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, FEBRUARY 13, 2017

9:55 A.M.

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

COMMITTEE MEMBERS:

Mr. Henry Jones, Chairperson

Mr. Bill Slaton, Vice Chairperson

Mr. Michael Bilbrey

Mr. John Chiang, represented by Mr. Steve Suarez

Mr. Richard Costigan

Mr. Rob Feckner

Mr. Richard Gillihan

Ms. Dana Hollinger

Mr. J.J. Jelincic

Mr. Ron Lind

Ms. Priya Mathur

Mr. Theresa Taylor

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matt Jacobs, General Counsel

Ms. Mary Anne Ashley, Chief, Office of Legislative Affairs

Ms. Natalie Bickford, Committee Secretary

Mr. Dan Bienvenue, Managing Investment Director

Ms. Kit Crocker, Investment Director

Mr. Simiso Nzima, Investment Manager

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

STAFF:

Mr. John Rothfield, Investment Director

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

Ms. Tarnel Abbott, Richmond Progressive Alliance

Mr. David Altshuler, StepStone

Ms. Frances Aubrey, Alameda Interfaith Climate Action Network

Mr. Victor Botello

Ms. Lina Braunstein

Ms. Scarlette Bustos, Indivisible Sacramento

Ms. Janet Cox

Ms. Lynn Davidson, 350 Bay Area

Ms. Martha Dragovich, Contra Costa Progressives

Mr. Peter Dragovich, Contra Costa Progressives

Ms. Sandy Emerson, Fossil Free California

Mr. Allan Emkin, Pension Consulting Alliance

Mr. Jose Estrada

Ms. Christy Fields, Pension Consulting Alliance

Mr. Steve Foresti, Wilshire Consulting

Ms. Sueann Gawel

Mr. David Glickman, Pension Consulting Alliance

Ms. Jean Jackman

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

ALSO PRESENT:

Ms. Karen Jacques

Ms. Leslie Johnson, Indivisible Sacramento

Mr. Andrew Junkin, Wilshire Consulting

Ms. Rebecca Kaplan, Oakland City Council

Ms. Cheryl Keith

Ms. Neeta Lind, Daily Kos

Ms. Anne Luna

Ms. Salina Martinez

Ms. Renee Michel, SCUSD

Ms. RL Miller, Climate Hawks Vote

Mr. Mike Moy, Pension Consulting Alliance

Mr. Wayne Miyao

Ms. Lynne Nittler

Mr. Rodrigo Ojeda-Beck, California State University, Monterey Bay

Ms. Pennie Opal Plant, Indigenous Environmental Network

Ms. Dyane Osorio, Mother Lode Sierra Club

Ms. Holly Rice

Mr. Michael Ring, Service Employees International Union

Ms. Rhonda Rivard

Ms. Candy Seizic

Ms. Deborah Silvey, Fossil Free California

Ms. Marian Simmons

APPEARANCES CONTINUED

ALSO PRESENT:

Ms. Barbara Stebbins, Local Clean Energy Alliance

Ms. Dianna Suarez

Mr. Rick Sullivan,

Ms. Karen Taberski

Ms. Brady Torres

Mr. Tom Toth, Wilshire Consulting

Ms. Julia Vanhorn

Ms. Susan Wilke

Mr. Arthur Williamson, California State University, Sacramento

Ms. Genelle Wood, Fossil Free California

Ms. Jennifer Wylie Brass

Ms. Llonka Zatlar, 350 Sacramento

I N D E X

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

P R O C E E D I N G S

CHAIRPERSON JONES: I'd like to call the Investment Committee meeting to order. The 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: Here.

COMMITTEE SECRETARY BICKFORD: John Chiang represented by Steve Juarez?

ACTING COMMITTEE MEMBER JUAREZ: Here.

COMMITTEE SECRETARY BICKFORD: Richard Costigan?

COMMITTEE MEMBER COSTIGAN: Here.

COMMITTEE SECRETARY BICKFORD: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.
Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: 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: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY BICKFORD: And Lynn Paquin -- excuse me, Betty Yee represented by Lynn Paquin?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON JONES: Okay. Thank you very much.

Second item on the agenda is election of the Investment Committee Chair and Vice Chair.

For the election of the Chair, I turn the gavel over to Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Jones.

We'll now open up for nominations nor Chair of the Investment Committee.

And I call on Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Thank you, Mr. Vice Chair. It's with great pleasure that I put the name of Mr. Jones, Mr. Henry Jones, into nomination for President -- or, excuse me, for Chair of the Investment Committee.

VICE CHAIRPERSON SLATON: All right. Mr. Jones has been nominated.

Are there any further nominations?

Are there any further nominations?

Third time, are there any further nominations?

If not, we'll consider nominations closed. Mr. Jones has been nominated.

We'll now vote. All those in favor signify by saying aye?

(Ayes.)

VICE CHAIRPERSON SLATON: Opposed?

Motion carries. Congratulations, Mr. Jones.

(Applause.)

CHAIRPERSON JONES: Thank you. Thank you very much to my Committee members for allowing me the opportunity to serve as your Chair for another year. So I really appreciate it. And I will do my best to make sure that we do the best for this System going forward.

Now, we would like to open the floor up for nominations for Vice Chair, and I call on Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Thank you.

It's my honor to nominate Bill Slaton as Vice Chair. Bill has demonstrated his commitment, his dedication, his leadership, his stewarded -- stewardship to the governance of this Board, and I am privileged to nominate him.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Bill Slaton has been nominated as Vice Chair of the Investment Committee.

Are there any further nominations?

Are there any further nominations?

Are there any further nominations?

Then therefore, the nominations are closed. So we will now entertain a vote to nominate -- to approve Mr. Slaton as Vice Chair of the Investment Committee.

Do we have a motion?

COMMITTEE MEMBER HOLLINGER: I'll make the motion.

COMMITTEE MEMBER COSTIGAN: Second

CHAIRPERSON JONES: Moved by Dana and second by Mr. Costigan.

All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none.

Congratulations, Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you.

(Applause.)

VICE CHAIRPERSON SLATON: Thank you. It's an honor to serve in this capacity. And it's always nice to be able to help Mr. Jones. And with the room full that we have today, maybe I'll be called into service.

Anyway. Thank you very much.

CHAIRPERSON JONES: Thank you.

Next item on the agenda, Executive Report - Chief Investment Officer briefing. Mr. Eliopoulos.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes. Good morning - Mr. Chair, Mr. Vice Chair, congratulations - and members of the Committee. Ted Eliopoulos, CIO.

We do have a full agenda today. Very important items. Many meaty items. In addition to that I think we can see we have a number of people here in the audience today as well. So planning for a very full agenda. As a result, I'll keep my comments fairly short.

First of all, just some housekeeping items. In your committee booklets, particularly tabs 2 -- tabs 2 and 3, we have some revisions to some of the items in the agenda. First with respect to Consent Item 4a, which is the meeting minutes for December 19th, we added into the minutes a reflection of a motion that was made by Mr. Jelincic that was not seconded. We did not include that in the original minutes, so that revision is before you.

In addition, agenda item -- consent item 5d, the monthly update, includes a reporting out of the roll call vote from closed session in September. And while the minutes are accurate in reflecting all of the aye votes there, the minutes did not reflect 2 members that were absent at the meeting. So the meeting -- the minute -- the record is corrected in order to reflect that Ms. Taylor and Mr. Jelincic were absent from that closed session meeting. Ministerial, but important changes.

Okay? Now --

CHAIRPERSON JONES: Thank you.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Those are the -- those are the housekeeping items.

I do have just a few minutes of discussions on some questions that have been raised with respect to some recent decisions we've made on the discount rate, as well as our interim asset allocation. So I'm ready to go to those comments, if there's no questions on the minutes and the consent items.

CHAIRPERSON JONES: Yeah, we have one question.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Ted, I appreciate the changes. Yeah, I was there for most of the meeting, but not for the vote. But have those corrections been put up on the web as well?

CHIEF INVESTMENT OFFICER ELIOPOULOS: That I don't know, but we'll -- no, they haven't yet.

COMMITTEE MEMBER JELINCIC: But they will.

CHIEF INVESTMENT OFFICER ELIOPOULOS: But they will be.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Okay. Now, Mr. Eliopoulos, you may --

CHIEF INVESTMENT OFFICER ELIOPOULOS: Continue? Great.

As I mentioned, Mr. Chair, we have received a few questions about the under -- about the decision we undertook in the fall last September to reduce risk in the portfolio over a 18-month to 2-year time horizon. And the impact of this interim asset allocation decision might have had on our also recent decision on the discount rate that was made just this past December.

I think given the timing of both actions being so close together, that it is understandable that there could be some misunderstanding that these 2 separate actions were somehow linked, and that is not the case. To be clear, the discount rate decision that was undertaken in conjunction with our Actuarial and Finance Office teams was driven by a longer term return outlook, which quite literally, you know, looks out 60 to 100 years, but was driven particularly by a lowering of the capital market assumptions for the intermediate time period, in this case the next 10 years. That was the decision on the discount rate that this Board made in December.

The shorter term decision that we undertook back in September to reduce risk in the asset allocation for what is now the next 18 months was driven by our concerns about market valuations, fatter tails, and uncertainty in the marketplace, the size of the negative cash flow gap, and finally our funded status. We've reviewed that decision in my CIO discussion with you last -- in December in the open session. And in the cap -- in the total fund materials, you'll see further slides for that decision.

The interim allocation was in -- is intended to be in place through the ALM process that we are undertaking and is beginning now and will result in a decision exactly 1 year from now. This Committee and Board will take action 1 year from now. And this new strategic asset allocation that the Board -- this Committee will adopt next February will be effectuated as of July of 2018.

I think it's important to note that we are currently approximately around a 63 percent funded status once the new discount rate is calculated and put into place. And that is following what is now a very long stretch of positive return years. We had 7 positive years of returns to date.

At the depths of the financial crisis, the System was at a 61 percent funded status. As you will see during the trust review slide and presentation a little later today, given our exposures to equities, there is a 26 percent chance of a negative return in any given year. And as a result, as we've discussed many times before, we believe we have an asymmetric downside risk. That is our primary concern, and our primary portfolio priority right now to try and lower the risk of following to a lower funded status.

Now, of course, staff and this Committee will be exploring both of these topics in quite some detail, both the discount rate and the asset allocation extensively during this next year as we complete the ALM process. And we look forward to a healthy discussion on the risk tolerance and appetite of the Committee during deliberations.

With that, Mr. Chair, those are my comments.

CHAIRPERSON JONES: Yeah. We have 2 questions.

Mrs. Taylor.

COMMITTEE MEMBER TAYLOR: Yeah. I just quickly had a question. So when the interim asset allocation was done, as I understand, and we moved 9 percent over to inflation-proof assets, what was the loss to the fund? Do you have that?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Over what time period?

COMMITTEE MEMBER TAYLOR: Over -- up until

December, say December when we did our discount rate.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah. So the reason I ask is that's really the important framework to take into consideration is over what time periods are these allocations being put into place. In this case, the September decision was looking out 18 months to 2 years during the ALM process. And as we discussed at that time, and as is in the materials today, what we projected the lowering of the risk profile of the fund would achieve approximately 115 basis point volatility or risk reduction, but it would come with an approximately 30 basis point lowering of return on an expectation basis, over the next 2 to 10 years.

COMMITTEE MEMBER TAYLOR: So do you have a --

CHIEF INVESTMENT OFFICER ELIOPOULOS: So now turning to --

COMMITTEE MEMBER TAYLOR: -- monetary value to that?

CHIEF INVESTMENT OFFICER ELIOPOULOS: To date, we've actually experienced, and this is more by coincidence than anything else, about a 30 basis point reduction in return to date based on the interim asset allocation, which translates into approximately a $900,000,000 lower return for this few months that we've taken so far. But, of course, we like to look at much longer time periods for them to be meaningful.

COMMITTEE MEMBER TAYLOR: But 30 basis points over the long term is what you're looking at as well.

CHIEF INVESTMENT OFFICER ELIOPOULOS: In this case, this interim asset allocation was meant to be in place until July of 2018. During the asset allocation we'll be revisiting both the risk appetite of this Committee, as well as the return associated with those risk profiles.

COMMITTEE MEMBER TAYLOR: Okay. So -- so to say that it didn't impact the discount rate sounds to me like it's not entirely accurate, because if we lowered our rate of return 30 basis points by just doing the interim asset allocation didn't it lower our expected return and therefore our discount rate -- you know, have an impact on what we would have to do with the discount rate?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah. And that's where we have to be very precise in not linking the two decisions. The asset allocation and ALM process looks at much longer time periods than 18 months or 2 years. We look at a 10-year expected rate of return. And if the Committee, and Ms. Taylor remembers, we were looking at projections for our asset allocation -- our strategic asset allocation lowering from 7.1/7.2 percent down to 6.2 to 6.4 percent. It's those 10-year projections that form the basis for our ALM projections.

COMMITTEE MEMBER TAYLOR: So you're saying that when we did the asset -- the interim asset allocation, it was based on the lowering of the rate to 6.1?

CHIEF INVESTMENT OFFICER ELIOPOULOS: It was based on an 18 -- it was based on an 18-month forecast period.

COMMITTEE MEMBER TAYLOR: Right, but we're not even doing this one for 18 months until we revisit it, right? The interim asset allocation, we have 1 year basically.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That's correct.

COMMITTEE MEMBER TAYLOR: So I'm just -- I'm still kind of having a problem with how you say that it's disconnected, when very clearly it is not disconnected, because had we not lowered the rate of return, I think we would have had a problem based on taking the actions we took in September, because we -- we further lowered our expected return rate, and so -- when we took that interim asset allocation.

So I think that it's not an accurate depiction, although I see what you're saying that one looks at short term, one looks at long term, but it did have an impact. And I think it's -- I think it's not something that we should be saying that that's not there. It is there. The impact is there.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, we're constantly looking at the actual realized returns from our portfolio in any given time period, 1 day, 1 week, 1 month, 1 quarter, 1 year and longer periods of time. And certainly, we're always more -- put more weight on longer periods of time in reviewing both our actions and our performance, as well as our assumptions.

And I think that's the point I'm trying to underscore the most for the Committee is that our -- both our Investment Beliefs and the -- our practice require us to take much longer periods of time and to account when we're making our decisions. But we have done a review. Just to place and put this in context, perhaps it might be helpful, or at least allay some of the anxiety or fears around these types of -- or this decision in particular.

If we had substituted in the interim asset allocation amount for that 2-year period, it would have about a 5 basis points impact over the long period of time, the 60 to 100 years, that we look out in our forecasting.

So the difference is that a 1- or 2-year period decision would make is small when looking at the much longer-term projections that we're using, so --

COMMITTEE MEMBER TAYLOR: But couldn't that also be said for our reducing our rate of return, because we're looking at 10 years when we did our reduction and our rate of return and not the 30-year? Because the 30-year was a higher rate of return, based on the capital market assumptions, than what we actually looked at to do our rate reduction.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I guess what I'm trying to put is an order of priority for the consequences of these various variables. Certainly, the highest order is that the 10-year carpet -- capital market assumptions, as well as the -- as you mentioned, the 11- to 60-year, and even the 100-year longer-term assumptions that the actuaries put in, that's -- that forms the basis for the discount rate decision, as well as our asset allocation decision. Distinguishing a tactical decision to take some risk off the portfolio for an interim period of time, 18 months, that has a much, much, much smaller, would have a much, much smaller impact on a forecast looking out 60 years.

So what I'm trying to do is just put in context the different decisions that are made during the course of a year or during the course of a 10-year period.

COMMITTEE MEMBER TAYLOR: Sure. And I appreciate that. I also want to say that I think that as we go forward and we look at our asset allocation for -- in a year, that we should also be looking at what -- what we can do to not be leaving money on the table.

So I just want to make sure that you guys are exploring all options, so that we're not leaving money on the table and reducing -- I know we're risk averse, and I get that. But I also think that we leave ourselves open to not being able to do what we could be doing. So I -- and I hope that you guys are exploring all those options.

CHIEF INVESTMENT OFFICER ELIOPOULOS: We are constantly exploring those and look forward to exploring them with this Committee looking at both risk and return.

COMMITTEE MEMBER TAYLOR: Thank you.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I have some real concerns over our expected rate of return. But we are also talking about the review later in the agenda, so I will leave it for that point.

But the point I do want to make at this point is GASB, which is voluntary -- we don't have to comply with it. It creates all sorts of problems if we don't, but we -- it is voluntary -- says that your discount rate and your expected return have to lineup. You -- or the other option is to use the long-term muni as your discount rate, which I don't think anybody on staff or on this Board wants to do. But they -- to say that they are 2 separate is to say we're going to ignore GASB, which I don't think we're going to do.

The issue on the discount rate I will leave for a future date -- or a future item.

Thank you.

CHAIRPERSON JONES: Okay. Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones. And congratulations on your reelection. Mr. Eliopoulos, I just want to say I think, first of all, it's good to be challenging, as Ms. Taylor was raising. I just want to make sure that I understand it. These were all moving parts. I mean, for example, I could hammer you all and say let's just go to U.S. public equities, because again -- once again today, we're going to hit another high. And yet, that's not our portfolio. That's an element of the portfolio.

The discount rate, the action that we took in December was really to help you design the portfolio looking at going 3, 5, 10 years forward with a number, adding ALM over the next 12 months that we're going to work on. I mean, it's a bit of a -- it's a complicated formula of elements.

And I think the point Ms. Taylor raises is the more we can talk about how each piece impacts the other --

and I think a short-term interim asset allocation, whether we had the direct 30 basis points or, as you said, it will be 5 basis points by the time it is done, was -- as we start looking out the 20 years, the trend lines were down. I mean, we can talk about long term, but what we've seen really the last 10 years, the last 20 years, and really what you all came forward with in the fall, along with our outside experts is what we -- our best guess over the next 5 years. And that was a little bit of a lower rate, the 6.12 going 5 years out, and then tying in the short-term asset allocation to the longer one, the discussion we're going to have. I mean, does that capture it a little bit?

CHIEF INVESTMENT OFFICER ELIOPOULOS: It does. There's -- there's quite a bit of volatility and forecast risk with all of these forecasts. And it dwarfs any -- it dwarfs any of the short-term movements of the market. So certainly when the stock market rallies for a few months, and you've taken some exposure to equities off the table, you'll suffer some loss of return for that time period.

But what we have to remember is that there are other markets, and they tend to -- they tend to cycle in. So in constructing a diversified portfolio, some of your portfolio is during -- doing well during equity rallies and some of your portfolio is not.

And the key is over the very long term to put together a diversified portfolio that doesn't do 100 percent -- you're not putting all your eggs in one basket at any given time.

COMMITTEE MEMBER COSTIGAN: And again, just the point, we -- I mean, we're going to pay the benefits that have been guaranteed by the employers. We are trying to de-risk because our population is aging, our beneficiaries are aging. The volatility of the market is creating this -- these wild swings in unfunded liability.

I just want to, again, sort of level set the table, when we're -- you under enormous pressure from the Board to de-risk the portfolio to take risk out, or we could assume a significant amount of risk, and that -- and we're going to talk about that later -- but that's going to push out some of the issues that Ms. Taylor was also raising, so -- but that's what the next month -- or next year is going to be about as we go through the ALM. I just want to make sure I understand it.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That's exactly it.

COMMITTEE MEMBER COSTIGAN: All right. Thank you. Thank you, Mr. Jones.

CHAIRPERSON JONES: Okay. Thank you. Okay. Thank you for the report on the Executive Report.

And now, we will move to action consent items.

Do we have a motion?

COMMITTEE MEMBER TAYLOR: So moved.

CHAIRPERSON JONES: Moved by Ms. Taylor.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON JONES: Second by Ms. Mathur.

All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

None.

The items passes.

The next item on the agenda is information consent items, and I have no requests to pull anything off of that item.

So we will now move to Agenda Item number 6. 6a, Annual Review of the Legislative and Policy Engagement Guidelines, second reading.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good morning, Chair Jones and members of the Committee. And congratulation, Mr. Jones and Mr. Slaton, on your reelection.

Mary Anne Ashley, CalPERS team member.

I will be presenting Agenda Item 6a, which is a continuation of the annual review and discussion of the legislative and policy engagement guidelines. This is an action item. The background materials and draft recommended revisions to the guidelines are available in your Board materials.

In November of 2016, the legislative and engage -- engagement policy guidelines were scheduled for annual review and first reading at the appropriate committees. However, given that the federal and Presidential elections were pending, the committees decided to defer review and discussion of the guidelines until post-election at the January Board off-site.

Additionally, the committees decided to put the item over until the Board could have a chance to discuss whether to eliminate the guidelines altogether. This discussion occurred at the January off-site, but it was not completed. The discussion did, however, result in two alternatives regarding the continuing use of the guidelines being advanced.

This agenda item asks the Committee to choose between those two alternatives, which are Option 1, dispense with the guidelines in favor of relying on other Board-approved documents to guide CalPERS staff and our federal representatives in regards to State and federal legislation and regulatory proceedings, or continue to use and update the guidelines as necessary.

If option number 2 is chosen, then the Committee is also asked to review and adopt the proposed changes to the guidelines as noted in attachment number 3.

Additionally, the Committee is asked to clarify that it has or has not delegated to the CEO primary responsibility for determining whether CalPERS should take a position on any federal legislation, and if so, what that position should be?

In any case, all significant State legislation will continue to be brought to the Board for decision and regular updates on CalPERS activities related to federal legislation will be provided to the Board. And moreover, staff will be bringing forward in March the proposed federal legislative priorities for the current congressional session.

So starting with question number 1, the issue is whether the Committee wishes to retain the legislative policy engagement guidelines? Staff is recommending with dispensing with the guidelines for the reasons that are stated in the agenda item.

So I ask does the Committee choose to -- what's the Committee's decision on this question, and if you have any questions?

CHAIRPERSON JONES: Yes. We do have a couple questions. I have a process question though. It indicates that you will be bringing back to the Committee the priorities issues in March. So if we're going to have that discussion, why would we want to have the discussion now on the guidelines before we know what our priorities are going to be?

We may dispense with them or we may modify them, once we know how we're going to ask you to carry out our priorities.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

Right. There are actually 2 different decisions to be made. The guidelines are more overarching and meant to be more of an evergreen document or tool to use. The priorities will change with each congressional session. And the priorities are strictly for the federal legislative portion, where the guidelines are overarching for State and federal.

CHAIRPERSON JONES: Okay.

GENERAL COUNSEL JACOBS: And if I might add, Mr. Jones, the idea behind what's going to come forward in March with respect to the federal priorities are -- the intent is to be very specific about, for example, specific efforts to roll back Dadd-Frank, is that going to be a priority? You know, specific issues that we believe will be coming before this Congress, as opposed to, as Mary Anne said, a more overarching evergreen type of document.

CHAIRPERSON JONES: Okay. Thanks.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, I'm really glad that this agenda item has been brought forward in this way. I think the 3 questions that you've asked are exactly the right questions for us to be considering. And as one Board member, I do think that the Investment Beliefs do set the framework and do provide enough guidance for the CEO and the CIO and the Investment Office as a whole through its delegation to take positions on bills and to -- you know, to advocate for regulations or provide comment letter or whatever -- whatever work comes under that umbrella.

So I don't know if it's appropriate to make a motion at this time, Mr. Chair, but I'm happy to do so.

CHAIRPERSON JONES: Yes, since we will be taking an action, so you can make a motion.

COMMITTEE MEMBER MATHUR: Okay. So then I would move that we do not retain the guidelines, at least with respect to the investment matters -- obviously, each committee is going to take it up separately -- and that we clarify that -- that we have delegated to the Chief Executive Officer primary responsibility for determining CalPERS positions on federal bills.

VICE CHAIRPERSON SLATON: Second.

CHAIRPERSON JONES: Okay. It's been moved and second.

Further discussion. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I would like to split the question. And I would like to take up question 3 first, because if we decide we've delegated it, then the other part really doesn't make any sense. And so can we split the question and take up 3 first?

CHAIRPERSON JONES: I don't think that's the intent of the maker, but if the maker of that motion -- absent a substitute motion, if she has any comment on that?

Okay. I've got to go back and get you again. Just a minute. There you go.

COMMITTEE MEMBER MATHUR: I guess I just don't know that as a practical matter it makes a difference whether we take up 3 first and then 1. I don't have a strong feeling, but it seems like we could just take them up at the same time.

CHAIRPERSON JONES: Okay. So --

COMMITTEE MEMBER JELINCIC: Okay. I will make a formal motion to divide the question.

