

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
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SACRAMENTO, CALIFORNIA

TUESDAY, FEBRUARY 14, 2017
10:58 A.M.

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

COMMITTEE MEMBERS:

Mr. Richard Costigan, Chairperson

Ms. Theresa Taylor, Vice Chairperson

Mr. John Chiang, represented by Mr. Steve Juarez

Mr. J.J. Jelincic

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. Michael Bilbrey

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. Ron Lind

Ms. Priya Mathur

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Marlene Timberlake D'Adamo, Interim Chief Financial Officer

Mr. Scott Terando, Chief Actuary

Ms. Tanya Black, Committee Secretary

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

STAFF:

Mr. Forrest Grimes, Chief Risk Officer

Ms. Sabrina Hutchins, Chief, Enterprise Strategy &
Performance Division

Ms. Kimberly Malm, Chief, Operations Support Services
Division

Ms. Arnita Paige, Chief, Pension Contract Management
Services

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

Ms. Dani Charleston, Everyone Counts

Mr. Al Darby, Retired Public Employees Association

Mr. Pat Whalen, United Nurses Association of California,
Union of Health Care Professionals

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1 P R O C E E D I N G S

2 CHAIRPERSON COSTIGAN: Good morning. It is
3 11:00, so we are going to call to order the February 14th
4 meeting of the Finance and Administration Committee.

5 Can we please call the roll?

6 COMMITTEE SECRETARY BLACK: Steve Juarez for John
7 Chiang?

8 ACTING COMMITTEE MEMBER JUAREZ: Here.

9 COMMITTEE SECRETARY BLACK: Richard Costigan?

10 CHAIRPERSON COSTIGAN: Here.

11 COMMITTEE SECRETARY BLACK: J.J. Jelincic?

12 COMMITTEE MEMBER JELINCIC: Here.

13 COMMITTEE SECRETARY BLACK: Henry Jones?

14 COMMITTEE MEMBER JONES: Here.

15 COMMITTEE SECRETARY BLACK: Bill Slaton?

16 COMMITTEE MEMBER SLATON: Here.

17 COMMITTEE SECRETARY BLACK: Theresa Taylor?

18 COMMITTEE MEMBER TAYLOR: Here.

19 COMMITTEE SECRETARY BLACK: Lynn Paquin for Betty
20 Yee?

21 ACTING COMMITTEE MEMBER PAQUIN: Here.

22 CHAIRPERSON COSTIGAN: Thank you very much.

23 Next order of business is the election of the
24 Finance and Administration Committee Chair and Vice Chair.

25 For that I call on Mr. Slaton.

1 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair,
2 or Mr. Chair for the moment.

3 So we'll now take nominations for Chair of the
4 Committee. And I'll call on Ms. Taylor.

5 COMMITTEE MEMBER TAYLOR: Yes. I'd like to
6 nominate Richard Costigan for Chair. Richard Costigan has
7 been running this committee, and it's an incredibly
8 difficult committee. He's shown great leadership, and I'm
9 proud to recommend Richard Costigan.

10 COMMITTEE MEMBER SLATON: Thank you.

11 No, it's a fun committee. Come on.

12 Okay. Mr. Costigan's been nominated.

13 Any further nominations?

14 Any further nominations?

15 Third and last time, any further nominations?

16 With that, nominations will be closed.

17 Do we hear a motion for election of Mr. Costigan?

18 COMMITTEE MEMBER JONES: So moved.

19 COMMITTEE MEMBER SLATON: Moved by Jones.

20 COMMITTEE MEMBER TAYLOR: Second.

21 COMMITTEE MEMBER SLATON: Seconded by Taylor.

22 All those in favor say aye.

23 (Ayes.)

24 COMMITTEE MEMBER SLATON: Opposed?

25 Motion carries.

1 Congratulations, Mr. Costigan.

2 CHAIRPERSON COSTIGAN: Thank you very much.
3 Thank you.

4 (Applause.)

5 CHAIRPERSON COSTIGAN: I'm going to call on
6 Mr. Slaton again.

7 Please push your microphone, Mr. Slaton.

8 I'd call Mr. Slaton again.

9 COMMITTEE MEMBER SLATON: Sure. So we're on a
10 roll here. So I'd like to nominate Theresa Taylor to be
11 Vice Chair of the Committee. She has great interest in
12 the subject and really adds a great deal to our dialogue.
13 So she'd make a great vice chair, so I would nominate her.

14 CHAIRPERSON COSTIGAN: All right. Any further
15 discussion?

16 Can we get a motion on electing Ms. Taylor Vice
17 Chair of the Committee.

18 COMMITTEE MEMBER JELINCIC: I'll move.

19 CHAIRPERSON COSTIGAN: It's been moved by
20 Jelincic?

21 COMMITTEE MEMBER SLATON: Second.

22 CHAIRPERSON COSTIGAN: Seconded by Slaton.

23 All those in favor?

24 (Ayes.)

25 CHAIRPERSON COSTIGAN: Opposed?

1 Motion carries.

2 Congratulations.

3 (Applause.)

4 CHAIRPERSON COSTIGAN: Now we're going to take a
5 30-second interlude while we play musical chairs.

6 The real Committee Chair is going to tell us when
7 we can start.

8 (Laughter.)

9 CHAIRPERSON COSTIGAN: All right. Well, good
10 morning again. Happy Valentine's Day, everybody. So glad
11 we could spend the day together.

12 (Laughter.)

13 CHAIRPERSON COSTIGAN: Sure this is where you all
14 want to be.

15 So we're going to start with our new executive
16 officer -- or, excuse me -- our Deputy Executive Officer
17 for our committee.

18 Welcome. Glad to have you here. If you just
19 give -- before you give your executive officer report,
20 just for those that don't know you, just give a quick
21 overview of who you are, your background please.

22 And I think you need to turn your mic on.

23 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

24 D'ADAMO: Thank you.

25 First I'd like to say congratulations

1 Mr. Costigan and Ms. Taylor on the election as chair and
2 vice chair respectively.

3 My name is Marlene Timberlake D'Adamo, and I am
4 CalPERS' team member. I actually am the Chief Compliance
5 Officer, and I am now stepping into the Interim Chief
6 Financial Officer role while a search begins. I came to
7 CalPERS in April of 2016 as Chief Compliance Officer from
8 PNC Bank in Philadelphia where I served as the Senior Vice
9 President of Portfolio and Risk Management.

10 My career has spanned about 20-plus years in
11 financial services. I'm a lawyer by training. Don't hold
12 that against me. And I'm really excited about stepping
13 into this role on the interim level and working with the
14 Committee.

15 CHAIRPERSON COSTIGAN: Well, we are very thrilled
16 to have you. And Ms. Eason did a fantastic job, and I
17 know she's going to enjoy her new position back in her
18 native city.

19 So welcome, and look forward to working with you
20 in the next few months.

21 So with that we'd like to hear your executive
22 report, please.

23 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
24 D'ADAMO: Great. Thank you.

25 I would like to take a moment to recognize that

1 for the third straight year the CalPERS Financial Office
2 has received the Government Finance Officers' Association
3 Distinguished Budget Presentation Award for the CalPERS
4 fiscal year 2016-17 annual budget report.

5 Thank you to this team for that.

6 Under the action consent items for Item b -- 4b
7 staff recommends appointing Scott Terando, Chief Actuary,
8 as the CalPERS representative to the California Actuarial
9 Advisory Panel for the remainder of the three-year term
10 ending December 2017.

11 Agenda Item 6a is our first action item. That is
12 requesting the approval of the CalPERS 2017-2022 Strategic
13 Plan and the 2017-2018 Business Plan initiatives.
14 Development of the new Strategic Plan was based on
15 critical inputs and discussions throughout last year.

16 The second action item before the Committee is
17 the 2017 CalPERS Board of Administration Member-at-Large
18 Election - Notice of Election to fill two representative
19 seats on the CalPERS Board that will begin on March 27th,
20 2017.

21 Agenda items 7b covers the review of the Finance
22 and Administration Committee Delegation, proposed revision
23 to the Board Governance Policy, and a recommended
24 rescission of the Policy for Approval of Reimbursement to
25 State, School, and Public Agency Employers of Elected

1 Board Members.

2 Also being heard before the Committee today is
3 the second reading of the Actuarial Contribution
4 Allocation Policy, which consolidates five existing
5 actuarial policies related to the contribution allocation
6 that was presented to the Committee during a December
7 Finance and Administration meeting.

8 The last action item being presented is staff's
9 recommendation to adopt the revised Funding Risk
10 Mitigation Policy which has been updated per the Board's
11 direction in December.

12 As an information item, and for the first time,
13 the team will be presenting the Quarterly Collections &
14 Termination Report or the Employer Partner Financial
15 Health Report addressing the Board's comments to consider
16 a potential legislative change for voluntary terminations,
17 improvement of transparency of reporting delinquent
18 agencies, and providing an update to the Board to improve
19 the notification process to members.

20 Agenda Item 10b provides an update on the voting
21 options for the CalPERS Board of Administration election
22 process.

23 And 10c will provide information on the
24 application of the Responsible Contractor Policy to all
25 CalPERS contracts.

1 The next Finance and Administration Committee
2 meeting is scheduled for April 18th, 2017, and will
3 include updates for the employer and employee contribution
4 rates for judges, legislators, state school and valuation
5 report for the 1959 Survivor Benefit Plan; the first
6 reading of the 2017-2018 annual budget proposal; annual
7 review of the Board member employer reimbursements; and
8 second reading of the asset liability management policy.

9 Thank you, Mr. Chair. This concludes my report.
10 And I'd be happy to take any questions.

11 CHAIRPERSON COSTIGAN: Thank you very much.

12 We are going to pull off item 5d, which is the
13 Quarterly Chief Information Officer IT Report. There's
14 going to be a question on that, so we have someone from
15 that office, Mr. Hoffner.

16 Okay. Great.

17 Okay. So we'll go back to item -- the action
18 consent items. Any questions?

19 COMMITTEE MEMBER JONES: Move it.

20 VICE CHAIRPERSON TAYLOR: Second.

21 CHAIRPERSON COSTIGAN: It's moved by Jones,
22 seconded by Taylor.

23 All those in favor?

24 (Ayes.)

25 CHAIRPERSON COSTIGAN: Oh, I'm sorry.

1 Mr. Jelincic just added in. my apologies.

2 COMMITTEE MEMBER JELINCIC: Yeah.

3 CHAIRPERSON COSTIGAN: Mr. Jelincic.

4 COMMITTEE MEMBER JELINCIC: Yeah. I will support
5 the motion. But I do want to note that on page 4 of the
6 minutes, the top paragraph is -- actually reflects what
7 happened. Staff did tell us that. Although it's a
8 violation of policy, but we're going to change the policy
9 later this meeting to comply with the minutes. But I just
10 wanted to point out that we --

11 CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.
12 Great catch.

13 Okay. With that notation, again we had a motion
14 and been seconded.

15 Again, all in favor?

16 (Ayes.)

17 CHAIRPERSON COSTIGAN: Opposed?

18 Motion carries.

19 Thank you.

20 Item 5d. Let's go ahead and take that up, Mr.
21 Hoffner, or who is going to speak to 5d?

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: The IT report?

24 CHAIRPERSON COSTIGAN: Yes, ma'am.

25 And I'm going to call on Mr. Gillihan.

1 BOARD MEMBER GILLIHAN: Thank you, Mr. Chair.

2 I just want to note - and I'm looking at page 101
3 of the iPad, version -- I'm not sure what it is in the
4 stand -- page 2 of 6 on the item.

5 And I appreciate the reporting on the status of
6 the IT projects, which kind of -- without some visibility
7 kind of just operate in the shadows, and the Board doesn't
8 see much about it. But I had some concerns about the
9 information that's displayed, or the lack there of. And
10 I'm specifically referring to the Actuarial Valuation
11 System Redesign and Enhance Project. I'm not sure how you
12 pronounce the acronym, Bill, so I'll leave it at that.

13 But, for example, it notes that the project's
14 behind schedule. But it doesn't explain why or what's
15 being done about that. I would also note that all the
16 project updates, none of them report on risks; none of
17 them report on costs, both projected and expended to date;
18 and they don't include other information like start dates,
19 so we have no context for how long these things have been
20 going on and how they're progressing along the timeline.
21 So I know I don't sit on the Committee, but I would just
22 ask that perhaps in the future, Mr. Chair, if we could
23 consider adding a little more detail to provide the Board
24 context about the nature of the projects and how they're
25 proceeding.

1 The thing about IT projects and the reason I'm
2 concerned about them is, you know, unlike capital
3 construction projects, you see pieces being built, and
4 when its done, you end up with a bridge or a building,
5 something that's functional. IT projects have the unique
6 characteristic of being able to have a lot of money spent
7 and unfortunately at times nothing to show for it in the
8 end. So I think it's particularly important that the
9 Board pays attention to the project status and the
10 progress through our normal monthly meetings.

11 So thank you.

12 CHAIRPERSON COSTIGAN: Mr. Hoffner.

13 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you for
14 the question.

15 So we had a 45-day schedule overrun at the end of
16 last year. And so that relates to why it was off-track in
17 terms of that reporting. The project's to be completed in
18 October of 2018. And we're happy to bring back additional
19 information on all of these subjects, and so I think this
20 is going to dovetail into overall enterprise performance
21 measurements and reporting in terms of getting the
22 strategic planning and the outputs that it will be
23 providing back to the full Board on an incremental basis.

24 So I appreciate the feedback. We'll be happy to
25 include additional information on all the projects to meet

1 the needs of the Board. And the overall goal will be to
2 have this in a comprehensive enterprise performance
3 structure. So you'll have to see that information at your
4 fingertips on a going-forward basis.

5 CHAIRPERSON COSTIGAN: So I think Mr. Gillihan
6 raises an excellent question -- an excellent point. We
7 should calendar this for a relatively soon Finance and
8 Administration Committee meeting to go over this, because
9 I am sure you watched the FI\$Cal hearing by the
10 legislature this week or last week, the three-hour-plus
11 meeting. So at some point I think, Mr. Gillihan, you're
12 right just a little more detail, particularly since the
13 legislature took an interest in FI\$Cal.

14 Mr. Hoffner.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: Yes. So the
16 other thing I just want to point out, we'll be doing a
17 workshop in the May time frame for the Board related to
18 the Information Technology Project. So that will provide
19 additional light in terms of that feedback.

20 And then, if it was yesterday, I missed the other
21 hearing because we were here with you all day. So...

22 CHAIRPERSON COSTIGAN: It wasn't yesterday.

23 DEPUTY EXECUTIVE OFFICER HOFFNER: Okay. Then if
24 it was last week, then I missed it.

25 CHAIRPERSON COSTIGAN: It was last week. They

1 all blend together. But I thought Ms. Tong and the
2 Director of FI\$Cal did a nice job, but many of the similar
3 questions, so...

