind of the agreement that we got to last week. And we have a version that reflects what we talked about, what we agreed with with CalPERS staff that hopefully when I get back to the office, I can give it one more review and we can send it to the Assembly Member's office. So that's about all I can say. But we've been, you know, I would say largely taking the lead on what it looks like right now.

COMMITTEE MEMBER MATHUR: And you're confident that the assembly member will be amenable to the -- your recommendation -- to the Treasurer Office's recommendations?

ACTING COMMITTEE MEMBER BOYKEN: I mean I have no reason not to be confident.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

And if I could just ask a question also of our General Counsel about the fiduciary language question. I know that there's been back and forth about what exactly the language would look like, and that the Treasurer's Office has drafted some language that refers to the -- to Cal -- to the Board's plenary authority, and whether that is sufficient to cover the fiduciary duty question in your mind?

GENERAL COUNSEL JACOBS: Yes. Good afternoon. On balance, I would prefer to have the fiduciary language be explicitly in the bill. And I think Mr. Slaton makes a good point about the importance of the legislature recognizing every time that it wants to or potentially clip our wings that we've got something in there that acknowledges that.

Having said that, I agree with Mr. Boyken's analysis that, in fact, since we do have an overarching constitutional duty to proceed in a fiduciary -- fiduciary -- forget it.

(Laughter.)

COMMITTEE MEMBER MATHUR: Fiduciarily responsible way.

GENERAL COUNSEL JACOBS: Thank you -- that that would hold sway if this ever conflicted with that constitutional duty.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Grant said that there's been an agreement on the language. Wednesday when I had my briefing, what I heard was that there had been an agreement, at least conceptually. Once it was reduced to writing, it was not consistent with what we thought -- what the staff thought they had agreed to. So my question, is that still the case or have --

CHIEF INVESTMENT OFFICER ELIOPOULOS: It's been a busy week, a busy couple weeks. You know, going into Friday, I think now the short answer -- and I'll let Laurie correct me if I'm wrong. The short answer is we have agreement just as the Treasurer's office and Laurie have indicated on the amendments, everything except for the fiduciary language. Have you seen those in writing or are these verbal?

INVESTMENT DIRECTOR WEIR: We've seen it in writing, and it was back and forth, finally with our Legal Office. And so not only has Investment Office staff, but our Legal Office staff have seen the language as well that is going forward.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Okay. Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

So I was just going to chime in and say that, you know, my preference would be to vote against the motion before us. And the other issue that I wanted to raise is Mr. Jelincic, you know, asked could we see it? And I assume that means could we see it before adopting a position when it's actually in print?

The only issue is a timing one. I think -- I got an email today suggesting that the first hearing will be the 22nd of June. And I don't even know if we would have time on our July meeting to put this item back.

COMMITTEE MEMBER JELINCIC: Can I respond to that?

CHAIRPERSON JONES: Wait just a minute.

Mr. Slaton and then -- okay.

VICE CHAIRPERSON SLATON: So let me just make one more argument for this, because I think clarity is important. And I can't fathom the reason why an author would not put the language in. What's the rationale for not including the language? It just adds -- it makes it succinct, it conforms to the Constitution, and makes it clear. So in my way of thinking, we also want clarity when we make decisions like this. If we want that language in there, then we need to say we will support it, if amended. And I think that adds clarity to the argument.

CHAIRPERSON JONES: Okay. Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Just on that point. So we offered, I think, three or four different versions, including, I think, one that said nothing in this section shall conflict with -- nothing in this section shall be read to conflict -- to reduce, restrict, or limit the plenary authority and fiduciary responsibility in blah, blah, blah, in the, you know, whatever chapter and article of the Constitution.

Where staff and our office disagreed was that what staff wanted was one version, and that's the version that's always in the divestment bills that says, you know, we will not conform to the provisions of this section, something like that, if there's any inconsistency. So it was a matter of language. I think a couple versions that we offered staff read differently than us and felt that it was sort of a baked-in legal conclusion that -- you know, that this section, you know, prima facie, did not conflict with the constitutional section.

So that -- so understand, we were just looking for a more neutral sort of language that references the constitutional section.

CHAIRPERSON JONES: Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: So just to address the Treasurer's point. You know, what I'm -- I don't want to end up in a situation we're 2 years from now and we have 4 versions of this language. You know, if the language in divestment has been satisfactory and has solved the issue and addressed it to our satisfaction, and to the satisfaction of those authors, then again, I come back to why isn't the same language workable in this case? It's clear, it's distinct, and we've lived with it for many years. What's different today?

CHAIRPERSON JONES: Okay. I'm going to call on Mr. Lind in a moment, but I support Mr. Slaton's position. I think it provides clarity. There's no misunderstanding of what the outcome will be. It's -- if it doesn't comply with our fiduciary responsibility -- I mean, it's language that has been used for years and everyone understands it.

And my concern, if it's not there, then every time there's a new bill, then we get into another debate about what the language should be. And I think for consistency we should have the language that supports the position that we can't support it if it doesn't have our requirements of our fiduciary responsibility.

Mr. Lind.