CHAIRPERSON JONES: Okay. It's been moved by -- a substitute motion.

COMMITTEE MEMBER JELINCIC: No, it's a motion to divide the question. It's not a substitute, but okay.

CHAIRPERSON JONES: Say what?

COMMITTEE MEMBER JELINCIC: It's not a substitute motion. It's a motion to divide the question.

CHAIRPERSON JONES: Okay. It's a motion to divide the question. Is there a second for that?

COMMITTEE MEMBER LIND: Second.

CHAIRPERSON JONES: Okay. It's been moved and seconded to divide the question. Okay. The first question -- we have further comment, so we've got to -- yeah, we've got to vote on this first.

COMMITTEE MEMBER JELINCIC: Okay. I would like to comment specifically on 3, which was the --

CHAIRPERSON JONES: Okay. So the first part of it is to delete the guidelines. That's --

COMMITTEE MEMBER MATHUR: I think we need to vote on whether we're going to divide the question.

CHAIRPERSON JONES: Yeah.

COMMITTEE MEMBER COSTIGAN: So I have a question.

CHAIRPERSON JONES: Yeah, just a minute. Hold on. Question on process.

COMMITTEE MEMBER COSTIGAN: So I do know it's been moved and seconded. Mr. Jel -- could we get Mr. Jelincic to restate his motion?

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER JELINCIC: I want to divide the question, so we can take --

CHAIRPERSON JONES: Go ahead, J.J.
COMMITTEE MEMBER JELINCIC: -- up item 3 first, because I think we'v delegated it --
COMMITTEE MEMBER COSTIGAN: So I'm sorry. I understand the motion -- the question says -- the next question is whether the Committee should clarify that it has delegated to the CEO the decision whether -- so your motion is just to delegate to the CEO the authority to do this?
COMMITTEE MEMBER MATHUR: To divide the question.
COMMITTEE MEMBER COSTIGAN: No, I know, but -- I understand it's to divide.
COMMITTEE MEMBER JELINCIC: Ultimately, it is to get the Committee to say, yes, we've delegated it --
COMMITTEE MEMBER COSTIGAN: Okay. Thank you.
COMMITTEE MEMBER JELINCIC: -- and therefore we don't need the other --
CHAIRPERSON JONES: So the first question is we're voting on whether or not to divide the question.
COMMITTEE MEMBER JELINCIC: Yes.
CHAIRPERSON JONES: So that's the motion on the floor. And it was moved by Jelincic, and second by Lind.
So all those in favor of that motion say aye? /
(Ayes.)
CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER COSTIGAN: Roll call.

CHAIRPERSON JONES: Roll call, please.

(Thereupon an electronic vote was taken.)

CHAIRPERSON JONES: Okay. The item fails.

Okay. So therefore there's no further discussion on that motion.

Now, we go back to Mrs. Mathur's motion, second by Mr. Slaton, but we did have people who wished to speak before we vote.

If I can get that back on my screen.

Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: Yeah. I voted against dividing the question, because I think the primary question is what information do we need to provide to this organization, both for ourselves to review as well as for staff. And I agree with Ms. Mathur's position that our Investment Beliefs, our Pension Beliefs, and our global governance have provided excellent guidance on where we're going.

At the same time, I think that given the way federal legislation works, the delegation is appropriate. It's not practical for this Board to start engaging in what we're going to do on a particular legislative matter at the federal level when we meet once a month. And we would end up with a bunch conference call meetings. And they have to be public, and, you know, it just -- you get down the rabbit hole pretty fast, if you're going to be flexible.

And I think that we have a great executive team, led by an excellent CEO. And I think it's their -- her job and the rest of the team's job to interpret what we have set out as our objectives, and I think they're clearly defined. So I would be in favor of the motion.

Thank you.

CHAIRPERSON JONES: Okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: I also want to support the motion and speak in favor of it. I agree. I think that the current policy and guidelines are too much, a little bit too restrictive. And given -- and changing this and basing it on our Investment Beliefs and our Pension Beliefs, I think that makes decision making better. Giving it to the CEO makes it quicker, so that they can respond to federal legislation. And as we see in this current environment, we're probably going to have to respond very quickly to federal legislation. So I also am in favor of this motion.

CHAIRPERSON JONES: Okay. Mr. Lind.

COMMITTEE MEMBER LIND: Yeah, I'm going to support the motion too. We have a lot of documents here at CalPERS. And anytime we can eliminate one, I think it's a good thing and avoids confusion.

As far as the delegation goes, and I -- and particularly the way Ms. Mathur worded the motion, which was primary delegation, I think is the right way to do it. Certainly, if there's a question and there's time, I'm sure the CEO would come and consult the Board at the next meeting. So as the motion is worded -- as the motion is worded, I am supportive of it.

CHAIRPERSON JONES: Okay. Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: I wanted to get some clarification first, and just say that I voted to divide the question, because I had assumed that question 3 was independent of how we decided 1 or 2, is that correct or not?

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

That's the way the agenda item was originally set up, yes.

ACTING COMMITTEE MEMBER JUAREZ: So we could vote for 1 or we could vote for 2, but nonetheless then we could vote different -- however we chose to on 3?

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

That's correct.

ACTING COMMITTEE MEMBER JUAREZ: Okay. All right. Thank you.

CHAIRPERSON JONES: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: The Governance Committee had a meeting at which we went over all of the contracts that the Board has and addressed the issue of which ones does the Board need to retain to comply with its fiduciary duties, and which ones did it not need to contain.

One of the questions that was up for discussion was the federal representatives. It was agreed that we -- the Board did not need to retain that contract to comply with its fiduciary duties, but it was an issue, and it was agreed by the Chair that that would become a sidecar issue.

When the minutes of that meeting came out, it said that we had delegated it to -- the Committee was recommending that it be delegated to the staff. Those minutes were adopted. A few months later, a agenda item came to the Board that took the responsibility for the federal representatives and gave it explicitly to staff, and they were no longer Board contracts.

In light of that, it makes -- I think it's blatantly obvious that we have delegated it to the CEO. It's not our contract. Staff controls it. If staff controls it, then, you know, it's in the jurisdiction of the CEO. So I don't think it's even primary.

I mean, we've given that away. I mean,

obviously, we can direct the staff and the CEO to take a particular action. But as an ongoing matter, we've given it away. And so I think, you know -- I will vote for the motion. Although, quite frankly, primary ought to come out, given our history. It's a staff function by decision of the Board.

CHAIRPERSON JONES: Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. I'm in support of the motion as well. I think that given the changing landscape and how quickly everything is moving that it's good to have more flexibility, and also to delegate the authority formally to the CEO.

Thank you.

CHAIRPERSON JONES: Okay. Mr. Bilbrey.

COMMITTEE MEMBER BILBREY: Thank you, Mr. Chair.

I also support the motion and ask that if any specific action is taken, the CEO communicate to us as soon as possible on any issues. And if it isn't clear, that also that they come back to the Board as well to make sure that you're absolutely clear on whatever the priority is.

Thank you.

CHAIRPERSON JONES: Okay. Thank you.

So it -- the motion is on the table.

All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

The item passes. Thank you.

Now, we move to Item 6b, Assembly Bill 20, Access Pipeline Divestment. We'll start with Mary Anne.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I'll begin. Thank you.

So the analysis of AB 20, which is the Dakota Access Pipeline Divestment Bill is included in your Board materials, and it's based on the current version of the Bill.

And this agenda item was scheduled to be an action item. However, the Legislative Affairs team has been able to contact the author's office and notes that the author would like to continue to engage with stakeholders, and may be making some changes to the bill. Therefore, there really isn't a need for the Board to take action at this particular Board meeting. We can withhold on that taking action -- taking a position, if that's the Board's choice.

That would allow the author to continue to engage with all stakeholders. I would be happy to review the current version of the bill and the impacts that it has or answer any questions that the Committee has.

CHAIRPERSON JONES: Yes. The item that's before us is recommended to be deferred to a later date. We don't know whether it's March until you have an opportunity to get an updated version of the bill, so that the Committee can take action on the bill.

I -- even though we are going -- going to defer the bill until a later date when we get more information -- more current up-to-date information, I do recognize that there are a number of people here to speak.

(Applause.)

CHAIRPERSON JONES: As a matter of fact, it's over -- matter of fact, it's over 50 people that have requested to speak. And we're going to honor their requests, if they would like to do it.

(Applause.)

(Cheering.)

CHAIRPERSON JONES: But let me -- let me get a sense of how many of you -- since we're not going to be discussing it, we're not going to take action would like to wait until the bill comes back and then have an opportunity to speak on it? Can I just get a show of hands.

So it looks like everybody wants to talk.

Okay. Okay. So, ma'am, in the back with the sign, please take your sign down, otherwise we'll have to ask you to leave the auditorium.

Okay. Thank you.

Okay. So since we're going to hear everyone that's here and have requested to speak. Because it's so many, I'm going to limit the comments to 2 minutes each. And the process is that I'm going to call your name, and then you will come up to my left here. Those 2 chairs, the first two. Matter of fact, I'm going to call like 6 names, and you could take the seats right behind the first 2 seats there. Matter of fact, now we've got 7 seats.

So that you could just rotate in. And then the process is that you would introduce yourself. The mic will come on automatically, and there's a timer right in front of me here that will go on as you begin to speak, and it will then let you know when your time is up at 2 minutes each.

So now that we have those guidelines, I'm going to call a series --

Oh, okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chair.

I just wanted to ask a couple of questions. One was is this the right forum? Can we have Anne Simpson shop explore what we can do around this issue whether -- you know, what it is, and opine? I know the bill isn't finished yet. So I thought maybe that might be a good idea when it comes back up in March or April, whenever it comes back up, so that Anne's -- can have an idea and look at making comment on what CalPERS could do.

And then secondly, I did want to take a moment of personal privilege and talk about the fact that I -- personally, I think the Dakota Access Pipeline is highly problematic, and it represents a failed vision --

(Applause.)

COMMITTEE MEMBER TAYLOR: -- for meeting our society's needs for sustainability, energy, and health, and -- excuse me. My voice is failing today.

Studies show that the project is poorly thought out on many levels first. First nations have stated clearly that it violates their sovereign treaty rights.

Second --

(Applause.)

COMMITTEE MEMBER TAYLOR: -- data indicates that a leak could threaten the primary water source for millions of mid-westerners.

(Cheering.)

COMMITTEE MEMBER TAYLOR: Thirdly, and obviously, as a project that extracts difficult to access oil only to move it from one place to another; doubles down on an old model of energy sourcing that destroys local environments, and increases the amount of carbon in the atmosphere at a time when we clearly need to lower carbon emissions.

(Applause.)

(Cheering.)

COMMITTEE MEMBER TAYLOR: So on a person level, I oppose this project.

But let me put my fiduciary hat on, and understand that the bill before us is filled with great intentions, but fails to meet the fiduciary standard we must all work within. And that's why I believe your shop engaged with the author. And I think it is something that CalPERS needs to make sure, as we look at bills like this that have a huge impact on our climate, that we are including -- when we talk about our fiduciary duty, that we are including our Environmental, Social, and Governance Program in that.

(Cheering.)

(Applause.)

COMMITTEE MEMBER TAYLOR: And again, thank you.

CHAIRPERSON JONES: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. Mary Anne, I've made this point before. I will make it again. In your discussions with the author, this bill prohibits CalPERS and CalSTRS from renewing and investing. If it is good policy, then it should apply to all California pension plans.

And if --

(Applause.)

COMMITTEE MEMBER JELINCIC: And if it's not good policy, it shouldn't apply to any. So I would encourage you to encourage the author to broaden it or get rid of it.

Thank you.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Point well taken. Thank you.

CHAIRPERSON JONES: Okay. Now, we're going to start the process to have the members who requested to speak come forward.

Ms. Cox, Ms. Kaplan, Ms. Suarez, Ms. Gray, Ms. Plout[sic]. Those are the first group.

(Applause.)

MS. COX: Excuse me. I'm Janet Cox and I signed up for -- not for this item, for 8a.

CHAIRPERSON JONES: Okay. Well, okay, there's a mistake on the form. No problem.

And then Mr. Botello can come up then.

MS. KAPLAN: As is the tradition I learned at Standing Rock, I would defer to our Native American speaker to start first.

MS. OPAL PLANT: Thank you.

(Applause.)

MS. OPAL PLANT: Good morning, relatives. Good morning to all of you.

My name is Pennie Opal Plant I'm Yaqui, Choctaw, and Cherokee. I'm here to represent the Indigenous Environmental Network and Idle No More SF Bay.

I have a statement from our relative Dallas Goldtooth, who has been on the front lines in Standing Rock, who's a long time pipeline fighter with the Indigenous Environmental Network. And then I would like to make a few remarks of my own.

He said that, "Those who invest in this pipeline are investing in the violence against indigenous communities. They are investing in violence against Mother Earth. They are investing in more climate change, and that is why CalPERS has to make the right choice to divest from DAPL."

So as this good sister here said, it's time to choose whether we're going to stand up for our children's great grandchildren's future, not only in Indian Country, but in California, in the United States, and around the world. We are at that point in the history of human beings on this beautiful planet that we exist upon.

I implore you to think of the children that you love, what you will be leaving them by continuing to support DAPL and other fossil fuel projects. If you do -- and I pray that you don't, but if you do, you will be responsible for the potential ill-health, deaths, and damage to the sacred system of life that we need to simply exist.

I personally am self-employed. I have investments in a social -- socially responsible fund. That's my retirement. And I can tell you that since 1994, my retirement fund has steadily done much better than conventional investments. I don't know why anyone at this point would continue to invest in anything that hurts the air, water, and soil at this critical time.

What we decide today, what you decide -- and I must say I'm extremely disappointed that the decision has been postponed, because the contracts come up to be resigned again on March 1st. And so hopefully, when you meet again, it will be sooner than that -- I understand that legislative processes take awhile. But this is an emergency. This is an emergency where my relatives at Standing Rock --

(Applause.)

MS. OPAL PLANT: -- have been harmed, have been shot, have been drenched with frozen water for simply praying on the front lines. How can that happen in this country? What is wrong with us that we allow these things to happen to people who are praying, and just rising up for their children's water supply?

We cannot allow this to happen anymore. This is wrong, and I implore you to do everything that you can, and especially the staff, especially the staff, who because of the staff this is postponed today.

It's just wrong. You need to stand up with us, because once they come for our water, they're going to come for this water too.

(Applause.)

MS. OPAL PLANT: It is one water, one air, and one soil. So join me and my relatives, because we truly are all related.

And I thank you for listening to me.

CHAIRPERSON JONES: Thank you. Your time is up.

(Applause.)

CHAIRPERSON JONES: Excuse me. So I thought you deferred -- you gave --

MS. KAPLAN: To go first.

CHAIRPERSON JONES: Oh, I misunderstood you. I thought you said that you were going to give her your time, that's why I allowed her to go.

Okay. That was my mistake. Then, okay, well, go for it. Two minutes.

MS. KAPLAN: Good morning, Mr. Chair and Vice Chair and members of the CalPERS Board. My name is Rebecca Kaplan. And I am the city-wide elected council member of the City of Oakland representing 400,000 people, as well as an employee pool of roughly 3,000 CalPERS members. I am myself a CalPERS member. This is my own retirement money that I am speaking to you about today.

I have a letter that has been handed out. I'll make sure more copies go round in case not everybody got it. The City of Oakland has passed a resolution standing with the Standing Rock Sioux Tribe, and against the Dakota Access Pipeline, which I bring today.

(Applause.)

MR. KAPLAN: And I personally traveled to Standing Rock in November to support the "water protectors". And so I have seen with my own eyes the brutality that was done against young people, primarily Native American people, who were seeking to defend the water. I have seen people scarred in their faces, being hit by flash-bang grenades, frozen water, rubber bullets.

I have seen the police set up on top of tribal burial grounds as they worked this desecration. And I understand that this pipeline was originally planned to go through a different neighborhood, where the white people complained and said they didn't want it to go through their neighborhood, so it was rerouted through tribal land.

We, as Californians, have been lifting up our voices lately and debating how we can be an alternative. As the U.S. EPA essentially disappears, how do we continue to defend land and water? How do we stand up for social justice?

And one of the ways we do it is with our money. We can put our money where our mouth is. This is our -- in our hands. And so this is something we can do to stand up for our values. And certainly if the legislature understands that CalPERS would consider divesting --

CHAIRPERSON JONES: Your time is up.

MS. KAPLAN: -- on its own, perhaps they don't need to legislate it.

Thank you so very much for your time and your attention.

(Applause.)

MR. BOTELLO: All right. Before I speak -- speak, I'd like to ask everybody to please step out of their mind say and to please enter your heart space.

Good morning, or as I like to say aho mitakuye oyasin. We are all related. We're all related to the water that's in front of us. We're all related to the air that's outside. We're all related to the father/son that decides unselfishly to rise every single morning to give us life.

I understand I'm on a time. Personally, I'm always on Indian time.

CHAIRPERSON JONES: Would you introduce yourself, please.

MR. BOTELLO: My name is Victor. I am a native of this Continent. And for over 500 years native people of this Continent have welcomed all genders, all races, and all peoples from all walks of life.

And as I said, I understand I'm on a limited time. I'm always on Indian time, so I'm going to take this very limited time to share a prayer with you guys.

(Thereupon Mr. Botello sang an Indian prayer.)

MR. BOTELLO(singing): Search for your Mother, your Mother Earth. Search for your Mother, your Mother Earth. Search for your Mother, your Mother Earth. Search for your Mother, your Mother Earth.

(Thereupon Mr. Botello sang an Indian prayer.)

MR. BOTELLO(singing): Do all you can, protect the earth. Do all you can, protect the earth. Do all you can, protect the earth. Do all you can, protect the earth.

(Thereupon Mr. Botello sang an Indian prayer.)

CHAIRPERSON JONES: Sir, your time is up.

Sir, your time is up.

(Thereupon Mr. Botello sang an Indian prayer.)

MR. BOTELLO(singing): Raise your children --

CHAIRPOERSON JONES: Your time is up, please.

MR. BOTELLO: -- and let them fly.

CHAIRPERSON JONES: I'm calling the next speaker up, please.

MR. BOTELLO: Fly like the eagle high in the sky.

Raise your children and let them fly. Fly like they eagle high in the sky.

CHAIRPERSON JONES: What's your name?

We can't do that.

MR. BOTELLO: Fly like the condor high in the sky.

CHAIRPERSON JONES: Sir, if you don't -- I'm going to have to ask --

(Thereupon Mr. Botello sang an Indian prayer.)

(Applause.)

CHAIRPERSON JONES: Go ahead ma'am, please.

MR. BOTELLO: Thank you.

MS. SUAREZ: Hello, everyone on the Board, and congratulations, Henry Jones, on your election as Chairman. I want to thank my indigenous brother for that beautiful prayer and that gift to all of us in this room, and to the Board.

(Applause.)

MS. SUAREZ: My name is Dianna Suarez. I live in Colfax, California, and I'm a proud citizen of the State of California. I brought a really nice sign that I couldn't bring in. It had nice big italic letters. On the words on it said, "At this point, anyone who finances any fossil fuel infrastructure is attempting to make money on the guaranteed destruction of the planet," by Bill McKibben, the chairman of the 350.org.

I want to talk about the vision that our Governor, Jerry Brown, has put forth for our State, lowering our carbon footprint. Energy Transfer Partners is carbon. It's the black snake that's choking out the living earth that we have here.

As a citizen, I would like to encourage everyone here to look in front of them at the water that they're looking at to drink. We all drink water and it is more important than money. It's more important than discount prices and financial percentages. We need to follow our vision and make the numbers match. We need to bring the numbers, the tools, the smart people here, the very smart and capable people that are here in this job, have -- are human beings in their hearts as well.

We need to make the numbers serve the people. We need to invest in the water and the clean environment for our people and the numbers will serve them.

I was at Standing Rock, and I can tell you personally there are a whole lot of people from California there. In fact, there was a place called the California Camp at the Standing -- Oceti Sakowin.

And the people are represented, and I hope that you guys will represent the citizens of California.

Thank you very much.

(Applause.)

CHAIRPERSON JONES: Is that Gray behind -- sitting in the chair there.

Are you -- I'm going to call the next group.

Mr. Williamson

COMMITTEE MEMBER COSTIGAN: Mr. Chairman?

CHAIRPERSON JONES: Yeah.

COMMITTEE MEMBER COSTIGAN: Can I ask a question?

CHAIRPERSON JONES: Yeah.

Just a minute.

COMMITTEE MEMBER COSTIGAN: First of all, I appreciate everyone being here. I think there's a little bit of confusion. Would it be better than calling folks up, since folks aren't ready, is just ask folks to come up in a line and speak for 2 minutes.

MR. WILLIAMSON: I'm ready.

COMMITTEE MEMBER COSTIGAN: No, I -- Thank you.

(Laughter.)

COMMITTEE MEMBER COSTIGAN: But I'm just staying from the standpoint -- rather than -- because it appears we have folks that aren't prepared to speak. Just a suggestion. I know that's how the legislature does it is folks just come up.

CHAIRPERSON JONES: Yeah. I think that's a good suggestion. Well, we -- I would ask the next 6 then to come and take seats behind the dais here then. And then just be sure you introduce yourself when you come, and then when -- and we get down to 1 or 2, I'll call up the next 6, if that will help the process.

MR. WILLIAMSON: Shall I begin?

CHAIRPERSON JONES: Okay. So there's couple more seats here behind -- yeah, go ahead.

And can I then ask the rest of the audience, when you see one of the seats in the second row vacate, just come and take it, and we'll just keep going that way, and we will hopefully get you out of here for lunch. Okay?

Good.

MR. WILLIAMSON: Good morning, colleagues. I'm Arthur Williamson. I'm a member of CalPERS. I've taught at California State University, Sacramento for more than 25 years.

My concern is the concern of all of these other people who are here, that is if we're really going to invest in -- for the future, for the members of CalPERS, the future turns on a planet that is not polluted, a planet that is not compromised, a planet that is not destroyed. Our future, which is your fiduciary responsibility, turns precisely on this.

And the focus on the future, rather than the short-term, if I understood him, Eli -- Ted Eliopoulos, if I got your name right. Earlier this morning, he was speaking about planning for the future. That seemed to be his emphasis. I didn't fully understand everything he was talking about, but that seemed to be his thrust. And I think it ought to be our thrust when we consider this particular issue.

Let's look to the long term. Let's have not only a fiduciary responsibility, but let's also have, finally, a civic responsibility. We are all citizens, and we do indeed have a responsibility, not only for the members of CalPERS, of which I am one, and all the people of California, but we have a responsibility as members and citizens of this country.

And I would ask you, in the most emphatic way, to stand with the future, and not with destruction.

Thanks.

(Applause.)

MS. LIND: Yá'át'éh from the Navajo Nation.

My name is Neeta Lind. I'm director of community at Daily Kos, the largest political progressive blog in the United States. I wanted to explain that my mother was stolen from her family by the U.S. government when she was 5 years old, and was put into a government boarding school, where she was -- where they tried to assimilate her. I'm here today to resist that assimilation and stand with Standing Rock.

We have been trying to protect the lands since Columbus stumbled in the Americas. And while protecting the water for the 17 billion people who depend on the Missouri River, the Sioux Nations have a long history of protecting their land that I'd like to briefly review.

Energy Transfer Partners is drilling to put the Dakota Access Pipeline under North Dakota's Lake Oahe. Not many people realize that this lake was created as a slap in the face to the Sioux. In 1851, the U.S. government signed a treaty dividing land in what would become States of Nebraska, Wyoming, Montana, and the Dakotas among 8 tribes, including the Sioux.

Then in 1868, the government chose to take away lands that had been assigned to the Sioux and other tribes in 1851. Some bands of sue signed the treaty, but Sitting Bull's band, the Hunkpapa, whose territory included where the Dakota Access Pipeline is slated to go, refused to sign.

Included in the 1868 treaty was a requirement that in future agreements 3/4ths of the male members of the tribe must approve any ceding of additional land.

But in 1877, angry about the fate of George Armstrong Custer and 7th Cavalry at the Little Bighorn, the government ignored the three-quarters requirement and forcibly took over about one-third of the land that had been agreed would belong forever to the Sioux under the 1868 treaty. This land included the Black Hills.

In 1889, the government took nearly half of the land that remind in the Sioux hands after the --

CHAIRPERSON JONES: Ma'am, your time is up.