4 All right.

5 COMMITTEE MEMBER JELINCIC: I have another
6 question on that, if I may.

7 Somebody said you were -- you were warned this
8 question was coming. This is on F, page 2 of 3, 121 of
9 the iPad. We've changed the title from "CalPERS Pension
10 Prefunding Trust" to "Pension Rate Stabilization
11 Prefunding Vehicle." And I asked both about dropping
12 CalPERS and what's the difference between a trust and a
13 vehicle, and you were -- go ahead, enlighten me.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you, Mr.
15 Jelincic. So I think the dropping the title CalPERS was
16 sort of specific. All these things related to the
17 organization.

18 As you may recall, we had a discussion last year
19 about pursuing a legislation related to a trust. That was
20 something that we were unable to get a sponsor for, and
21 there was a discussion within this Committee about were it
22 should pursue an additional -- again vehicle was the
23 discussion point many rather than a trust itself. And so
24 we modified that language. I think this goes back to the
25 March time frame when he had that item up before.

1 So effectively there was a discussion about
2 continuing dialogue around this area. But I think
3 Mr. Slaton was the one that was pushing pretty
4 significantly hard on this, and that modified the language
5 based upon feedback from the Board.

6 COMMITTEE MEMBER JELINCIC: Thank you.

7 CHAIRPERSON COSTIGAN: All right. These were
8 information items.

9 Any other questions?

10 No. Okay.

11 Next set of items are action items. So we're
12 going to go to 6a.

13 Mr. Hoffner, the CalPERS 2017-22 Strategic Plan
14 an 2017-2018 Business Plan.

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

17 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you,
18 Mr. Chair. Doug Hoffner, and Sabrina Hutchins' here with
19 a team member from CalPERS Enterprise Strategy Performance
20 Division. I'm just going to kick off this item and then
21 Sabrina will walk you through it.

22 Effectively for the last year we've been working
23 on a strategic plan for the next five years for the
24 organization. This kicked off in early 2016 under
25 direction of Anne Stausboll as our CEO. We carried this

1 through with board workshops and interviews with 40-plus
2 stakeholders internally and externally. And you were all
3 participants of that.

4 These workshops carried through our July off-site
5 and other sessions we had last year with you. We've
6 brought a first reading of this item to you in December.
7 Then effectively today is the second reading, and hoping
8 to get concurrence and support from you. We do have a few
9 items for additional work to be done. We'll -- Sabrina
10 will talk about that. And we've got a session at the July
11 off-site to talk more about a few items that need to be
12 concluded in terms of your feedback. But the real hope
13 here is getting your concurrence and support, effectively
14 moving this forward. This will roll into our building up
15 budget cycles that will be presented back to you in the
16 April and May time frames of this year, and establishes
17 build out of our business plans for the current fiscal
18 year coming to be effective July 1 of 2017.

19 So with that, I'd like to turn this presentation
20 over to Sabrina, and we'll walk through the plans, both
21 the business plan for one year and the five-year strategic
22 plan.

23 Thank you.

24 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
25 HUTCHINS: Thank you. Good morning, Mr. Chair and members

1 of the Committee. Sabrina Hutchins, CalPERS team member.

2 So as Doug mentioned, in December the Committee
3 heard the first reading of the Strategic Plan. And today
4 we're bringing this topic back to you to solicit your
5 feedback for final review and approval. This approval
6 does also include our Business Plan Initiatives that would
7 align to the first year of our Strategic Plan. And this
8 timing keeps us in alignment with our normal business and
9 budget planning cycles.

10 This work is also important to the integration of
11 our enterprise risk conversations as well as those
12 processes.

13 Realizing this is a very comprehensive plan, I
14 wanted to set the stage and review the key points of what
15 we wanted to hit on this morning. So first, we will
16 review the components of the strategic plan and -- let me
17 make this slide -- there we go.

18 --o0o--

19 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
20 HUTCHINS: -- and really show how those components
21 connect. In addition, we want to share how we're going to
22 bring this information back to you on a regular basis
23 through a new reporting structure. And then we'll
24 conclude with a high level review of our goals and
25 objectives. Ultimately again our goal is to receive

1 approval of the plan providing strategic direction and
2 guidance to the organization.

3 --o0o--

4 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

5 HUTCHINS: So I also wanted to take a moment to highlight
6 the supporting material as part of this agenda item, as
7 they really housed the supporting details and data. And
8 so first within attachment 1, this is our Strategic Plan
9 document that would live out on the CalPERS website, and
10 encompasses at a high level our vision, mission, our
11 goals, objections[sic], and all the way down to the
12 measure and target level.

13 Attachment 2 is the business Plan Initiatives
14 that outlines those activities that we would take on in
15 the first year of the Strategic Plan, so the '17-'18
16 cycle.

17 Attachment 3 is an alignment map which shows you
18 at a high level, at-a-glance view of all of those
19 components within the plan.

20 And then attachment 4 is your strategic measures
21 dashboard that gives you the details behind measures,
22 targets, and the baselines that we already have
23 established.

24 So these materials really provide the foundation
25 and starting points for staff to work from.

1 At the heart of these goals is the organization's
2 vision and mission. And as you are aware, we did refresh
3 our statements as part of this planning process.

4 Incorporating the CalPERS' core values when you
5 view the vision and mission really brings additional
6 clarity to who we are and what we stand for.

7 --o0o--

8 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
9 HUTCHINS: So to reinforce the connectivity of each of
10 those components within the plan I wanted to highlight how
11 they work together. So, again, in alignment with our
12 vision and mission, we have established five strategic
13 goals which will set our priorities over the next five
14 years. For each of these goals you have connecting
15 strategic objectives that provide the organization-focused
16 direction and really brings clarity to how we're going to
17 achieve our goals. Each objective has one or more
18 measures and targets that is going to provide insight to
19 measuring our progress along the way, as well as
20 facilitating decision making.

21 And then again, the Business Plan Initiatives are
22 those more tactical activities that will help us move the
23 needle related to our measures and targets ultimately
24 supporting our overarching goals and objectives.

25 --o0o--

1 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

2 HUTCHINS: So before we take a look at the specifics of
3 our Strategic Plan components, I wanted to highlight how
4 we're going to bring this information back to you for
5 review and feedback going forward.

6 As we implement this new plan, we have the
7 opportunity to revise our reporting structure and process,
8 and we have taken into account the Board feedback we've
9 received throughout this planning process, as well as
10 feedback we've received from Marie as she has engaged with
11 all of you on this topic.

12 Our goal is to provide the right level of
13 information as well as utilize the tools that we have to
14 provide you with those additional details that are timely
15 and appropriate.

16 So using a holistic view through an enterprise
17 performance reporting system, we can highlight these key
18 insights related to our strategic objectives through our
19 measures and targets as well as our Business Plan
20 Initiatives and then additional information about our core
21 processes that we're going to highlight through key
22 performance indicators. And these would be more
23 operational and perspective.

24 --o0o--

25 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

1 HUTCHINS: So all of these performance reports would focus
2 on an at-risk status rating and provide insight to those
3 root cause analysis. We would also still provide data of
4 the full spectrum of all of our performance measures. And
5 this could be via the Board books on a regular basis or
6 other forms of communication.

7 As part of the Enterprise Performance Reporting
8 System, we are introducing two new elements which include
9 our thresholds related to our strategic measures as well
10 as those key performance indicators or KPIs.

11 So we are currently in the process of identifying
12 and developing these elements, and we will be presenting
13 this information to you at the July offsite.

14 Specifically related to those thresholds, in
15 order for us to report something at risk, thresholds would
16 need to be established to identify that acceptable range
17 below or above the targets that we've already established.
18 All of these measurements would be reported on a quarterly
19 basis. And this would also incorporate an ad hoc
20 reporting cycle so when measurements are chronically off
21 track or at risk, we would make sure we come back to you
22 with that information more timely.

23 --o0o--

24 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

25 HUTCHINS: So the approach for the reporting timeline for

1 the first year would consist of again first thought
2 workshop; level setting at the timing of the commencement
3 of this plan, which is July 1st of this year; we would
4 share our recommendations for the thresholds related to
5 the measures and targets; and we would ask for your
6 feedback on those thresholds.

7 We would also introduce what we've identified as
8 our key performance indicators.

9 To give us some time to gain some momentum on all
10 of the additional performance measures moving forward, we
11 would come back with a first report on our strategic
12 measures in February of 2018, followed by our Business
13 Plan Initiatives in June and then our KPIs in September.
14 And then this cycle will continue from there on a regular
15 quarterly basis, again focusing on those at-risk
16 indicators.

17 So now I'd like to call your attention to the
18 alignment map, which was attachment 3. We did also pass
19 out a handout just so it's more clear visually. But there
20 were no changes.

21 And, again, this view gives you that snapshot of
22 the entire plan, which is very comprehensive.

23 And it's not my intent to go over each one of
24 these boxes in detail. But I did want to highlight of
25 course our five strategic goals.

1 established.

2 And then at the bottom layer of the map are the
3 Business Plan Initiatives. And again this is the work
4 that would align to the first year of the Strategic Plan.
5 We have 37 Business Plan Initiatives to kick things off in
6 that first year, as we are proactively planning to move
7 the needle related to those measures and targets.

8 I would like to call out that there was an error
9 in the actual agenda item that says we had 32 Business
10 Plan Initiatives, but we in fact have 37 as reflected on
11 your map there.

12 And again, for any initiatives, and we -- just a
13 few that would be aligned to the budget planning cycle,
14 those will be provided in more detail at your budget
15 agenda item in April. Again, our goal here today is to
16 get your approval on the strategic plan components to
17 provide the organization direction, the ability to set
18 priorities and plan our resources.

19 CHAIRPERSON COSTIGAN: I have a question.

20 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
21 HUTCHINS: Yes.

22 CHAIRPERSON COSTIGAN: So not to wordsmith, but
23 just back to the circle of our vision, mission, and core
24 values. And so you look at -- I was asking Mr. Juarez
25 here, on the fund sustainability, I know that it is a core

1 mission. But what I'm sort of not seeing in the circle is
2 part of our mission is to ensure the payment of the
3 benefits. So where is that captured? I mean, we talked
4 about health care affordability and transform health
5 care -- fine. We talked about reducing complexity. Going
6 32 to 37 is a little more complex for me, but -- so we're
7 not meeting that objective, Mr. Hoffner, quite yet.

8 But where is it in the circle -- or is this not
9 the proper document for that? It's part of the Strategic
10 Plan. Because sustainability of the fund would imply that
11 we're making the payment of the benefits and we're
12 strengthening it. But we've put in here - as you said,
13 this will be on our website - vision, mission, core
14 values.

15 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

16 HUTCHINS: Right. So and then the outer circle is your
17 focus on fund sustainability. And so all of the
18 objectives that correlate to that goal would be those
19 items that would help us focus on strengthening the
20 system.

21 CHAIRPERSON COSTIGAN: But if I were looking at
22 this document externally -- I know, so you're going back
23 to cross-referencing, so someone has to read the main
24 document.

25 DEPUTY EXECUTIVE OFFICER HOFFNER: Mr. Costigan,

1 so in our Strategic Plan includes this visual document as
2 well as the narrative associated with each one of the fund
3 sustainability initiatives. It's well -- along with the
4 other five strategic positions.

5 So what you'll have here is a document that looks
6 like this in a narrative fashion that breaks that out for
7 you. So I think it -- I think it meets your -- meets the
8 needs of maybe the question that was raised. It's not
9 fully depicted in that overarching picture.

10 CHAIRPERSON COSTIGAN: No, and I understand. The
11 question -- you wanted feedback, so I'm just giving you
12 all feedback. I mean, as the vice chair's pointing out,
13 you're absolutely right, that information is captured in
14 this very lengthy complex document. As most of you all in
15 this room know, I have a short attention span. This is
16 not -- this document here -- I just want to make sure just
17 as we look for feedback. This is a fantastic document.
18 If it accomplishes it because the cross-references is
19 great.

20 This is a very complex document, the chart that
21 we're looking at. It shows it all. So I just -- that's
22 giving you all a little bit of feedback. We'll go through
23 some questions.

24 So we'll go to Ms. Taylor -- Vice Chair Taylor.

25 VICE CHAIRPERSON TAYLOR: I had a question.

1 You're talking about some of these not being completed and
2 bringing them forward in July, but you want us to pass the
3 whole plan anyway?

4 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
5 HUTCHINS: Well, the primary focus of the approval is
6 really on our goals and objectives and then our Business
7 Plan Initiatives. And then, you know, the strategic
8 measures really demonstrate how we're going to measure our
9 progress going forward.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: So let me
11 clarify for the Vice Chair.

12 So it's to the point that Sabrina just raised.
13 It's -- we think you had captured what we view as the
14 strategic initiatives and objectives there. The pieces
15 that need additional work unattended are shaded in
16 attachment 4, really relate to the thresholds and/or how
17 we're going to measure that performance. And so there's a
18 little bit of additional work that's left there. And
19 so -- for like 10 of the 36 items. So we want to at least
20 be forthcoming and say here are the 26 that are we think
21 meeting that test. There are a few more to be
22 additional -- additional work to be done, mainly around
23 establishing the survey questions. And then we'll get you
24 the trend data so we have a threshold and a baseline,
25 because these are newer things.

1 But we're fundamentally looking for concurrence
2 on the high level strategic plan. And that the
3 performance and those other thresholds will be -- for
4 those 10 will be brought back to you in that workshop.
5 And so we're trying to bifurcate the issue a little bit so
6 that we're not presenting 36 specific initiatives to you
7 at one point in time, and that we can continue to build
8 the plan for that kickoff date of July 1.

9 VICE CHAIRPERSON TAYLOR: Okay. I'll leave it to
10 my colleagues if they have additional questions on these.
11 I'm a little concerned that four of these that we need to
12 come back to are in the health care affordability out of a
13 total of -- out of 10. So 40 percent.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So
15 there is -- there is some data though if you look on
16 attachment 4 under the current status. And so that
17 identifies where we are in terms of our baseline today.
18 And we -- what we need to get to is establishing the sort
19 of trends we want to accomplish in the 1-, 3-, 5-year time
20 horizon. You are correct, there are several within that
21 health care space. But that's where additional work needs
22 to be done to get to the point that you're comfortable
23 that we're hitting those thresholds and that we can then
24 be held accountable for the performance over time.

25 VICE CHAIRPERSON TAYLOR: Great. Thank you.

1 CHAIRPERSON COSTIGAN: All right. We're going to
2 do Committee members first, if that's okay. So we have
3 several.

4 Mr. Jelincic.

5 COMMITTEE MEMBER JELINCIC: A number of things.
6 The attachment 3 is much easier to read in hard copy, and
7 I thank you for that.

8 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
9 HUTCHINS: You're welcome.