COMMITTEE MEMBER LIND: So I can't argue with Mr. Slaton's concerns. However, the political reality is this bill may come forward without that piece there. And by changing our position to support, if amended, the converse is the case that we're not supporting and otherwise very good bill, if it comes without that piece.

So I'll still be voting against the motion.

CHAIRPERSON JONES: Mrs. Mathur.

COMMITTEE MEMBER MATHUR: I guess I have a question about CalSTRS and whether they've considered this bill, and whether -- and what their -- whether they included the amendment on fiduciary language or not?

CHAIRPERSON JONES: That's a question. Do you know the answer to that?

COMMITTEE MEMBER MATHUR: That's again through you to Mr. Boyken, or maybe it's through the -- maybe it's to Mary Anne.

CHAIRPERSON JONES: Okay. Staff.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

CalSTRS did just take it to their board this past week, and they adopted a support if amended position. And they wanted the two amendments one to be the fiduciary language to be included, and also that the bill was prospective.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON JONES: Okay. So we have a motion by Mr. --

COMMITTEE MEMBER JELINCIC: I just wanted to --

CHAIRPERSON JONES: I beg your pardon?

COMMITTEE MEMBER JELINCIC: I guess you didn't turn me off.

Now, you turned it -- okay. Go ahead.

COMMITTEE MEMBER JELINCIC: I share Bill's concern to an extent, because the -- you know, I've bargained enough contracts. And when things are proposed and not there, that delivers a message as much as when they're included, and so this would be in the legislative history.

Having said that, I'm still inclined to go forward, but it is a legitimate concern. And in answer to Grant's question, I really do not expect to have it come back to this Committee before it goes to its first legislative committee. I just want to make sure that once they are there, it comes back to this Committee, we can look at the amendments, maybe change our position, depending on what the amendment says before it gets, you know -- and, you know, it's got a ways to go. I mean, it's got a policy committee, it's got a Finance Committee, it's got a Senate, it's got to go back to the Assembly, so we've got some time. And who knows, it may get gut and amended in between.

But my concern is that we see it in time to be able to take an informed position once we know what it actually says.

Thank you.

CHAIRPERSON JONES: Let me ask a question of staff. Our process for reviewing bills after we've taken a position, and -- is that if the -- our recommendations or our motion is adopted, then you don't come back to us. But if there's a change from the position we've taken, then you come back to share? What is our process on these kind of bills?

I'm just trying to avoid setting up a whole new process, but understanding the need to get the information, so...

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: That might be a question for our legal also. I think that you could hear the bill again and change your recommendation, or if you took support if amended and the bill isn't amended, you basically are not in support of the bill at time, and so you could address concerns in the EBR that goes on to the Governor's office.

CHAIRPERSON JONES: But when you present the -- on a regular basis the status of various bills, you would be reporting on this particular bill on terms of its status through the legislative process, is that correct?

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: That's correct.

CHAIRPERSON JONES: Okay. So then that will answer Mr. Jelincic's question then. It will be part of your update on various pieces of legislation.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Absolutely.

CHAIRPERSON JONES: Okay. Thank you.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair, just -- if I could, Mr. Chair, just given the off-site that's coming up, the next scheduled monthly meeting where you would -- the Committee would have that opportunity would be mid-August rather than July. So I don't know the legislative cycle well enough to know when August hits in terms of bills becoming law, and the Governor's signature, and committees, and things like that. But I just want to make that clear in the Committee's mind, the next time that you would see this would be in August.

CHAIRPERSON JONES: Okay. Thank you.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: And if I could just add when the bill is being heard in committees, the official Board position right now is support with recommended amendments, and that's what I would testify to.

CHAIRPERSON JONES: Okay. But this adoption --

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

Unless the Board changes, correct.

CHAIRPERSON JONES: Right. Okay. And that's what's on the floor.

Okay. Why don't we go ahead and take a vote.

Repeat the motion.

COMMITTEE MEMBER COSTIGAN: I have my microphone on, so I have a comment.

CHAIRPERSON JONES: Oh, it's on. Go ahead.

COMMITTEE MEMBER COSTIGAN: Actually, the point I was going to raise is very similar to what Ted just raised. I just -- from a legislative calendar standpoint, remember, we're in the -- we're in an even numbered year. They take summer recess June 30th. We don't -- we have an off-site in July. And by the time they come back in August, they're on the floor. So we're already past policy, we're past fiscal, and so we're either taking a position at that time for a support -- or, excuse me, for a veto or a sign. Because by the time it rolls around, the House deadline -- floor session is August 15th -- begins August 15th. The last day for the Appropriations Committee to meet is August 12th, which is the Friday prior to our August Board meeting. So I just wanted to point out the position you're taking today is likely the position that will be going after the bill passes the Houses.

CHAIRPERSON JONES: And the question was, was the motion that the -- it is support, if amended, is that correct, Mr. Slaton?

VICE CHAIRPERSON SLATON: Yeah.

CHAIRPERSON JONES: Okay. So that's the motion that's on the floor with the second.

So all those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

(Noes.)

CHAIRPERSON JONES: Okay. Let's get a tally.

(Thereupon an electronic vote was taken.)

COMMITTEE MEMBER HOLLINGER: You have to vote.

CHAIRPERSON JONES: I did. 6 to 5, so it passes.