MS. LIND: -- 1877 grab --

CHAIRPERSON JONES: You time is up, ma'am, please.

MS. LIND: Okay. I would just like to say further that today's critics who complain that the Dakota "water protectors" are violating the law with their blockade and protests against the pipeline conveniently leave this history of violations out of the law and Sioux sovereignty.

CHAIRPERSON JONES: This is the second time I'm asking you. You time is up, please.

MS. LIND: So I hope that CalPERS will make the moral choice to follow the actions of the City of Davis -- cities of Davis and Seattle to divest and give their support to the Standing Rock Sioux, and their honorable struggle for justice.

CHAIRPERSON JONES: Okay. I'm going to call on the next person, please.

(Applause.)

MS. RIVARD: Hello, Members of the Board. My name is Rhonda Rivard. And, first of all, I'd like to thank you for allowing us to come in and have you guys listen to us.

First of all, I'm a human being on this earth, just as all of you are. And we have to understand, just as you've been hearing -- and I thank you, Ms. Taylor, for your speech earlier today, because that is exactly where we're coming from, and where we want to go.

I'm asking you as a mother, a grandmother, and for future generations, we need to protect this earth and every resource that's on it. So my request to you is that you not only look at what you guys are doing, but realize whatever choice you make, it's blood on your hands if you make the wrong one. You will die with that in you, and it will go with you forever. Trust me.

(Applause.)

MS. RIVARD: So my request to you, as a CalPERS retiree and a person that has their money in this system, divest from this dirty oil and get yourself into the green energy that's going to sustain our future.

I thank you for hearing me. I didn't need my 2 minutes, and I'm hoping you can give it to somebody else.

(Applause.)

MS. RICE: Good morning. My name is Holly Rice. I'm a CalPERS retiree. I worked for the County of Santa Cruz for about 13 years.

I love serving people. And I know that the CalPERS values embrace this value of wanting to be kind and respectful. Thank you for letting me speak this morning, and for everyone else who's here.

The 4,000,000,000 invested directly into DAPL and Energy Transfer Partners are holdings I declare to be ethically and morally bankrupt, in that they environmentally contribute to escalating climate change and destruction of the environment.

On December 4th, the Obama administration correctly found the treaty rights of the Standing Rock Sioux must be acknowledged and protected. The easement for drilling under Lake Oahe and the Missouri River not be granted until a further Environmental Impact Statement was issued and completed, and consideration of alternate routes with a window for consultation with tribal members and public comment.

The Trump administration's reversal of former

President Obama's December 4th decision is an unlawful violation of treaty rights. The Standing Rock "water protectors" peaceful resistance is a just and rightful protection of their water source rights and sacred lands.

The criminalization that has been inflicted upon the Standing Rock "water protectors" is unconscionable. Their commitment to protect their water sources for the next 7 generations and community extends to those millions downstream as well. That's how deep their commitment is.

CHAIRPERSON JONES: Your time is up, ma'am. Your time is up.

MS. RICE: All right. Thank you for letting me speak.

CHAIRPERSON JONES: Sure. Thank you.

MS. RICE: I further ask that you vote to divest from DAPL and Energy Transfer Partners.

(Applause.)

MS. ZLATAR: Hi. My name is Ilonka Zlatar. And I'm an Environmental Scientist for CalEPA. As a State employee, my -- a substantial portion of my paycheck goes into CalPERS. I took some time off today, so I could speak with you, and I really appreciate the opportunity to voice my strong support of AB 20 to divest State retirement funds from companies funding or building the Dakota Access Pipeline.

In addition to this pipeline being a blatant violation of treaties with native peoples and Environmental Impact Statements that are dubious, at best, this pipeline is simply a short-sighted bad investment.

You have a fiduciary responsibility to public servants of California, like myself. In a recent article in the journal Nature, over half -- stated that over half of the fossil fuel reserves must remain in the ground if the world is to limit its mean temperature increase to below 2 degrees Celsius, after which point our climate systems that support our lives on this planet will drastically shift, limiting our capacity to continue to exist on this planet.

I hope that by the time that I retire, I cannot only count on my retirement funds from CalPERS, but I'm also -- I'm also able to have access to clean, healthy air, water, and land that we all need to live.

It would be the ultimate irony if an effort to provide my comfortable life when I retire, you also helped to fund the destruction of my future.

(Applause.)

MS. ZLATAR: The science is clear, these fossil fuels must remain in the ground. Investing in the infrastructure meant to last for decades when we know that we cannot burn these fuels is an unwise investment and will not result in -- and will result in a huge stranded asset that will not yield returns on the investments that you expect.

This contentious project has already been delayed due to public opposition, and will continue to face delays due to public opposition. I urge the Committee to support AB 20 and to divest from this incredibly risky investment. Thank you.

(Applause.)

CHAIRPERSON JONES: Yes, go ahead.

MS. KEITH: I don't even have a clock yet.

Thank you, ladies and gentlemen, for allowing me to speak. My name is Cheryl Keith. I'm a CalPERS retiree from having provided service to the Los Angeles County Office of Education. I believe in California. I believe in our public systems. I have worked for the federal government in California. I have lived my entire life in California. I was born 60 air miles from Badwater, Death Valley. I'm the real thing in California.

I would like you to divest from this project. We are the leaders of this nation. I remember when our schools were the best that you could find in the country. I'm a product of California schools.

I'm a graduate of a California high school, of the University of California at Riverside, of University of Southern California, where I received a full tuition scholarship for 3 years courtesy of fellow students who had the vision to provide for low-income high achievers.

I ask you to divest from this dirty fuel for all of us. Thank you.

(Applause.)

MS. WOOD: Boozhoo, and hello. My name is Genelle Wood, maiden name Moose. I am of Anishinaabe Minnesota Chippewa Tribe enrolled member. I have been to Standing Rock on the front lines, and I have seen with my own eyes what is going on there.

And I'm not asking for the people in this room, I'm not asking for our children, I'm not asking for our grandchildren, I'm asking for Mother Earth. Can you please divest? It means the world.

I mean, our children deserve to be able to have the clean water that we once had. And I'm sure that all of you who have children and grandchildren like to see that your children are eating and -- eating healthy and being able to have that right to live the right way.

Divesting from the Dakota Access Pipeline, it means that my relatives are not getting shot. I've been up there. I've welcomed the vets. I've been standing there and welcomed them to our camp. I have a wigwam in Camp Rosebud. My wigwam, even when I'm not there it is doing good. It's helping.

When they sprayed the people with water cannons, they sent them to my wigwam. You know, I sit here and I've seen people getting shot at. They're not using not -- they say it's nonlethal rounds. Nonlethal rounds are less than 30 feet. They're less than 30 feet. They're sitting 10 feet away shooting our Native Americans and other people who are there. I don't know what else I can say, but please divest.

Thank you.

(Applause.)

MS. JOHNSON: My name is Leslie Johnson. I'm not a CalPERS member, but I am a concerned citizen of California. I'm asking that you show your concern for our environment. I know that you care, but I ask that you find other ways to fund your System, invest and so forth. Like someone mentioned before, there's a lot of creative people here. There's ways to do things that don't have to impact how we live.

But, you know, our water, our air, people's rights, there's ways to do things. And I ask that you divest from, you know, all of the -- the -- anything to do with the Dakota Access Pipeline and any fossil fuel industry.

It really makes sense. We're all humans. We all care about our lives and our futures. We can find a better way to do this, can't we?

Please, I ask that you divest. Thank you.

(Applause.)

MS. NITTLER: I'm Lynne Nittler from Davis. And I'm a retired teacher, so my health care is through CalPERS. I want to thank you for your recent decision to stay out of tobacco investments.

(Applause.)

MS. NITTLER: And I knew when you made that decision that you are people with a moral backbone. And so this is a little easier to come to you today. I urge you to take another moral stance and to divest from the Dakota Access Pipeline.

The project threatens the sovereignty of the Standing Rock Sioux Tribe, and it's also their only water source for the tribe. And a spill that could potentially contaminate water for many millions of others. So there are strong moral reasons to oppose this project.

I want to give you a more practical reason for opposing the project, which is that the production of Bakken crude oil is actually declining steadily now, and they don't anticipate it ever increasing.

It's dropped from a million barrels per day down to 900,000 barrels per day. And there are already 6 pipelines carrying that crude to refineries, and there are also 2 local refineries.

So almost all of that, 855,000 barrels per day, are already taken care of. That means only a small percentage, 44,000 barrels per day remains to be distributed, but it's in decline.

So you'd be investing in a project that doesn't even need to be built, if you want something practical to go on.

(Applause.)

MS. NITTLER: So I urge you to divest CalPERS funds from the Dakota Access Pipeline.

Thank you.

CHAIRPERSON JONES: Thank you.

(Applause.)

MS. MARTINEZ: Good morning. My name is Salina Martinez. And I just want to address each and every one of you Michael, Steve, Rob, Richard, Bill, Henry, Dana, J.J., Ron, Priya, Theresa and Lynn. We are all indigenous to this world. We all live on Mother Earth. And these pipelines are going to harm every single one of us.

And I just want to bring up again, as I'm looking at all of you, you are all drinking water. Water is life. I don't see oil in anybody's cup up there. I can't drinking oil, and my children cannot drink oil.

And, Ms. Taylor, I really appreciate your comment earlier, and I know many of you probably feel the same way as her. The United States, everybody looks to California. We lead the way. I'm a dancente[phonetic]. And I've been dancing in Sacramento most of my life. And I'm also a semilora[phonetic]. And in the Aztec tradition, when we go into ceremony and we go battle, the semiloras[phonetic] hold the fire. We cleanse the path. California needs to create that path for everybody to follow.

The Standing Rock Sioux Tribe and their neighbors across Indian country do not want this pipeline. I do not want this pipeline. As a CalPERS member, my money is invested in something that I do not believe in. It breaks me heart to know that the money that I am contributing to my retirement is using -- is being used in such a horrible way. So I ask you, each and every one of you, to not only thinking about yourself, but think about everybody in this world, because like the other people said before, they're not going to stop with the Dakota Access Pipeline. We're next.

So I just, again -- I just ask you to divest. The company behind it has attacked land defenders with vicious dogs, sprayed ice cold water on protesters, and destroyed sacred burial grounds, sacred burial grounds. We don't do that. We don't go into people's churches. We don't go to New York, to the 911 towers, we don't go in and piss on their -- you know, their sacred burial lands. I ask you please divest. Please.

(Applause.)

MS. JACKMAN: Good morning. My name is Jean Jackman. Thank you so much for letting us all speak today. I'm a writer and retired teacher from Davis, a mother, and a grandmother.

I retired from Vacaville, which is STRS, but our health care is through PERS. Please take a good long look at the stated core values you have out there in the hall. And would the staff please take a good long look at the core values which are listed.

I hope that when you do that, it will give you confidence and courage to divest from funding of DAPL. So proud of our Davis City Council that took a stand to stand with Standing Rock and voted 5-0 to divest also.

(Applause.)

MS. JACKMAN: Please do the right thing to protect our health and future and that of our grandchildren. DAPL is a disastrous dinosaur. You can't drink oil, leave it in the soil. You can't drink oil, leave it in the soil. You can't drink oil, leave it in the soil.

Thank you so much.

(Applause.)

MS. ABBOTT: Good morning. My name is a Tarnel Abbott. And I'm a retiree CalPERS member with 30 years of service as a librarian. This is a beautiful building. I ask this Board to immediately divest from DAPL Energy Transfer Partners. I ask for myself, as a human being, who lives on this planet.

We are all at risk due to climate change which is speeded up by the burning of fossil fuels. We all live downstream. We must look to the future, look to what kind of world our children, grandchildren, and 7 generations will be able to live in.

In your own packet on page 5 on this item, the third paragraph, quote, "CalPERS wants companies in which is invests to meet high corporate governance, ethical, and social standards of conduct." This is not happening with Energy Transfer Partners.

This is an emergency. It is your fiduciary responsibility to divest now. It will be moot if we lose our planet due to the effects of global warming. There is no more time. This is the time.

I personally have divested from the banks who invest in DAPL and Energy Transfer Partners. And as a CalPERS member, I urge you, I ask you, I beg you, I cry for you, do something now. Do not put it off. The drilling is on again. You've got to stop it. You have the power. You are our representatives. This is a beautiful building. We need our money to go into something more long-lasting than a beautiful building, and it should not be going into fossil fuel. Go in for renewables. You can do it. It's up to you. It's up to us. If you don't do it, we will, and we have.

Thank you.

MR. ESTRADA: Good morning, Committee members. I am a CalPERS beneficiary. And my citizen brothers before me have pretty much stated my sentiments about how I --

CHAIRPERSON JONES: Would you please indicate your name, sir.

MR. ESTRADA: -- feel about divesting.

CHAIRPERSON JONES: Sir, would you please indicate your name?

MR. ESTRADA: I did. Oh, excuse me. Jose Estrada --

CHAIRPERSON JONES: Okay. Thank you.

MR. ESTRADA: -- a CalPERS beneficiary.

I've heard some interesting comments this morning from the creative staff people here. One that I liked most is risk, financial risk. So that's a big word financial risk. So what I want to say is, well, what is a financial risk long term and short term regarding the credibility of CalPERS, its mission, if the wrong decisions are made? We're talking about long term, because I believe that was a big deal, the long-term risk about money.

So anyway, but on a positive note, I would like to say that there are very creative ways to solve this. And, of course, there's going to be risk, but there are alternative energy sources, solar, wind, and there are some very, very exciting ways right now in the direction of these energy sources. Very exciting. You all may know about them.

So I urge you, as you ponder the divesting, to look at these things, and weigh those risks very carefully.

Any extra time I have, please can it go to the next person.

Thank you.

(Applause.)

MS. GAWEL: Good morning. My name is Sueann Gawel. I'd like to start by saying I agree with everything that's been said so far, and I wish to thank Ms. Taylor for her comments. I like your motto, "You serve those who serve California."

I proudly worked for the State of California for more than 20 years. I contributed to CalPERS, and now receive a pension.

As -- my message today is simple, not nearly as thought out. I apologize. As a member, I implore that CalPERS do the right thing. The pipeline decision is a moral, not a financial decision. I'm not sure. I don't understand the connection between this assembly bill and your decisions. I'm not sure why you cannot make this decision outside of any assembly bill. You have the investment decisions in front of you. I think, in my opinion, you should be able to divest, regardless of how any kind of lawsuit -- or State bills go through.

So please, I implore, divest from the pipeline.

Thank you.

(Applause.)

MR. SULLIVAN: Good morning. My name is Rick Sullivan. I'm a native Californian. And I'm currently a resident of the State of Maryland. And in Maryland, I have retired from the county government and receive a public pension from the local county government.

And having grown up and lived a lot of my life in California and now living on the east coast, I know how much people around the country look to California for leadership, and look to CalPERS and CalSTRS as the largest public pension funds around to take leadership on these kinds of issues that are so crucial to our future, and our children and grandchildren's future.

So I urge you to take action and to take action quickly on this divestment issue, and not to wait until whatever action you take will have no effect on the crucial matter at hand. This pipeline needs to be stopped. It needs to be stopped now. Stopping it next month or indicating your opposition next month may not have any effect on what happens.

The -- this Board, as all boards of investment trustees are constituted are here to protect the future. And the future is not just about finance. Finance is one part of the future, but without a planet, without water, air, and land, there will be no financial basis for an economy, or pension funds, or a life for our descendants going on down the line.

It was stated by the staff here that the investment managers take a 60 to 100 year look into the future, in terms of making investment decisions, and the climate issue, the planetary crisis that we're facing has to be incorporated into that long view.

Thank you.

CHAIRPERSON JONES: Okay. Your time is up, sir. Thank you.

(Applause.)

MS. WYLIE BRASS: Hi. My name is Jennifer Wylie

Brass. I want to start by thanking all of you for hearing all of these statements, and Theresa in particular for what you had to say in the beginning.

I'm a Muscogee Creek, Choctaw, and Cherokee. And my Irish and other European ancestors date back on Turtle Island to the early 1600s. And my husband, who is a native of San Francisco, as well as his father, has worked for the city for over 20 years. His years, in addition to his brother, father, and sister-in-law add up to nearly 90 years with the City of San Francisco.

Leaving the ecological arguments aside as they've been very well covered so far this morning, not surprisingly, fossil fuels are the past. Think of the branding of the biggest investor in Dakota Access Pipeline, the horse buggy.

A good investment strategy, as we've been hearing all morning, is one that is in a sustainable future, not in the past. Our retirement dollars that are invested in CalPERS should be invested wisely. We are owed a fiduciary duty to invest wisely. This is a win-win for the environment as well as for our pocket books.

And since I have a few more seconds, I'd like to add that TigerSwan is who is up there doing all the damage, and my father is a highly decorated Army vet. And I have a lot of emotions around the fact that Morton

County Sheriff's Department hired TigerSwan up in Standing Rock to do the damage to the people that they have done, in addition to the damage that they do to the military staff as well.

Thank you.

(Applause.)

MS. WYLIE BRASS: Mvto[Muh-doe].

MS. AUBREY: Hello, and thank you for hearing all of us. We appreciate it.

I'm Frances Aubrey. I'm from Oakland. I'm a mother, grandmother. And I am a member of the Alameda Interfaith Climate Action Network, and the Contra Costa Interfaith Climate Action Network. And we believe that the decision to support or not support AB 20 is a moral decision. And I'll give you 3 reasons. First, it is morally wrong to be digging up fossil fuels that poison our air, our water, and our soil when it is completely feasible to remove -- to move to 100 percent renewable energy by 2050 --

(Applause.)

MS. AUBREY: -- according to -- this is not pie in the sky. This is according to Mark Jacobson a researcher at Stanford and his team. If you want to know about it, go to the Solutions Project on-line.

Second, the handling of the Dakota Access

Pipeline is a prime example of the ongoing racism brutality and breaking of treaty rights of indigenous people that must stop now.

Third, if you do not divest from the Dakota Access pipeline, you ally yourselves with Rex Tillerson and his cronies at the fossil fuel industry who have known, most likely, since the 70s that mining and burning fossil fuel would create climate change, and they went right ahead and did it and lied about it.

So this is very much a moral issue, and I urge you to do the right thing.

Thank you.

(Applause.)

MS. SILVEY: Good morning. And thank you very much for having us speak today. I'm Deborah Silvey. I represent Fossil Free California. I've been here before. You've heard our arguments in favor of divestment because of the chaos that's going to come with climate change if we don't act now. So you've been hearing these arguments from our group for a number of years now, and there's never been a more compelling, dramatic, and tragic story that represents what could happen in the fairly near future to many, many people besides the people at Standing Rock.

I'm very sorry that they are the ones right now who are facing the brunt of this terrible experience, but they're not going to be the only ones. Unfortunately, we know that it will be other vulnerable people. There are people in danger right now in island nations, but also in our coasts, there are many people who are going to face a lot of danger. I'm very sorry to know that we -- that our pension funds are helping to fund the destruction of the rights of the people at Standing Rock, but it's not the only thing that's going to happen if we don't act now.

And you've heard the arguments. The financial arguments are sound for divestment from fossil fuels. And definitely I want to just tell you as a representative of Fossil Free California, that we also put up a petition of not too long ago asking members if they would like -- asking people to sign, if they wanted, to declare an urging of CalPERS and CalSTRS to divest from Standing Rock -- from the Energy Transfer Partnership. And we got, in a very short time, 4,112 signatures. And that's really something that tells you that this story is dramatic.

Thank you very much.

(Applause.)

CHAIRPERSON JONES: Thank you.

MS. OSORIO: Good morning. My name is Dyane Osorio. I'm the Mother Lode Chapter Director of the Sierra Club. We represent 18,000 members. And I thank you for listening to our concerns. It's regrettable that you're not going to take action today, but I do want to urge you not to wait for legislation to take action. We are in a time where we're -- our threat to our clean water to clean air is right now, and it's a social responsibility for you to make sure that you're taking the right investment in your future and your children's future.

And we also know that, you know, if you don't want to go that route, there's scientific proof that investing in fossil fuels is not a safe return. So if economics is your priority, then you don't have to invest in fossil fuel, make sure that your guideline for your portfolio is safe in clean energy.

Thank you.

(Applause.)

MS. LUNA: Good morning. My name is Anne Luna. I am Choctaw and Chickamauga Cherokee. And I grew up in the urban Indian community in Oakland at Intertribal Friendship House. Now, I am an assistant professor at Sacramento State. I am a member of the California Faculty Association, and now I am also a CalPERS member.

I'm also here to represent my mother, Ilene Luna, and my father, Riley Gordinier, who are also CalPERS retirees collectively for over 50 years.

I am calling for you guys to divest -- vote to divest from DAPL. I have been to the front lines at Standing Rock and seen violent oppression of "water protectors" by the local police, as well as all of the various security forces brought down on there.

I also want to bring to your attention the importance and the impact, not only on that end, but from experiences at Fort Berthold Reservation, where I witnessed the environmental degradation and social justice issues from fracking. I inadvertently swam in Lake Sacajawea. Unbeknownst to me, there had been an oil spill the day before.

I also met Hidatsa and Arikara women who had been raped and taken as sex prisoners by men working in the man camps there that were built by the oil companies.

So we like to think of ourselves as Californians as leading the way into the future with technology, and science, and culture. And this kind of energy, this filthy energy, it's violent, it's oppressive, and it's not going to bring us to where we want to be. We need to lead the way here as Californians and CalPERS.

Thank you very much.

(Applause.)

CHAIRPERSON JONES: Thank you.

MS. SIMMONS: Good morning. My name is Marian

Simmons and I'm a CalPERS member. And I'm here to request that you divest from DAPL. And I've read the recommendation from the Investment Committee. And I certainly appreciate that there's financial risk associated with divesting, but I think that there's other things that are more important than we need to take into consideration.

As a CalPERS member, I don't want my retirement to be funded by a project that tramples on the rights of native peoples, and threatens the environment. California has a history of using divestment to exert pressure for social change. It was used to powerful effect to assist in the end of apartheid in the 90s. And CalPERS needs to use its position now to exert pressure for social and environmental justice by divesting from the Dakota Access Pipeline.

Thank you.

CHAIRPERSON JONES: Thank you.

(Applause.)

MS. DRAGOVICH: Good morning. My name is Martha Dragovich. I'm from Martinez. I'm a retired teacher. I benefit from STRS and have for 12 years, and I very much appreciate it. And I appreciated this morning noticing how difficult it is for you to have to have this responsibility of where to invest my money. I really got that for the first time ever.

So therefore, I want to just make it short, because I can see everybody is glazing over, you have my permission to divest.

(Applause.)

MS. BRAUNSTEIN: Good afternoon -- good morning. My name is Lina Braunstein. I'm a State retiree from Sonoma Developmental Center, RN. And I agree with everything everyone has said. Water is a finite -- is finite. We're drinking Cleopatra's bath water, if you want to think about it. It just gets recycled.

So it's -- but beside that, the thing that concerns me also is that this is a risky investment. There was never completed the Environmental Impact Statement. It was never completed by the Army Corps of Engineers. This is after the direction has been changed.

The comment period was stopped, and so -- and now it's supposed to go under the Missouri river. There have been spills we know in the area, and there's -- downstream, there's 18 and 20 million people who rely on that water.

Who is going to pay for the clean up? Does that come out of our retirement? Who is going to pay if there is a gigantic oil spill, which could happen, and all these people are left without water? Who is going to pay?

So thank you so much.

(Applause.)

CHAIRPERSON JONES: Thank you.

MR. DRAGOVICH: Peter Dragovich, Martinez, California. As your client, a CalPERS retiree, I request you support divestment in DAPL. Per the State Constitution, it is in the public interest to support the divestment action called for in AB 20. The public benefits to do so are far greater than the sole benefit mentioned in the submitted staff report. The greater benefits are turning away from the continued exploitation of Native Americans as a profit center.

DAPL has destroyed their cultural resources and threatened their water, as well as the water of millions downstream. The original pipeline route crossed the upstream at Bismarck, a community that is 94.75 percent white, according to the latest census. But the pipeline was rerouted downstream to protect that white community and into the waters of the Standing Rock Sioux.

Unfortunately, the criminal history of the treatment of Native Americans has injected an additional element of care and respect that we must follow in evaluating investment decisions affecting tribal treaty lands.

As a CalPERS retiree, I say not with my money, not on my watch.

(Applause.)

MR. DRAGOVICH: No DAPL.

(Applause.)

CHAIRPERSON JONES: Thank you.