10 COMMITTEE MEMBER JELINCIC: I want to go back to
11 the issue that Rich raised on paying benefits. I mean,
12 that's why we exist. And it's not listed in this circle.
13 And if you look at the details on the following five or
14 six pages, payment of benefits doesn't show up there
15 either. So I think it really does need to rise higher in
16 the priority, and it be very explicit that that's why we
17 exist.

18 On the fund sustainability, which is 7 -- it's
19 attachment 1, 7, I agree that those reflect the Board's
20 priorities. I continue to be bothered by the fact that we
21 concentrated on avoiding the downside and pay no attention
22 to what the cost is. You know, we don't pay any attention
23 to what's the upside we're walking away from.

24 Our job is to balance risk. And you can't
25 balance risk if you don't look at both sides. As Bob

1 Carlson used to say, our biggest risk is no risk.

2 On page 8, "Deliver target risk-adjusted
3 investment returns," I think that in fact is one of the
4 things we really want. But I will point out that you get
5 what you pay for, and our compensation plan does not risk
6 adjust. And so we really do need to think about, are we
7 serious about risk adjustment or are we not?

8 Page 13, which is 173 of the iPad, is the survey.
9 And again, I just want to put in a plug. I really want
10 the question to come back about favoritism. Hopefully we
11 will get there.

12 And those observations also apply to attachment 4
13 in the various places, but I'm not going to repeat them
14 there.

15 So thank you.

16 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

17 HUTCHINS: Thank you.

18 CHAIRPERSON COSTIGAN: So, Mr. Jelincic, I
19 would -- I have a follow-up question.

20 In order to give it additional feedback when you
21 were talking both about risk and cost, what do you as a
22 recommendation -- or what do you see that the document's
23 lacking?

24 COMMITTEE MEMBER JELINCIC: I'm not sure I
25 understand what your question is.

1 CHAIRPERSON COSTIGAN: Well, as I understood your
2 question is, we're not capturing part of the cost aspect
3 and we're not capturing part of the risk. So in order to
4 give Mr. Hoffner a little bit of feedback, what is it
5 that -- in order to make -- to achieve the goal that
6 you're seeking or the information you're seeking? Just a
7 recommendation, I mean, a little bit of feedback.

8 COMMITTEE MEMBER JELINCIC: We need to look at
9 not just the avoiding falling to 50 percent funded. We
10 need to look at, well, what is it -- how much have we
11 reduced our risk of getting to 110 percent funded? That's
12 a risk we kind of like. But you can't look at just the
13 downside and not look at the upside.

14 Part of the change in the discount rate is
15 because we have focused on the very short term and made it
16 more -- our asset allocation more and more conservative.
17 There is a cost to that that needs to be balanced. We
18 need to -- because we're not just only with sharp
19 increases employer contributions, but we have a desire for
20 lower contributions for the employer.

21 You know, we -- you know, the expected
22 volatility -- you know, there's a -- you know, we've set
23 this goal of 8, but that really implies something about
24 what we are willing to accept in expected returns. And
25 I'm not sure we actually are willing to accept what it

1 would take to get an 8 volatility, which is probably
2 approaching, well, 4 or 5 percent return on the
3 investments.

4 So we -- it's a balancing game and we need to
5 recognize that both sides of that equation exist.

6 CHAIRPERSON COSTIGAN: All right. Thank you,
7 Mr. Jelincic.

8 Mr. Slaton.

9 COMMITTEE MEMBER SLATON: Yeah. Just to address
10 one item that Mr. Jelincic mentioned, and I've got some
11 other questions.

12 As staff has pointed out to us on multiple
13 occasions, it's an asymmetric risk. So while he has --
14 you are correct that we do need to look at both sides, the
15 risks are asymmetric when we are at the 60-some-odd
16 percent funding level. So different set of analysis if
17 you were at 85 percent.

18 But, anyway, I want to come back to this model.

19 There's a lot of these that -- this is a
20 five-year plan. And as you know, I've been an advocate
21 for measurements that we can look at and say, how are we
22 doing?

23 A lot of these are establish a baseline and then
24 look for a downward trend. So it's a five-year plan. By
25 when should we have those baselines? So if we -- if we

1 don't have an actual measurement we can look at today, to
2 me to hold you accountable is to say, okay, by when will
3 we have the baselines for those?

4 And then there are others that we have
5 measurements. And I'll just pick out one of them:
6 Achieve overall satisfaction rate customer experience for
7 key business process of 95 percent. And we're 86 percent
8 as of November 2016.

9 So is the -- should we hold you accountable only
10 for getting to 95 in five years or should you be held
11 accountable of getting to 90 by some interim date? So I
12 don't see the interim dates in here where you can report
13 to us and we can say -- check that off and say, okay, you
14 accomplished that.

15 Otherwise it's a five-year plan with all of
16 the -- except for the ones that say it's longer than five
17 years. I didn't see any of them that say we're going to
18 get it done by year one or year three. And so to me,
19 that's what this Board member would like to see.

20 By the way, I think there's an error on the
21 mental health one, where we talk about young people 12 to
22 17 years old, and we have the current status of 5.1.
23 These are instances of severe mental health problems, and
24 we have a goal of 7.

25 So I don't think we're trying to go that

1 direction.

2 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

3 HUTCHINS: All right. We will take a look at that.

4 COMMITTEE MEMBER SLATON: Unless I'm misreading
5 it.

6 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

7 HUTCHINS: Okay. To your point about the other -- the
8 baselines and holding us accountable for -- and that goes
9 to our conversation that we want to go into more detail at
10 the July offsite. All of the -- out of the 36 measures,
11 we do have baselines for a majority of them. And then the
12 10 that we did outline, most of those baselines will be
13 established as of either March or June of this year. So,
14 again, we're really ahead of the game really trying to be
15 prepared for July 1. And so there's still a lot of work
16 that is like in process of happening. So we feel pretty
17 confident about where we are with the -- at least the data
18 that we have today. And our goal would be to work with
19 you to establish what's that threshold then. So if we
20 need to be accountable for a particular measure in a
21 one-year period, that's certainly something that we can do
22 over the five-year timeline.

23 COMMITTEE MEMBER SLATON: Yeah. I would suggest
24 that, you know, staff needs to come forward with those.
25 We can't create them.

1 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

2 HUTCHINS: Right.

3 COMMITTEE MEMBER SLATON: We would need to do
4 them in concert with you and reach mutual agreement. But
5 I think that the --

6 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
7 HUTCHINS: Yes, absolutely.

8 COMMITTEE MEMBER SLATON: But I think that the
9 initial targets and their timelines need to come from you;
10 and then our feedback is, are we comfortable with that and
11 are we in agreement?

12 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
13 HUTCHINS: Very good.

14 COMMITTEE MEMBER SLATON: Thank you.

15 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
16 HUTCHINS: Thank you.

17 CHAIRPERSON COSTIGAN: Mr. Hoffner, so we will
18 see timelines prior to the July Board meeting?

19 So I know you're wanting us to adopt this as a
20 second reading, but I think Mr. Slaton has raised some
21 great -- it's an element that's missing. And so when
22 would we potentially be able to see the metrics come back
23 for dates?

24 DEPUTY EXECUTIVE OFFICER HOFFNER: So I think the
25 question is, to Sabrina's point, there are some that will

1 be finalized for presentation in the March and/or through
2 June time frame. So we either have the material before
3 you before that other workshop or on a basis or we have it
4 all rolled up for you at that point in time at the July
5 offsite for your review and approval.

6 CHAIRPERSON COSTIGAN: So you need this adopted
7 prior to that? I mean, I guess the question --

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Well, we're
9 developing our budgets for this July 1, '17 to '18 fiscal
10 year, and we're developing the Business Plan Initiatives
11 for '17 -- '18 that could be encompassed within those
12 budget timelines and priorities. So that's kind of the
13 structure we're working toward is having that all rolled
14 up and having it available to be kicked off because we'll
15 be getting into the first year of the five-year plan. So
16 that's what we're looking for your concurrence and support
17 on is that the things that we're working on today to roll
18 up to that are in fact what you want us to do, and then
19 hold us accountable for going forward.

20 CHAIRPERSON COSTIGAN: Mr. Slaton.

21 COMMITTEE MEMBER SLATON: Yeah, just to add
22 clarity to that. I agree with you. You know strategic
23 plans are always works in progress, they are always being
24 updated and changed and tweaked as situations change. So
25 I'm in favor of us approving this today as the basic

1 framework, and then there's -- as it indicates, there's
2 work to do, to flesh it out even more so we know where
3 we're headed. But I'd be in favor of it. And if you need
4 a motion, I'd be happy to make it.

5 CHAIRPERSON COSTIGAN: There are a few more
6 questions. But I'll call on you when we get there.

7 Ms. Paquin.

8 ACTING COMMITTEE MEMBER PAQUIN: Thank you,
9 Mr. Chair.

10 Overall, you know, we're very happy with progress
11 of the Strategic Plan, and I really do like the dashboard
12 that you have as attachment 4. I think that makes it very
13 easy to follow.

14 And I think to Mr. Slaton's question, were you
15 planning to use the annual business plan to show
16 incremental progress in some of the measures? So instead
17 of saying, you know, by in five years we'll be this far
18 along, by year two we'll be here?

19 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
20 HUTCHINS: Yes. So the Business Plan Initiatives will
21 give you incremental progress of the tactical activities
22 that we're working on to achieve our overall goals. That
23 would be coming back to you on that quarterly reporting
24 cycle. So you will hear regular progress updates.

25 And each year, as we've done in the past, we

1 refresh our Business Plan Initiatives, our plan. So every
2 year you would see what are we planning for the next year.

3 ACTING COMMITTEE MEMBER PAQUIN: Okay. Now I do
4 have a question on the '17-'18 business plan. This is on
5 page 1 of the plan under "Strategic Objective - Integrate
6 environmental, social, and governance considerations into
7 investment decision making."

8 And currently this shows the development of a
9 framework for the integration to be completed by June
10 2020. And I was curious, does the Investment staff
11 believe it will take three years to actually develop a
12 framework, or is this for a hundred percent integration?

13 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
14 HUTCHINS: That's a very good question. I might need some
15 help from my Investment team.

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: Hi there.
17 Ted Eliopoulos, Chief Investment Officer.

18 Well, we think it will take five years to develop
19 the framework for integrating ESG. And as our plan
20 demonstrates, that is a huge endeavor and will be
21 iterative as the plan goes forward in terms of what is
22 success, in terms of integrating that ESG into our
23 considerations.

24 I think in terms of our goal for the five years
25 is to have a hundred percent compliance by all of our

1 external and internal managers to have plans and
2 procedures in place to integrate ESG into the decision
3 making. So it's a bit of a word construct, but the
4 framework should be complete. And in that framework each
5 external-internal manager will have policy and procedures
6 in place to do the integration. And what the integration
7 is, how that looks, that will develop over time.

8 ACTING COMMITTEE MEMBER PAQUIN: Okay. So this
9 plan says the framework will be completed by June 2020, so
10 within three, three and a half years. So, are you
11 envisioning that as an iterative process and that managers
12 will be called to task to start integrating throughout the
13 three years or are you going to take the next three years
14 to actually develop a framework and then start the
15 enforcement of that integration?

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: We're
17 already asking each of our managers to provide us reports
18 on how they're going about integrating ESG into their
19 decision making. We will have at the Investment Committee
20 in March a further discussion of how that is going. But
21 this is a very new area of practice, so there's great
22 variety and variability about -- within each asset class
23 and within each manager how they're approaching this. So
24 I think it's going to take the full five years to really
25 understand what are best practices, how ESG has integrated

1 into decision making. And that will come into focus much
2 more during the course of this five-year plan.

3 ACTING COMMITTEE MEMBER PAQUIN: Okay. All
4 right. Thank you.

5 CHAIRPERSON COSTIGAN: Ms. Mathur.

6 BOARD MEMBER MATHUR: Thank you. Excuse me.

7 Well, first I just want to say that I think that
8 this strategic plan process has been a really constructive
9 and useful one, and I think it's borne out in a document
10 that is clear and really does articulate the goals and
11 objectives of this Board and the organization as a whole.
12 So I want to applaud you and your teams for very a
13 successful effort.

14 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
15 HUTCHINS: Thank you.

16 BOARD MEMBER MATHUR: Second I wanted to respond
17 to Mr. Costigan's earlier concern about nothing -- about
18 the question of whether delivering benefits should be
19 articulated on this circle charge that's up on the screen.
20 And on the chart in the center you have the word
21 "MISSION," which really our mission is to delivery
22 retirement and health benefits to members and their
23 beneficiaries. And perhaps rather than just having the
24 word "MISSION," you could actually put the words "OF THE
25 MISSION," which I know would make the chart a little bit

1 less pretty, but maybe that would go towards achieving the
2 concerns or addressing the concerns of the Chair. So I
3 was just -- that's just a suggestion.

4 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
5 HUTCHINS: And I'll just note that this view which is for
6 the PowerPoint, but actually the strategy map in the
7 actual plan does lay out the words of the vision, mission,
8 and core values.

9 BOARD MEMBER MATHUR: So then it's already there?

10 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
11 HUTCHINS: It is there.

12 BOARD MEMBER MATHUR: Okay.

13 CHAIRPERSON COSTIGAN: And I guess the struggle
14 is again is -- this is a great visual document. We're
15 asking folks to go to another document that has a lot of
16 information on it. So --

17 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
18 HUTCHINS: Understood.

19 CHAIRPERSON COSTIGAN: All right. Ms. Taylor.

20 BOARD MEMBER MATHUR: No, no, I'm not done.

21 CHAIRPERSON COSTIGAN: Oh, I'm sorry.

22 Sorry.

23 (Laughter.)

24 BOARD MEMBER MATHUR: So I did want to just ask a
25 question. And I think it's been raised in other ways

1 today. But some of these strategic measures are very
2 precise, so they have a number and a target. Others are
3 less precise. So, for example, I'm just looking at fund
4 sustainability.

5 The strategic measure around probability of a
6 sharp increase in employer contribution rates is a low
7 probability of single-year employer increase of 5 percent
8 of payroll for miscellaneous or 7 percent of payroll for
9 safety.

10 But what does a low probability mean? What is a
11 low probability, I guess. You know, we don't have a
12 number there where the low probability is. So I guess
13 that's my -- my question on some of these is, are we going
14 to get more precise on what the target is or are we going
15 to sort of know it when we see it?

16 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
17 HUTCHINS: You know, that's a good question. And if it's
18 not described in the actual dashboard where there's a
19 little bit more details, then we can certainly do better
20 work on that.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. It's
22 not. So I think we need to bring that back. And I think
23 that's the kind of feedback we're looking for so that what
24 gets finally adopted and approved and expectations of both
25 the Board and the work that we do on behalf of the

1 membership is consistent, so that we're in concert about
2 what low probability is.

3 BOARD MEMBER MATHUR: So there are others like
4 that around the probability of high employer contribution
5 rates. It's just a decrease.