Okay. Next item on the agenda.

COMMITTEE MEMBER JELINCIC: The flash up there says not passed.

COMMITTEE MEMBER FECKNER: You have to have 7 in Investments, Henry.

CHAIRPERSON JONES: Okay. So who's not here?

COMMITTEE MEMBER HOLLINGER: Michael is not here, Theresa is not here.

CHAIRPERSON JONES: Okay, because we have absences, so it's --

GENERAL COUNSEL JACOBS: Not for this. This is just a policy decision. It's not an investment decision.

CHAIRPERSON JONES: Okay. So this work -- this then passes.

GENERAL COUNSEL JACOBS: Yes, 6 to 5. That's a pass, yes.

CHAIRPERSON JONES: Okay. If it were a policy decision, then it requires --

GENERAL COUNSEL JACOBS: Investment decision.

CHAIRPERSON JONES: Investment decision, okay.

GENERAL COUNSEL JACOBS: It would require -- right.

CHAIRPERSON JONES: Okay. Okay. So the item passes.

Okay. Next item on the agenda is the Targeted Investment Program update. Mrs. Weir.

(Thereupon an overhead presentation was presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: And this -- as Laurie is getting her presentation ready, this is a familiar format to the Committee. And I know we're probably going a little later into the afternoon than perhaps we'd planned. So Laurie will take, you know, queues from the Committee on -- you know, to move up quickly -- more quickly through her presentation or if you have questions.

INVESTMENT DIRECTOR WEIR: Good afternoon, Investment Committee members. Laurie Weir, Targeted Investment Programs.

So today I'll provide a brief update on our exposure with emerging, transition, and diverse managers, and spend a bit more time talking about the process and pacing for the deployment of capital in our new commitment of capital to Emerging and Transition Manager Programs.

--o0o--

INVESTMENT DIRECTOR WEIR: Here we go. So as of June 30th of last year, of our 919 external manager vehicles, 301, or 32 percent, meet CalPERS emerging manager definitions. Of the same 919 external manager vehicles, 56, or 6 percent, are women- or minority-owned firms.

Of the total externally managed NAV approximately 9.4 billion, or 9.9 percent, is managed by emerging managers, and 5.3 billion, or 5.5 percent, is managed by women- and minority-owned firms.

--o0o--

INVESTMENT DIRECTOR WEIR: And I'm going to skip some slides here in the interests of time.

So moving on quickly to our process and pacing for deployment of capital to our Emerging and Transition Manager Programs. In September of last year, staff reported new capital commitments to existing Emerging Manager Programs, as well as to the newly created Transition Manager Program.

The balance of today's presentation will focus on the process and timing of the deployment of up to $11 billion in new capital to these programs.

--o0o--

INVESTMENT DIRECTOR WEIR: While each asset class has unique aspects to the process for the deployment of capital, each have similar elements regarding how emerging and transition managers will be identified, evaluated, and selected. With respect to emerging managers, we don't anticipate a significant change in the process of selection of managers.

Each asset class will continue to use external advisors to identify, perform due diligence, monitor relationships, and report regularly on the performance and the outcomes of the program.

--o0o--

INVESTMENT DIRECTOR WEIR: With respect to timing of deployment of new capital to Emerging Manager Programs, global equity has leveraged the skills and resources of their advisors and staff to commit $2.75 billion in new capital to 22 emerging managers under their restructured Emerging Manager Program. Global equity staff and advisors will continue to review emerging managers and, of course, has the flexibility to cycle managers in and out of the program as appropriate.

Private equity uses GCM Capital as an advisor and fund of fund manager in their current domestic Emerging Manager Program. The process for the deployment of private equities up to 500 million and new capital commitment to emerging manager mandate will be determined in fiscal year 17-18 and new capital is expected to be deployed in fiscal year 18-19.

In real estate, they utilize Canyon Capital as a mentoring Emerging Manager Program advisor. Real estate staff estimates deploying up to 500 million in new capital to be done through their annual investment planning process starting in the 17-18 fiscal year.

--o0o--

INVESTMENT DIRECTOR WEIR: And skipping more slides here. There we go. So now let's move to the Transition Manager Program.

Over the next 4 years, the transition program may commit up to $7 billion to up to 15 transition managers in direct relationships with CalPERS. While each asset class has unique elements to their process, the asset classes share similarities in the broad categories of identification and sourcing, evaluation and selection, and in the pacing of deployment of capital to transition managers.

With respect to identification and sourcing, INVO staff, engaging with Emerging Manager Program advisors will seek to continually source transition manager candidates identified first from our own Emerging Manager Programs, from those proposals that are submitted to us through our web-based investment proposal submittal process, and importantly also to our continuing outreach and engagement efforts with the emerging and diverse manager community.

In an effort to ensure that we understand and have access to the broader world of potential transition managers, staff will also seek investment proposals through a global alternative solicitation process. This solicitation process is expected to take place twice over the coming 4 years, first in the first half of fiscal year 17-18, and again in fiscal year 19-20.

For evaluation and selection, each asset class will utilize its manager evaluations tools, manager due diligence, and selection process. Transition managers will need to comply with all of our transparency and disclosure requirements.