MR. MIYAO: Thank you. My name is Wayne Miyao, and I was a teacher once, and many other jobs since that time. But my comment is a concern that we all take time to consider lessons from history. Those -- as we've all been told, those who cannot learn from history are doomed to repeat it.

And I think that we in California have a dark history, because in 1849, which marked the wealth of this State, it is also marked a dark period, because it increased a word we'd never teach about, which is genocide. The native population was lowered to an extent that makes Hitler seem like a child. And that's a lesson from history we have to take, and that's a lesson from history that DAPL represents.

It represents, in my opinion, a dark side of our being, which is we could stand and watch genocide take place again in a different form.

So I'm asking you, because Hitler learned the lessons of history, he used the concentration camp and the ovens. And he said I learned that from studying American history and what we did with the reservations.

The DAPL pipeline brings forth, I think, a crisis, a moral crisis, not an ecological crisis alone, not a monetary crisis, but a crisis of our values. And so will we say -- will we allow the desire for profit to allow us to not realize that once again we're seeing an oppression of a people, a taking of their rights.

And so I think, and I ask all of us, to take time to consider -- just like it was said about divestment, it ended apartheid. It was one of the major movements -- I'm sorry.

But the last point I'd make is for what shall it profit a man, if he shall gain the whole world and lose his soul? I think that we're talking about our very souls.

Thank you.

(Applause.)

MR. OJEDA-BECK: Hello. My name is Rodrigo Ojeda-Beck. I teach at CSU, Monterey Bay, and I'm a CalPERS member.

First of all, thanks so much for your time and listening to everybody's opinions. I think it's important to do that, because we're in a very pivotal moment where we can actually affect change and make a positive better world for everybody.

Right now is a really difficult time, and you all are in such a position of power, a lucky position to be in to create positive change. California has always been a leader on human rights issues and climate change issues. This is such an important opportunity for us to make a statement, not only in our own country, but more importantly the world that fossil fuels are something of the past.

It's not until this realization happens that many of these human rights issues can begin to be affected and changed for the better. It's imperative that we divest from DAPL, that we divest from fossil fuels. I'm 29 years old. I've been teaching for about 5 years. I know my retirement age is going to be a lot higher than most people, due to the financial situation of our country.

Please by the time I'm done, let there be an environment for me to enjoy and for my kids to enjoy. I was quite disappointed to hear there's a delay on this, since time is imperative, not only in the long run, but in the short run as well.

They are drilling right now, and you all have the unique opportunity to say no in a strong, strong way.

So thank you so much for your time, and please use that power for good.

Thank you.

(Applause.)

CHAIRPERSON JONES: Thank you.

MS. BUSTOS: Hello, Committee members. Thank you so much for hearing us all. We really appreciate it.

My name is Scarlette Bustos. And I'm the daughter of Amilsa Bustos. She was a public school teacher's aide before she passed away. She was 47 years old when she passed away from breast cancer. If breast cancer bothers you, then honestly I ask that you help to lower the toxicity in the United States.

I'm also a member of lots of different clubs. I'm an injured worker. And so I have lots of time to fight. And so I've joined these the Sacramento Democrats, the Sacramento County Young Democrats, the Fem Dems, the Wellstone Democrats. I've joined No DAPL, and I've joined countless other civil rights organizations.

And what's really nice about it is that they all have the same message that we need to vote with our dollars. If you believe in civil rights, and you believe that women's rights are human rights, and if you believe the black rights are human rights, if you believe that life matters, please do what you can to divest from banks and do what you can to divest from projects that fund the toxicity of our world.

Thank you.

(Applause.)

CHAIRPERSON JONES: Thank you.

MS. VAN HORN: Good morning. Thank you all for taking the time to listen to our thoughts on this issue. My name is Julia Van Horn. I'm from Davis, California.

Sadly, I'm not in the privileged position of being a CalPERS member at this point, but I'm here to talk to you guys for a couple reasons. First of all, I am a California taxpayer, so my money is what goes into public employees' pockets and also goes into their retirement system, so I have a stake in this.

And also, as a 29-year old, I'm increasingly thinking about my own retirement, how to set that up for myself. And I just can't help but continue to think about the fact that, as some other people have said, by the time I retire, maybe it doesn't matter how much money I have in the bank. I think that this is a really key central issue for anyone who's young, for anyone who has children or grandchildren who are young. We don't have the privilege of not thinking about this. This is something that is going to be central to our life forever.

So I just urge you guys to do everything you can to invest as quickly as possible. You don't need to wait for legislation telling you you must. Please take action now.

(Applause.)

MS. VAN HORN: Please take action now. You have the opportunity to take a stand that will not only help your future generations, but also move our country to a place where genocide is behind us. That is what we need.

Thank you for your time.

(Applause.)

MS. JACQUES: Good morning. My name is Karen Jacques. And my husband and I are members of the PERS system. And I'm here to beg you to divest. DAPL is -- it's a moral atrocity. We've divested every penny we have otherwise from anything having to do with fossil fuels. And we don't want to be any part of this assault on Standing Rock people, on native rights, on human rights, the destruction of our planet.

The woman before me was just talking about her future. I just had a conversation with a young 20-something tenet of ours. And she's Profoundly depressed. And she said to me, well, I've decided that even if I meet the right person, I could never dream of having a child, because there's no future. I don't expect to live past 40 with what's being done to the planet.

It's -- this is a huge moral issue. You need to take action to divest and do it as fast as possible. Do it before DAPL in violation of all environmental law is finished. It also makes economic sense. But to me, the bigger issue is it's the future of all of us. It's the future of Mother Earth. It's a gigantic moral issue. And it is a way to say that we also step up and we finally speak powerfully against the genocide of native peoples, which has been the shame of this country.

So please act, and act now. And I thank you very much.

(Applause.)

MS. STEBBINS: My name is Barbara Stebbins. I am a CalSTRS member. I also work with an organization called Local Clean Energy Alliance. I'm here to urge you to take action, even though your action on the bill is delayed. This is an opportunity for you to actually examine your investment policy and priorities. I would suggest that having been part of a group that takes their job to be merely looking at the money, making sure the money is growing, making sure that the money is okay, what happens is you have lost sight of what is really -- should be the dominant principle, which is doing what is right.

(Applause.)

MS. STEBBINS: Doing what is right involves protecting the resources of the most vulnerable, most exploited in this country, whether it's Standing Rock Sioux or the people of Flint, Michigan, because their water is your water as well.

So I urge you to do the right thing first, the moral thing, to make that part of your investment policy, the dominant aspect of your investment policy.

The other thing is just speaking of what's conservative, you need to take a long-term view. The science is clear, climate change is happening. The long-term view says we have to get out of fossil fuels. I know there are alternatives in clean energy that are safer, long-term investments. That's where I would like you to put my money.

Thank you.

(Applause.)

CHAIRPERSON JONES: Thank you.

MS. MICHEL: Hello. My name is Renee Michel. And I'm a teacher. I've been teaching for 27 years. I have been to Standing Rock. I was totally disgusted by how people are treated. I'm upset about the environmental damage. And I just found out a couple days ago that CalSTRS and CalPERS is invested in this oil pipeline.

I don't know if you realize this, but you're sitting here at a great historic moment. You have great power. The world is watching what we do. And California being such a major investor, we need to pull out now. There shouldn't be a time to wait. Everybody is watching --

(Applause.)

MS. MICHEL: -- what we do, what you do. And as a teacher, I think about my students as the future. They're the future. What do I tell them when I go back to the classroom? What do I tell them about how their world is? And we're invested in it, this great State that I grew up in that I've lived in my whole life.

So I don't -- you're going to wait. This is almost like a no-brainer. You shouldn't wait. This is history. History is sitting right here, and we can make it, make it happen. Make people know, as leaders -- California is leader. Be a leader. Be a leader in making a change.

Thank you for letting me talk.

(Applause.)

CHAIRPERSON JONES: Thank you.

MR. TABERSKI: My name is Karen Taberski. I'm a retired State scientist. And I worked as a scientist for the State for 36 years. And I urge you to divest from Dakota -- the Dakota Pipeline. California has an incredible amount of power. And we're a leader in climate change.

In all the years I worked as a scientist, I was urged to always keep climate change in mind when we were making any type of decisions. I urge you to do the same. To wait, will make -- will take your power away. You'll lose all your power because the time will be passed.

So please I encourage you to divest from Dakota Pipeline. Please invest my retirement money in a sustainable future and not a destructive past.

Thank you.

(Applause.)

CHAIRPERSON JONES: Thank you.

MS. WILKE: Thank you. Thank you, Board. My name is Susan Wilke. I worked for the State for over 20 years. I'm also a veteran, and a university graduate.

And I'm not scientifically trained, but I've -- everyone here, there are many people that have spoken very eloquently about all the issues and the problems involved. But I see it in a really pragmatic way, that we have a principle, which is our planet, which is our resources. And unless we find out what the rules of nature are, we don't set the rules. Our governmental practices follow their rules, but the rules of nature rule us. And if we don't know what those rules are, and if we disregard them, if we damage our principles of land, earth, air, soil, oil, we are ultimately damaging our own future and our future of our planet.

It seems to me pretty basic. You know, it's the birds and the bees, and we're really based on those. You know, there's little tiny elements in the North and South Pole. The basis of our life forms are there.

And so when we start playing with Mother Nature and thinking that we're the rulers, that's wrong. And we know actions have consequences. If we don't eat the right things, we're, you know, liable to have strokes, heart attacks, cancer. Of course, there's other things involved. But it's our -- but we have to educate ourselves.

But if we've been educated, and we still make the choice to use our principle for short-term financial gain, for our own personal aggrandizement, or pleasure, or comfort, we are actually jeopardizing not only ourselves, but many other people.

CHAIRPERSON JONES: Ma'am, your time is up.

MS. WILKE: Is that it?

CHAIRPERSON JONES: Yes.

MS. WILKE: I think I've basically said what I think. And I hope that you will go on your diet. Even as an overweight person that knows they're supposed to eat right, it's hard to make changes --

CHAIRPERSON JONES: Ma'am, your time is up, please.

MS. WILKE: -- but you can do it. That's all I can say. It's not going to kill you.

CHAIRPERSON JONES: Okay. Thank you.

(Applause.)

MS. WILKE: Thank you.

MS. TORRES: I hope I'm the last speaker, because it is, by my watch, lunch time.

My name is Brady Torres. I'm a member of the both CalPERS and CalSTRS, and I'm a substitute teacher. I just survived Luther Burbank High School Thursday and Friday.

Now, we the people -- don't worry, I'm not going to go to D or not to D, that is the question, and go on the soliloquy from Shakespeare. I give you my permission to divest.

Let's have lunch.

(Applause.)

CHAIRPERSON JONES: As I do have requests to -- additional requests to speak, are there anyone else in the audience who signed up who have not had an opportunity to speak, who have signed up?

Come on up.

And if there are other members who have signed up, who have not had an opportunity to speak, come and fill the seats behind the dais here.

You may begin.

MS. MILLER: Sure. Good morning. Thank you for taking the time and trouble to listen to all of us. My name is a R.L. Miller. I am the chair of the California Democratic Party's Environmental Caucus, and the author of a Resolution calling for the CalPERS and CalSTRS to divest from fossil fuels past in 2015. That resolution became SB 185. I am sure that you are familiar with SB 185.

I am also the co-founder of a group called Climate Hawks Vote. I have given you 52 pages of extremely small type, representing 32,000 people who signed our petition, many from California, some from other states as well, calling on CalPERS to divest. In addition, we have -- we are submitting by email another 2,400 names gathered via MoveOn. In addition, I have handed to you 15,000 names signed by California League of Conservation Voters, who likewise want California, CalPERS and CalSTRS, to divest from fossil fuels.

I thought I would say hi. I'll be back.

Thank you.

(Applause.)

MS. EMERSON: Good morning. I'm Sandy Emerson and I'm with Fossil Free California. And I want to thank you, Theresa Taylor, for the courage that it took to make a -- recommend an investment decision that has such a moral consequence.

When you continue to defer and delay and engage with fossil fuel companies rather than exercising the power that you have to move your money from a polluting industry toward a sustainable future, you are jeopardizing the future of your members and beneficiaries, and all the people on the planet really.

It's time to take your money out of the ooze of the past, if you will, and catch the wave of the future.

(Applause.)

MS. EMERSON: The power is in your hands. You -- as an active Board, you give guidance to the staff. You can follow your Investment Beliefs, which are deeply thought, and remove the money from fossil fuels.

Thank you very much.

(Applause.)

MS. DAVIDSON: Hello. My name is Lynn Davidson representing 350 Bay Area. I'm going to read to you a very brief verse by a California poet named Drew Dellinger.

"It's 3:23 in the morning, and I'm awake because my great, great grandchildren won't let me sleep. My great, great grandchildren ask me in dreams what did you do while the planet was plundered? What did you do while the earth was unraveling? Surely you did something when the seasons started failing, as the mammals, reptiles, birds were all dying. Did you fill the streets with protests when democracy was stolen? What did you do once you knew?"

I don't believe you need dozens of strangers telling you what the right thing is to do. You know you need to divest from the pipeline. Don't wait. Do it now. Thank you.

(Applause.)

MS. SEIZIC: My name is a Candy Seizic. And I'm a retired State employee also, Mendocino County. My career is 33 years in public health. As an Environmental Health Officer, I have traveled the State inspecting shellfish, and water systems, and sewage, and restaurants, and institutions, and people.

I struggled to get the skills to be able to evaluate of. One of the things that I've learned is that as California goes, so goes the rest of the nation. And I'm very proud and relieved to live here, where I know my Governor has got my back at some point.

You people have the opportunity to lead the nation. You have my retirement funds, and I don't want them to go into fossil fuels anymore. I know that's where the money is and I need the retirement money, but I have solar on my roof, and I've done everything an individual can do to reduce my carbon footprint, to cause less harm in this world.

And I want my retirement money and the State of California to speak for something for the future, because I believe in solar, and I believe in wind, and I believe in any single thing we can do to stop the dependence on fossil fuel, which is finite.

One thing I learned in my years as a public servant is that rarely do the board of supervisors or the powers that be listen to the experts in the field.

Please divest.

CHAIRPERSON JONES: Thank you.

(Applause.)

CHAIRPERSON JONES: Okay. That concludes the public comment period -- the comments on this item.

So, Mr. Costigan, you had requested --

COMMITTEE MEMBER COSTIGAN: Just actually a couple comments. I want to thank everyone that came. Just a couple of observations. Having you all actually come engage is extremely important. Yesterday, I had the honor to speak at another board I'm on at the California Museum at 75th anniversary of Executive Order 966, which was the internment of Japanese Americans.

Yet, at the same time, another board that I sit on, also in 1945 issued an order terminating all Japanese Americans employment in the State of California. And it actually wonders where all those folks were.

So whether we agree or disagree ultimately with the decision, you all being here actually means a lot. So I do appreciate you being here, particularly those from Standing Rock that have a personal impact I find -- for me, the personal impact stories are much more effective and important. I appreciate the other State workers coming and talking about that.

But I just wanted to say, Mr. Jones, I appreciate you giving them all the opportunity to speak and how much I did appreciate you all being here.

Thank you.

(Applause.)

CHAIRPERSON JONES: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair. I think Theresa Taylor laid out very well and very clearly at the outset of this item sort of the issues that are in front of us with respect to the Dakota Pipeline and this particular bill, AB 20.

And I can't tell you how moving all of the public comments were to me personally, and I think we all feel the energy in the room. And I really can't say more about it.

One of the things that Ms. Taylor did call for, and I would like to reiterate, is that we further explore what our options are with respect to this particular issue around the Dakota Pipeline. And so I would ask, Mr. Chair -- I'm happy to make a motion around it or if you would be willing to make -- to give direction that we -- that the Investment Office further explore our options around this -- around this issue.

CHAIRPERSON JONES: Yeah, I think that that's the direction. I'm sure they were going to do that in looking at options as we move forward.

COMMITTEE MEMBER MATHUR: Thank you. And I think that clearly one of the messages here today is that this is an urgent issue, and so being expeditious is important.

CHAIRPERSON JONES: Okay.

(Applause.)

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Just a logistical note. I've noticed a number of people videotaping, which is fine and legal, but I will tell you that by the end of the week early next week, this will be up on videotape, and it will actually have captured the faces of the speakers. So I just want to let you know that will be there. Thank you.

CHAIRPERSON JONES: Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. I, too, appreciate the comments and the passion behind them.

Although, you know, some of the comments would leave folks, that don't know otherwise, to believe that CalPERS has not been engaged on issues of climate change. And certainly, we have been leaders in the world as investors on this issue. So I don't want that to go unsaid.

Now, here may be another possibility for us to take leadership around engagement, in particular around the Dakota Pipeline. So I certainly would support what Priya brought up. And it sounds like the -- what the Chair is directing, because, you know, perhaps specifically on this issue, there is more that we can do.

So I'm definitely supportive of that.

(Applause.)

CHAIRPERSON JONES: Okay. That's the end of this item. And I'm going to have us break for lunch, and we will return at 1:00 o'clock to continue our agenda items.

Thank you.

(Off record: 12:07 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: 1:03 p.m.)

CHAIRPERSON JONES: I'd like to reconvene the Investment Committee meeting.

We will start at Item 7, CalPERS Trust Level Review - Consultant's Report. You want to tee it up, Ted, or

(Thereupon an overhead presentation was presented as follows.)

MR. JUNKIN: Good afternoon. Andrew Junkin with were Wilshire Consulting. We'll go quickly. I had a request actually to see if Henry could put me on the 2 minute clock to see if I could do it that quickly.

(Laughter.)

MR. JUNKIN: You all know me, I'm a little more talkative than that --

(Laughter.)

MR. JUNKIN: -- but I will try to be speedy. And due credit to Steve Foresti for that joke.

Looking at page 2, these are our year-end asset class assumptions. We'll use these later in the presentation to talk about expected returns for the PERF. You all are pretty familiar with these. Really, if you compare them to the prior year, not much change on the equity side of the house. Fixed income up a little bit as rates rose during the tail end of the year. Everything else is about the same. And then looking at inflation still pretty sanguine at about 2 percent.

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COMMITTEE MEMBER TAYLOR: I love that word.

MR. JUNKIN: Sanguine?

Good.

Page 3, economic review here. Just quickly, consumer sentiment seems to be pretty strong. Although, I think it came in below expectations last week. Overall, the consumer is still in pretty good shape. Manufacturing slightly on the positive side of neutral. The job growth chart in the lower right there doesn't really capture everything. We've now had 76 consecutive positive months of job growth. And the unemployment rate is at 4.8 percent, down significantly from the depths of the global financial crisis.

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MR. JUNKIN: Page 4, you can see that this expansion has been one of the longest that we've had on record. It's good timing by Mr. Jelincic, because I'm about to quote him that expansions don't die of old age.

But having said that, there tends to be some reason that they run out of steam. And as a new Twitter user, I'm constantly checking Tweets from 1600

Pennsylvania Avenue to see what that reason might be.

(Laughter.)

MR. JUNKIN: I feel like there's probably something macro in the offing that might cause some problems for the economy.

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MR. JUNKIN: If you look at page 5, we look at the world kind of through 2 factors when we're dealing with what drives risk and return. And it's correlation to GDP growth and correlation to inflation. And for 2016 when you use that as your lens, you can see that really GDP growth was a positive. It's not always that way, right, in 2000 years. If you're exposed to rising GDP growth, you're going to suffer pretty significantly, but last year it worked out. And really the most significant positive was rising inflation. And those net numbers then will still show you a pretty good growth and inflation return there.

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MR. JUNKIN: Pushing on to page 6, you've seen something like this before from a number of different people. But we took a simplified set of assumptions, and this chart isn't well labeled, so I just want to acknowledge that right off the bat. This is essentially how much risk do you have to take to make 7 and a half percent, using a simplified set of assumptions for stocks and bonds?

And going back to 1976, you can see that the risk line, which is that red line, was pretty steady. It was essentially 100 percent bonds for a very long time. And then in the 90s, it started to get a little jagged. And early 2000s, you essentially pushed well into almost all stocks, and then post-08, absolutely all stocks.

And here's the interesting part. You'll see that despite this significant level of risk, and this is no surprise based on what we've talked about, the expected return line, that blue line that ran through the middle at 7 and a half percent is no longer at 7 and a half percent, because you couldn't get there.

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MR. JUNKIN: Moving on to page 8. So this takes the expected returns that we showed at the beginning, which are again our 10-year forecasts, and using your target allocation, you can see our expected return is 6.23 on a 10-year basis. On a 30-year basis, it's still 7 and a half percent, and the volatility is 11.4 percent.

Just for a point of reference, using the prior asset allocation prior to the changes that were made last fall, the risk number has come in significantly. It would have been 12.6, so down to 11.4. That's a pretty significant move on the de-risking spectrum.

Of course, it does bring down the expected returns would have been on a 10-year basis 6.5, and on a 30-year basis, 7.8. So there's that 30 basis point number that Ted referenced in his opening remarks.

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MR. JUNKIN: The -- looking at the asset allocation, you can see again no surprise, 54 percent of the dollars exposed to the growth assets, and that's 82 percent of the risk. That's significant driver of risk in the portfolio. It's always going to be until there's a huge move of any investor into bonds. To get below 50 percent, you've got to have something less than 25 percent in equities.

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MR. JUNKIN: And from that, I'm going to turn it over to Tom to talk --

CHAIRPERSON JONES: Okay. Before you turn it over, we have a couple of questions for you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. Going back to Chart 5, I'm not sure what you're telling me there. I'm going to --

MR. JUNKIN: I think it's -- it's another way to look at what was driving returns during a particular time period. And it's not always the case -- so we've bucketed asset classes into 1 those 4 buckets. Do they do well during rising growth periods? Do they do well during falling growth periods? Do they do well in rising inflation or falling inflation?

And what you saw is that the things that did well were most sensitive to inflation and GDP growth last year.

COMMITTEE MEMBER JELINCIC: Okay. Let me -- the rising inflation, 9.2. What's the asset class that's rising inflation? And is that an annual number or -- I mean, I literally don't understand.

MR. JUNKIN: Yeah. So it -- so this actually comes out of a paper that we published last year. I don't -- I don't have the components of the rising inflation bucket memorized, but it's things like commodities, it's things like MLPs, it's -- and real estate. So it is things that have historically done well when inflation is ticking up.

And one of the big drivers obviously was the price of oil last year going from, you know, mid-20s to 50s or so at the end of the year. So anything that had any sensitivity to the price of oil rose during the year. And that's pushing that rising inflation return higher.

COMMITTEE MEMBER JELINCIC: Okay. I'm stilled not understanding it, but I'm not going to belabor it

anymore, but can you send me the paper?
MR. JUNKIN: Sure. Happy to.
COMMITTEE MEMBER JELINCIC: Then I may have questions --
MR. JUNKIN: Okay.
COMMITTEE MEMBER JELINCIC: -- because I may understand what I'm looking at.
Thank you.
CHAIRPERSON JONES: Ms. Taylor.
COMMITTEE MEMBER TAYLOR: So I just had a quick question. I thought I heard you mention earlier 54 percent of our income is in -- in the equities. And you had said until -- and maybe I misunderstood you. What -- you said until we are not -- that's where I was like, huh?
MR. JUNKIN: Yeah. Sorry, I think I flew through that a little quickly. So what is labeled growth on this -- and I'm just looking at the 2 pie charts on the left. What is labeled growth here is really public equity and private equity combined.
COMMITTEE MEMBER TAYLOR: Right.
MR. JUNKIN: And so of the dollars that you have invested, 54 percent on a target basis are allocated to those 2 asset classes combined, which we've called growth. But because of the nature of risk and return for the various asset classes, and really the fact that stocks

have more volatility than anything else, drives a disproportionately large slice of the risk which is the bottom chart, which happens to be 82 percent.

COMMITTEE MEMBER TAYLOR: I get you.

MR. JUNKIN: So my point was for most investors that are really seeking returns, I would say anything above kind of 5 percent you're going to see more than half of your risk, it's likely to be coming, from equities. If you want to have less than half of your risk coming from equities, you have to have an allocation to equities that is about 25 percent, on a percentage basis, or lower. It's just the way the math works.

COMMITTEE MEMBER TAYLOR: So you're saying rather than 55 percent of our fund, we should have it at 25 percent of our fund.

MR. JUNKIN: I'm not saying should. I'm just saying that's what it would take. If you -- if you said to me, we want no more than half of our risk from equities, my off-the-cuff response would be you can't have more than 25 percent of your dollars exposed to the equity market then.