6 How much of a decrease? I mean, there's a 0.01
7 percent decrease, there's a 20 percent decrease. They're
8 materially different. So I guess getting a little bit --
9 sharpening the pencil a little bit on those would be
10 helpful.

11 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
12 HUTCHINS: Absolutely. We will do that. And that will be
13 the work that we would bring back to the next session as
14 well.

15 BOARD MEMBER MATHUR: Okay. Terrific.

16 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF
17 HUTCHINS: And then I'd like to applaud the organization
18 in general just for the maturity level of having these
19 measures in place before the plan even starts. So it was
20 a significant milestone for us this time. So we're
21 getting better as we're moving along.

22 BOARD MEMBER MATHUR: I certainly think we are.
23 And I think having these -- you know, some strong measures
24 in here, some of which are very -- are going to be
25 challenging to achieve -- is a sign of maturity, and I

1 really respect it, and then --

2 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

3 HUTCHINS: Thank you.

4 BOARD MEMBER MATHUR: -- look forward to seeing
5 how we use this tool moving forward.

6 Thank you.

7 CHAIRPERSON COSTIGAN: Thank you, Ms. Mathur.
8 Great questions.

9 Ms. Taylor, we'll go back to you very quickly.

10 VICE CHAIRPERSON TAYLOR: Sure. I'm kind of
11 following up on what Ms. Paquin was talking about. And I
12 guess maybe that means Ted has to come back up.

13 So, I think one of my questions was, you were
14 talking about implementing the mana -- the managers have
15 the policies and procedures for integrating our ESG. You
16 said that it will probably take five years to complete
17 that.

18 CHIEF INVESTMENT OFFICER ELIOPOULOS: (Nods
19 head.)

20 VICE CHAIRPERSON TAYLOR: Do you have -- and I
21 think my question is maybe better asked in the Investment
22 Committee. But I think because we're not seeing it here
23 in the Strategic Plan, I would think that there would be a
24 better definition of benchmarking for that. Because I --
25 you gave kind of a nebulous answer. So I was a little

1 concerned that it -- that we're not even going to have a
2 benchmark of any kind in between the five years. Am I
3 incorrect, I'm hoping?

4 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, so I
5 think you -- here's what's in the document. I'll start
6 with that.

7 First is the developing a framework piece. And
8 this area I'll just underscore is a very nascent and new
9 area in the investment world, investment practices.

10 CalPERS is seen as the leader in the area of ESG
11 work and, importantly, the work of trying to integrate ESG
12 considerations into decision making.

13 That's why the strategic objective is, you know,
14 at a level of abstraction of developing a framework
15 because it's pioneering work. There is no benchmark. I
16 wish we could take off a -- you know, from a menu or a
17 playbook or a benchmark that we have and measure in our
18 investment performance to put in. We are creating new
19 territory here.

20 As a result, during our workshops what we had
21 agreed on for a measurement - and it's not really -- as
22 you say, it's really not a benchmark - is during the
23 course of this five-year period to have 100 percent of our
24 internal and external managers have a policy and
25 procedures in place to take into consideration ESG

1 considerations into investment decision making. So that
2 is the benchmark, if you will. That is the measurement
3 over this five-year time period, is whether or not we can,
4 one, construct the framework and have the policy and
5 procedures in place so that it is working; and that's a
6 very ambitious goal given, you know, how nascent this area
7 is.

8 VICE CHAIRPERSON TAYLOR: Okay. So that's --

9 CHIEF INVESTMENT OFFICER ELIOPOULOS: Is that
10 helpful?

11 VICE CHAIRPERSON TAYLOR: That's a little
12 helpful. I appreciate it. Thank you.

13 CHAIRPERSON COSTIGAN: So, Mr. Eliopoulos, you
14 might just want to stay. May not be any questions but
15 weather them back and forth.

16 Ms. Hollinger.

17 BOARD MEMBER HOLLINGER: Thank you. Appreciate
18 it.

19 I really appreciate this work. I realize the
20 enormity of the job and to try to get it on one piece of
21 paper.

22 I just have food for thought, a suggestion. I
23 noticed that under fund sustainability it says funded
24 status, a hundred percent with acceptable risk. But then
25 in the notes obviously we -- it says something that would

1 be beyond the time year -- five-year time frame.

2 So my suggestion would be, what do we think is
3 realistic in the five years? Do we think maybe of putting
4 a funded status of 75, 80 percent just as something that's
5 potentially -- that's potentially attainable? It's just a
6 thought, a suggestion as what -- to start getting us
7 thinking --

8 CHAIRPERSON COSTIGAN: Well, we'll start with
9 Mr. Hoffner.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: Well --

11 BOARD MEMBER HOLLINGER: -- as what we think
12 could be real --

13 DEPUTY EXECUTIVE OFFICER HOFFNER: You're
14 speaking about like a threshold that would be --

15 BOARD MEMBER HOLLINGER: As what we think could
16 be at least, yeah, attainable, like a hundred -- you know.

17 CHAIRPERSON COSTIGAN: We're going to have our
18 CE --

19 DEPUTY EXECUTIVE OFFICER HOFFNER: So I think the
20 question is, is it attainable? And that's a five-year --
21 it's a five-year plan, what we currently identify as
22 something beyond -- in it's asterisk beyond the five
23 years. So I think the question is maybe beyond just my
24 input here given the question.

25 But we could definitely put something in there

1 that would be what do we think is attainable. We're at
2 60 -- I've heard 63, 64 percent of funded status as of
3 yesterday within the budget framework.

4 BOARD MEMBER HOLLINGER: Yeah, within the five
5 years rather than -- you know. So maybe there are things
6 that we could be -- just to give us a realistic goal to
7 work towards that would be -- we think could be
8 attainable.

9 CHAIRPERSON COSTIGAN: So let's ask Mr.
10 Eliopoulos. I know it's the ebb and flow. I mean, even
11 our discussions yesterday have an impact on the portfolio,
12 I mean the external.

13 BOARD MEMBER HOLLINGER: Right.

14 CHAIRPERSON COSTIGAN: So putting a marker out
15 there, so to speak, as a benchmark.

16 Your thoughts?

17 CHIEF INVESTMENT OFFICER ELIOPOULOS: Speaking
18 just as a Chief Investment Officer, sort of on the asset
19 side of this equation, there's some -- there's some
20 difficulty in trying to affix a number for the next five
21 years, there's so much variability around the pattern of
22 returns given the level of risk in the portfolio.

23 BOARD MEMBER HOLLINGER: That's why I thought a
24 hundred percent just should not -- that's -- you know, we
25 know, I mean, that it's not realistic, right.

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: A better
2 answer from me likely would, you know, really point us to
3 the ALM cycle, which is right in the midpoint of this
4 five-year period, and that's where you really will be
5 grappling with what is the level of risk, what is the
6 current level of funded status, and what are the
7 probabilities that we'll make actuarial progress or
8 degrade over the five-year period.

9 BOARD MEMBER HOLLINGER: Okay. Thank you.

10 CHAIRPERSON COSTIGAN: Okay. Mr. Jelincic.

11 COMMITTEE MEMBER JELINCIC: Yeah. We have before
12 us a '17-'18 business plan. And many of those things go
13 beyond the year. And I can understand why they're not
14 going to get done in a year. But what's not in the
15 business plan is how far we get this year. You know,
16 where should we be?

17 And the -- going back to an issue that Bill
18 raised. You know, strategic plans are a work in progress.
19 Hopefully, you know, business initiatives are not so much
20 a work in progress, that we kind of know what we're going
21 to do next year.

22 Given that you've told us they have -- you know,
23 you're going to bring us a bunch of stuff back, I'm not
24 sure that adoption is really the appropriate place. I
25 think clearly you're in the right direction, you're going

1 the right way. You know, I would certainly feel very
2 comfortable giving you that guidance. But, you know,
3 actually asking us to approve the plan and the business
4 initiative with as many holes is somewhat uncomfortable.

5 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

6 HUTCHINS: So on the Business Plan Initiatives for '17-'18
7 our normal process would be we kind of tee these up to you
8 as concepts. We don't completely build out all the
9 deliverables until we make sure we have approval from you
10 on the work that we actually want to do next year. And
11 then that also aligns to the budget planning cycle. So
12 usually during this time frame, we ask for approval on our
13 Business Plan Initiative proposals, which are these; and
14 then what the teams go back and do is actually build out
15 our deliverables. So when you see that first report on
16 the initiatives, you see what the expectation is for the
17 work in that first year.

18 COMMITTEE MEMBER JELINCIC: So you're really
19 asking for a conceptual approval? Okay.

20 DEPUTY EXECUTIVE OFFICER HOFFNER: It's a high
21 level approval. So we're not going to do all the work and
22 find out that's something you didn't approve and then it
23 gets built into the budget. So you're going to get sort
24 of another view of it.

25 COMMITTEE MEMBER JELINCIC: I understand that,

1 which is why so that perfectly comfortable --

2 DEPUTY EXECUTIVE OFFICER HOFFNER: Right. So
3 we'll do the correlation between the budget documents and
4 the business plan. We can call them that. We've done
5 that in the past. You're going to get two readings of the
6 budget and you're going to see these things play out over
7 time.

8 And if there's something you're objecting to or
9 there's a concern about, I think we should talk about it.
10 But other than that, we do have end dates in here. Many
11 are within the '17-'18 time frame. We do have identified
12 those that --

13 COMMITTEE MEMBER JELINCIC: I'm fine with those.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: We've been
15 trying to do a better job of calling those out so that you
16 don't see them in '18-'19 time frame and say, "I thought
17 that was a prior year item." They may have a multi-year
18 component of it. But within that is something that we'll
19 be working on the '17-'18 time frame.

20 CHAIRPERSON COSTIGAN: So, Mr. Jelincic, I
21 think -- you know, on one hand your point is well taken.
22 However, I think given this document, as Mr. Hoffner
23 talked about, the budget document, as Mr. Eliopoulos
24 talked about the ALM process, all of these go hand in
25 hand, and this is a con -- as I understand, this is a

1 document to continue moving forward. We don't lose
2 jurisdiction over any of the issues. In fact, you will be
3 bringing back both at the offsite -- and part of that
4 we're going to look at some timelines.

5 So I just want to make sure I'm capturing this
6 correctly.

7 Mr. Slaton.

8 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

9 I think that -- you know, first of all, I want to
10 make it clear, I don't have any problem with some
11 measurements being unspecific, you know. Everything in
12 life can't be defined down to a number, so some of them
13 are that case.

14 I think in the area of fund sustainability - and
15 I think our CIO kind of touched on this point - those are
16 very difficult to -- you know, those are things that you
17 can't do. You need us to make decisions that could
18 significantly impact those -- certainly the first four on
19 there. And so that's a function not only of what's
20 happening on the asset side, but it's also decision making
21 that we do on the liability side. And so I'm not sure
22 those lend themselves for a specific target, but we can
23 certainly talk further about that.

24 I think that some of us on the Board, I'm one of
25 them, you know, short attention span. So I think one of

1 the important things as we go through this plan is that
2 you -- we do as good a job as possible at telling us where
3 we were, where we are, and where we're going. Because I
4 lose track of particularly where we were. You know, we
5 say here's where we are right now. And I can't remember
6 what we said last year or last month. So I think that's
7 important.

8 So with that, I think this is a great body of
9 work and I think it has -- there's a lot still to do, and
10 I look forward to it. And I'd like to move approval.

11 CHAIRPERSON COSTIGAN: All right. So we have a
12 motion by Slaton.

13 VICE CHAIRPERSON TAYLOR: Second.

14 CHAIRPERSON COSTIGAN: Seconded by Taylor.

15 Any further discussion?

16 All in favor?

17 (Ayes.)

18 CHAIRPERSON COSTIGAN: Opposed?

19 Motion carries.

20 Thank you.

21 And again, Mr. Hoffner, credit to you and to
22 Cheryl Eason. Again, building on the fact, just to
23 reiterate, transparency award, budget awards, I know we've
24 still got to fill some stuff in this document, but again
25 the more information we're putting out there is very

1 appreciative. So thank you.

2 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you,
3 all.

4 CHAIRPERSON COSTIGAN: We're going to go on to
5 Item 7a. And I know we have Mr. Darby wants to speak.

6 So, Mr. Darby, you can just come on down to the
7 front row.

8 But we'll just go ahead and present on 7a please.

9 Oh, Ms. Malm. So sorry. You're up.

10 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

11 Thank you. Good morning, members of Finance and
12 Administration Committee. Kim Malm, CalPERS team member.
13 Happy Valentine's Day.

14 7a is an action item and it's requesting approval
15 of the Notice of Election for the 2017 Member-at-Large
16 Election. This election is to fill two representative
17 positions to the CalPERS Board. They're designated as
18 Position A and Position B.

19 Position A is currently filled with J.J. Jelincic
20 and Position B is currently filled with Michael Bilbrey.
21 Both of the incumbents have shared their interest to rerun
22 for election.

23 The election will begin on March 27th, with a
24 distribution of the Notice of Election to CalPERS
25 employers and retired members. The Notice of Election

1 will be mailed to retirees' homes -- home addresses and
2 will be electronically sent to the employers.

3 The nomination petition forms must contain
4 original signatures endorsed by at least 250 eligible
5 active or retired CalPERS members. It must be turned in
6 by May 18th at 5 p.m. in order for a candidate to run for
7 election.

8 Eligible members include an active or retired
9 member as of the date of the Notice of Election, which is
10 in front of you, for March 27th, 2017.

11 We must be able to certify 250 members in our
12 system for the candidate to be eligible.

13 Only one nomination petition may be submitted for
14 Position A or for Position B. You cannot run for both
15 positions.

16 As soon as we certify the candidates for the
17 election, we'll send them information regarding the
18 timeline of the remainder of the election activities,
19 candidate guidelines, and the final candidate list.

20 Candidate statement booklets and ballots will be
21 mailed to all of the actively and retired members on
22 September 1st, and the voting will close on October 2nd.

23 Eligible voters will have the option to cast
24 their vote either electronically, by phone, or by mail;
25 and you will see a demo of that shortly in another agenda

1 item.

2 CalPERS will conduct a candidate forum, as we
3 typically do, the first week of September. More
4 information will follow once we get the logistics set down
5 on that.

6 Paper, on-line, and telephone ballots will be
7 tabulated, and the candidate receiving the majority vote
8 will be certified by the Secretary of State as having been
9 elected.

10 If there is no majority vote winner in the first
11 election, then a runoff election will be conducted between
12 the two candidates who receive the highest number of
13 votes.