--o0o--

INVESTMENT DIRECTOR WEIR: With respect to the pacing of deployment of capital, global equity anticipates up to 5 transition managers will be actively engaged between now and June of 2020. To date, global equity has selected 3 transition managers. And as there is a portfolio strategy need, global equity will consider additional transition managers. As always, given the liquid nature of global equity, they have the flexibility with the ongoing selection and replacement of managers as needed.

Private equity estimates pacing of 0 to 400 million per year starting in the current fiscal year with up to 2 transition managers selected per year. To date, private equity has identified 2 transition managers and will seek 3 additional candidates over the coming 4 years.

Real estate will seek up to 5 transition manager candidates starting in the current fiscal year. Similar to private equity, real estate estimates pacing of 0 to 400 million per year in the current fiscal year with up to 2 transition managers selected per year.

--o0o--

INVESTMENT DIRECTOR WEIR: Skipping to slide 32.

In conclusion, staff will continue to track both the emerging and the transition manager programs and will report changing exposures, diversity, and performance to the Investment Committee annually. Staff will analyze and seek to continually improve these initiatives to assure that we meet the goals and expectations surrounding the programs.

Thank you.

--o0o--

INVESTMENT DIRECTOR WEIR: Finally, staff will continue to communicate opportunities and outcomes with interested members of the stakeholder community. And that ends my remarks today, and I'm happy to answer any questions Committee members may have.

(Laughter.)

CHAIRPERSON JONES: Thank you. Thank you.

I just have one question. I know you've been working on this Transition Manager Program for some time, and also working on getting a right fit for the number of emerging managers. And I also know that you've had outreach to the various emerging managers. I just would like to know what has been their response to this? I know you've been sharing it with them. So what has been the response?

INVESTMENT DIRECTOR WEIR: I'm honored to answer that question. The response to our Transition Manager Program has been universally positive. We have gotten accolades from our peers and from our stakeholder community for doing this. And perhaps it's best illustrated by the fact that our peers are now all engaging those peers that have emerging manager strategies are engaging to have Transition Manager Programs as well. So we -- sometimes imitation is a very nice compliment and we're pleased that that's happening.

CHAIRPERSON JONES: Okay. Well, thank you for the outstanding work.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, we're not very big as a percent of that whole market, but glad to see we're leading.

A couple of observations. I have consistently complained that the pages get lost up in the heading on the iPad. So I notice that you put down on the bottom lower right corner, and I want to thank you for that. And I hope that your peers pick up on that suggestion.

On slide 3 of 38, 138 of the iPad, the bottom 4, the externally managed transition manager, there's an overlap in those 4 groups isn't there. Those are not distinct groups.

INVESTMENT DIRECTOR WEIR: Can you restate the question?

COMMITTEE MEMBER JELINCIC: Externally managed

NAV, transition manager NAV, emerging manager NAV, diverse manager NAV, is there an overlap in that group or are those four distinct sections?

INVESTMENT DIRECTOR WEIR: It's likely there's overlap, because it's entirely possible, likely even, that there is a diverse emerging manager. So if there's overlap, it would be between the emerging and the diverse manager NAV.

COMMITTEE MEMBER JELINCIC: And -- but wouldn't they also be picked up in externally managed NAV?

INVESTMENT DIRECTOR WEIR: The externally managed NAV is for the total fund. And so that number is the denominator against which all of the other numbers are referenced.

COMMITTEE MEMBER JELINCIC: And then on slide 6, external manager count and external indirect manager count, what's the difference?

INVESTMENT DIRECTOR WEIR: Underlying funds and fund of funds. Underlying portfolio companies and funds and fund of funds.

COMMITTEE MEMBER JELINCIC: Okay. And then on 13, I had another definitional question. Oh, it was is this -- is there a label missing? I mean, total commitments, is this all towards the emerging and transition managers or is this total fund?

INVESTMENT DIRECTOR WEIR: This is new capital committed to emerging manager strategies above and beyond what is currently our exposure in the portfolio.

COMMITTEE MEMBER JELINCIC: Okay. So this -- so this is to emerging and diverse managers, it's not -- in private equity, it's not 2.5 billion overall? It's --

INVESTMENT DIRECTOR WEIR: I'm sorry, what slide are you on?

COMMITTEE MEMBER JELINCIC: 13 of 38.

INVESTMENT DIRECTOR WEIR: Okay. I'm not seeing --

CHIEF INVESTMENT OFFICER ELIOPOULOS: Laurie, I'm following -- I'm following it. Yes, you're correct. That's right. So this is just the capital commitments to the Emerging and Transition Programs. So not the total commitments to private equity or real estate.

INVESTMENT DIRECTOR WEIR: That is correct.

COMMITTEE MEMBER JELINCIC: That was -- that was my question. So there's a label missing.

Thank you.

CHAIRPERSON JONES: Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you so much for this effort. I think this really is exciting, because this is covering the middle ground really between our Emerging Manager Program and our -- the rest of our program. And I think we've heard from the community out there -- from the investment community out there and we've also heard internally that there's a real need for this. So I want to really credit you with creating something new that is as -- you know, leading in the industry, and I really appreciate that.

I do have a question just because -- and I know you've told us this before, and I'm sorry that I don't recall, but the difference between the emerging managers and the transition managers is really size of the allocation or size of their assets under management?