COMMITTEE MEMBER TAYLOR: Okay. And then --

MR. JUNKIN: I was just trying to kind of set the solid line for the field.

COMMITTEE MEMBER TAYLOR: -- that's where I was -- I thought I heard you say something you need to put it in bonds or something, and I was like huh?

MR. JUNKIN: No. No, it's just if you have a 50/50 mix of stocks and bonds, just set everything else aside, you have 80 percent of your risk coming from stocks. So if you'd rather have a 50/50 mix on a risk basis of stocks and bonds, you have to have 25 percent stocks, 75 percent bonds.

COMMITTEE MEMBER TAYLOR: Okay. I get what you're saying. I totally get what you're saying now.

MR. JUNKIN: So that's -- I went way to long to explain --

COMMITTEE MEMBER TAYLOR: I did not understand your explanation.

MR. JUNKIN: -- what I -- yeah, I just was trying to give you some frame of reference to understand these numbers.

COMMITTEE MEMBER TAYLOR: Okay. Thank you very much.

MR. JUNKIN: You're welcome.

CHAIRPERSON JONES: Okay. Just a minute.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: But the whole idea of risk parity is that you could take and leverage up those lower risk assets to make them as risky as stocks.

MR. JUNKIN: That's precisely right. Yeah, that's precisely right.

COMMITTEE MEMBER JELINCIC: Thank you.

MR. TOTH: Are you ready to move on?

Good afternoon. Tom Toth with Wilshire Associates. I'll flip ahead to page 11. This is the big table of returns for the total fund --

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MR. TOTH: -- as well as the various composites and asset classes. I'll focus most of my comments on the 1 year number through the end of 2016.

For the total fund, it was up 7.7 percent for the year, slightly underperforming the total policy benchmark, but outperforming the actuarial rate over that time period.

Looking at the various asset classes, as Andrew mentioned, growth asset classes were really the driver of performance over the last year in combination of 9.3 percent. As you look at the underlying asset classes there, you can see that public equity globally, but certainly in the U.S., was really the primary driver of performance up just under 10 percent over the last year.

Private equity, also a very strong performer relative to other asset classes, up 6.6 percent. You will notice relative to the policy benchmark, it did trail.

And we'll look at some of the attribution here in just a minute. We'll have more comments on that later with the other consultants. But important to keep in mind the benchmarking associated with private equity is not necessarily apples to apples of public equity plus a premium benchmark versus the private equity asset class.

And with valuation lags and those types of things, the private equity portfolio doesn't tend to move nearly as quickly as public equity benchmarks have moved most recently.

The income portion of the portfolio did what you would expect it to do. It performed with a return of 5.4 percent did outperform its benchmark, which was up 4.2 percent. Real assets another strong performer. As Andrew mentioned, inflation being one of the areas of the portfolio -- of the broader capital market opportunity set that performed well. You can see it was up just under 6 percent.

It did underperform relative to its policy benchmark. Some of that driven by the changes going on in the real estate portfolio, moving it towards a more stable income-oriented asset class with less reliance on growth. So it has not kept up with some of the -- we'll call it some of the frothier elements of the real estate market as a whole. But we would expect that over time that income stream will be more durable and should provide more solid ballast relative to other parts of the portfolio.

The inflation sensitive assets classes was up 6.3 percent for the year, in line with the benchmark. And that broadly covers the primary components of the total fund. If we flip forward a few slides --

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MR. TOTH: -- to the calendar year to date attribution. There's a lot of numbers on here on page 13. I'll focus your attention on the far right-hand side, the active management column, which helps explain some of the underperformance from the asset classes relative to the policy benchmark. You can see the big number that sticks out there is that private equity impact. As I mentioned before, the benchmarking there, a challenging asset class to benchmark.

I don't think this is an indictment of management of the portfolio in any way, but you can see that it did have an impact over that 1-year period of just over 100 basis points.

Similarly, the other negative impact are the real assets, which detracted about 30 basis points of relative return. And those were offset by the positive impact from public equity, which fortunately is the largest portion of the total fund, as well as the income portfolio global fixed income, which added close to 25 basis points.

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MR. TOTH: I wanted to just talk to a few of the other slides here, primarily just to pride context for some of the drivers of that performance. If we flip forward to page 18, you can see this is a chart of operating earnings growth over time. You can see that in 2016, it was a reversal from about 18 months or so of negative earnings growth to positive earnings growth, and that's a nice trend to see. From a -- from an equity standpoint, you can see that that really started kind of the first -- first quarter or so of 2016. And the year-over-year earnings growth didn't turn positive until the 4th quarter of 2016. So there is some momentum in the market on an earnings basis going into 2017.

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MR. TOTH: Turning to private equity, I'll flip forward a handful of slides here to page 30 in the slide deck. This just looks at valuations from a private equity -- from a private equity standpoint. You can see that elevation -- valuations are elevated, whether you're looking at U.S. or Europe. On the top table, you can see that at the end of 2016, buyouts were trading at 10 times EBITDA on a U.S. basis and 9.9 times in Europe.

Venture capital on the bottom, you can see where those valuations are trading. And despite a slight downtick in 2016 on the -- that's for Series B, elevations are generally on the higher side.

If we flip forward 2 pages to page 32 --

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MR. TOTH: -- this just gives a picture and admittedly at this point -- and data was not available to update it through the end of 2016. But we would not expect the numbers to be materially different from this. The private equity overhang exists at about 750 billion, which does a couple of things. One, I think it's a reflection of high valuations, and a manager staying sort of out of the market looking for attractive deals. So putting capital to work has been difficult. But I also think it's important to keep in mind that it does provide some sense of some underpinnings for pricing, as if prices were to drop, there's a lot of dry powder waiting to take advantage of those deals going forward.

Clearly, it's going to be up to the general partners to decide on the timing of that, and put your capital to work at an appropriate time.

If we want to flip forward to -- why don't we look at 207. This is just a quick table here --

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MR. TOTH: -- of the -- here, I got it -- the income returns. You can see for the year, as I mentioned up 5.4 percent, most of that driven by the majority of the portfolio in U.S. fixed income. The corporate positioning in the portfolio was a material benefit. And you can see on the non-U.S. side added relative performance, some of that driven by a positioning in emerging markets, which benefited the portfolio through the end of the year.

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MR. TOTH: Finally, in turn, I'll just speak to real estate very quickly. If we flip forward to page 53, this just gives a snapshot of the primary private real estate sectors. You can see that the trend line really across the Board is positive for the 4 primary sectors. In other words, availability is decreasing, more scarce -- scarcity for all of those segments leading to higher prices.

You can see the absorption really across the Board has been positive for all of those sectors. You can see the tick up on the lower left-hand side for industrial space. The area that is -- probably less of a positive trend, the upper left-hand side, the office space absorption, while still positive, has been trending down really through 2016. So a supportive environment in real estate, but the price that you're paying for that, generally speaking, is also elevated.

With that, why don't I stop and see if there are any questions from the Committee, and then I'll turn it over to Wylie and Ted and the other consultants.

CHAIRPERSON JONES: Yeah, we do have a couple questions.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. And forgive me, I did not really give you guys a heads up. I was going to ask this question. So if you need to think about it and come back, that's fine.

You know, over the 10 years there's been a significant decline in the number of IPOs, and a decline in the number of publicly traded companies by about a third, I think, over that time period.

Could you share your thoughts on sort of what the implications are of that for the composition of our portfolio, particularly in the growth asset classes, how we should be thinking about that as we're moving forward in this asset allocation process, and any other -- any other things we should be considering, or ways we should incorporating that?

MR. JUNKIN: I think I'm going to use the bailout that you gave me --

COMMITTEE MEMBER MATHUR: That's fine.

MR. JUNKIN: -- because I haven't -- I haven't thought about it in the context of how it might affect the asset allocation, but it's interesting. I mean, the Wilshire 5000 you'd think by the name, that it has 5,000 securities. It really never has, except maybe on day 1. It was intended to capture like 99 percent of the U.S. investable market. At one point, it got up to nearly 7,000 names. It's closer to 3,000 names right now.

So to your point, a lot of individual names have come out of being publicly traded. I think it's still plenty to offer a diversified portfolio, but I do think some of the segmentation discussion that happened at the off-site last month around what's really the role that we want asset classes to play or even segments within asset classes, comes to be an important topic. But beyond that, I'm probably going to need some time to ponder that.

COMMITTEE MEMBER MATHUR: Okay. I would imagine that there's some changes in sort of the concentration of certain companies within the -- you know, the public stock markets, you know, as there are more and more mergers. Some companies are getting larger and larger, so I -- but I'd be interested to get sort of a sense of how we should be thinking about that, both strategically and in terms of the asset allocation, if at all, if it's relevant at all.

Thank you.

MR. JUNKIN: Okay.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On slide 32, page 198 of the iPad, the overhang in private equity. Given that amount of overhang and dry powder, can you think of any reason why they keep raising money, other than, you know, as they get more assets under management and they charge fees based on committed capital, even though they have more than they can spend, is there any rational non-greedy reason why they are doing that?

(Laughter.)

MR. TOTH: Do you want to take that, Andrew?

MR. JUNKIN: Yeah, I'll take that. I think -- well, obviously, the economics behind having capital raised favor the managers. But at the same time, they're not raising capital from unwilling investors. We've seen it within our client base, and really across the institutional investor landscape. And in September every year, we bring forward the universe report. And one of the things that tracks is kind of asset allocation changes. And we see larger and larger allocations as a percent of a total asset allocation to private equity as investors are reaching for returns.

And I think that's really what's driving it is investor demand. And the private equity managers, I mean, they're -- they understand the more capital that they have committed, the more opportunities they're likely to see, but also their fees are higher.

I mean, I would defer to PCA or to Réal for anything beyond that. But I -- you know, there is somebody on the other side of this chart, and that's the investors that are willing to put that money out there.

COMMITTEE MEMBER JELINCIC: The -- yeah, I'm well aware of the greater fool theory. But should this give us pause? When we have made a commitment that we're always going to be in the market, because we don't want to get out of whack on vintage year? We don't want to be overweight in any particular vintage year. But should this at least give us pause?

MR. JUNKIN: Absolutely. Yeah, without a doubt. It is baked into everything that you see from us, and with respect to our asset classes assumptions, and the pricing that Tom just went over a couple of pages prior to this where things are trading at essentially all-time highs, right? It's a better time maybe to sell than to put money to work, if you're expecting outsized returns.

You know, looking back at 2006 even or 2009, when you're talking about 7 or 8 times to buy something privately, and now it's 10, you can't pay 25 percent more for something and expect the same returns that you would have gotten than if you'd paid less for it.

So you've seen our private equity return forecasts come down. At the same time though, you've seen our forecasts for other assets classes. So in some senses, it's kind of the relative return disparity between those assets classes, I think, that is still driving allocations across the industry for people that are looking to try to push returns higher.

But, yeah, I think this -- to me, this says be careful about how you deploy. This is not a -- this is not a beta market. And having the right partners, people that can really invest to improve the operations of a company rather than maybe just the financing, I mean, certainly there's some opportunities for profiting from changing the financing. But really, I think it's better operators that are more likely to achieve the superior returns in this kind of market.

COMMITTEE MEMBER JELINCIC: Okay. And I noticed that Wylie was trying to help you out.

It looked like you were trying to point to something.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Just writing some notes.

COMMITTEE MEMBER JELINCIC: Oh, for your presentation which follows?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yes.

COMMITTEE MEMBER JELINCIC: Okay. Fair enough. Thank you.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: He needs no help.

(Laughter.)

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER JELINCIC: Make sure you put that on your resume.

(Laughter.)

CHAIRPERSON JONES: Okay. So that concludes Wilshire's part. Okay. Who's next?

PCA.

MR. MOY: Good afternoon. Mike Moy from PCA.

I want to thank Wilshire for the introduction to the reasons for what's going on in private equity, because for the most part I agree with him. Although, I do believe that there's some -- some embedded issues in the overhang that allow them to have positioning in terms of if there is a correction, that the multiples will start to work in a favorable way, and they'll have the capital available to do something.

The other component though, I think, is the fact that you're actually paying for talent. And it's not so much that the funds are sitting there and not employing --

excuse me -- and are not employing the best talent. They're employing very good talent.

And it kind of ignores the fact that you are attempting to, as you work on fees, you're trying to pay fees only on invested, if you can. So you're bringing down the fee rates, which will compress the unfunded portion, but you're also attempting to only pay on invested capital and not committed capital.

If you go to page 2 of our presentation.

(Thereupon an overhead presentation was presented as follows.)

MR. MOY: Excuse me, again.

The returns that you have generated in private equity -- and I am going to point -- I'm only going to look at the -- like the 10-year numbers, because to me, when you get into a 1-year scenario like you do in some of the asset classes, the volatility in a 1-year period of time really is a contraindicator as it relates to a 10-year asset class. It just -- it's an apples and orange comparison, and that doesn't bode well.

Thank you.

Excuse me.

Like all the other big private equity programs around the country, you've been cash flow positive to the tune of 27 billion since 2011, which is one of the contributing factors to the declining your actual allocation to private equity. The managers have not been putting the money in the ground at the same level that they have historically. They've been much more judicial in terms of what they've been trying to invest, so your -- your asset allocation has come down, but it's -- a lot of it -- a lot of it is because of the cash flow that you've received.

One of the other charts that was in the I believe it was the -- either staff or consultant section talking about excess return, and the fact that your -- it was a deficit. For a 1-year period of time, the deficit for the total fund was like 82, and I believe the deficit for private equity was 86.

Well, I went back and looked at the numbers for the components of the benchmark. And in the 1-year period of time -- and the way it's done mechanically is they take the performance for each month, and they mathematically compute what it is for the cumulative period to the end of the period.

So in a 12-month period of time, there are going to be 12 readings. Well, in the period for 2016, and I won't bore you with each of the numbers, but the high number was 8 percent one month, the low number was minus 6 percent in another month. The median was about 1.0, and the average was about 1.4.

So I just went and moved the number for one month in the 2016 component. And by doing that, the -- instead of a 16 point whatever expected return, it went down to 12 point something.

So just by 1 month, you can have -- you can severely impact expected returns in a 12-month period of time. And to apply that to a -- you know, a 10-year asset class to me is not a good -- it's not a good measurement method.

If you go to page 3 --

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MR. MOY: -- this has been a seller's market and has been for quite some time. The investors have been throwing a lot of money and making substantial commitments. The better managers have no trouble raising funds, the not-so-good managers are having trouble, but it's been very robust. Probably the most difficult part of the issue when you look at what's going on in the marketplace, is the speed with which the ILPA reporting template is being adopted, is it disappointing to the ILPA organization and to people who are hoping that the adoption of the template will lend and add to the dialogue about transparency, et cetera.

What I think has evolved is that the larger institutions who have headline risk as it relates to cost, et cetera, have adopted the template, but those who don't have the headline risk, have not. And the reason they haven't is because the costs involved in accumulating the data and reporting it, in their mind, wasn't justifiable. So they've avoided adopting the template. So that's disappointing and something that I don't know what's ultimately going to happen, but it is an issue.

Wilshire mentioned the benchmarking inadequacy, and I would second that. Tom and I actually had a little conversation before the meeting today. I know it's going to be part of the asset allocation process in terms of what is the right benchmark for private equity. There's believers like myself that feel the alternative that you all have available to you is either you're in private equity or you're not. You could go into the public Markets, have liquidity, and have a return that's usually not as good, and 2 to 3, maybe 400 basis points below what you can get it out of private equity. So there's's got to be a public market component.

But having said that, the volatility in the public markets doesn't translate well when you compare it to the private markets. The velocity, the rapidity, the bandwidth is much different. And because of that, you run into these anomalies, which cause overseers concern as they're trying to evaluate the efficacy of their programs.

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MR. MOY: If you move on to page 5, probably the one item I would highlight on there is the last one, where you -- in the secondary market, you sold $400,000,000 worth of NAV. You got rid of 26 funds, and -- which included 16 managers. So a large part of your cash flow in 2016 came from that.

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MR. MOY: Going to page 6, and it goes to the conversation you had about the declining number of public companies, declining IPOs. If you look at the bottom bullet on page 6, there's over 6,000 portfolio companies represented by your investment in private equity.

Now, some of those are public, many of them are private -- most of them are private. So there's ample diversification out there, and it's just -- it's in a different format. What's the impact going to be on future asset allocations? I will follow the leadership of Wilshire and say I'll defer answering that till we've actually given it some thought, because I haven't given it much thought.

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MR. MOY: Going to page 7, looking at the 10-year return contribution by strategy. Of the return it's pretty close to 10 percent, 9.8 for 10 years. Buyout contributes about 6 of that, and expansion capital, and the credit related probably contributes about 3 in total between those 2. So you've got some -- some sectors are contributing to most of your performance, others are really not a major contributor.

Going to page 8.

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MR. MOY: Looking at the NAV by geography and the performance by geography, you'll notice that the U.S. -- first of all, on a 10-year basis, the program is 9.8 percent. About 7 percent of that comes from the United States, and then emerging Asia and Europe contribute about 1.4 each. So it's -- the dog in this fight to making most of the money for you is in the United States.

The amount of capital that you're able to deploy in these other markets times whatever returns you can get out of it don't really contribute mightily to your total performance.

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MR. MOY: Then going to page 9, looking at the 10-year return contribution, it's clear that partnerships are the major contributor. Of the 9.8, about 7.8 comes from partnerships. Fund of funds and co-investments are a very small portion of that contribution.

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MR. MOY: Skipping page 10, let's go to page 11. During the 6 months ended December 31, you made commitments of about 1.5 billion to 5 partnerships, 4 of which were existing relationships, and one which was a new one. And the new one received 150, and it was -- it is a an old line manager that's been around for beaucoup years with an excellent reputation. And as Andrew had mentioned earlier during his presentation, this is the kind of manager who makes his money not on the financial structuring side but on the operational side. And that's been their -- that's been their strength for going back to when they -- when they actually started investing in private equity.

Having said that, I'll be happy to answer any questions.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I realize you put the agenda item together in advance, because you know it's got to get approved, and copied, and distributed, but you made a comment on slide 3, and you don't have to go there, but it was about potential changes at the SEC, and the fact that they might not be pursuing private equity as aggressively. Now that you've had some additional time, do you have any additional insights into what may or may not be going on there?

MR. MOY: The major message to me there is I don't have any additional insights, primarily because there's been personnel changes, which have been in place. They haven't really added anybody yet in total. They haven't filled out their complement of people, but the -- the general partner community was lobbying pretty heavily to get a certain class of general partners exempted from registration. And once that happens, that takes it -- that class of general partners out of the mix for SEC examination.

COMMITTEE MEMBER JELINCIC: Is that class based on size?

MR. MOY: Yes, and registration. So -- but the size -- the registration and size correlate. So the message is that I think the institutional investor -- investment community needs to be lobbying their representatives pretty hard to see if they can stop that, because it's to -- it's to your detriment for that to go away. That's why we made the observation.

COMMITTEE MEMBER JELINCIC: Okay. And then on slide 6, you talked about the fact that we've got investments in 6,000 companies. Have you looked, or do you know if staff has looked, at who those 6,000 companies are and whether they are really a diversified group? I mean, they could be 6 -- it could be 6,000, you know, highly leveraged widget companies, which wouldn't be terribly diverse.

MR. MOY: Highly unlikely. Yes, staff has looked at it primarily. But the observations have been that the diversification is sector, geography, strata, it's all over the place. It's not concentrated in any one area that would give you concern about you have, you know, 5,000 widget companies.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Okay. Thank you. No further questions. Thank you for your presentation.

MR. MOY: Thank you.

CHAIRPERSON JONES: StepStone is next -- no, real estate. PCA.

MR. GLICKMAN: Good afternoon. I'm David Glickman from Pension Consulting Alliance, joined by Christy Fields.

The first part of our brief presentation to you is a review of markets, and then Christy will spend a couple minutes describing what we think went right and what went wrong.

When we review real estate on your behalf, we look at the 2 basic markets that comprise real estate investing, one is the real estate space markets, so supply and demand, vacancy, rental rate increases. And, in general, domestic real estate markets are moving towards equilibrium insofar as the amount of supply and demand. And rents are generally increasing across all of the different property types.

The second market that we look at is the capital markets, which are connected to the space markets, but also are independent of the space markets, because capital flows where capital flows. And if real estate is attractive, it will get capital. If real estate isn't quite as attractive, but it's still more attractive than the alternatives, it will get capital too.

And in this case, like the private equity markets, there is a surfeit of capital available. There continues to be plenty of dry powder for all risk categories within real estate, both the core lower risk, in which you invest primarily, but also in the opportunistic and value add turn around spaces in real estate as well. So there is nothing that is inexpensive. Everything is very fully valued.

The third thing we would point out to you about the markets is that our political landscape is going to have an effect on real estate investing. However, it isn't known what effect or when yet. We could speculate that it's reasonable to say that if the tax laws change and there are enormous amounts of capital repatriated by U.S. corporations back to the United States, that some of that capital will find its way into physical facilities.

We can also speculate that as restrictions for employment decline, then there may be more appetite to take on more leased space by corporations who have deferred the decision to expand their facility so far.

We can also speculate that if there are restrictions removed from Dodd-Frank and other financial regulations about mortgage lending, and the ability to create new speculative commercial real estate space is increased and made easier, then we will probably see more new buildings started than we have seen started during the last 5 or 6 years. But until all of those policies are codified, and the regulations are created, we can't tell yet. These are just things on which we're keeping a sharp eye.

The ability to invest outside the United States continues to get more difficult. And one of the comments that we would make is that as you look at the attribution of your returns from last year, part of the underperformance comes from having invested in countries outside the United States.

With that, I will turn it to Christy to talk about the performance and what worked.

CHAIRPERSON JONES: Just before we have a question maybe for you, David. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: The -- actually, I can wait until Christy gets done, because it's a general --

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER JELINCIC: -- more than anything specific to their report.

MS. FIELDS: Terrific. Christy Fields, PCA.

So as Tom highlighted, the 3- and 5-year performance of the real estate portfolio is strong, both on an absolute and a relative basis at this point. As David highlighted, there's some underperformance in the shorter 1-year period that's attributable primarily to the offshore investments and some of the legacy funds that were disposed of.

We try to highlight, at the bottom of page 3 of our memo, some of the things that we think are working and aren't working. And these aren't -- shouldn't be new. In this kind of private asset class, we tend to tell you versions of the same story from quarter to quarter. But just briefly to highlight that the disposition of some of the legacy commingled funds has helped reduce expected volatility in the portfolio. It's helped reduce the number of managers, so that's increasing the efficacy of staff's oversight role. And that, along with the improved investment and portfolio management processes are also contributing, we think, to the longer term strong performance of the portfolio.

That's really all I have prepared, if you have any questions.

CHAIRPERSON JONES: Okay. Go ahead, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Do you review staff's report before you write your own?

MS. FIELDS: We are looking staff's reporter. We're primarily looking at Wilshire's total fund level information.

COMMITTEE MEMBER JELINCIC: Okay, because -- in a couple cases, you referenced their report. And if you're reading -- reviewing their report before you write yours, I'm not sure about the independence of it. So I just throw that out.

Looking at the -- on -- it's page 4 of comparison to the benchmark, we have higher leverage and higher levels of non-stabilized assets than the benchmark.

MR. GLICKMAN: Yes, you have had -- excuse me. Yes, you have had higher levels of leverage than the properties and the funds in the benchmark, and you -- your investments have been more broadly made across different risk levels than the investments in the benchmark. That's been the case throughout your real estate investment experience for the last 15 years.

COMMITTEE MEMBER JELINCIC: Okay. But we've been working at reducing the leverage and moving more and more to stabilized assets, and yet, that's still a major difference with the benchmark?

MR. GLICKMAN: Yes, you are making progress towards those goals, which are consistent with the role of real estate within the overall portfolio. The level of leverage in your portfolio today is somewhere in the low 30 percent loan to value, whereas the level on the benchmark is in the low 20 percent loan to value.

COMMITTEE MEMBER JELINCIC: Okay. And then on the last page, number 4, I'm not sure exactly what you meant. "To date, CalPERS has not been paid an adequate return for the risks undertaken." Can you expand a little bit on that? And it may be a reference to the design. I mean, I just don't -- what did you mean?

MR. GLICKMAN: Well, what we mean by that is when you invest overseas, instead of investing domestically, you take on additional risks that are intrinsic to being overseas. You take on currency risk. You take on local custom risk. You take on regulatory risk. And for those, we would expect you should earn a premium compared to what you could earn for our a similar investment that was located in the United States.