14 The runoff ballots will be mailed on November
15 10th and will be due back by December 11th of 2017.

16 The term of the Board members is January 16th,
17 2018, through January 15th of 2022.

18 That concludes my presentation, Mr. Chair, and
19 I'm happy to answer any questions.

20 CHAIRPERSON COSTIGAN: All right. Thank you.

21 Mr. Jelincic.

22 COMMITTEE MEMBER JELINCIC: I'm certainly not
23 afraid of the competition. But I do notice that a retiree
24 must be a resident of the State of California. That's not
25 contained in Government Code 20090, nor in the reg. And

1 so the question is why?

2 And the other question is, why does it not apply
3 to the active?

4 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

5 It is my understanding, Mr. Jelincic, that it
6 applies to retired and active. And although it is not
7 specific in the PERL, it is in the Government Code section
8 1020. And if you'd like, I can read the -- okay?

9 CHAIRPERSON COSTIGAN: I'd like to hear that.

10 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

11 It states: "A person is incapable of holding a
12 civil office if at the time of the election or appointment
13 he is not 18 years of age and a citizen of the State.

14 "A CalPERS Board member seat is a civil office
15 per the provisions of the Government Code section 1001,
16 which states in pertinent part, 'The civil executive
17 officers are persons serving on boards or commissions
18 created under the laws of the State or established under
19 the State Constitution

20 "Furthermore, Government Code section 241 states:
21 'The citizens of the State are persons born in the state
22 and residing within it or those that were born out of the
23 State and residing in it.'" I'm paraphrasing.

24 So they have to be a resident of the State in
25 order to run for election. And when we redo our -- do

1 another regulation change, we can make that clear. But it
2 is in Government Code that we follow.

3 COMMITTEE MEMBER JELINCIC: Okay. And I'm glad
4 Jeff gave you the heads-up so you had a chance to research
5 that. But the election

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
7 I answered him.

8 COMMITTEE MEMBER JELINCIC: The election notice
9 itself for procedures and eligibility does not apply the
10 resident requirement to be active. And I'm just wondering
11 if we should amend -- before we adopt it, we should amend
12 it to make it clear that it does in fact apply to the
13 active.

14 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
15 The Notice of Election does not speak to the
16 State of California for active or retired?

17 COMMITTEE MEMBER JELINCIC: It does for retired,
18 but it doesn't for actives. And I'm just, you know -- and
19 since it -- the law -- you know, non-PERL law applies to
20 both. The election notice ought to apply to both.

21 There --

22 CHAIRPERSON COSTIGAN: I see -- what Mr. Jelincic
23 is saying is that in the eligibility we specifically call
24 out the retiree and it's both retiree -- it should just
25 say any candidate.

1 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

2 And I'm happy to make that change right now.

3 COMMITTEE MEMBER JELINCIC: And one of the other
4 things that I learned accidentally was that an
5 out-of-state member, once we've made that change, may not
6 sign a nomination paper, an endorsement. Because in order
7 to be eligible to put your signature on the nomination
8 petition, you have to be eligible for the office. And so
9 one of the things that we have done now is say if you're
10 out of state -- if you live out of state - and we have
11 both actives and retirees who do - you can't sign a
12 nomination petition.

13 CHAIRPERSON COSTIGAN: But, Mr. Jelincic, it's
14 not us saying it. It's the statute that says it, as
15 Ms. Malm --

16 COMMITTEE MEMBER JELINCIC: Well --

17 CHAIRPERSON COSTIGAN: No, I just want to make
18 sure we're clear on this.

19 COMMITTEE MEMBER JELINCIC: Okay. It is the
20 statute that requires you to be a resident.

21 CHAIRPERSON COSTIGAN: Correct.

22 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
23 To be a candidate.

24 COMMITTEE MEMBER JELINCIC: Our regs require that
25 you be eligible per the election notice in order to sign

1 the nomination.

2 All right. I mean, now, I don't know -- I don't
3 know how many out-of-state people would sign it, I mean.
4 So it --

5 CHAIRPERSON COSTIGAN: I understand --

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
7 Sign it as one of the 250 endorsed signatures,
8 Mr. Jelincic, or sign it as -- to become a candidate?

9 COMMITTEE MEMBER JELINCIC: As one of the 250
10 endorsed signatures. If you're out of -- if you're out of
11 state -- if you're living out of state you would not be
12 eligible to sign that nomination petition as one of the
13 250.

14 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

15 That is not my understanding, Mr. Jelincic. But
16 I'm happy to get some additional information from our
17 legal team. It's my understanding that if you're an
18 active or retired member, you get to vote. I don't -- it
19 doesn't matter where you live.

20 CHAIRPERSON COSTIGAN: I think that's -- I think
21 he's splitting the question. Is you can only be a
22 resident to be a candidate.

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
24 Correct.

25 CHAIRPERSON COSTIGAN: And that if you're one

1 of -- and you have to go out and get 250 signature --
2 valid signatures.

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
4 Uh-huh.

5 CHAIRPERSON COSTIGAN: And what Mr. Jelincic is
6 saying is that those 250 folks regardless of whether
7 active or retirees have to be California residents as
8 well. But anybody that's inside the system is eligible to
9 vote whether they live in Nevada or California. And so --
10 right, Mr. Jelincic?

11 COMMITTEE MEMBER JELINCIC: Yes.

12 CHAIRPERSON COSTIGAN: That's what he's saying,
13 is the 250 people that sign the document must be residents
14 of California.

15 And is that -- and, I'm sorry -- Ms. Taylor.

16 VICE CHAIRPERSON TAYLOR: So we have members --
17 we do have members -- actually I had mine on first.

18 (Laughter.)

19 VICE CHAIRPERSON TAYLOR: We do have members out
20 of state, so we have members in Houston, Chicago, and New
21 York.

22 CHAIRPERSON COSTIGAN: South Carolina, Tennessee,
23 Idaho.

24 VICE CHAIRPERSON TAYLOR: Yeah. So --

25 CHAIRPERSON COSTIGAN: Ms. Malm, does this make

1 sense?

2 VICE CHAIRPERSON TAYLOR: So representative
3 members are actually out of state. And I would assume --
4 I don't know anybody who's going to travel there to get
5 those signatures, but I would assume that if they can
6 vote, they can sign the form.

7 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
8 That's my understanding as well. I am trying to
9 find out where Mr. Jelincic got the information that the
10 250 have to be within state.

11 COMMITTEE MEMBER JELINCIC: It's 554.5C

12 CHAIRPERSON COSTIGAN: Okay. So let's do
13 Mr. Jones.

14 And what we'll do is let's just put this to the
15 end of the agenda just to get the information.

16 But, Mr. Jones.

17 COMMITTEE MEMBER JONES: That's what I was going
18 to say, because that's an important distinction. Because
19 it's my belief and my understanding that once you retire,
20 you're eligible to sign that petition to participate in
21 the vote. So -- that is regardless of where you live. So
22 I think it should be clarified so people don't get a
23 misunderstanding of that.

24 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
25 Well, they absolutely can vote. The question is

1 whether or not they can be the 250 signatures that allows
2 you to run for a candidate.

3 CHAIRPERSON COSTIGAN: That's correct. So if you
4 can find out.

5 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
6 We will do that.

7 CHAIRPERSON COSTIGAN: And, Mr. Darby.

8 I'm sorry. Any other Board members?

9 Okay. Mr. Darby, you have the --

10 Mr. DARBY: Al Darby, Vice President, Retired
11 Public Employees Association.

12 This is precisely the issue I was going to speak
13 to. I would certainly urge CalPERS to sponsor legislation
14 that makes it possible for retirees and active members who
15 are residing outside the State be signatories to an
16 eligibility form as well as the actual candidate for the
17 Board member be a person who can reside outside the State.
18 Because we have a number of members -- I believe 14
19 percent of all retirees from CalPERS reside outside the
20 State.

21 CHAIRPERSON COSTIGAN: Okay. Thank you,
22 Mr. Darby.

23 Mr. DARBY: Thank you.

24 CHAIRPERSON COSTIGAN: Ms. Malm, we'll just put
25 this over to the last item.

1 Okay. Let's move on to the next item in my
2 agenda here.

3 So we're going to move on to -- yeah, we're going
4 to get the information and then we're going to bring it
5 back at the very end of the agenda.

6 All right. We're going to go on to 7b.

7 And I can't pull this up here.

8 All right. The review of the delegation --
9 Committee's delegation authority.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: Right. Thank you.

12 So before you is the request and the
13 recommendation to approve the delegation for the Finance
14 and Administration Committee. This request comes via the
15 governance policy which requires that the Committee
16 actually review and approve its delegation every year.

17 There were some changes that were made to the
18 delegation policy, mostly to consolidate the information
19 and to streamline some of the information and call out the
20 activities that the Committee has undertaken over the
21 course of the year.

22 Through the review process, we have also pulled
23 out another policy, which is a Board policy titled "The
24 Policy for Approval of Reimbursement to State, School, and
25 Public Agency Employers of Elected Board Members.

1 This policy actually requires the Finance and
2 Administration Committee to do some work every year as it
3 relates to the reimbursements. And so what we've done is
4 we've taken that policy and we have put that requirement
5 into the delegation for the Finance and Administration
6 Committee, as well as added that requirement to the
7 governance policy for the Board.

8 And in doing so, we're trying to consolidate the
9 information in the requirements to both the delegation and
10 the governance policy and not have a separate side policy
11 that exists that has some criteria that the Committee has
12 to do.

13 So we're requesting a rescission of the policy
14 for the approval, because we've put that language into the
15 delegation as well as into the governance policy; and then
16 we're also requesting that the Committee approve the
17 revision to the governance policy which will accept that
18 information from that policy that we're requesting a
19 rescission for.

20 And I can stop and take any questions if there
21 are any.

22 CHAIRPERSON COSTIGAN: The Vice Chair.

23 VICE CHAIRPERSON TAYLOR: Thank you very much for
24 that report.

25 And I know that we -- during our briefing we

1 talked about making sure that the policies were moved
2 correctly, because it looked like it wasn't, I think, over
3 to board governance that -- that you had just said that
4 we're going to move the policy. And I guess a lot of the
5 information that was in the policy didn't seem like it was
6 going to get moved.

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

8 D'ADAMO: So the policy, which is the policy for approval
9 and reimbursement, that policy, we've taken the
10 requirement out -- the specific requirement that requires
11 a committee to do what it's supposed to do, we've included
12 that in the delegation in -- I want to say it's paragraph
13 4 as well as subsection P of the governance policy.

14 VICE CHAIRPERSON TAYLOR: Okay.

15 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

16 D'ADAMO: Then we've also separated that into the policy
17 and the procedure. And the procedure part of that
18 remains. So our process doesn't change, and we've
19 incorporated that procedure into our written procedures
20 for the team members.

21 VICE CHAIRPERSON TAYLOR: Okay. So the procedure
22 has not changed?

23 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

24 D'ADAMO: Correct.

25 VICE CHAIRPERSON TAYLOR: And is it over here in

1 Finance and you're -- the procedure, or is it just a --

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO: Yes.

4 VICE CHAIRPERSON TAYLOR: -- procedure for you
5 guys?

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

7 D'ADAMO: It's -- so it's a procedure that has two basic
8 components to it. It has the Financial Reporting and
9 Accounting Services Division as well as some work that's
10 done by the Board Services Unit in coordination.

11 VICE CHAIRPERSON TAYLOR: So --

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: And that doesn't change.

14 VICE CHAIRPERSON TAYLOR: And does it make sense
15 to keep the procedures here in Finance And Administration,
16 or does it make sense to move them.

17 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

18 D'ADAMO: Well, it is Finance and Administration. Meaning
19 that it's an internal procedure now as opposed to an
20 operational procedure that is part of a policy.

21 VICE CHAIRPERSON TAYLOR: Okay. That's what I
22 was trying --

23 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

24 D'ADAMO: So one of the things that we're trying to do is
25 take procedures out of policies, keep procedures internal,

1 keep the policies as policies.

2 VICE CHAIRPERSON TAYLOR: That's what I was
3 trying to figure out.

4 CHAIRPERSON COSTIGAN: The Committee will retain
5 jurisdiction over the entire issue.

6 VICE CHAIRPERSON TAYLOR: Even though we're
7 moving it over to governance?

8 CHAIRPERSON COSTIGAN: The functioning aspect of
9 the expenditure will stay here --

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
11 D'ADAMO: Correct.

12 VICE CHAIRPERSON TAYLOR: Oh, oh.

13 CHAIRPERSON COSTIGAN: -- as a budget.

14 VICE CHAIRPERSON TAYLOR: Right, right, right,
15 right.

16 CHAIRPERSON COSTIGAN: Because it's an
17 expenditure of the fund.

18 Other questions?

19 VICE CHAIRPERSON TAYLOR: That was my only
20 question.

21 I was also going to move that we accept the
22 proposed amendments and approve the retire -- retirement
23 of the policy.

24 CHAIRPERSON COSTIGAN: So it's been moved by
25 Taylor.

1 But we have one more question before we get a
2 second.

3 Mr. Jelincic.

4 COMMITTEE MEMBER JELINCIC: Well, in light of the
5 motion, I will be voting no.

6 I approve the delegation changes, but I really
7 have problems with taking the policy that the Board has
8 adopted, that includes procedures on how we reimburse so
9 people can see them, and moving them over into a
10 staff-controlled procedure and eliminating the policy. So
11 I -- I don't believe that staff will necessarily change
12 any of the procedures. I mean, I'm not implying that.
13 But I think for visibility it ought to be there. So I
14 will vote against the motion, unless it gets split.

15 CHAIRPERSON COSTIGAN: All right. Mr. Jelincic,
16 I guess the question -- so I can understand a little bit
17 better, because I have been talking with staff regarding
18 the process itself. I just want to make sure we're all
19 talking about the same thing. Are you wanting the
20 documents related to reimbursement in hours to come back
21 to this Committee? I mean that's what -- so I can
22 understand. Because I've actually been talking with staff
23 again about the process ensuring that both we have the
24 transparency you're seeking along with the -- we're
25 working right now on what is the role of the Board

1 Services Unit and what is the role of Ms. Montgomery's
2 office?

3 Could you articulate a little bit more so I can
4 understand it please.

5 COMMITTEE MEMBER JELINCIC: We currently have a
6 policy. It's attachment 4. It starts on 202 of the iPad.
7 And that is also up on our website. And it's the policy
8 that we have used. And it describes how the member
9 requests, how we enter into contract with the employer,
10 how we do invoices. So it really describes "This is how
11 we reimburse," and it's very visible.

12 If we eliminate the policy, then that visibility
13 disappears.

14 Now, we can have all the same procedures. But
15 it's in a procedure manual that people don't see. And so
16 I just think for visibility purposes, it -- we -- we
17 should not repeal the policy. It's sort of like when we
18 repealed the policy on the travel expenditure report
19 before we adopted procedures on how that report was going
20 to go. So I just think the policy ought to stay. So if
21 we split the question, I'll vote for the changes in
22 delegation and oppose repealing the policy. If it all
23 goes as one vote, I will --

24 CHAIRPERSON COSTIGAN: Okay. So Mr. Jelincic has
25 confused me.

1 We're not -- are we? Is this a policy change to
2 way the Board members who are reim -- are we making a
3 change in that policy as to how they complete the form,
4 the number of hours, and how the employer submits?