INVESTMENT DIRECTOR WEIR: It depends on the asset class.

COMMITTEE MEMBER MATHUR: It depends on the asset class.

INVESTMENT DIRECTOR WEIR: So in that long PowerPoint that we attached in this agenda item, the very last page of the addendums is the definition of emerging managers versus transition managers --

COMMITTEE MEMBER MATHUR: Okay.

INVESTMENT DIRECTOR WEIR: -- but it broadly -- the answer to your question is, for instance, in global equity an emerging manager is up to $2 billion and AUM, a transition manager starts at a floor of $2 billion in AUM.

COMMITTEE MEMBER MATHUR: Okay.

INVESTMENT DIRECTOR WEIR: In private equity, it's about funds. So the first and second fund in private equity is in the emerging space, funds III, IV, V, and VI are in the transition space. So each asset class has a different manage -- transition manager definition, but it is broadly about where are they in their growth process and in their size.

COMMITTEE MEMBER MATHUR: So then the difference -- just -- let's just talk about private equity, for example, because you talked about that being about funds and sort of where they are in their growth trajectory. So at what point do they switch from being trans -- and maybe I should look at the page. Oh, maybe this is the page -- from being transition to being mature?

INVESTMENT DIRECTOR WEIR: Right. So at the end of their fund II, and these are importantly institutional funds.

COMMITTEE MEMBER MATHUR: Yeah.

INVESTMENT DIRECTOR WEIR: So they could have high net worths in friends and families that wouldn't count under this fund count. Once they go into fund III, they're a transition manager. Fund I and II, they're emerging.

COMMITTEE MEMBER MATHUR: And then how do they move from transition to mature, or whatever -- I don't know what you want to the call them.

INVESTMENT DIRECTOR WEIR: Oh, good question. Okay. This is a great question. That transition bucket is long and patient. I don't -- I want to -- I'm not -- I'm communicating this to people that might be listening elsewhere. This is not a fast path to becoming an established manager. We will seek to watch companies grow in that transition manager bucket. And as they grow and have frankly strategies that are scalable to become of a size where they could compete and be of interest and a strategic portfolio fit in our portfolio, after funds in private equity, Funds III, IV, V, and VI, they could be potentially considered to compete in the established manager pool in private equity.

We would expect them to have grown significantly over that time. And they would have had to maintain the highest performance in all categories of review.

COMMITTEE MEMBER MATHUR: So I appreciate this is a new space that we're sort of marking out, but I'll just ask one more question. And it might be for Réal for all I know. But our established managers, our current established managers, do they -- are they generally on Fund VI, Fund VII, Fund VIII, or is there going to be -- I guess my question really is there going to be some cross-over between our transition managers and our established managers? Some overlap.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That's a good question for Mr. Desrochers. And I see like he's 10 rows back in the middle, so it might be hard for him to get up here anytime quickly. As you remember, we went through a process to identify how many established managers we want over across all 3 asset classes, private equity, global equity, and real assets, about 85 approximately.

Of that 85, we've identified, you know, approximately 30 private equity managers to, you know, fill up the established manager size. And while it's not an exact number that Réal could give for sure, because we haven't obviously selected all 30 of those managers, but they're many of the most mature of our managers in the private equity space. I know for sure, you know, the likely names that you're aware of all, you know, have double digit funds --

COMMITTEE MEMBER MATHUR: They're in the teens.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, they're in the teens for sure. But of the 30, would you say all of them or most of them likely to at least have, you know, Fund VII and beyond, or some might be in that V and VI?

MANAGING INVESTMENT DIRECTOR DESROCHERS: Right,

right.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Okay. So, yes.

COMMITTEE MEMBER MATHUR: I'm just trying to understand sort of where the boundaries are. And I appreciate this is new, so I'm not trying to put too fine a point on it. Just trying to get a sense of where that is.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure, yeah. And we are too. I mean, as you said, it's a new -- newly -- we're making new, you know, marking new ground here. Certainly if there's a portfolio fit and, you know, need and transition manager that we've been watching and they're in their fifth found about to go to their sixth fund, that's a dilemma we'd like to have. If we think they're ready to transition into the established manager on their sixth fund, then, you know, that's certainly something we'd look at.

COMMITTEE MEMBER MATHUR: That's some sort of a judgment call.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes.

COMMITTEE MEMBER MATHUR: Okay. So just looking at page 22 where it talks about the different sources from which we will be getting transition candidates, when we say transition, we don't mean -- what's clear from this is that we don't mean transitioning from our own Emerging Manager Program necessarily. It means that they are in that space of how many funds or AUM or size, whatever the -- you know, the --

INVESTMENT DIRECTOR WEIR: Correct.

COMMITTEE MEMBER MATHUR: -- however the definition is you point out at the very last page is.

INVESTMENT DIRECTOR WEIR: That's correct.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

CHAIRPERSON JONES: Okay. I see no further questions. We want to thank you very much for the report.

So we will -- we have a request to speak from the public on this item. Mr. Michael Ring.

MR. RING: Chairman Jones, Investment Committee, good afternoon. Michael Ring, SEIU Capital Stewardship Program.