And the performance from those investments has not yet been at a level that has compensated you for taking those extra risks.

COMMITTEE MEMBER JELINCIC: Okay. So the inadequate return is coming from the international investments?

MR. GLICKMAN: (Nods head.)

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: I'd like to piggyback on Mr. Jelincic's question on this risk -- being rewarded for this risk overseas. So what's the duration of that? I mean, if you make an investment in a foreign country today, and while you may be getting the risk return on that risk today, but things have changed over time. And 6, 7, 8 years later, the dynamics could have changed in terms of the country, so then you get a different risk return scenario. So what's the duration that we're looking at in terms of answering Mr. Jelincic's question?

MR. GLICKMAN: The investments that you've made internationally have been primarily in what I'll refer to as the BRIC countries, Brazil, Russia, India, and China. The length of investment that was contemplated by many of these investments was a 5- to 10-year period that involved the new development of properties that had yet to be proven.

During that length of time, the changes in local politics, the changes in currency, the changes in tax, all moved in ways that were not necessarily positive to your overall return.

I'm not sure what the proper duration is to assign to investments that are overseas in an illiquid, slowly-traded asset class. When rates of return are projected from these prospective investments that are close to the same rates of return for similar properties in the United States, PCA would say that's probably not a big enough spread to warrant taking them on.

MS. FIELDS: If I could ask just one other comment. I think there was an effort, and some of your existing investments in the emerging markets are held through separate accounts, and that was really an effort to address some of the movements in foreign exchange markets, and to control your destiny a bit more with these offshore investments.

I think -- so those are certainly longer duration investments by their nature. I think we're all still kind of of waiting to see if that's enough of a risk mitigation, that that structure, to warrant that kind of investing.

CHAIRPERSON JONES: Okay. Mrs. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah. I know in Wilshire's report isn't a lot of the risk that we're taking due to -- well, I wouldn't say a lot of the return attributable to the fact that the dollar has been so strong, so whatever maybe gains we had, maybe took a 50 percent haircut, because of the difference in the currency?

MR. GLICKMAN: It's certainly a contributing factor. You have assets overseas that receive rents in the local currency.

COMMITTEE MEMBER HOLLINGER: Right.

MR. GLICKMAN: And that local currency buys fewer dollars when they are brought back home to add to the base.

COMMITTEE MEMBER HOLLINGER: Got it Okay. Thank you.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. This is not specific to real estate, but we have made a significant out of -- non-domestic bet across the portfolio. And I'm inclined to think that bet makes sense. But I hope that in the asset allocation discussion that comes up, we will really take a look at whether this actually is a risk that we're getting paid for. I mean, historically -- you know, in the near past, we have not, but overall, because that -- since our liabilities are all dollar denominated, having our assets non-dollar denominated is a risk. And we really need to have a discussion about are we getting paid for it?

We haven't had that discussion at least since I've been on the Board, but I want to encourage staff to make sure that's a part of the ALM.

Thank you.

CHAIRPERSON JONES: Ted.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, that is a discussion that will be had during the ALM process. And the only additional comment I'd say is we did have quite a extensive discussion at the Committee level a number of years ago over whether or not to maintain a hedge, a partial hedge, to our currency exposures. But I think that the appropriate place to have the discussion again for sure is during the ALM process.

CHAIRPERSON JONES: Go ahead.

COMMITTEE MEMBER JELINCIC: Yeah, we -- now that you remind me, I do remember the discussion about the hedge, but I'm actually looking at a more fundamental question is should we be there to even consider a hedge? But I want to acknowledge, yes, we at least did have that. Thank you.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That's a point well taken, yeah.

CHAIRPERSON JONES: Okay. Thank you.

MR. GLICKMAN: Thank you.

CHAIRPERSON JONES: Thank you. Next is StepStone.

MR. ALTSHULER: Good afternoon. David Altshuler with StepStone.

I have very few comments. Very insignificant changes to the portfolio since we last spoke, which is actually a good thing, because performance continues to be consistent and strong in the infrastructure program across all of the reporting periods. For the 1 year, the program return 8.3 percent against a benchmark of 5.5 percent.

Again, the drivers of the performance have really been the direct investments in the program, and the defensive plus investments from a risk category. I should note this may be the last meeting in which you hear the term "defensive plus". I knew that I'd get a smile.

We're in the process right now of reclassifying the risk classifications for the program to core, value-added, and opportunistic, similar to real estate. But for this last period, we still are using those categories.

So very little has changed from a performance standpoint from an attribution standpoint. Just to give you some perspectives, those direct investments represent about 36 percent of the portfolio. About 40 percent of the NAV is in funds with the remainder in accounts, which has become the focus of the staff right now is establishing these accounts.

Another thing to note is that while performance has been strong, the risk profile of the portfolio has continued to improve trending towards a more conservative structure, lower risk investments, greater shift away from those extended in the defensive plus investments towards the defensive strategies, which really is consistent with the mandate for the program.

And the debt profile, the program has also continued to trend more conservatively. Loan to values have come down generally and then across the year. And that exposure to fixed rate investments -- long-term fixed rate debt rather has increased and is now about 87 percent of the debt.

I could talk about the market. It would echo PCA's comments, both with respect to real estate, and to private equity. It continues to be really competitive. I think close to $60,000,000,000 was raised just for infrastructure, this year. So a lot of capital coming in to the market. So it continues to be a very, very challenging time to invest.

So I will stop there and happy to take any questions.

CHAIRPERSON JONES: Yea. What are you viewpoints on the administration's infrastructure strategy --

MR. ALTSHULER: That's a great question. And

CHAIRPERSON JONES: -- after you determine what it is.

MR. ALTSHULER: Pardon?

CHAIRPERSON JONES: No.

MR. ALTSHULER: The -- you know, it -- obviously, it really remains to be seen. We're in very early innings with respect to the federal infrastructure program. There's a lot of talk. And I think there's a belief that now is a time to be looking for ways to use federal -- what leverage the federal government has.

It obviously is, if not limited to, heavily weighted towards tax credits and so forth, which may stimulate some investment. But the fundamental challenge has been, as you all know, is matching investable projects that have a revenue stream and that can attract private capital with that capital. And so -- and also noting that tax credits would only benefit certain types of investors.

So I think where we're seeing -- continuing to see more momentum, and I think more change, has been on the State and local level, where you do have fewer options -- increasingly fewer options to fund local infrastructure. And so there's increasing, not only willingness to experiment, but there's a growing track record of deals that have been completed, and have been performing, and that just creates more -- it makes these structures more palatable and more possible.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I will not miss defensive. But I have a question on page 2 of your report, the third bullet up. The Port of Melbourne.

MR. ALTSHULER: Yeah.

COMMITTEE MEMBER JELINCIC: You talk about the fact that we paid 25 times enterprise value divided by EBITDA. I have no concept as to whether that's a high number, a low number. Can you give me some context?

MR. ALTSHULER: Yeah. I mean, it's -- it's a relative number to factor, because it will always be in relation to similar assets, which is a very difficult thing to quantify in infrastructure, because we don't have Class A office space in the trillions of square feet that you can then compare to or publicly-traded companies that can be sliced and diced with all kinds of quantitative analysis.

So that's the one relative consideration. The other is just the point in time in the market. And it is -- it is what I would say in the -- in the middle to upper range of transaction multiples. It's a very scarce asset. It is not expected to trade frequently, if at all, in any near term. So it's just really important to have that -- that kind of backdrop. But to answer the question, it is not the highest multiple that has been paid, but it also is not the lowest.

COMMITTEE MEMBER JELINCIC: And can you talk a little bit about the enterprise value divided by EBITDA as a metric? I mean, it -- I mean it strikes me that it's kind of like essentially a PE.

MR. ALTSHULER: It's a very -- it's one of the very few standard metrics that's used to evaluate the -- that we have to value private companies and it's used across your private equity portfolio, as well as for utilities and for other assets. But it is -- it's probably the standard one that you've seen, and it's probably quoted in your private equity portfolio as well.

COMMITTEE MEMBER JELINCIC: And what is a good metric?

MR. ALTSHULER: That's a fair question. I think it is trying to capture, if you look at the -- how much revenue generation capacity of an asset, and you look at its total value, which includes the equity and the debt in that, it's a way to try to capture how much revenue you can expect to generate from an asset.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

So while it's positive that our performance still looks really attractive in this asset class, obviously, we've -- we want this asset class to expand, you know, more quickly, more rapidly than it has. And the supply side has been the real constraint here, because this -- and it's a competitive -- and it's attractive to not more than just us.

So I guess my question for you is what could we be doing to help foster, cultivate greater supply? I think 5 plus years ago we did a road show across the State, a few meetings with public officials, or public financial people trying to share what we're looking for, what kind of terms we'd be interested in. It didn't ultimately result in, I don't think, any deals -- firm deals. But is there something else we should be thinking about to help drive more supply, particularly given the constraints that public agencies, municipalities are under these days?

MR. ALTSHULER: They are under -- and it's a -- it's a fair question. And the response we got at that time was that -- and this was from several of the agencies. And I know many of you participated in that -- in that series of roundtables -- was that, well, we like what you're doing and we understand now better what CalPERS is doing, and -- with its infrastructure program, but we can borrow, on a tax-free basis, at several hundred basis points below your hurdle.

And so therein was one of the key challenges and the key takeaways was so long as these agencies can continue to borrow from the municipal market at very low rates, it's going to be very difficult to compete with that.

So what we're seeing staff doing, and what we tried to do is continually look for ways to create strategic partnerships with those managers, and others in the industry that we think are prepared to win deals, because that's really been the -- how capital has been deployed so far is finding the best competitive partnerships for CalPERS.

So I always think it's great to go to the conferences I've been asked before, like what are the best places to go? And quite frankly, the I think the message is out there, that you guys are here, you're very sophisticated. This is a very important part of your program, but I think it really comes down to just very competitive conditions. And so it's picking those right partners that are best placed to get deals done. That's going to lead to more deal flow and to more deal activity.

COMMITTEE MEMBER MATHUR: And so as of right now, does it still remain that the most of the activity is outside of the U.S. as opposed to inside the U.S.?

MR. ALTSHULER: In general, yes. Now, energy is still quite active in the U.S. But I think Increasingly we are seeing -- I mean, you were investors in a very large transportation asset in the first half of the year in Indiana. I mean, that I think was a real signal that domestic sophisticated large institutions like CalPERS are very interested and able to get deals done. And I think increasingly we will see transportation. Telecommunications is obviously an area that there's been a fair amount of activity in the U.S.

We've seen less and less of scale in areas I think you're looking to invest, like in water, for example, just because the deal structures really aren't there.

You've been active in the renewable space, and we are continuing to see deal flow in renewables. And, you know, those are all here in the U.S. in very large markets. So I -- you know, I'm confident that I think over 60 percent of your portfolio is domestic. And I know staff is very focused now on trying to create partnerships that are focused on the U.S.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

MR. ALTSHULER: Sure.

CHAIRPERSON JONES: Yeah, I want to piggyback on Ms. Mathur's question also. The -- an outgrowth of those meetings that she referred to was this -- I don't know if it was established before the meetings, or during, or after those series of meetings, but this West Coast Infrastructure Exchange consortium --

MR. ALTSHULER: Yeah.

CHAIRPERSON JONES: -- of 5 states plus Canada. What have they been doing to address some of those issues that were raised during those road shows?

MR. ALTSHULER: Yeah, they've been -- it's my understanding, and I hope this is accurate, but it's been relatively quiet from that group. I am not aware of any -- any deliverables or any major developments to come out of that. I think it was a great opportunity for quote unquote like-minded institutions to get together and sort of understand better what the respective objectives are of the programs and so forth.

But quite frankly, I am not aware of a lot that has come out of that currently, but that's something that we can look into and follow up with you on.

CHAIRPERSON JONES: Okay. Yes, because California is a member of that organization --

MR. ALTSHULER: Yeah.

CHAIRPERSON JONES: -- so we should understand what they're doing on our behalf or in conjunction with us.

Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. Henry, I would just point out that if the problem is tax exempt financing, it's going to be a problem for Oregon and Washington and other states as well.

CHAIRPERSON JONES: Yeah. Yeah, I know that was one of the overriding problems, because they can go and finance stuff much cheaper than going to the public sector -- private sector rather.

Okay. Any -- no further questions. Thank you.

Okay. That concludes that portion. We've got time to continue on. We will now go to CalPERS Trust Level review by staff.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, Mr. Jones. We anticipated that the day might go a little bit long today, given the morning questions. So it's at the pleasure of the Committee, we've prepared 10 minutes of discussion, but I think you -- the consultants and your questions have really covered the ground that we were planning on covering, so perhaps we could submit the item as read and just answer questions, but it's at the Committee's pleasure.

CHAIRPERSON JONES: Okay. Well, if you let me decide, I will -- okay. Well, I think because we don't get a chance to hear from our economist much, so maybe we could hear from the economist, and we'll read the other material and see where we go.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That sounds great.

CHAIRPERSON JONES: Okay. Is that okay with the Committee?

Okay.

INVESTMENT DIRECTOR ROTHFIELD: Well, thank you for that vote of confidence. I appreciate it.

(Laughter.)

INVESTMENT DIRECTOR ROTHFIELD: Yeah. So thinking about the economic backdrop over the last year, maybe even the last 6 months as well, this U.S. economy has actually had a pretty good year in 2016. The -- a year ago, when we were here, the economy was trying to recover from the rise of the dollar that had happened in the prior year. The adjustment down in oil prices, some of the energy related states, were performing poorly, manufacturing was performing fairly poorly, because of the impact of the stronger dollar. The fed had done its first rate hike and there was some uncertainty about what effect that would have on the economy.

So the economic expansion, as Andrew had mentioned has been going on for about 6 and a half years, but there are cycles within cycles. And about a year ago, we hit a kind of a bottom in the mini-cycle. And it's fair to say that most of the macroeconomic indicators in the year to this February have generally improved.

And on page 4 I wanted to just highlight 2 or 3 of the positives that had happened over the last 12 months

(Thereupon an overhead presentation was Presented as follows.)

INVESTMENT DIRECTOR ROTHFIELD: One is there has been an improvement in confidence, consumer confidence, business, CEO confidence, within the business sector both large corporations, and small business. And it doesn't always translate from confidence to actual spending or intentions to spend. But investment intentions have increased in the corporate sector, and also households have decided to spend a little bit more out of their income, and not in a irresponsible way.

The savings rate and the economy had actually gone up. Now, it's come down again a little bit. So there has been a little bit of a mapping of improvement in confidence into an improvement in either spending or intentions to spend in the year ahead. So that's a good thing.

The labor force and household formation is another key factor. So in the last year, 800,000 households were formed in the economy, which is kind of like a Goldilocks number. It's not too high, it's not too low. And more recently in the second half of the year, we've started to finally get more owner occupies coming back into the economy rather than renters. So the mix of household formation, families forming households, has switched back a little bit toward owners who tend to spend more in terms of building their house, furnishing their house, et cetera.

Another very favorable development over the last year is that a lot of the population growth in the economy has happened in this key 25 to 34 year old group. So some of the population that was 16 to 24 has moved into 25 to 34. And those folks are also more inclined to look for jobs and to stay in the job market.

And that's a key cohort for the strength of the economy. So the labor force in that area, that age cohort has grown by over 3 percent in the second half of last year. That's very good for the longevity of the economic expansion.

And then finally, the housing affordability and so-called opportunity to buy a house, if you're on a median income, has deteriorated a little bit in the last few years, but it's still much higher than it was at the peak of the last cycle.

So we're actually benefiting in the housing cycle from a slow and sustained recovery rather than a very fast recovery and housing that was ultimately destined last time to burn out very aggressively.

So again, this kind of points out the -- you know, 2 or 3 of the indicators in the economy that have done very well over the last 12 months. I think another couple of points that are worth saying is that China, a year ago, is a big worry, but China once again showed the capacity to be able to pull a few levers in the economy. It stimulated the economy through another stimulus by cutting rates and adding government spending. And it actually added some capital controls to prevent some of the outflow of capital that was coming from China.

Now, that's not on an endorsement of what China has done, but it does show that China can continue to be able to pull levers to offset any of the concern about the Chinese economy being a threat to the world economy.

And then finally, some of the tail-risk that we were worried about a year ago didn't eventuate, or if they did eventuate, like Brexit, the UK leaving the European Union, it's turned out to be a much more prolonged process than a major financial market event.

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INVESTMENT DIRECTOR ROTHFIELD: So turning to page 5, the point I wanted to make on page 5 is that we think about the expansion, a long expansion in the economy's 10 years, the -- the current expansion is 6 and a half years. If you look at a number of indicators that I do, there are about 17 indicators of the economy, some of them are at kind of a late cycle. For example, the number of people who are available to take a job who say the would like a job is getting very, very tight and scarce, and small businesses are saying they can't find workers that they need.

The unemployment rate is getting very low, which is very late cycle. But a number of these cycles are toward the middle of the range, and my work on these indicators plus some -- of some economic consultants like Cornerstone Macro, for example, is that probably in the next year there is about a one-third chance of a recession developing if the economy keeps going at its current pace, and probably a 50 percent chance of a recession within 2 years.

These are very stylized probabilities. But it really points out that probably the expansion is going to continue for another 1 or 2 years, and get us toward the 10 year. And part of that reason is that we haven't had kind of excessive growth of the economy, excessive growth of leverage, or household formation, which could lead to the demise of the slow expansion that we've had.

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INVESTMENT DIRECTOR ROTHFIELD: One of the key elements that in addition is what is happening in the area of U.S. policy. A couple of weeks ago the International Monetary Fund announced its quarterly update of the global economy. It said it wasn't going to do anything with the forecast until the -- its fall -- its spring meetings in April, because the main uncertainty was around U.S. policy formation under the new administration, and not only domestically, but how it engages with the rest of the world.

So the stylized chart there we're trying to show is how you think about the development of these factors over time. One is fiscal policy, so the interplay between the administration and congressional budget committees. In the middle of March, we have a debt ceiling to renegotiate, we have continuing resolution by the end of March -- sorry by the end of April. The Trump administration has to come up with a budget for next fiscal year at some point.

We have to understand whether their budget proposals are going to revenue neutral, or they're going to -- they're going to have a net cost, which would have an expiree 10 years from now, a sunset clause 10 years from now and could add to the debt.

A second key element of uncertainty is that the fed's -- the Fed's Board of Governor's is down to only 4 members out of 7. And by the first half of next year both Janet Yellen and Stanley Fischer, the Fed Chairman and Vice Chairman, their terms are up. So there's a possibility that there will be a replacement or a turnover a 5 of the 7 Board of Governor members.

There could be some pressure on the fed to reduce the size of its balance sheet to talk about deregulation again of the economy, and to maybe move toward a more rule-based setting of monetary policy, which everyone at the moment thinks may result in a higher Fed fund's target than we have right now. So there's a lot of uncertainty around both the budget side and the Fed side.

And then, of course, more general questions about whether reforms that are proposed in the economy add to potential growth, or whether potential growth is mainly effected by demographics and innovation. And therefore, the reforms essentially just create winners and losers, crowd out one sector in favor of another.

So there, the key things that we're concerned about over the next 3, 6, to 9 months that key forecasts like the International Monetary Fund are also concerned about.

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INVESTMENT DIRECTOR ROTHFIELD: So then finally going to the last slide which is -- in the main body, which is page 7, we wanted to try and reflect there the idea that the central case for the economy is probably the minority case now. So we've only assigned it a stylistic 40 percent weighting that the economy essentially continues the way it is right now. Economic growth stays in the low 2s like it has fairly consistently for the 6 and a half years of the expansion. We continue to get some labor force and household formation growth that prolongs the expansion, the Fed does the -- starts to address the improving economy, or late cycle economy by mildly raising interest rates over time, and that various countries like Japan, the Euro area, and the UK continue in an easy money mode over that period of time.

However, we can see both some upside and downside. One upside is that U.S. regulatory and tax reforms encouraged by the single-party sweep that we had in Washington could improve productivity, so-called third arrow reforms.

And then the downside, of course, is the potential for isolationist and protectionist policies, which could actually hurt growth. The Fed's decisions become more politicized and rule based, so that they have to raises rates more aggressively. Some of the policy changes may be disruptive like some of the immediate changes to health care reform and other reforms proposed to the tax system.

And then we just don't know that in -- we know we are going to get geopolitical events, but we don't know the new administration's engagement in terms of geopolitical events. So we're trying to say that the tails are now more aggressive on either side than the central case.

And probably, I think one of the points that was made internally is that the upside could lead to, you know, further gains in the market. The downside could lead to sharper declines. So although the cases we weight equally, the return-weighted downside is probably more aggressive than the return-weighted upside.

CHAIRPERSON JONES: Okay. Thank you very much.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On slide 7, the productivity issue. I guess Martin Feldstein has done some work on he thinks that we've been mis-measuring it. He believes that iPhones and Google have had a productivity impact.

On the briefing, I was told that you don't necessarily agree with it. Can you describe a little bit what his argument is and what the argument against it is, since productivity is --

INVESTMENT DIRECTOR ROTHFIELD: Yeah, I'm going to have to probably be the --

COMMITTEE MEMBER JELINCIC: -- obviously a real key to economic growth.

INVESTMENT DIRECTOR ROTHFIELD: It is. And I'm going to probably have to be the two-handed economist on that. And the first -- the first point I would make is to the -- there isn't much concern about the value of things produced in the economy, so-called nominal GDP, in which, you know, we measure a lot of financial indicators against nominal GDP.

The main question is around how we price things. So we may get a enhanced phone, and the price has gone up, but the features have increased considerably, so the quality-adjusted price may have came down. The government tries to account for that, but probably doesn't account for it sufficiently.

So I think Martin Feldstein may have said that instead of 2 percent inflation over time, in the last decade or 2, we may have had closer to 0 percent inflation, if you make a correct quality adjustment to the price that we're paying for the bundle of quality that we're getting from the things that we consume.

And so by that measure, you know, the productivity of only one percent we've had in the cycle probably could be a little bit higher. Some of the other work that's been done, Including by the San Francisco Fed - John Williams presented up here on that recently - is that there have really been 2 periods of key innovation in the economy. One was the post-war period to the early 1970s, the various innovations and inventions that happened about then, and then a second period of innovation that affected productivity was from the mid-2000s -- I'm sorry, from the mid-90s to the mid-2000s.

And therefore, they're the periods where we've seen innovation turn into productivity, and then you go back to a more normal period of productivity in which yes you are getting enhancements to product that the government is making some attempt to measure, maybe imperfectly, but, you know, is a least making some attempt to measure that.

And I think the truth probably lies between the 2 is that -- is that probably productivity in the economy is understated, and the benefit that people are getting from their income, in terms of the bundle of services and the quality of those services is probably understated. But I don't believe that it's as aggressive as saying that we haven't had any inflation once you make that adjustment over the last couple of decades.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. Thank you for the update. Appreciate it. Okay. So now we move to the next item on the agenda is consultant --

COMMITTEE MEMBER JELINCIC: Henry.

CHAIRPERSON JONES: Yeah.

COMMITTEE MEMBER JELINCIC: They not going to do the investment review. They're just -- because if they're not, I have a question.

CHAIRPERSON JONES: Yeah, I thought we agreed to just receive it and --

COMMITTEE MEMBER JELINCIC: Okay. But I do have a question. And it goes to slide 28, 335 of the iPad, according to my notes. When -- and it really kind of goes to the footnote. When I take our asset allocation and apply it to the Wilshire 10-year expected return that they gave us at the open session in June, I get 5.6. When I take PCA's 10-year that they gave us in December, I get 5.74. When I use the consensus that we were given in -- in December -- that was in a chart, so I kind of eyeballed it. I tried to bias it upward -- I get 5.9.

We have been publicly saying it's 6.2. Can you explain where the 5.8 comes from? And -- because I got it as part of a public records request -- they 11 to 60 applied to -- 11-year to 60-year expectation applied to our asset allocation is 7.11. And just so Bill notes, I have not mentioned the super-secret number that may or may not have been available in September. But where is the 5.8 coming from?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Wylie Tollette, CalPERS staff. Good question, Mr. Jelincic. The 5.8 comes from the August 2016 Wilshire capital market assumptions, and the asset allocation that was announced in December of 2016, and is currently present. So it's the August 2016 Wilshire cap market assumptions and the current interim asset allocation.