5 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

6 D'ADAMO: No.

7 CHAIRPERSON COSTIGAN: Okay.

8 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

9 D'ADAMO: So the policy that we are seeking the rescission
10 of is a policy which has a statement, which begins with:
11 "CalPERS shall reimburse a state, school, or public agency
12 employer of an elected Board member for the amount equal
13 to the salary and benefits paid to the elected Board
14 member based on the Board-approved percentage of the time
15 that will be required of the Board member to fulfill his
16 or her responsibilities to CalPERS in the coming year."

17 That language has now been or is being
18 recommended to be deposited into the delegation, so that
19 it is there in the delegation, as well as in the Board
20 governance policy.

21 The rest of the policy, the one that we're
22 requesting the rescission of, contains a procedure which
23 has several steps which Mr. Jelincic is describing in
24 terms of how that statement gets accomplished. And so
25 what we're asking for is to put that language in the

1 delegation and in the governance policy so that it exists,
2 it exists in the delegation and it also exists in the
3 governance policy, as well take the procedure and make
4 that an operational procedure and an internal procedure
5 which is currently being followed. We are not changing
6 the process.

7 CHAIRPERSON COSTIGAN: Mr. Jelincic, does that
8 address your concern? I mean, I will just say I've spent
9 the last couple of weeks just trying to work through this
10 because I was trying to strengthen process and reporting.
11 And what I'm hearing you're saying is this is, at least in
12 your interpretation, is a weakening of that process and a
13 weakening of the disclosure.

14 COMMITTEE MEMBER JELINCIC: Yes, that is exactly
15 what I'm saying. If you look at -- if you look at the
16 motion, it says additionally retire the policy on approval
17 of reimbursement to state and school and public agency
18 employers of elected Board members.

19 And so we're -- we're getting rid of the policy.

20 CHAIRPERSON COSTIGAN: Okay.

21 COMMITTEE MEMBER JELINCIC: Now, the staff is
22 assuring us that they will continue to implement what is
23 currently policy through their procedures, which are under
24 their control. But I think there's real value in having a
25 Board policy that is up on the website that people can

1 look at.

2 CHAIRPERSON COSTIGAN: Okay.

3 COMMITTEE MEMBER JELINCIC: So that's my
4 objection.

5 CHAIRPERSON COSTIGAN: All right. Mr. Jones.

6 COMMITTEE MEMBER JONES: Yeah, thank you,
7 Mr. Chair.

8 Even though it appears to be minor, but I did
9 express a concern about adopting a governance policy in
10 the Finance Committee. Because if we're going to start
11 modifying policies that are governed by a different
12 committee, and making changes in a different committee, I
13 think it can be confusing going forward.

14 So I know this is just one -- I guess one
15 red -- one section regarding the reimbursement, but...

16 CHAIRPERSON COSTIGAN: Okay. Mr. Slaton.

17 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

18 If you'll go to attachment 5, in Roman numeral
19 10, item P, "Reimbursement of Agencies Employing CalPERS
20 Board Members," it seems to be quite clear in there that
21 this is the policy of this Board as outlined in the
22 modification to the governance policy.

23 I don't have any problem with holding this piece
24 over until March. Whether it's within the Governance
25 Committee, that's just fine.

1 But I think that this raises an issue about our
2 policies. It's a more general issue I think of -- that
3 the separation between what we do as a board and what
4 staff does to execute the "how it's done" is a function of
5 management and staff. The "what we want you to
6 accomplish" is our job as a board.

7 It seems to me that paragraph P clearly outlines
8 that we're going to have a reimbursement policy for the
9 time spent in CalPERS work.

10 Now, we can have discussions about the rules of
11 the road; we can certainly do that. But the key thing is,
12 we've outlined in policy - and this would be on the
13 website - and I think it clearly delineates what it is
14 we're doing in terms of reimbursement. Certainly clear
15 enough for people to be aware that we are reimbursing
16 agencies for elected members' work here.

17 So -- and I'd be fine with deferring this one to
18 the Governance Committee in March.

19 CHAIRPERSON COSTIGAN: I do think we're going to
20 put it over. But this is exactly the question,
21 Mr. Slaton, that you were talking about that I've been
22 working the last couple of weeks on, because it's the
23 second half of that question, because it will still come
24 to Finance and Administration Committee for us to approve
25 the time that each of those six electeds files or puts in

1 their report.

2 So I think part of it is just we need to do a
3 better job explaining, as Mr. Jelincic raised. I mean our
4 goal is not to remove information.

5 So we're just going to put this item over until
6 our April Finance Committee so we can have -- Mr. Slaton's
7 committee can have a more robust discussion at governance.
8 I don't see a big issue. Although I also think in the
9 recommendation the word "retire" is probably the wrong
10 word. So we probably need to come back with a slightly
11 different motion.

12 But the second half of P will be on the April
13 agenda anyway, is that correct, or March, about approval
14 of time?

15 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

16 D'ADAMO: Yes.

17 CHAIRPERSON COSTIGAN: That's when? April?

18 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

19 D'ADAMO: That occurs in April, yes.

20 CHAIRPERSON COSTIGAN: Okay. So we'll do -- is
21 with calendaring out. We'll do this item first and then
22 adoption of the six members' time after we adopt this
23 poli -- if the Board -- Committee adopts this policy.

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25 D'ADAMO: Okay.

1 CHAIRPERSON COSTIGAN: All right. Any other
2 questions on that?

3 Okay. Next item, 8a, which is an action item.
4 And Chief Actuary.

5 CHIEF ACTUARY TERANDO: Good afternoon,
6 Mr. Chairman, members of the Committee. Scott Terando,
7 Chief Actuary.

8 Item 8a is an action item. This item is the
9 second reading of staff's consolidation of the existing
10 Board resolutions actuarial policies and practices related
11 to the contribution allocation.

12 We have reviewed the policies and we have made no
13 material changes in the new policy.

14 In addition, we have made no additional changes
15 to the first reading back in December of 2016.

16 With that, I'll be answering any questions you
17 may have.

18 CHAIRPERSON COSTIGAN: Okay. So we have two
19 questions.

20 Mr. Jelincic.

21 COMMITTEE MEMBER JELINCIC: Actually, no, I have
22 two.

23 One is: Why are we deleting 4, which is the
24 phasing out of the difference for people who move into the
25 pool?

1 And I do not see anywhere in this policy how we
2 decide whether people fit in the pool. I know we'd do it
3 if you're -- got less than a hundred employees, we'd put
4 you in the pool. But I don't see it anywhere in the
5 policy. And maybe I just missed it or maybe we have it in
6 some other policy.

7 CHIEF ACTUARY TERANDO: Concerning the
8 addition -- when members' active plan just drop below a
9 hundred percent, that's actually in statute. And it's
10 defined as when there's less than a hundred active
11 members, the plans will be put into pooling. So we don't
12 really need a policy for that.

13 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

14 CHIEF ACTUARY TERANDO: And then your other
15 question.

16 COMMITTEE MEMBER JELINCIC: Well, you're
17 proposing to phase out attachment 4, which is the policy
18 dealing with phasing out of the difference between the
19 pools and no more class and the individual, and I didn't
20 see where that got picked up elsewhere.

21 CHIEF ACTUARY TERANDO: I thought it -- it should
22 be in the new policy.

23 COMMITTEE MEMBER JELINCIC: It should be in the
24 new policy someplace. Okay.

25 CHAIRPERSON COSTIGAN: We'll get the actuary in a

1 moment. If you could find the cite for Mr. Jelincic
2 please.

3 CHIEF ACTUARY TERANDO: If you take a look at
4 page 4 of 7 of the policy.

5 CHAIRPERSON COSTIGAN: And the pol -- which
6 attachment is that in?

7 CHIEF ACTUARY TERANDO: Attachment number 8.

8 COMMITTEE MEMBER JELINCIC: Attachment 8. Okay.

9 CHAIRPERSON COSTIGAN: 8A.

10 COMMITTEE MEMBER JELINCIC: And it's in -- you
11 said it's where?

12 CHAIRPERSON COSTIGAN: Page 4 of 7.

13 COMMITTEE MEMBER JELINCIC: Page 4 of 7.

14 CHIEF ACTUARY TERANDO: Page 4 of 7, we talk
15 about the five-year phaseout and the difference in normal
16 cost.

17 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

18 That answers my question. I just didn't make the
19 connection.

20 Thank you.

21 CHAIRPERSON COSTIGAN: Mr. Jones.

22 COMMITTEE MEMBER JONES: Move staff's
23 recommendation.

24 VICE CHAIRPERSON TAYLOR: Second.

25 CHAIRPERSON COSTIGAN: Mr. Slaton, your mic's on.

1 You have no questions?

2 No questions.

3 COMMITTEE MEMBER SLATON: Are we --

4 CHAIRPERSON COSTIGAN: We have a motion and a
5 second.

6 Do you have any questions on the motion?

7 COMMITTEE MEMBER SLATON: So we're taking
8 governance?

9 CHAIRPERSON COSTIGAN: We're going to take up
10 this 8a.

11 COMMITTEE MEMBER SLATON: Okay.

12 CHAIRPERSON COSTIGAN: I'm sorry. You had a
13 question?

14 COMMITTEE MEMBER SLATON: No, I was just making
15 sure that the governance piece, we're --

16 CHAIRPERSON COSTIGAN: Yes. I'm sorry, yes. It
17 was taken care of.

18 Okay. Scott, anything else?

19 CHIEF ACTUARY TERANDO: No.

20 CHAIRPERSON COSTIGAN: Okay. So we have a motion
21 and a second.

22 All those in favor?

23 (Ayes.)

24 CHAIRPERSON COSTIGAN: Opposed?

25 Motion carries.

1 Thank you.

2 Okay. Item 9a.

3 I see Forrest coming down.

4 All right. So before we start, time estimate on
5 this item. How long do you think it will take to present
6 this item?

7 Oh, all right. As long as we're going to take
8 45, okay, that's fine. I just wanted to make sure.

9 CHIEF RISK OFFICER GRIMES: Good afternoon.
10 Forrest Grimes, CalPERS team.

11 This item aligns the CalPERS Funding Risk
12 Mitigation Policy with direction provided during the
13 Finance and Administration Committee and Board discount
14 rate discussions that occurred in December of 2016.

15 And really what it does is it reduces the trigger
16 of a funding risk mitigation event from 4 percent to 2
17 percent, suspends the policy for a three-year period to
18 fiscal year 2020-21, and stipulates that member
19 calculations would take effect immediately upon an event.

20 And with that, I'll be happy to answer any
21 questions.

22 CHAIRPERSON COSTIGAN: Okay. We have several.
23 Mr. Juarez.

24 ACTING COMMITTEE MEMBER JUAREZ: Yeah. My
25 question relates to the going down obviously to the 2

1 percent. And if we discussed it, I don't recall. But
2 there must be some rationale for only adjusting the 2
3 percent threshold and not adjusting any of the other
4 thresholds, recognizing that even if we wait till 2021,
5 that's potentially going to be another time at which we
6 will be asking, as I understand it at least, for another
7 increase in contributions based on the mitigation policy.
8 So I want to understand better why we're lowering the
9 threshold from 4 percent to 2 percent and none of the
10 other thresholds.

11 CHIEF RISK OFFICER GRIMES: I'm going to ask for
12 help on this one --

13 ACTING COMMITTEE MEMBER JUAREZ: That's fine.

14 CHIEF RISK OFFICER GRIMES: -- from either Ted or
15 Scott.

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: Get the
17 full team back up here.

18 The Committee may remember that the thresholds
19 for the risk mitigation policy originally were quite
20 discussed, and this difference between 2 percent and 4
21 percent was one of the discussion points when the policy
22 was originally adopted, at what point it would be
23 triggered. During the course of the discussions around
24 the discount rate change, a revisiting of the threshold
25 occurred, and specifically thinking through, well, if we

1 delay it for three years, that might delay somewhat the
2 risk reduction portion that was being -- was being hoped
3 for, was the objective of the policy in the first part,
4 but it would give time for the discount rate change and
5 lowering of 50 bases points to occur at the same time. So
6 that seemed reasonable to delay it for a number of -- for
7 three years but not longer than that.

8 So I think that the threshold was just thinking
9 through on the path of risk reduction from year 3 through
10 30, lets call it, that having a less of a threshold would
11 allow for more risk reduction to occur over the course of
12 that time frame, you know, years 4 and into the future.

13 ACTING COMMITTEE MEMBER JUAREZ: And couple of
14 questions. So -- first of all, so that only applied to
15 returns that are looked at after 2021?

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: I don't
17 have the table in front of --

18 ACTING COMMITTEE MEMBER JUAREZ: I'm assuming
19 we're delaying any application that -- my assumption would
20 be that you're only going to be looking beyond that period
21 for whether or not you're ever going to use the risk
22 mitigation strategy.

23 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

24 Wylie Tollette, CalPERS staff. Yes, that's
25 right, Mr. Juarez. The agenda item proposes suspending

1 the policy for the next three years as the
2 already-agreed-upon discount-rate reduction occurs. So
3 the policy will basically be put on the shelf until that
4 three-year period is complete.

5 ACTING COMMITTEE MEMBER JUAREZ: And then at 2
6 percent, while the risk reduction -- risk reduction
7 strategy only generates, what is it, 0.05 percent change,
8 that still -- will we know definitely at the time that
9 that will require an additional contribution from
10 employee -- employer and employee members? Or can we say
11 that there could be mitigating circumstances that would
12 obviate the need to do that?

13 CHIEF ACTUARY TERANDO: Yeah, if we were to drop
14 the discount rate even by a basis point, there would be a
15 corresponding increase in the employer contributions.

16 For the PEPRA employees, and whether that we
17 increase, it's a slight chance it might occur but
18 it's -- it's unique to each individual employer and
19 whether it would hit or not.

20 ACTING COMMITTEE MEMBER JUAREZ: Okay.

21 CHAIRPERSON COSTIGAN: Any other questions,
22 Mr. Juarez?

23 ACTING COMMITTEE MEMBER JUAREZ: No. Sorry. No.
24 more.

25 CHAIRPERSON COSTIGAN: Mr. Slaton.

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

2 I just want to go back in history, that one of
3 the reasons for doing this was we wanted to do it in a
4 good year. So, yes, there may be impact when the discount
5 rate gets lowered. But at the same time we have extra
6 gains that are being folded in. So it was kind of like
7 divide the situation and do the risk mitigation at a time
8 when its impact is definitely softened because you have --
9 you have a -- it's only if it exceeds that. So you've got
10 gain that's happening, am I correct, that's getting folded
11 in as well?