As you all know, back in August of 2015, our international president Mary Kay Henry sent -- let out a public letter discussing and sharing our union's commitment to diversity in the capital markets. And I just wanted to offer a few comments in the context of this report.

First, it might be worth noting that SEIU recently had its -- has a convention every 4 years, and the union reaffirmed its commitment to diversity and general and racial justice in particular. That leads our work in this space to continue working with you.

And in that context, I want to just share the -- our support for the work that's being done in this report, the support for CalPERS commitment to its Emerging Manager ands Transition Manager Programs. We really believe that CalPERS work in this area is very forward thinking, and provides real fiduciary benefits, both by ensuring that we have the widest possible talent pool managing the assets as well as contributing to a rigorous and creative process that all research indicates, as you have heard in previous meetings, that diversity brings to the conversation as you look at investment management.

And then finally, three related comments not directly related to this report, but related to your work in this area. First, I want to thank Ted for his comments earlier this morning expressing his commitment and your commitment to diversity inside the investment office. We think that's very important.

Second, I wanted to share our thanks to both Controller Yee and Treasurer Chiang who have recently offered public statements calling for stronger corporate board diversity. And we really appreciate their comments and their leadership in this area. And finally, we wanted to offer thanks to the entire Investment Office, this

Committee, and in particular the corporate governance shop for the tremendous work that your fund has done around the issue of corporate board diversity during this shareholder season.

Thank you very much.

CHAIRPERSON JONES: Thank you very much.

Okay. That moves us to Item 8c. Mrs. Weir.

INVESTMENT DIRECTOR WEIR: Hello again.

(Thereupon an overhead presentation was presented as follows.)

INVESTMENT DIRECTOR WEIR: Hello again. And we have -- we should have a PowerPoint coming up for this as well.

There we go. Good afternoon again. This agenda item presents the 2015 CalPERS for California Report. Key Findings in the report include that California investments totaled $27.8 billion or a 9.2 percent increase over the -- 9.2 percent of the total fund, an increase over last year. And secondly, over 360,000 jobs have been supported as a result of CalPERS private asset class investments in California. The report is complied each year by Pacific Community Ventures. And Tom Woelfel of PCV is here to present the highlights of this report.

Tom, it's all yours.

MR. WOELFEL: Thank you, Laurie. Good to be with you all today. My name is Tom Woelfel. I'm with Pacific Community Ventures, a non-profit based in San Francisco. And we specialize in research that examines the ancillary benefits of investments. This is our 6th year reporting out on the CalPERS for California Report, as well as the 11th year of our examination of private equity's California Initiative.

--o0o--

MR. WOELFEL: So first to begin with, the CalPERS for California Report, the report is a comprehensive examination of CalPERS investment presence in the State of California as of June 30th, 2015 fiscal year-end, and examines CalPERS investments across asset classes.

Our analysis utilizes a range of methods in examining the ancillary benefits of these investments, including an analysis of total jobs supported in the private asset classes, Geographic Information Systems mapping, case studies that look at individual investments across the private asset class investments, as well as the in-plan economic multiplier model that looks at economic ripple effects from these investments. And we prepared this report in collaboration with CalPERS staff.

--o0o--

MR. WOELFEL: So turning to the highlights from the CalPERS for California Report that Laurie previously mentioned. So as of fiscal year-end 2015, there is $27.8 billion invested in California across asset classes. This represents an 8.2 percent increase from the previous fiscal year-end of 25.7 billion, and accounts for 9.2 percent of the total fund's assets to date.

Over 362,000 jobs have been supported as a result of CalPERS private asset class investments in California. And then the publicly traded companies that are headquartered in California receiving investment through CalPERS public equity and fixed income investments employ over a million people. However, CalPERS is one of thousands of investors participating and supporting these companies. So CalPERS relationship is more indirect to the operations of these companies.

--o0o--

MR. WOELFEL: The next slide depicts the location of CalPERS investments in-state. And you can see a clustering of investments in the major population centers of California, both in the Bay Area, as well as the greater Los Angeles areas. And the different colored dots on the map depict the various asset classes in which CalPERS is investing. And then the larger the dot, the larger the investment made by CalPERS.

And so CalPERS investments in the State are a result of the strength of the California economy, and the quality of its companies, properties, and other investment opportunities.

--o0o--

MR. WOELFEL: Now, turning to highlights from this year's examination of private equity's California Initiative. The California Initiative was formed in 2001 with an investment of approximately $1 billion since that time. And the primary objective of the California Initiative is to achieve appropriate risk-adjusted returns that meet or exceed industry benchmarks.

And then as an ancillary benefit, the California Initiative seeks to invest in traditionally underserved areas of the State where opportunities may have been bypassed aiming to impact economic infrastructure of the State.

As of June 30, 2015, current investment totals for the California Initiative is $263 million, of which 178 million is invested in California companies. And those are defined as companies headquartered in the State or with a plurality of facilities or employees based in the State.

And also, there are 149 active companies currently with the California Initiative, and then 101 of those companies are defined as California companies based on that same definition.