COMMITTEE MEMBER JELINCIC: And were the August numbers given to us at one of the meetings?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

They were. They were -- well, they were included in the August trust level review.

COMMITTEE MEMBER JELINCIC: In the August.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: So the same -- we present this same material twice a year, and they were presented as part of Wilshire's presentation in August.

COMMITTEE MEMBER JELINCIC: October total fund review?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: October total fund review.

COMMITTEE MEMBER JELINCIC: Thank you.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I'm sorry, yeah, August. Yeah. Thank you.

COMMITTEE MEMBER JELINCIC: August.

But that would have been before we made the -- so you took those numbers, and applied them to the asset allocation that we adopted?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: That's right.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Okay. Thank you.

So no further questions on that item, so now we will move to the next item, Consultant's Review of CalPERS Divestments. That would be 7C. Wilshire.

CHIEF INVESTMENT OFFICER ELIOPOULOS: While Wilshire is making its way up here, Mr. Chair --

CHAIRPERSON JONES: Yes.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- this is the annual review of -- for the divestments that are within the fund and the performance impact of those divestments on the fund. Similar to the other questions to the Committee is how much presentation time do you want from Wilshire? Do you want to take it as read and ask questions?

CHAIRPERSON JONES: Yeah. Maybe a brief presentation on this one, since we've been talking about divestment so much.

MR. FORESTI: Sure.

CHAIRPERSON JONES: Okay.

MR. FORESTI: Good afternoon. Steve Foresti from Wilshire Associates. I'll certainly try to be brief with the summary of the divestment analysis.

And maybe in accomplishing that, I'll point out that a subset of what I'll be reviewing today is the tobacco divestment program, which we talked about in December. So what we've done is taken that same methodology, applied it to all of the divestment programs, of which there's 4 active programs, and also looked at that same historical impact measurement on 2 of the inactive, or closed, divestments programs.

Just to set it up, there's 2 different pieces of the analyses that we did. One again is looking at historical impacts. And there we are taking index return information from your index supplier, and we get that for both the CalPERS equity portfolio without any of the withholdings, and then we make a comparison within each of the programs for what those returns look like, once removing the restricted companies in each of the programs.

And we've changed in methodology a bit from some of the numbers that you may have looked at in the past as the process evolves and we get more granular data. So, for example, we're now using quarterly data. In the past, oftentimes we had to rely on annual glimpses of the information. So some of the numbers differ a bit from some of the earlier studies that we did in past years. And that's the primary reason. There's other impacts as well, just both in terms of the methodology and the index data that we received.

But in going through that exercise, and I'll summarize. I'll start again with the impact, and then I'll talk a bit about the forward looking or estimations in terms of tracking error.

The numbers that I'll go through -- and these were supplied in the letter that we provided. There's a summary table on the second page of that letter. This work was done through June of 2016, so through your most recent fiscal year-end. So all of those figures think about them in terms of being representative of that point in time.

And I'll step through first the active programs starting with tobacco, which these are figures we talked about in December when you were deliberating on the tobacco program. In terms of the present value -- and the present value in this context is taking those previous impacts and looking at them period -- period, but then carrying that information forward based on the return of the total fund, which in our view is the best way to really understand what the impact is on the total wealth of the PERF.

So in doing that with tobacco, as we just discussed in December, the impact was 3 -- assumed to be 3.681 billion dollars, which is approximately, at that point in time, 1.2 percent of the fund. That's a lost of that 3.681.

Stepping through again the active programs, the Emerging Markets Principles Program, the figure there was just under half a billion dollars, so 482 million, which is 0.2 percent. That's a gain. So I want to point out where the gains are and where the losses are. So on the emerging market principles, that's a gain of 400 in 82 million.

On the Iran/Sudan divestment program that's another gain estimated at 293 million, which 0.1 percent of the June 2016 portfolio value. And then the firearms program which is a loss of -- estimated loss of 7 million. And when you add those all up, that comes to a total for those active programs of 2.913 billion, which is approximately 1 percent of the fund as of June.

Moving to the 2 inactive programs. And one is actually the predecessor for the emerging market principles, which is the Emerging Market Countries Program. The estimated loss there again carrying -- even though the program has been terminated for quite some time -- carrying those values forward to June of 2016 just over a half a billion, so 519 million is the estimate there. Again, that's 0.2 percent of the portfolio.

And then on the South Africa Divestment Program, so this is going back in time much further obviously. But nonetheless, looking at those figures it's 4.421 billion, or a percent and a half of the PERF's value in June.

Adding those up and combining it with the current active positions, brings that total value to 7.853, so just shy of $8,000,000,000, which represents 2.7 percent of the fund in June. Mr. Chair, would you like me to run through the risk numbers or there -- I can pause for questions if there's any questions on those figures.

CHAIRPERSON JONES: I think we'll pause for questions, and then we can determine whether or not there's a need to go farther.

Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Yes. It's not so much a question for the consultant, but more for staff. When would be the earliest we would likely see you back here to ever suggest that we begin reinvesting in tobacco?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll go ahead and take that one, because it's related to the next agenda item. And what's proposed in your total fund policy is that all divestments would be reviewed, you know, on an every 5-year time period.

This report on the pluses and minuses of the decisions that have been made is in your policy to be reviewed every year. So annually, you'll see this account.

ACTING COMMITTEE MEMBER JUAREZ: And I apologize for jumping ahead, but it just occurred to me to ask, so...

CHAIRPERSON JONES: Is that it?

Okay.

MR. FORESTI: And incidentally, one of the reasons that in this particular point I'm now showcasing the percent of PERF is I think it's really important - and the South Africa impact I think is a perfect example of this - that those figures -- I'm going to say something that might sound odd to you. But with respect to the impacts to date, not the ones going forward, but the impacts to date, you kind of want those to be bigger, because they get bigger as they compound with the total value of the fund.

By including the percent of PERF in that, I think you get a better representation through time of how they scale against the portfolio. So let's say 15 years from now, if I come back and do this analysis, God willing --

(Laughter.)

MR. FORESTI: -- that dollar amount for South Africa could be double its current size, but its percent of the PERF could very likely, or should be, essentially flat that 1 and a half percent. So I think that's an important point. I'd kind of advise you to keep an eye on those percentages along with the raw dollar amounts.

With that, I'll move to the risk analysis.

CHAIRPERSON JONES: We have some more questions.

MR. FORESTI: Oh, sorry. Okay.

CHAIRPERSON JONES: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yeah. Thank you, Henry. I had a quick question. How long have we been out of South Africa, and are we still out?

MR. FORESTI: No, you've reinvested in South Africa a long time ago.

COMMITTEE MEMBER TAYLOR: Okay. Okay. So your just -- I guess, I'm confused then. So you're giving us information on what this period of time was that we were divested from?

MR. FORESTI: All of the programs, whether active today or closed, because in terms of their impact on the wealth of the fund, they continue to change through time.

COMMITTEE MEMBER TAYLOR: Okay. I just -- I have a real problem with continuing -- and I'm so glad we're doing this on a 5-year cycle now, because continuing to go over money we could have had really just drives me crazy. I think it's -- we could have had that money, but I'm thinking that if we invested that money elsewhere, we probably have had that money.

So I think that it -- I know it's an argument that we talk about on a regular basis that we've done this. I just think that it's kind of a reversal of logic, because it's money we could have had. We've been divested from South Africa, and it's not even there any more and we're still talking about it. So we're reinvested in South Africa. I just -- I just have a real problem with that.

Thank you.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Steve, the emerging country loss, and the BM principles are essentially a --

the same policy just a refinement of it, correct?

MR. FORESTI: That's correct. So it was a change in the methodology, so there was a cross-over date between the those 2.

COMMITTEE MEMBER JELINCIC: And so the net of the two is $40,000,000?

MR. FORESTI: That's correct. One's --

COMMITTEE MEMBER JELINCIC: Okay. I just want to make sure I understood that.

MR. FORESTI: That's right. That's -- I think that's a fair way to look at it. One has resulted in a gain of about a half a billion, and the other a loss of about a half a billion.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. Thank you. So proceed.

MR. FORESTI: Sure. So as noted, we looked at the current -- and by current, again, keep in mind, this is as of June date. Now, looking at the holdings impact on an expectational perspective what is the expected tracking error to the portfolio from the various programs?

And here, I will focus on just the active programs, because there's absolutely no impact from the programs that are -- that have been terminated.

So stepping through those -- and this is in the memo as well -- what we provide for each is what percent of the assets of the global equity portfolio each of the programs represented. That's just what percent is being removed through the restriction, an estimate using our internal risk systems of what the expected annual tracking error is. So that would be just, again, index 1 with removals against the pure index with everything included, and what the expected tracking of those two are.

And then we've put them in context of in a dollar perspective what does that represent in terms of a 1 in 5 gain or loss? And I want to underscore gain or loss here. These are risk statistics. They're not estimated costs.

So for each we've provided a 1 in 5, a 1 in 10, and 1 in 20 figure. And the way to think about what those figures represent is that is an estimate of the magnitude of the impact of that particular divestment program. And for the 1 in 20, 1 in 20 years it would be expected that the gain or loss would be that size or greater.

So, for example, for tobacco, as of June, just under 1 and a half percent of the portfolio was in tobacco companies. The estimated tracking error, when, as we look at it, is 14 and a half basis points. Now, I'd caution you to kind of ignore that third decimal point. We've just provided it, because some of these figures are quite low, just to give you a sense of which direction those numbers are, but call it 15 basis points of expected tracking error.

And the impact on that again in this 1 in 5, 1 in 10, and 1 in 20 year impact would be 284 million plus or minus, 1 in every 5 years; 365, 1 in every 10; and 435 million 1 in every 20 years.

Looking at that same analysis for the other 3 programs, for emerging principles, just under 17 basis points of weight. So call it about a fifth of a percent removed from the portfolio. The impact there, in terms of tracking error, much smaller, just under 2 basis points of tracking error in those figures. You can see in the 1 -- the 5, 10, and 20 year events are smaller numbers 35, 45, and 54 million respectively.

And then for Iran/Sudan, interestingly here, from a dollar amount, just about the same size removal as for the EM principles. But here in terms of a tracking error it's about double the size, and that has to do with the risk of those securities, how well they track the overall portfolio, et cetera. So that's the impact there.

And then fire arms is the smallest of the programs in terms of both its size of assets within the global equity portfolio, and conversely, or related to that, the impact on tracking error.

So those, I think, would meet anybody's

definition of de minimis where it's 1 basis point of weight. And it wouldn't even round to a basis point in terms of tracking error. I'll pause there. I know we wanted to try to be brief, but happy to entertain any questions.

CHAIRPERSON JONES: Okay. There's no questions at this time.

Okay. Thank you.

I would just, in terms of Mrs. Taylor's concern about redoing it. It may be helpful if we can ask our fiduciary counsel to provide some information on our duty to review these on some periodic basis. Okay?

Okay. Okay. So then we go to the next item on the agenda, we have Item number 8, and this is a 30-minute -- why don't we take a 10 minute break now for the recorder, because we're going to be going over time when we need a break.

So we'll take a 10-minute break and we'll reconvene at 2:58.

(Off record: 2:46 p.m.)

(Thereupon a recess was taken.)

(On record: 2:56 p.m.)

CHAIRPERSON JONES: I'd like to reconvene the Investment Committee meeting, please.

Okay. This is Item 8a, Revision of the Total

Fund Investment Policy, first reading.

INVESTMENT DIRECTOR CROCKER: Yes. Good afternoon. Kit Crocker, CalPERS Investment Office staff.

These are proposed revisions to the Total Fund Investment Policy. This is a first reading, so we're just looking for your feedback. And changes are really just to the divestment section, and the incorporation of the Global Governance Principles.

So with that, I'll ask for any questions.

CHAIRPERSON JONES: Seeing no questions, I'm giving Mr. Jelincic time to sit down.

COMMITTEE MEMBER JELINCIC: Thank you.

(Laughter.)

COMMITTEE MEMBER JELINCIC: If I can just get my iPad to work.

On the --

CHAIRPERSON JONES: Wait a minute. Put your -- Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On the global governance, that's just literally a cut and paste. I mean, there aren't any changes there is my assumption. I tried to compare the 2, but comparisons are difficult.

INVESTMENT DIRECTOR CROCKER: Yeah, I think the idea is it's sprinkled throughout the total fund, but it's basically in concept the same in substance.

COMMITTEE MEMBER JELINCIC: Okay. And then a couple of times you said there's no major differences. Are there any -- can you tell me what the subtle differences might have been?

INVESTMENT DIRECTOR CROCKER: Well, we were listening to the Board's feedback mainly from last April. So when -- in the divestment section, we changed the word "forbid", which drew some critique, and found I think a more appropriate word in terms of what the fiduciary duty requires.

And then we incorporated the concept of the periodic, at least every 5 year, review of existing divestments, and incorporated some language from our engagement -- Investment Beliefs on engagement. Those were the main changes there.

COMMITTEE MEMBER JELINCIC: And I'm looking for it, but if I remember right, the 5-year review doesn't actually show up in the policy?

INVESTMENT DIRECTOR CROCKER: It's in the reporting section. We're trying to honor our new format, which we think is -- helps facilitate compliance. We know to look for these -- the reporting requirements in that appendix.

COMMITTEE MEMBER JELINCIC: Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

It's not included in a text of the front section of the policy. The 5-year requirement is included in the appendix. And, you know, we're happy to include the 5-year requirement right up in the text of the policy as well, if you think that would be helpful.

COMMITTEE MEMBER JELINCIC: I think -- one Board member, I think it would be helpful, because people are going to look at the policy. They're not -- our staff may look at the appendix, but the rest of the world is going to look at the policy. And it, as I remember, it just says regularly, but we could do it every 50 years and that would be regularly. It would also -- or we could say every time the Treasurer changes or something like that.

But I would actually encourage putting the 5-year actually in the text of the policy.

INVESTMENT DIRECTOR CROCKER: Okay. That's no problem.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Some of the other sort of more ministerial changes is the interim asset allocation that the Board approved in September and disclosed in December is reflected in the asset allocation section of the appendix.

And Bloomberg -- in the last year, Bloomberg bought the index businesses from Barclays. And you'll see that reflected in the name of the Barclays long-duration index that we follow for our fixed income benchmarks. So you'll see that reflected.

There's a number of other smaller more ministerial changes that you'll see in the markup section. And again, echoing Kit, we're happy to take comments on those.

COMMITTEE MEMBER JELINCIC: And in some of the -- particularly in the clean one, frequently they begin -- and I'm looking at this is Attachment 1, 66 of 97. You don't particularly have to go there. But the -- first sentence under investor rights is highlighted. It's in blue. Is there any significance to that or is that just to draw attention to it?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

I'm sorry, Mr. Jelincic, what page are you referring to on the iPad?

COMMITTEE MEMBER JELINCIC: 508 of the iPad, 66 of 97, Attachment 1 for people who don't have an iPad.

INVESTMENT DIRECTOR CROCKER: 66 of 97.

COMMITTEE MEMBER JELINCIC: You see that top is in blue, is there any significance to that?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I don't believe so.

COMMITTEE MEMBER JELINCIC: Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: It might just be a drafting element.

COMMITTEE MEMBER JELINCIC: Okay. Because it shows up elsewhere, and I just wanted to make there was no significance. Thank you.

CHAIRPERSON JONES: Okay. Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. So under this new policy with the 5-year review, obviously, we just did the tobacco in December, when would the others be taken up for review?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

We'd be planning to bring back some of the smaller divestment items, such Iran/Sudan and firearms, for example, at some point in the course of the next 12 months. We'd probably group the smaller ones together. I think that's our expected approach. And then that would sort of start the 5-year clock on those --

ACTING COMMITTEE MEMBER PAQUIN: Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

-- once that review is complete.

ACTING COMMITTEE MEMBER PAQUIN: Thank you.

CHAIRPERSON JONES: Okay. Thank --

COMMITTEE MEMBER JELINCIC: If I may?

On 521 of the iPad, again, it's a blue, but it runs like 3 paragraphs, and I'm not -- so when you look at it, you may just want to figure out -- because it's inconsistent with everything else. But it's a formatting issue, not a substance issue.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Yeah, that's correct, Mr. Jelincic. I believe that's a formatting issue from when the Governance Principles were copied into the policy document. So I wouldn't ascribe any great meaning to the blue. And it will be corrected in the second reading.

COMMITTEE MEMBER JELINCIC: Okay. I'm just trying to understand what I'm looking at.

Thank you.

CHAIRPERSON JONES: Okay. Thank you.

Seeing no further questions on this one, now we do -- did have a number of people to sign up to speak on this item. So are you still in the audience. If you signed up, come on down. Come on down here and we'll use the same process where you will introduce yourself, because I have a lot of them but I only see a few people. That's why I'm just saying -- who's here, come on down. Three of you then.

Okay. Just one minute.

So, okay, well the clock then will go on. And I'm going to say with the 2 minutes, because it's been a long day, and we still have a lot of work to do, so I'm going to maintain the 2-minute period. So the clock will come on once you start talking, okay?

Okay. And give us your name before you start talking. Okay.

MS. BUSTOS: Absolutely. Hi, everybody. My name is Scarlette Bustos. And I don't -- I'm not sure if I mentioned before, but I'm a member of Indivisible Sacramento, and Indivisible California. Please raise your hand if you've hard of Indivisible?

No. For those of you who have not heard of Indivisible, we are group of citizens who follow the Indivisible guide and so we are committed to speaking out and showing up, town halls, making calls.

It's a really huge movement for Millennials and for the people who are in the 25 to 34 age range that is golden. And I'm -- I happen to be in that age range, so you're welcome.

I would also -- I'd like to speak to you in the language that you understand, because -- well, I believe empathy is a language, just like music is language. Some people speak music better. Some people speak art better. Some people speak math better. You all speak math, and you all speak money, so I'm going to try to attempt to speak money, as best as I can.

Just for a point of information, I recently discovered -- and I know that you all know much more about this. Thank you, Mr. Lind talking about diversification of funds earlier. You know about B certified corporations. And you know what it is to be B certified.

For those who don't, or who aren't familiar with it -- I'm sure all of you are, but for those in the audience who are not familiar, please look up Benefit Certified Corporations. I was able to find a bank here in Sacramento -- and just as a point of reference that they can be extremely profitable as well. The bank here is called Beneficial State Bank. And they are completely green. So I would definitely like to point that out, that that would be an amazing thing for the Board members to invest in.

Also, breakupwithyourmegabank.org is where I got this information and it lists a number of beneficial banking services and beneficial banking practices, as well as funds. So just as a point of information. Thank you so much for your time.

CHAIRPERSON JONES: Thank you.

MS. COX: Good afternoon. I'm Janet Cox. And I want to thank you all again for my pension.

I want to speak directly to the amended policy. First point is that the way I read Investment Belief 3, I read Investment Belief 3 as precluding engagement with fossil fuel companies, because there's no amount of engagement that is going to get these companies to change their core business plans.

But overall, the -- I see the policy as it's currently proposed as a tautological argument. You're saying that -- you're making a general statement that divestment usually loses money, and you're saying that the Board can only choose to divest, if you won't lose money, or if you have some assuredness that you won't lose money. And therefore, you'll only divest if the legislature requires it.

But then you're going to go back every 5 years or every year you're going to spend a significant amount of staff time reviewing these investments. You're going to go back every 5 years and second guess the Legislature's requirement. So after this, does this mean that when the legislature asks you to divest in something, they have to put a line in the law that says that this is not reviewable?

And I just want to remind you of the presentation that you saw from Wilshire Associates during the tobacco discussion, where they said that most -- I think except for CalPERS, there might have been one other large fund don't review their divestment actions later on to see if they've lost money, because that's not why you divest.

I think -- in this policy, I don't think you're making a distinction between divestment and fund management? You divest for reasons that are different for -- than simply making more money.

Anyway, the consequences --

CHAIRPERSON JONES: Your time is up.

MS. COX: -- of the policy is that the Board has no agency.

CHAIRPERSON JONES: Ma'am, your time is up.

MS. COX: Thanks.

CHAIRPERSON JONES: Okay.

MS. ABBOTT: My name is Tarnel Abbott. I'm from Richmond, California. And to me, this item appears to be staff advocating that this Board not engage in divestment, and they consider it an ineffective means of coming to a political goal. And I disagree. I think it has been shown and demonstrated in the past to be highly effective. In fact, it's about the only tool you do have, so please don't give it up.

Furthermore, I want to say that in -- it -- by investing in companies such as Energy Transfer Partners, and the DAPL, you are out of -- you're in direct contradiction to your Investment Beliefs 1, 2, 3, 4, 9, and 10. There's some beautiful language in there. Don't throw it away. You have the power. You have the responsibility to do the right thing, and don't throw it away by this tool that's being shoved at you saying you don't have the right.

Our needs for a future that is sustainable and long term, and our children's needs depend on you doing the right thing now. And that involves being able to divest when it's the right thing to do.

You can make that decision. You don't have to have your investors -- or you don't have to have the portfolio managers telling you it's going to hurt. Yeah, it's going to hurt. Well, I'm a shareholder. I'm a stakeholder. I'm a grandmother. I'm going to be a great grandmother. I want 7 generations to have clean water to drink. You need to get out of the fossil fuel industry. You need to do it now. We are in an emergency, and our children are going to be in a hell of an emergency. So please do the right thing. Don't let them shove this down your throat. Stand up to them.

Thank you very much.

CHAIRPERSON JONES: Okay. Thank you.

Okay. I don't see anyone else indicating -- I just want to thank you for your comments on this particular item. The Total Fund Policy is an important part of our investment governance framework. And the changes proposed today reflect CalPERS' ongoing effort to, 1, integrate governance and sustainable investment considerations to support the achievement of our long-term target risk-adjusted returns for the total fund; and, meet our fiduciary obligations to the participants and beneficiaries of this system; and, ensure payment of promised benefits when they are due.

This is a first reading of the proposed revisions, and this item is scheduled to return to the Committee in April. And so we, again, appreciate your comments and the time you took to come down and make comments on this item.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yes, because I was talking to SEIU folks, I wasn't here on time.

On 556 of the iPad, just a couple of things I want you to look at. In the third paragraph it says we have a constitutional fiduciary responsibility. I mean, clearly we have -- I'm just not sure that both words are appropriate.

And then in the following paragraph, it's goals that do not directly relate to CalPERS operation or benefits. And I'm not sure about the operations, but we also ought to have something about the purpose of the trust. And those are things I ask you to look at. Thank you.

CHAIRPERSON JONES: Okay. So now we will move to

Item 8b, Repeal of the Legacy Real Asset Policies, first reading.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you, Mr. Jones. I'm looking for Christy or David from PCA.

While they're approaching the desk here, you may recall over the last several years that we have been in the process of steadily revising our investment policies to comply with the new format, and to remove procedural language, and move it to something that we call the IPPGs, or staff procedures, retaining within policy the key directions to staff around the overall risk and structure and roles of the asset classes that we invest in.

And this is, in fact, sort of the tail end of that longer term project and hopefully the final tail. The real estate appraisal and valuation policies were consistent with all of the other policies, sort of a commingling of both staff procedure and investment policy.

With this project, we have separated those 2 things into the real estate policy, which you approved last year, and staff IPPGs. Within the last several months, PCA has approved our staff procedures around valuation and appraisal. And so we're coming back to the Committee to request the repeal of the legacy policies associated with those things. There's an opinion letter from PCA in your materials related to that.

So I'm happy to take any questions.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, I will move the staff recommendation. Although, I do have some reluctance, but it's an issue I've lost that, you know, the -- the staff procedures can frequently undercut the policy. And so I'm not sure that we really ought to be moving them all there, but that's the decision we've made. But I do want to reiterate concern. But I will move staff's recommendation.

CHAIRPERSON JONES: Okay. This is a first reading, and so is that --

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON JONES: If you want to go ahead and just approve now, that's what you're doing, even though it was a first reading.

COMMITTEE MEMBER JELINCIC: I'm perfectly willing to approve it now, because we're wiping it out.

CHAIRPERSON JONES: Okay. So it's been moved by Mr. Jelincic.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON JONES: Second by Ms. Hollinger.

Any other comments on this item?

Okay. Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none, the item passes.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Great. Thank you.

CHAIRPERSON JONES: Okay. So now we go to -- oh, we have one person to speak on this item. Janet Cox, are you still here?

She signed up for this, too, so...

Okay. All right. Thank you.

Okay. Now, we'll move to the next item on the agenda, Item 9, Corporate Governance Update.