12 CHIEF ACTUARY TERANDO: That is correct. With
13 the 2 percent threshold, you know, it's likely to happen a
14 little bit more often than the 4 percent threshold. And
15 with the 2 percent threshold, not only does it happen a
16 little bit more often, but the amount you'd have available
17 to offset is a little bit less. So while there is -- you
18 are correct that there are off -- there will be offsetting
19 gains, and so the increase to the employers will be
20 mitigated --

21 COMMITTEE MEMBER SLATON: Right.

22 CHIEF ACTUARY TERANDO: -- just slightly less
23 than what it would be with the 4 percent --

24 COMMITTEE MEMBER SLATON: I mean, if I had my
25 druthers, it would be, you know, 2, 5, 8, 11, and 15 would

1 be the numbers to be consistent with where we were to
2 where we're going. Did you consider that?

3 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes. We
4 looked at moving the other -- all of them across and
5 thought that there were enough moving pieces to this
6 change that we thought better to focus on that first
7 change and try and increase the likelihood of getting, you
8 know, some incremental five basis point changes rather
9 than further on down. It's a judgment call. There's no
10 science behind it for sure.

11 COMMITTEE MEMBER SLATON: You got that right.
12 (Laughter.)

13 COMMITTEE MEMBER SLATON: With that, I would move
14 the item.

15 VICE CHAIRPERSON TAYLOR: Second.

16 CHAIRPERSON COSTIGAN: We still have several
17 questions.

18 Mr. Jones.

19 COMMITTEE MEMBER JONES: Yeah, not that -- I
20 support the motion.

21 This reducing it to 2 percent lowers the
22 threshold and hopefully will help us. We just discussed
23 in our strategic plan a goal of a hundred percent. And so
24 if we don't start taking some kind of action like this,
25 we'll never get to a hundred percent. So this is

1 consistent with what we just talked about earlier trying
2 to achieve a hundred percent.

3 CHAIRPERSON COSTIGAN: Mr. Jelincic.

4 COMMITTEE MEMBER JELINCIC: The motion does three
5 things. It suspends the policy for three years. It
6 changes the 4 to 2. And if anybody thinks that we won't
7 readdress that before the policy kicks in, I've got some
8 land I'd like to sell.

9 And, importantly, what it does do is it changes
10 how quickly the discount rate kicks in to the occurrence
11 of the pricing of member benefits, the optional benefits.

12 Because right now there's a way of gaming the
13 system. You ask for the benefit now, but the discount
14 rate doesn't kick in until October. And this eliminates
15 that. And this brings our policy -- because this is what
16 the action the staff told us they were taking last month.
17 So I think that's actually the most important part of it.
18 And I will clearly support the motion.

19 CHAIRPERSON COSTIGAN: Okay. I think that's it
20 question-wise.

21 It's been moved by Slaton, seconded by Taylor.

22 All in favor?

23 (Ayes.)

24 CHAIRPERSON COSTIGAN: Opposed?

25 Motion carries. Thank you.

1 If there's no objection, we're going to go back
2 to item 7a with Ms. Malm before we go to the information
3 agenda items.

4 So, Ms. Malm, we'll take -- this will be our last
5 action item.

6 And, Mr. Darby, if you're still here and still
7 want to speak, you're welcome to come back up after
8 Ms. Malm.

9 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

10 Thank you. Kim Malm, CalPERS team member.

11 In answer to Mr. Jelincic's question, the
12 criteria for candidates is different than the criteria for
13 voters.

14 It states in section 554.5C that active and
15 retired members shall be eligible to sign a nomination
16 petition if he or she meets the eligibility criteria set
17 forth in the Notice of Election for the Board member
18 position that is subject to the election.

19 And what the Notice of Election states is that
20 it's 250 active or retired members of CalPERS excluding
21 survivors and beneficiaries. It does not say in here
22 anywhere that they have to be a resident of California.

23 And, Mr. Jelincic, if you're referring to Government
24 Code 20090, that was in the previous regulations that were
25 updated by the Board and enacted in January. It was taken

1 out.

2 CHAIRPERSON COSTIGAN: Mr. Jelincic.

3 COMMITTEE MEMBER JELINCIC: Okay. Let me read
4 the regulation.

5 554.5. Active or retired members shall be
6 eligible to sign a nomination petition if he or she meets
7 the eligibility criteria as set forth in the Election of
8 Notice for the Board member position that is subject to
9 the election. For retirees, the election notice says you
10 must be a resident of California to be eligible.

11 So if you are not eligible to run, under the code
12 of regs you can't sign it either.

13 CHAIRPERSON COSTIGAN: So what Mr. Jelincic is
14 saying is the statute creates the eligibility to be a
15 candidate, and that the class of 250 people have to meet
16 that same eligibility requirement. The voting is
17 different.

18 GENERAL COUNSEL JACOBS: Right. But we disagree
19 with that interpretation.

20 CHAIRPERSON COSTIGAN: Okay.

21 GENERAL COUNSEL JACOBS: The passage that
22 Mr. Jelincic is talking about refers to the Notice of
23 Election for that member who is running.

24 It does not say that it has to be the same
25 qualifications of the person who is running for the

1 position.

2 So that's the way that we read that. We think it
3 not -- we understand there's some ambiguity there, but
4 that's the way we read that. And I think that anything
5 else would be legally problematic.

6 COMMITTEE MEMBER JELINCIC: I will argue there is
7 absolutely no ambiguity in saying to be eligible to sign
8 the nomination petition you have to meet the eligibility
9 criteria set forth in the Notice of Election.

10 GENERAL COUNSEL JACOBS: Well, I mean, and we
11 disagree, so...

12 CHAIRPERSON COSTIGAN: All right. We need to get
13 the Notice of Election out.

14 So understanding the issue that Mr. Jelincic has
15 raised, is there a motion to adopt this item?

16 VICE CHAIRPERSON TAYLOR: I'll make the motion.

17 CHAIRPERSON COSTIGAN: Moved by Taylor.

18 Seconded by --

19 COMMITTEE MEMBER SLATON: Second.

20 CHAIRPERSON COSTIGAN: -- Slaton.

21 Okay. All those in favor?

22 (Ayes.)

23 CHAIRPERSON COSTIGAN: Opposed?

24 COMMITTEE MEMBER JELINCIC: No.

25 CHAIRPERSON COSTIGAN: Please note Mr. Jelincic

1 opposing the motion.

2 Thank you, Ms. Malm.

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

4 Thank you.

5 CHAIRPERSON COSTIGAN: All right. Now we are
6 moving on to information items, at 10a.

7 And I'll ask you the question before you start
8 presenting, how long do you think this will be?

9 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

10 D'ADAMO: This might take about 5 to 10 minutes.

11 CHAIRPERSON COSTIGAN: Okay. So was -- the last
12 item was supposed to take 5 minutes.

13 Mr. Feckner, do we want to break for now, or how
14 would you like to proceed?

15 PRESIDENT FECKNER: I have a closed session. I
16 would like to push through.

17 CHAIRPERSON COSTIGAN: Okay. Then we'll keep
18 going.

19 We have one more committee meeting after this.

20 CHAIRPERSON COSTIGAN: Okay. Item 10a, the
21 Quarterly Collections and Termination Report.

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: Good afternoon. Thank you, everyone for hanging
24 with us while we provide you with this important
25 information.

1 (Thereupon an overhead presentation was
2 Presented as follows.)

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

4 D'ADAMO: This agenda item comes to you from a specific
5 direction of the Finance and Administration Committee
6 meeting at the November meeting. And the direction that
7 was given to the team at the time was to provide more
8 timely information as it relates to our employer partners
9 that are experiencing financial hardships.

10 And at that time, the Committee had specifically
11 asked the team to provide information around transparency
12 with respect to those employers. The Committee wanted
13 more information regarding outreach to members whose
14 employers might be facing financial hardship as well as
15 specific questions or thoughts around what we can do from
16 a legislative proposal change to help with voluntary
17 terminations.

18 And so we took that feedback that was provided in
19 November and came -- and are coming back to you with this
20 presentation regarding the processes that we've conducted
21 and the activities that we've done since November.

22 Seated to my left is Arnita Paige who is the
23 chief for our pension contract management services, and
24 she will co-present this item with me.

25 I will actually take care of slides 2 through 6,

1 and Arnita will do 7 and 8, and then I'll come back and do
2 the last couple of slides.

3 --o0o--

4 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

5 D'ADAMO: Okay. So here on slide 2 we really -- given the
6 nature of this topic, we really think that it's important
7 to spend as much time as is necessary. Thank you, Chair,
8 for your indulgence, because this is such an important
9 topic.

10 And so what we've done is we have really created
11 a holistic view of the employer financial health.

12 We have centralized the pension contract and
13 collection functions.

14 We have developed a cross-divisional team for
15 enhanced monitoring and resolution. And That's something
16 I'll come back to as well.

17 An we've also strengthened the employer and
18 member communication and education as it relates to
19 employers who are facing financial hardships.

20 --o0o--

21 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

22 D'ADAMO: On slide 3, we have listed several really
23 important things that we have done as it relates to
24 identifying and notifying members whose employers are
25 facing financial hardship.

1 We have dedicated a developed -- we have a
2 dedicated hotline for members to call when they receive a
3 notice that their employer is facing financial hardship.

4 We have copies of our final collection and demand
5 letters that are sent to employers. They're now also
6 copied and sent to the members.

7 We also report the collection and termination
8 status quarterly to the Board. And that's what you're
9 seeing right now, is our commitment to provide a quarterly
10 report to the Committee with respect to our activities.

11 And, lastly, we have conducted stakeholder
12 outreach to members and employers and to employer
13 associations for early notification.

14 --o0o--

15 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

16 D'ADAMO: We wanted to emphasize that not all terminations
17 end in a reduction of benefits. And so what we've
18 outlined on slide 4 is how some of our enhanced oversight
19 have led to improved outcomes.

20 Here we note that there were three delinquent
21 employers that are now current and have avoided
22 termination as a result of the active outreach and
23 communication we've done with them.

24 We've also noted that there were four agencies
25 that have successfully left the system and paid

1 termination costs without a benefit reduction.

2 --o0o--

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

4 D'ADAMO: One of the specific requests of the Committee in
5 November was to provide you with information regarding who
6 has provided us with a notice to terminate, an intention
7 to terminate.

8 And so here on slide 5 we list four agencies that
9 have provided us with a notice to terminate. And we note
10 that we are actively working with those agencies.

11 --o0o--

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: On slide 6 we note that since February of
14 2014[sic] -- and again this was another specific
15 request -- there were two agencies that have adopted
16 resolutions to terminate contracts. And again I note
17 we're actively working with those agencies.

18 --o0o--

19 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: I'll turn it over now to Arnita Paige, who will
21 talk to you about slides 7 and 8.

22 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

23 Arnita Paige, CalPERS team member.

24 This slide represents four agencies that are
25 significantly delinquent on their payments to CalPERS.

1 I'd like to point out a change in status for one,
2 Central Sierra Planning Council, who paid their account
3 current on February 7th as a result -- in result of a
4 final demand letter that we sent to them on January 6th.
5 So the account is now current.

6 East San Gabriel Valley Human Services. Where we
7 are on a collection process is that we have sent them a
8 collection notice -- final collection notice on January --
9 let me see -- on November 1st; and then we also followed
10 up, on January 6th we sent them their final collect --
11 excuse me -- final demand letter.

12 And we also sent them -- on February 2nd we sent
13 the member agencies, this is a nonact -- excuse me -- this
14 is an inactive joint powers of authority. We sent the
15 member agencies a letter requesting that they honor the
16 financial obligations of East San Gabriel and pay the
17 amounts owed and provided a response date of February 17th
18 for them to respond.

19 In terms of Independent Cities Association - this
20 is an inactive nonprofit - we sent them a final collection
21 letter on January 6th and we followed up on January 24th
22 with a final demand letter requesting payment. We sent
23 the final collection and demand letter to the employer as
24 well as the members. And they have 30 days to pay. And
25 we are in constant communication with them.

1 East San Gabriel -- excuse me. Niland Sanitary
2 District. This is an agency that we brought to the Board
3 of Administration in November where they had terminated
4 their contract. And our next step was to perform an audit
5 and then a final termination valuation.

6 The audit is complete and we're waiting for the
7 final report. And then the next step will be to move
8 forward with their voluntary -- finalizing the
9 termination.

10 We are in contact with this particular agency in
11 terms of payments and discussing how they're going to pay
12 the termination costs.

13 --o0o--

14 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

15 On our next slide we're providing some background
16 on these delinquent agencies. The source of information
17 here is to the annual -- is the employer's annual
18 valuation report reflective of 2015 data.

19 On the far left, starting with East San Gabriel,
20 the plan that is delinquent is their miscellaneous plan
21 and their formula is 2 percent at 55. It impacts 191
22 participants.

23 At a current unfunded -- excuse me. At a current
24 unfunded accrued liability that is 7.5 percent discount
25 rate, the liabilities are 3.3 million approximately, with

1 a funded status of 77.1 percent.

2 We also provided a possible -- a hypothetical
3 termination amount. At a 2 percent discount rate, we're
4 looking at a \$19 million termination and 37 percent
5 funded. This translates for the members approximately 63
6 percent benefit reduction for this service under this
7 agency.

8 For Independent Cities Association, their
9 termination costs using the 2 percent discount rate is
10 approximately \$199,000 and then again 37 percent funded.

11 And we're also looking at approximately 63
12 percent reduction for their one member.

13 CHAIRPERSON COSTIGAN: So I just have a question
14 before we get to some.

15 So like with the Independent Cities Association,
16 they show currently that their Chair is the Mayor of
17 Montebello. So I would be curious -- same thing with
18 Sierra Planning Central. And I can't find East San
19 Gabriel Valley Human Services as an organization. I mean,
20 it looks like they're just cutting contracts here and
21 there.

22 A little bit of this accountability. So I note
23 for the independent cities, their contact looks like it's
24 a contractor.

25 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

1 It is.

2 CHAIRPERSON COSTIGAN: In the 310.

3 So I would like for the Committee to reach out.
4 The Chair of the Independent Cities is the mayor of
5 Montebello, is have they responded? I mean, on their
6 website she's front and center. They're in arrears to
7 CalPERS. I just -- I don't understand -- and I -- first
8 of all, I appreciate you all doing this, because once
9 again we're trying to get any -- it's about
10 accountability. But how you get -- East San Gabriel you
11 can't find. Independent Cities Association, Inc., is
12 what? I mean, it's a rhetorical question. I mean, you
13 look at their -- makeup of their board of directors are
14 all other local elected officials who are always taking
15 shots at the organization when we talk about discount
16 rates and benefits. Yet here are prime examples of local
17 elected officials setting up organizations that aren't
18 paying what they're obligated to pay CalPERS.