--o0o--

MR. WOELFEL: And then turning to the highlights from and ancillary benefit standpoint for the California Initiative. So for the fiscal year-end 2015, there was 48 percent employment growth since the time of investment for active companies. And that compares favorably to benchmarks for the California economy as well as the U.S. economy, where U.S. employment had increased in the private sector 8 percent from 2001 to 2015, and 10 percent for California from 2001 to 2015.

Thirty-five percent of California Initiative companies are located in areas traditionally underserved by institutional equity capital. These underserved markets that were opportunities may have been bypassed, 49 percent of employees are considered low to moderate income workers, demonstrating that the California Initiative is supporting workers from underserved areas across the State. And then 36 percent of the dollars are invested in companies that have at least 1 woman officer. And 30 percent of dollars are invested in companies that have at least 1 minority officer.

--o0o--

MR. WOELFEL: And finally, this slide illustrates the job creation results for the California Initiative since inception. So looking at both active investments with companies as well as fully realized investments.

And it -- the bar charts depict the breakdown of jobs created both for phase 1 as well as for phase 2, also known as the Golden State Investment Fund managed by Hamilton Lane. And so you can see that since inception, 35,756 total jobs have been created through the California Initiative, and then 13,514 California jobs have been created with the California Initiative.

And so the different shadings breaking out phase 1 and phase 2 really show where the ancillary benefits are being generated through the California Initiative with 90 percent of jobs created overall being attributed to investments through phase 2, and 80 percent of those jobs in California being attributed to phase 2.

And so with that, that ends highlights from this year's report for the CalPERS for California Report, as well as the California Initiative, and I'm happy to take any questions at this time.

Thank you.

CHAIRPERSON JONES: Okay. Thank you. I see no questions, so thank you very much for your report.

MR. WOELFEL: Thank you.

CHAIRPERSON JONES: So we thank you, Ms. Weir.

So now we will move on to the next item on the agenda, which is revision of real estate policies, first reading.

CHIEF INVESTMENT OFFICER ELIOPOULOS: So, Mr. Chair, as the presenters come up to the meeting room here, I know we're about 15 minutes over schedule. So this is a first reading of the policy. I know the Board members have had a chance to read through it. And I just would pause to say we could just take questions now rather than present the item, if that's the desire of the Committee, or our presenters have, you know, a presentation they can make as well. It's up -- looking for direction from the Chair.

CHAIRPERSON JONES: Sure. Okay. I see no burning desire to have the presentation, so we'll see if there are questions on this item. As Ted mentioned, it is the first reading so any questions to the -- on this item?

Okay. Well, seeing none, wonderful presentation.

(Laughter.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Thank you. Thank you very much.

Okay. Then we move on to Summary of Committee Direction.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes. Mr. Chair, I think, as I mentioned, Wylie usually does this portion of the agenda. He's at his son's graduation from college, but I've noted a few.

So number 1, you -- the Chair directed that the minutes be brought back at the next available meeting, which would be August, to look into the issues that were identified, so that's number 1.

Number 2, during the discussion on global governance KPIs, the Chair directed that more work to be looked at and more articulation, you know, discussed in terms of outcomes on KPIs. So we will do that.

Number 3, the Chair directed that if the infrastructure bill comes to fruition, and it comes to the point that we need to have a further discussion on tax exempt status and prohibited direction, then to bring that forward at that time, but we'll only do that if needed.

CHAIRPERSON JONES: Right.

CHIEF INVESTMENT OFFICER ELIOPOULOS: And lastly -- I think that's it. I don't believe -- with respect to the Treasurer's bill, I believe it was support, if amended. And it was not directed to bring it back in August.

CHAIRPERSON JONES: Okay. I think that takes care -- Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Didn't you direct that it come back once they have the amendments?

CHAIRPERSON JONES: Through the regular process. Yes, through the regular process.

CHIEF INVESTMENT OFFICER ELIOPOULOS: So just to be clear, we'll bring it back in August then as part of our plan.

COMMITTEE MEMBER JELINCIC: Okay.

CHAIRPERSON JONES: Okay. Okay. Then thank you, Mr. Eliopoulos.

We have public comment. We have Ms. Giachino, Ms. -- Reverend Obenoar and Mrs. Rugerio. Would you please come forward and you will have 3 minutes to speak. And when you start talking the clock will come on. And Mr. Ring.

Just a minute. The mic.

Okay. Now, it is on.

MS. GIACHINO: Good afternoon. Thank you, Mr. Chair and Committee. My name is Alyssa Giachino. I'm with UNITE HERE. I'm here to talk about The Palms Casino in Las Vegas, which is owned by TPG and Leonard Green, both significant private equity partners for CalPERS. In a moment, you will hear from Blanca Rugerio and Pastor Obenoar of Las Vegas.

Over the past year, Palms workers have been seeking a fair process to choose whether to unionize. A few weeks ago, it was announced the Palms is set to be sold. The Las Vegas Review Journal reported quote, "There was no indication whether Palms employees would have to reapply for jobs when the transaction closes", unquote.

We urge TPG and Leonard Green to act responsibly and resolve the labor dispute before the ownership change. Workers deserve labor peace and a binding commitment that they will not lose their jobs. In fact, labor peace is the standard in Las Vegas, where dozens of casinos have agreed to a fair process for tens of thousands of workers.