(Thereupon an overhead presentation was presented as follows.)

MANAGING INVESTMENT DIRECTOR BIENVENUE: Hi. Dan Bienvenue, Managing Investment Director for Global Equity. And I'm joined once again by Simiso Nzima, Investment Manager, responsible for corporate governance within Global Equity.

We're heading into proxy season now, which is the 3 months of the year where we vote about two-thirds of the 11,000 votes that we cast annually.

I just wanted to walk the Committee briefly -- in light of the time, but briefly through our sort of plan for -- plan of focus for this year.

So with that, I'll turn it over to Simiso to take us through it.

INVESTMENT MANAGER NZIMA: Good afternoon, members of the Investment Committee. Thank you, Dan.

I'm here to present the 2017 workplan for the corporate governance, and I'll be brief in the interests of time.

--o0o--

INVESTMENT MANAGER NZIMA: So I'm not going to walk through the PowerPoint presentation. I'll just make some comments in terms of high level comments.

So basically the workplan is going to be implemented via 3 channels, that is proxy voting, shareholder campaigns and corporate engagement. On proxy voting, really staff will be guided by the Global Governance Principles and forecast primarily on investor rights, and executive compensation, corporate reporting, environmental and social issues.

Moving on to shareholder campaigns, really we have 3 areas of focus on shareholder campaigns, which is proxy access, majority vote for director elections, and climate risk reporting. Again, I'm not going to go in depth in terms of those. But in terms of the majority vote for director elections just to bring to your attention that we actually have started engaging 50 companies. And as of last Friday, we've got 22 companies have committed to adopting majority vote for director elections. So that's something which we're really pleased with in terms of that line of work.

Moving on to the third item, which is corporate engagement. Again, we have 3 main areas of focus, the Montreal Pledge climate risk companies, diversity and inclusion, and enhanced focus list. On this item, really our focus is on diversity and inclusion engagements. If -- you may know that sometime last year, at the beginning of last year, 8 companies were identified as lacking gender diversity on their boards. Of those 8 companies, 3 have since added women to their board.

So of the remaining 5 companies, 1 is being acquired by a company which has women representation on their board, so that leaves 4 companies. Of the 4 remaining companies, staff has started engagements. And of those, I'm happy to report that again as of last Friday that 3 of them have met commitments to us that they're going to add female representation on their board. And we're following up with the 1 company.

At this time, I'll stop and take any questions.

CHAIRPERSON JONES: Okay. Thank you. Thank you for that good news and that progress. We're making inroads. So thank you very much.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: You know, as -- we've had a change in administration, have we gotten any further hints on how that may impact our Corporate Governance Program?

MANAGING INVESTMENT DIRECTOR BIENVENUE: You know, it's still very early days candidly. We're still, you know, working on how we're going to get our way through both the -- both the administration from the -- on the regulatory side, and then also on the corporate governance side. We're encouraged. We are looking to continue to position ourselves as an investor and someone who comes at it in a, you know, sort of bipartisan way, that we're looking to just do what we can what's best for -- for investment returns.

But obviously, we're going to -- you know, we've got the strategic plan. We're committed to the strategic plan, and we're just going to continue to evolve that.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. How are we going to be using the CEO pay ratio rule and sort of the data that's going to be coming out of companies? Is it going away?

Oh, maybe I'm late on this.

COMMITTEE MEMBER TAYLOR: You're late to the party.

INVESTMENT DIRECTOR SIMPSON: Thank you. Anne Simpson, Investment Director for Sustainability.

CalPERS was a strong supporter of this pay ratio rule when it came through the Dodd-Frank post financial crisis reform. And we really argued that understanding the distribution of incentives throughout the whole company was very relevant to understanding where value came from, and where risks lie.

As you know, there is a new chairman due to arrive at the SEC. And on a Pro Tem basis, Commissioner Piwowar is the Chair. And he has opened up this rule for consultation by companies, inviting them to comment as to whether they're facing any difficulties in complying with the rule.

So we're not clear on what the next steps after the consultation might be, but that's the current status.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

INVESTMENT DIRECTOR SIMPSON: I should add that the same has been opened for comment by companies on the conflict minerals supply chain tracking rule in Dodd-Frank as well.

COMMITTEE MEMBER MATHUR: And it's only being open to companies. No one else is permitted to comment?

INVESTMENT DIRECTOR SIMPSON: The invitation is to companies, correct.

COMMITTEE MEMBER MATHUR: Interesting. Thank you.

CHAIRPERSON JONES: Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair. Anne, don't go way. So maybe both of you or one of you can comment on the issue on proxy access for director elections. And kind of where exactly are we and where are we trying to go? How many companies? And what are we trying to accomplish? If we had to paint a picture at the end of this proxy season, what would we consider success to be?

INVESTMENT DIRECTOR SIMPSON: We've got a significant majority of the S&P 500 now voluntarily having introduced proxy access. As you know, we've worked very closely with New York City on their board accountability project running proxy solicitations and also the team -- the corporate governance team has supported them on engagements.

That really has shown how private ordering can be very powerful. You recall there was an SEC rule briefly, which was overturned in court. And in answer to the broader question about what the impact will be on shareowner rights, I think one of the things we'll need to be focusing on is much more of self-help regime. In other words, for investors to be engaging companies, filing proposals, persuading others in the market that something is to our mutual benefit. And that conversation is going on at the moment through obviously groups like CII, and our own regulatory working group to the Governance and Sustainability Committee, and obviously with our federal representatives as well. But it's moving very fast.

VICE CHAIRPERSON SLATON: So we have 60 -- is it 60 some odd percent?

INVESTMENT MANAGER NZIMA: So to give the specific numbers. As of Friday, I think we are -- with S&P 500, we have 251 companies that have adopted proxy access, and 345 companies in the U.S. as of Friday last week. And to put this in context, if you think about where we were at the end of 2014, when we only had 17 companies in the area of proxy access.

So this is really moving in the right direction. And our partnership with the New York City Fund is really working well.

VICE CHAIRPERSON SLATON: Okay. Thank you.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Sorry, I thought -- I had one other question that I neglected to ask earlier. I think it was 2 years ago now that there were a number of shareholder proposals around -- or shareowner proposals around the lowest paid workers at fast food companies. Do we expect that to -- that type of activity to continue? Do we expect those types of shareowner proposals?

INVESTMENT MANAGER NZIMA: I think we'll continue to see those type of proposals. Again, staff will continue to look at those based on the global principles. And, you know, applying those in a way that we think, on a case-by-case basis.

COMMITTEE MEMBER MATHUR: Okay. And in the past, we have generally supported those proposals, as I recall, is that right?

INVESTMENT MANAGER NZIMA: I think we have, yeah.

COMMITTEE MEMBER MATHUR: Okay. So then I would expect if they were generally similar, that we would continue to support those types of proposals?

INVESTMENT MANAGER NZIMA: I think we will continue to support those proposals. I think again, like I said, we'll look at things on a case-by-case basis. And in a holistic way, I think what we want to be able to do is to be credible to the market when we're looking at those things, and we don't want to end up in a situation we're withholding maybe against someone like Warren Buffett or something like that where the company may be doing everything right, and they just -- you know, one issue which we can engage the company with, as opposed to actually just, you know, voting against this other issue.

MANAGING INVESTMENT DIRECTOR BIENVENUE: And Simiso used a word that I think is really important there, which is credible and credibility. And what we need to figure out is how we make sure that we have the greatest credibility that we can have in the marketplace and then cast those votes to maximize our credibility and maximize our effectiveness.

And if we overbroadly spread our name, then we think we can undermine our credibility and our effectiveness, and what we -- what we have to get focused on. And this is very nuanced and judgment oriented. And we're going to -- you know, Anne mentioned the 3 working groups of the Governance and Sustainability Subcommittee. We're going to try to get ourselves to some -- some sense on that for -- you know, for that group, then the Investment Staff and then work with the Board, because what we need to do is make sure that we're all kind of linked arms on a strategy to be as effective as we can be.

COMMITTEE MEMBER MATHUR: So I just want to make sure I understand what you're saying, because overbroadly spread our name. I mean, by voting our proxy consistent with our general approach, you know, our global governance guidelines, that wouldn't be overbroadly spreading our name, would it?

MANAGING INVESTMENT DIRECTOR BIENVENUE: As Simiso said, I think it's very much case by case, so hopefully no. And I do think that there will be -- you know, we're just going to have to take each case in, you know, again what we think is the best use of our resources, the best use of that CalPERS name, and the best way we can be effective.

COMMITTEE MEMBER MATHUR: Well, I guess, I'm seeing a difference between voting our proxies and actively sort of supporting, you know, a shareholder proposal in running a campaign, for example. The latter, I see, as, you know, using our resources. But voting a proxy in a way that's consistent with our global principles doesn't seem -- I don't -- I don't understand how that's using our resources more. Am I missing something?

MANAGING INVESTMENT DIRECTOR BIENVENUE: You know, our expectation is to engage in a dialogue on this topic. We can go deep into it now, if desired. But, I mean, I guess one of the things is just that to the extent that we vote against an individual who is a joint chairman/CEO, let's say, we potentially -- but by the way, that company is working really well, the governance is working great. They just happen to have something that's kind of generally against our principles, that's a case where we can potentially undermine our credibility and potentially lose a friend. And by lose a friend, I mean someone that we may need to count on in the future to be effective at something else.

And that's why this is very much -- we just have to apply some judgment and some nuance to the topics, because it really is a potential case-by-case topic. Does that help?

COMMITTEE MEMBER MATHUR: Maybe. I guess you're saying that you would support management in the hopes of getting something in the future. Is that what you're --

MANAGING INVESTMENT DIRECTOR BIENVENUE: I'm saying that we would look to address the situation and what we think will be the most -- the way that we can be the most effective in executing our strategic plan over the, you know, short-term, but also very importantly the long term. And we don't want to loose site of what our long term strategic initiatives are by just sort of viewing every issue and every vote as being black and white. There definitely are much more nuanced topics here. And the same thing goes with signing on to proposals.

COMMITTEE MEMBER MATHUR: Okay. Fair enough. We need to -- we do need to take a long-term view of sort of the -- our engagement and our activity in the markets.

Okay. So you said -- you mentioned that there's going to be a deeper engagement or discussion around this with the Board. Do you have a time frame for that?

MANAGING INVESTMENT DIRECTOR BIENVENUE: I don't candidly. We're still working our way through it. I mean, I think --

COMMITTEE MEMBER MATHUR: Okay.

MANAGING INVESTMENT DIRECTOR BIENVENUE: I think the Board knows that we'll be back next month with a really deep dive into our integration, pursuant to your questions on manager expectations in December.

COMMITTEE MEMBER MATHUR: Yeah.

MANAGING INVESTMENT DIRECTOR BIENVENUE:

Although, we're taking it more broadly than that. It's a holistic sort of integration into the asset classes.

COMMITTEE MEMBER MATHUR: Okay.

MANAGING INVESTMENT DIRECTOR BIENVENUE: This will not be part of that, because we're not going to be ready yet.

COMMITTEE MEMBER MATHUR: Sure.

MANAGING INVESTMENT DIRECTOR BIENVENUE: And it may be that we conclude that what we're doing makes perfect sense, and the Board is already comfortable with that, and we can continue as -- you know, as we currently are. But, you know, one of the things that we wanted to do is some of this activity -- as we change the organization structure around this activity was to kind of take a fresh look at it and just see if there are -- you know, I think that the program has evolved massively under Anne's watch. And we owe her a major debt of gratitude.

And we want to sort of leverage her expertise, but then also leverage fresh sets of eyes, and see if there's something we should be doing differently. And if the answer is no this is working perfectly, then we'll continue.

COMMITTEE MEMBER MATHUR: Okay. All right. Thank you.

CHAIRPERSON JONES: Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Yes. Regarding the diversity and inclusion. And, Anne, this may require your assistance. Regarding the engagement that you're planning for the coming year, can you -- since I'm knew to this can you explain sort of what our targets are relative to -- and not specific number targets, but the areas in which we're trying to cover? So obviously, getting greater diversity amongst gender diversity, I assume underrepresented minority diversity. Are there other goals that we have when we go out and try to expand on what our engagement with corporate boards is?

INVESTMENT MANAGER NZIMA: So some of the items that we listed -- I mean, so we have -- we have proxy access in terms of the engagement majority vote for director elections. But basically we're guided by our global governance principles in some of these engagements.

In terms of the number of companies, for example, proxy access we're looking at about 70 companies working with New York City. In terms of the Montreal Pledge companies, which are covered under the 5-year strategic plan, where we have to engage about 20 companies per year. But this is the first year where we're actually working on the engagement framework and things like that.

So these are -- it just depends on the particular issue, and that staff resources, and again to what Dan said in terms of looking at our -- where can we be the most effective without spreading ourselves thin. So that's the way we are approaching these engagements.

And on diversity and inclusion, for example, as soon as we're done with, you know, looking at the -- engaging the 4 companies that elect, you know, gender diversity, or go beyond the S&P 500 and look at the next level of companies that don't have that. And I think if you look at the U.S., you have a positive area where 38 companies that actually let gender diversity on their boards, so if you look at the Russell 3000.

ACTING COMMITTEE MEMBER JUAREZ: And, Simiso, I think my question was more along the lines of beyond just gender diversity, what other types of diversity are we trying to champion with regard to these companies?

INVESTMENT MANAGER NZIMA: Oh, okay. Thank you. So I misunderstood the question. So basically in terms of diversity, what we're looking at, we're looking at not just gender but cognitive diversity, you know, skill sets, experience, and background, because again gender diversity, which is part of identity diversity, something which is easy to see, but you're looking at, you know, minorities -- other minorities, but also not just minorities, because we're thinking about the attributes, the skill sets that are actually needed on the Board.

So when we actually engage these companies, we don't go into them and just say you lack gender diversity or you lack, you know, identity diversity. We look at the composition of the Board and look at the skill sets of the Board members, and we identify certain skill sets that they don't have. So really it's about, you know, the background of experiences, and skills, and so forth.

ACTING COMMITTEE MEMBER JUAREZ: Excellent. All right. Thank you.

CHIEF INVESTMENT OFFICER ELIOPOULOS: If I may, Mr. Chair.

INVESTMENT DIRECTOR SIMPSON: Could I -- just, I'm -- oh.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Just the Board has adopted a definition of diversity for these purposes that's also in our corporate governance strategic plan, but it includes all things that Simiso was relaying, but it's also a handy guide. It's both in our principles and other otherwise includes diversity, in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically underrepresented groups.

And then it goes on to describe some more thoughts, in terms of the value of having a range of experiences and thoughts and practices. So I just didn't want to -- you know, we're short on time and we're trying to get the answers to you as quickly as you can. But the Board has adopted a policy, and that's what guides us.

ACTING COMMITTEE MEMBER JUAREZ: Yeah, I appreciate that. And it's much more sophisticated than I could have guessed, and I appreciate that. And so a lot of times you look at a Board, and we'll go on-line and see, quite frankly, 8 white men, and wonder, you know, how diverse are -- is that Board. Just certainly on the face of it, they're not. But to your point, they may have a diversity of experience that makes them a little bit more diverse than what they look like on the surface.

Having said that, I still think that we should seek the more -- sort of the more visual aspects of diversity, because of the message that it sends.

So again, I want to respect the fact that it's -- it's a more sophisticated question and answer than just what they look like, but I would also hold that that's an important aspect that we should always keep in mind.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah. And just one sort of final nuance on this is that one of the real aspects is reporting, right? So in some cases, you know, you can -- you can -- you can see, you know, what levels of diversity there is. In other cases, it's much harder to see. And so one of the things we want is just some reporting around the topic. And that's one of the -- one of the regulatory things that we're working on with the SEC to see if we can -- if we can just get, you know, mandated reporting.

ACTING COMMITTEE MEMBER JUAREZ: Thank you.

CHAIRPERSON JONES: Just a minute. Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. I just want to get back for a minute to the discussion between Priya and Dan around proxy voting. And, you know, this concept of a fresh look and maybe the way we've been doing things isn't the way we're going to do things in the future. And that's -- that's valid. I've got no problem with that on these issues around judgment and credibility.

But I just want some assurance that if there's going to be a change in direction, that's going to be an Investment Committee led change, not, you know, a staff led change. I assume it is, because that's how we always do these things collaboratively.

But the problem on this particular issue is that, especially when we get to the specifics of it around proxy voting, it always comes up at about 3:00 or 4:00 o'clock in the afternoon, right? So we don't get to really get into the details of it that maybe some of us would like to, and, you know, the priorities and the importance. So I'd like you to keep that in mind as we move forward, please.

MANAGING INVESTMENT DIRECTOR BIENVENUE: So I think the good news is that next month when we're here on the deeper dive, I do think that hopefully will be earlier than 4:00 o'clock in the afternoon. I think that's slated earlier in the agenda. But definitely, it's -- and this is again that point is that we think that we as an organization, not staff, not just Board, you know, not just the Investment Office, but the entire enterprise, the entire organization just needs to be sort of behind what we're trying to do in this space, and we need to make sure that's a collective effort.

COMMITTEE MEMBER LIND: Thank you.

CHAIRPERSON JONES: Okay. Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. I also wanted to touch on that point too. And, you know, I think as we're getting into the bulk of the proxy season, and it's my understanding that most of the votes occur in May -- in April and May, will you have concluded your analysis at that point, and be able to weigh in appropriately on those votes?

MANAGING INVESTMENT DIRECTOR BIENVENUE: We will not. So what you'll -- what you've seen from the proxy expectations this time is it's very much a continuation for what we did last year. So definitely no changes expected for this proxy season. And that as we go through the process, and as we have time to develop this working group structure of the Governance and Sustainability Subcommittee really be able to talk through this, and then decide if we want to bring something to the Board to discuss, hey, we're -- you know, we want to take a slight nuance change here in this area or that area, or as I say, or continue with what we're doing.

ACTING COMMITTEE MEMBER PAQUIN: Okay. But nothing will change for this year.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Nothing is changing for this proxy season.

ACTING COMMITTEE MEMBER PAQUIN: Thank you.

CHAIRPERSON JONES: Okay. Mr. Bilbrey.

COMMITTEE MEMBER BILBREY: So, I'm sorry. I'm a little late in the queue back to Mr. Juarez's comments, and also what Mr. Lind said. First of all, it always seems corporate governance does somehow get the short end of the stick at the end of the agenda. It's happened, I don't know, maybe 4 or 5 times over the last year.

But I would like to hear what Ms. Simpson -- she had some comments, and I don't think she got to state them. And I wanted to see if she would state them now. You were going to add something to what you were talking -- Mr. Juarez was talking about, and I would like to hear what they were.

INVESTMENT DIRECTOR SIMPSON: Thank you. I think we were all just mindful of what a long day it's been.

I was going to highlight the new work that we've been doing on climate competence on boards. We've been engaging company around this need for long-term strategies that are aligned with the transition to a low carbon economy. But that then raises our expectations about the board, and who's there, and who has the vision, and the experience, and the expertise to drive that new approach.

So this has been a feature of our engagement with the Montreal 100 companies. And that really directly comes from a revision to the Global Governance principles, which the Investment Committee, I believe the Controller, proposed language jointly with the Treasurer around this idea of climate competence.

That's also we've found to be something which really reinforces the call for -- the overall call for board quality. And our argument now is that board quality means boards that are independent - I think that's well established for many years; boards that are competent - that means they do have the skills and experience, but also boards that are diverse.

So in other words, you can't have one leg of that 3-legged stool without the other, just focusing on the proportion of women, or just looking at whether you've got people who understand new challenges, and just looking at independence won't do it.

So we have, I think as Simiso is indicating, moved into a much more nuanced and sophisticated discussion with companies. And I think now that we have proxy access at so many big companies in the United States, we've actually got some focus to the discussion that we didn't have before. And I think that's very encouraging.

The other new policy that we've had to work under this year under the Principles has been board tenure. There's one barrier to improving diversity has been that the incumbents are taking longer and longer and longer before they step down and retire.

So I think this multi-faceted approach is serving us well, but we certainly have a long way to go. We're not at all complacent.

CHAIRPERSON JONES: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, this is not the first time the issue of corporate governance coming up late has happened. So I would like to request that the Chair work with staff to move it up in the agenda at some point. I mean, I realize we typically do the actions and then information. Maybe for the next time we're doing corporate governance, we ought to move that particular information item up, but that's just a request to the Chair.

CHAIRPERSON JONES: Okay. And I don't have a problem with it, but I think we may already be on that road.

Go ahead.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll just note the March agenda I think the only real substantive items on the agenda at all are corporate governance items. So they'll be first, second, and third.

CHAIRPERSON JONES: Granted.

(Laughter.)

CHAIRPERSON JONES: Okay. Okay. No further questions on that item. We do have a request to speak on that. Mr. Lind -- I mean not -- Mr. Ring.

(Laughter.)

COMMITTEE MEMBER LIND: I can talk all afternoon.

MR. RING: That's an insult to Mr. Lind.

CHAIRPERSON JONES: It's getting late.

MR. RING: Thank you all. Thank you, Ted.

Chairman Jones, members of the Committee, Michael Ring with SEIU. Thank you as always for the opportunity to share some thoughts with you on behalf of our leadership. I just wanted to come up and reiterate SEIU's long-standing commitment to support CalPERS in having an industry-leading, groundbreaking, corporate governance program that our organization feels like in all the elements that have been well articulated today are fundamental to protecting the long-term interests of this fund, and to delivering on the benefits. And that includes the work on engagement with regulators, with companies, the voting of the proxies, and all the other work that was laid out so articulately by your staff today. So I just wanted to reiterate that.

And then secondly, to mention that in a much -- much less resourced way, SEIU continues it sown corporate governance program, which we've historically worked very well with -- with the team here on looking for points of collaboration and interaction. And we look forward to continuing to do that as well.

And among the many things that you are tackling, I'll say that our leadership is particularly committed, as you all know, to working on the issue of diversity, in particular racial diversity, where we believe there's not only obviously a social injustice that we need to work on, but a fiduciary opportunity and a value proposition, which the McKinsey study, and other studies, have shown that really we can improve our performance by having these companies be more diverse at the top.

So thank you very much for the opportunity to speak with you, and that's it for today.

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

Okay. That is the end of the scheduled items.

Summary of Committee Direction, Mr. Eliopoulos.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes. The Chair directed that we review the options with respect to the Dakota Access Pipeline discussion that we had and bring that back at a future date.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Engagement option specifically, I think, right?

CHAIRPERSON JONES: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: And then the other -- those -- that's the only directed. There were some other information requests to either Wilshire or to us in terms of coming back with the writing of different agenda items, but I don't -- we don't think they rose to the level of a directed item to bring back.

CHAIRPERSON JONES: Yeah, I don't think I have any others either.

No. Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Just that one, I think.

CHAIRPERSON JONES: Yes, go ahead. Just that one, yes. Okay. Then thank you for that.

Then we have public comment. We have a request to speak Ms. Bustos.

MS. BUSTOS: Hi. Scarlette Bustos. Thanks again.

I wanted to just ask and just reiterate that I think a divestment/investment strategy is the best. Yes, divestment is the most important regarding no DAPL, but investment is equally important.

So for every dollar that you take away from the pipeline, I do propose, if it's okay with you, that you reinvest those dollars in clean energy so that you can see the difference, because I believe that clean energy and sustainable jobs they -- you can create more sustainable jobs than you can with the pipeline. The pipeline has been talked about in job creation. Yes, it's going to create some temporary, but really there's only maybe 60 or 70 permanent jobs that would be related to the pipeline versus - and I'm sure that you all could speak much more on this topic than I can - to the plethora of jobs, especially here in California, that could be generated with clean energy solutions.

So for every dollar that you divest, please invest in clean energy, so that we can see the difference. And then when you compare those two in your divestment presentations, please look at those dollars in direct comparison to the clean energy investments. I believe that that's really important.

Also, something that kind of troubled me just as I was sitting there, please reconsider firearms, and Iran and Sudan as investment. You don't want blood on your hands.

COMMITTEE MEMBER TAYLOR: We're divested.

MS. BUSTOS: Oh, you're divest -- you're

divesting. Okay. Thank goodness. Wonderful.

So if you have any questions, you can find me on Indivisible Sacramento, and you can also please look up Green America as for investment strategies, and breakupwithyourmegabank.org.

Thank you.

CHAIRPERSON JONES: Thank you.

Okay. That concludes the open session Investment Committee meeting. We will convene closed session in 10 minutes, so let's make it 4:00 o'clock.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 3:47 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.

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