Worker retention is also the standard in ownership transition. For example, Blackstone retained all workers without making them reapply when it took over the Cosmopolitan in 2014. In the context of the labor dispute, we question why TPG and Leonard Green are selling the Palms now. Could they have gotten a better price and higher return on the investment by holding on to the Palms.

The announced 312.5 million sale price of the Palms implies a value to EBITDA multiple of 8.9.

By comparison, weeks earlier, the Aliante Casino announced it's sale with a 9.5 multiple. Moreover, given that TPG and Leonard Green acquired the Palms distressed debt at a discount, we estimate only a 12.4 percent return after 5 years, if we assume they bought the debt at about $0.60 on the dollar overall, which works out to about 2.37 percent return on an annualized basis. By comparison, as this Committee well knows, over the past 5 years, the S&P

500 index rose 59 percent for a compound rate of about 9.66.

We have materials that I hope -- we have shared. I hope the Committee has a chance to look at them that illustrate these points. We did send letters to both TPG and Leonard Green with language that they could insert into their sale contract to protect workers jobs.

We do not have a response from them at this point. We ask that CalPERS urge TPG and Leonard Green to not put jobs at risk, to commit to labor peace, and worker retention at the Palms. Thank you.

CHAIRPERSON JONES: You're welcome.

PASTOR OBENOAR: My name is Kathryn Obenoar. I lead the pastoral team at the Congregation of Mary Magdalene Friends United Church of Christ in Las Vegas, Nevada.

I'm here today with Blanca. She's from the Palms. And I'm here because I share the workers' concerns about the casino's sale. Our faith's traditions call for the fair and just treatment of those who labor. Workers are not just workers, they're parishioners, neighbors, friends, children, parents, and spouses seeking to provide for themselves, their families, and their communities.

As religious leaders, we are called to love our neighbors and seek justice for one another. I believe the private equity owners of the Palms have a responsibility to the workers at the companies they own and to the communities in which they invest. Yet, I understand the Palms has faced charges of worker intimidation, threats, and coercion. This is intolerable.

While TPG and Leonard Green intend to sell the Palms, they should guarantee that workers' jobs will be protected and they should act decisively to ensure a fair process. There is a long tradition in the vast majority of strip and downtown casinos that when a new owner takes over a casino, or a third party operator is brought in, workers are not displaced and the quality of their jobs is not degraded.

This ensures stability for workers, their families, and our community. It also ensures that employers have a stable, committed workforce to grow their businesses. I urge you as investors of California's workers' pensions to call upon TPG and Leonard Green to ensure labor peace and worker retention for employees of the Palms.

Thank you.

CHAIRPERSON JONES: Thank you.

MR. RUGERIO: Good afternoon. My name is Blanca Rugerio. I've been working at the Palms Casino in Las Vegas for 10 years, almost 11 years. With my job as a house person, I support per my 3 children as a single mother.

I'm here to speak for myself and the hundreds of other workers at the Palms Casino. We've been seeking for a fair process for years, but instead past management has repeatedly faced accusations of worker intimidation. The National Labor Relations Board issued complaints last October over allegations including unlawful surveillance, threats, and coercion. The Palms settled that complaint -- the Palms settled that complaint in December, but within weeks workers filed additional charges of threats and surveillance, which were settled with the National Labor Relations Board in April, but the Palms still hasn't agreed to a labor peace.

We work hard every day. We are dedicated to our customers. We have worked to make the Palms successful and want a commitment that we will keep our jobs through the change of owners. In other words, we are simply asking for TPG and Leonard Green to uphold the standards set by the vast majority of the Las Vegas casinos and the strip and downtown. A fair process to choose whether to unionize and a commitment to worker retention.

I hope that CalPERS will tell TPG and Leonard Green you want a right to a fair process and our jobs be protected. Thank you very much.

CHAIRPERSON JONES: Okay. Thank you for your comments, and we appreciate you taking the time to come and share your views with the Investment Committee. And as you know, staff has been engaged on a number of the issues related to the issues you raised. And so I would just suggest that you continue to work with staff on those issues.

So thank you again for coming.

MR. RING: Michael Ring, SEIU Capital Stewardship Program. I know Anne Stausboll -- I don't think she's in the room. She's not in the room. She's in the back hiding says Richard Costigan.

(Laughter.)

MR. RING: So on behalf of SEIU, we wanted to express our gratitude to Anne for her years of service at CalPERS. She has shown tremendous leadership at the fund in varying roles and put up with me and many of my colleagues over the years in the most professional and effective way. And we want to thank her for it. We know that throughout those years, her commitment to all of CalPERS beneficiaries has been at the core of all the work she's done.

I will not be here Wednesday, so I had to take my shot and let her know that we really appreciate Anne, all her work, and we wish her well on whatever is next in her distinguished clear.

Thank you all very much.

CHAIRPERSON JONES: Okay. Thank you, Michael, for those comments.

And I'm sure we will -- if she didn't hear you, we will make sure that she gets your -- a copy of your comments.

Okay. Thank you. So that concludes the open session business for today. So we're going to take a 10-minute break. So we'll be back at 2:50 and start closed session.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 2:40 p.m.)

C E R T I F I C A T E OF 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 17th day of June, 2016.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063