19 I mean, this is -- how do you get -- with East
20 San Gabriel do you get 3.3 million of accrued unfunded
21 liability? Who is the accounted elected official? I
22 mean, that's one thing I'd ask for you all to come back
23 with, because I do think at some point asking those
24 elected officials to come and explain the organizations
25 that they are chair of, how we've accrued this. Because I

1 will say I think it's slightly unfair both to you and to
2 the staff of the organizations to figure out how to pay
3 for it. But when the mayor of Montebello, his
4 organization is in the arrears to us, and there are -- I
5 think there are nine other elected officials on that
6 board, where is that accountability? Because we're got
7 again is local governments saying, you know, they didn't
8 like the discount rate, they complained from the
9 standpoint of certainty, and yet here they are in another
10 organization not meeting their obligations. So -- and
11 we're going to do some questions right now and some
12 others.

13 Mr. Jelincic.

14 COMMITTEE MEMBER JELINCIC: I'm sorry, that was
15 from the previous one.

16 CHAIRPERSON COSTIGAN: Okay. Mr. Slaton.

17 COMMITTEE MEMBER SLATON: Thank you.

18 So coming back to East San Gabriel again, on the
19 prior chart we indicated their total delinquent amount is
20 \$406,000. And then on the next chart, the background, the
21 annual contribution is 365. So are they a year
22 delinquent?

23 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

24 East San Gabriel missed their first payment in
25 July of 2015. So they're delinquent for their '15-'16 UAL

1 as well as '16-'17, to answer your question.

2 And they are an inactive joint powers of
3 authority and they have basically closed their
4 headquarters office and laid off their staff and they've
5 lost their funding. So they have not made payments since
6 that date.

7 COMMITTEE MEMBER SLATON: So it says they have 93
8 people that are separated, but it said transferred 36. So
9 what does the transferred -- the 36 people, where'd they
10 go? Or do we know?

11 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

12 I'm not sure where they -- I understand they
13 transfer. They've left and gone -- I mean, transfer is
14 when a member separates and goes to another for
15 reciprocity or another -- another agency that has CalPERS.

16 But I'm not sure in terms of where they went.

17 COMMITTEE MEMBER SLATON: So transfer does mean
18 going to another agency that is --

19 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

20 They could have gone to another agency or they
21 have recip -- yeah, reciprocity rights somewhere.

22 COMMITTEE MEMBER SLATON: All right. So what's
23 our -- when they pay, when they get invoiced they pay
24 monthly, do they not?

25 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

1 They do. They do pay monthly. They're required
2 to pay monthly, correct.

3 COMMITTEE MEMBER SLATON: Okay. So we're now --
4 again, it's -- it's a similar situation to one we faced
5 before that we're now 18 -- they're 18 months delinquent.

6 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

7 I agree. And one of the issues with Niland was
8 that there was an audit -- internal audit going at the
9 same time that completed -- that was completed in October
10 2016. And one of the issues we're looking at is ensuring
11 that the amounts were correct, and because of reporting
12 issues. So after that, that's when we immediately sent
13 the first notice in November, the final collection notice,
14 and moved them forward in the process.

15 COMMITTEE MEMBER SLATON: Right. And how many
16 cities are part of that -- this is a JPA, I assume.

17 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

18 Right. There's four cities - West Covina, City
19 of Covina, Azusa, and Glendora.

20 COMMITTEE MEMBER SLATON: Okay. And I assume
21 you've looked at their documents that created the JPA?

22 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

23 Yes.

24 COMMITTEE MEMBER SLATON: And do they take joint
25 and several liability for the obligations of that JPA?

1 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

2 No, East San Gabriel is solely responsible for
3 the liabilities.

4 COMMITTEE MEMBER SLATON: So that's what it says
5 in the documents?

6 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:
7 Yes.

8 COMMITTEE MEMBER SLATON: Well, you know, that
9 puts us in a rather difficult position to go back to those
10 four agencies.

11 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:
12 That's correct.

13 But we had -- but we do -- I mean -- I agree.
14 And but we felt in a good bill of trust it was important
15 that -- that these member agencies honor their obligation
16 to the agencies, so we sent them a note requesting -- I
17 mean a letter requesting that they do so.

18 COMMITTEE MEMBER SLATON: Yeah. It just seems
19 like on a go-forward basis -- well, first of all, Matt, do
20 you have a comment.

21 GENERAL COUNSEL JACOBS: I do. Whether or not
22 they have a legal obligation, our view is they have a
23 moral and ethical obligation. They're the folks who put
24 this thing together. And it's -- and it's their employees
25 essentially. And just like they need to take care of

1 their own employees, who happen to be lucky enough to have
2 worked directly for that city, they ought to be taken care
3 of these folks that they've sent over to the JPA. That's
4 why we sent the letter.

5 COMMITTEE MEMBER SLATON: Yeah, I totally agree.
6 And it's just that from a documentation standpoint, you
7 know, we're not in as good a position as we would like to
8 be. My question is -- I assume that JPAs are being formed
9 on a somewhat regular basis across California. And it
10 seems to me that we should be requiring, if we're going to
11 enter into a contract with a JPA, that the obligations
12 that are being entered into are in effect guaranteed by
13 the jurisdictions that are creating the JPA. And I don't
14 think we should execute contracts unless that's a
15 stipulation in the contract. I don't know how others
16 feel. But it just seems to me to be a good practice so we
17 avoid this at least in terms of new ones coming on board.

18 Is that something we've already contemplated
19 or --

20 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

21 Yes, it is. And actually we have -- from
22 entering new contracts, we have stopped entering JPAs,
23 those contracts. And we look -- we're also looking at,
24 which you just mentioned, ensuring that there's a
25 responsibility associated.

1 CHAIRPERSON COSTIGAN: So we've been asking --
2 that's a great question. This is actually something that
3 we did talk with Cheryl back, is not only were these
4 JPAs -- when you start going back, I -- I won't tell you
5 which large private trade association comprised of former
6 government officials I refer to as the barnacles on the
7 CalPERS barge, because they had gotten in the system
8 decades ago, and I -- because I'm not quite sure, and
9 there are -- as we go through the reports, there are
10 numerous other organizations, not just these. There's a
11 bookstore foundation in Southern California. There are
12 others that at some point got into the system.

13 The JPAs we've been talking about are very
14 cautious because they seem to be finding a way to remove
15 their liabilities. It takes us a while to catch up. And
16 then this Board is stuck with the difficult task -- like
17 who is East San Gabriel? Who's responsible for that? I
18 mean, not the staff. But I can't remember. Is this a
19 city or was it part of a county? Because it looks like
20 they had done some work with L.A. Count -- I'm sorry.

21 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

22 They did do some work with L.A. County. I'm --
23 well, I'm not -- I would have to get back to you on that.

24 COMMITTEE MEMBER SLATON: Just so I understand
25 the scale of the potential issue. Do we have any way of

1 knowing how many JPAs and therefore how many active
2 retirees separated, et cetera? It sure would be -- I'd
3 like to understand the scale of the problem -- or the
4 scale of the potential problem. It doesn't mean there is
5 one. But do we have that data? Can we get that data?

6 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

7 Well, we -- actually staff have been looking at
8 identifying the number of JPAs.

9 It's a difficult process. We do have a number
10 and we've compared it with other sources, and we're
11 continuing to -- but that is a population that we're
12 looking at. We're also looking at -- it's basically what
13 we provided here. There's a number of agencies that are
14 inactive that we're seeing that are becoming delinquent.
15 So we're looking at that population as well. And what I
16 mean by inactive is an act -- they have an active contract
17 with us, but all their plans are inactive. So we're
18 looking at that population as well.

19 COMMITTEE MEMBER SLATON: Yeah, I just -- I'm
20 wondering -- and, again, you know, you guys are the
21 experts in this. But you have a lot of JPAs. You have
22 stress on them, either because they've shut down or
23 they're about to shut down or they just can't afford to
24 pay. And it seems to me that maybe there's an ability to
25 proactively go out to our cities or counties, who are

1 participants in JPAs, to give them notice now that we're
2 going to hold them accountable.

3 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

4 That's a good question, and I think it segues
5 into the next steps we'll talk a little bit more about
6 what we're doing.

7 COMMITTEE MEMBER SLATON: Thank you.

8 CHAIRPERSON COSTIGAN: And I would like -- and
9 we'll call on Ms. Taylor and Mr. Jelincic. But back to
10 like the Independent Cities Association, not to create
11 more work for you all, but they're the exact type of folks
12 that every one of those local electeds should be copied on
13 the letter that you sent. There are 11 -- this
14 organization, every JPA, either they don't know about it,
15 so it's a bit of an embarrassment to find out about it, or
16 they've been complacent in the fact that the obligations
17 aren't being paid to us. So that's just something I know
18 to look at. But just looking at these 11, so...

19 MS. TAYLOR.

20 VICE CHAIRPERSON TAYLOR: So is this -- I've only
21 been on the Board two years. Is this a new phenomena that
22 we're having these delinquent agencies all of a sudden?

23 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

24 Well, we have ongoing delinquent agencies. But I
25 think in the case of agencies that are unable to come

1 before the Board because they're at risk for possible
2 potential termination, with Loyalton being our first one
3 reduction, we're starting to see more.

4 VICE CHAIRPERSON TAYLOR: So then this begs this
5 other question I had, because I watching Mr. Costigan do
6 research right off the bat. Are -- aside from sending
7 letters, do you have a staff that's actually doing the
8 collection process?

9 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:
10 We do. We have in -- the collections team moves
11 to the pension contract team in September. So staff, we
12 are talking to these employers as well as the member
13 agencies, absolutely.

14 VICE CHAIRPERSON TAYLOR: And you've looked in --
15 you've done the research and found that like City of San
16 Gabriel, or whatever that was --

17 CHAIRPERSON COSTIGAN: East San Gabriel.

18 VICE CHAIRPERSON TAYLOR: -- East San Gabriel,
19 actually the head of it is a mayor in a different city
20 and --

21 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:
22 That information we did not take into
23 consideration. I think that where we are now in the
24 maturity of the process, we're definitely looking at the
25 joint powers authority and working with the member

1 agencies and doing our best to promote accountability.
2 But I'll definitely take that back.

3 VICE CHAIRPERSON TAYLOR: I mean, I think that's
4 part of what you look at.

5 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:
6 Absolutely.

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
8 D'ADAMO: Can I say something?

9 CHAIRPERSON COSTIGAN: Yes, please.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
11 D'ADAMO: So one of the things I think that we wanted to
12 bring to your attention is the process that we have been
13 undergoing in the last few months regarding the
14 collections and terminations. I had mentioned the
15 contract management team. And so as part of the last
16 slide that we'll get to we have put -- brought together
17 this team which consists of senior members from the
18 Actuarial Office, from the Legal Office, from Stakeholder
19 Relations, from the Financial Office; and really what
20 we're doing there is we're escalating -- once an employer
21 partner gets to be delinquent, we're escalating to that
22 team where we're then cross-divisionally working to try to
23 see what we can do to mitigate that circumstance.

24 To revisit sort of the conversation that we've
25 had around what we have been doing, we have actually

1 engaged our audit group to go out and do audits of a lot
2 of the inactives that we've been talking about. And
3 really what we're trying to do is we're trying to create a
4 pipeline and really bucket in terms of the employer
5 partners the situations that we find so that we can then
6 put risk mitigation strategies around them.

7 So what you'll see in the coming months is really
8 a -- a really large effort around identifying these
9 employer partners around developing processes to help
10 mitigate circumstances that they might find, and really
11 identifying and reaching out to them early on, I think as
12 Mr. Slaton had mentioned, so that everyone is aware of
13 where we are at and what our intentions are so that we can
14 meet expectations.

15 CHAIRPERSON COSTIGAN: Mr. Jelincic.

16 COMMITTEE MEMBER JELINCIC: Yeah. I just want to
17 reference to slide 5. You don't have to go there. But
18 that's Herald Fire, who's one of the people who gave us a
19 notice of intent, is in the press saying, "Well, gee, we
20 can't get our termination." And I don't think that's
21 true.

22 CHAIRPERSON COSTIGAN: Anything else,
23 Mr. Jelincic?

24 COMMITTEE MEMBER JELINCIC: No.

25 CHAIRPERSON COSTIGAN: Ms. Paquin.

1 ACTING COMMITTEE MEMBER PAQUIN: Thank you,
2 Mr. Chair.

3 I assume we're going to get to this in the next
4 slide, Marlene. But I was curious, when you talk about
5 legislative strategy, is that something that you plan to
6 pursue this year, and what would that entail?

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
8 D'ADAMO: Actually what we have been told is that 2018
9 would be the first time that we would be able to pursue
10 something. And this would be around the voluntary
11 termination process.

12 ACTING COMMITTEE MEMBER PAQUIN: Okay. Do you
13 have a little bit more detail about that yet?

14 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
15 D'ADAMO: Well, I think what we were talking about was for
16 voluntary terminations there is a mechanism where once you
17 provide an intent to terminate or you go through a
18 process, you have to actually wait a year before you can
19 actually terminate. So we're looking -- we're looking to
20 try to find a way that we can shorten that so that there
21 isn't that requirement to actually wait an entire year.

22 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank
23 you.

24 CHAIRPERSON COSTIGAN: Okay. You want to go to
25 your next slide.

1 And then here's just schedule-wise, what we're
2 going to do is we're going to finish this item, then we're
3 going to break for lunch.

4 About 40 minutes, Mr. Feckner, for a lunch break?

5 About 40 minutes. And then we will come back,
6 wrap up. I think we'll have two items left. And then we
7 will take a short break and then go to PERF and Comp.

8 So let's go ahead and wrap up this item.

9 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

10 D'ADAMO: Sure. So slide 9, which is upon the screen, is
11 really just a description of what I've been talking about
12 in terms of the processes and the protocols that we are
13 actively pursuing in order to develop a process and able
14 to get that to you. Or I should say, not develop, but
15 document the process for you in a quarterly report.

16 So I talked about audit. How we have audit
17 looking at it.

18 Segment the populations into risk categories,
19 which I talked about.

20 And develop and implementing risk mitigation
21 strategies.

22 The legislative proposals, we talked about.

23 And then we were -- our intention is to come back
24 to you in May with an update on progress that we've made
25 since then.

1 CHAIRPERSON COSTIGAN: All right. And I think
2 great strategy. I think the legislation, I think as
3 Mr. Slaton raised, it might be shrunked to 12 months.

4 But I do think one -- again not to pile on
5 additional work. But in many of these it's because you
6 have local electeds. And we have to look at them from two
7 sides. On one, again picking on the mayor of Montebello,
8 she's got her employees and so she's got an independent
9 relationship with CalPERS, and getting billed by actuaries
10 and all that. And then she's over here as the chairman of
11 this other organization. And so we need to elevate both
12 because they play. Failure to pay -- any of these
13 organizations to pay impacts the other position as well.

14 And so I'm just saying from a process standpoint,
15 talking to the executive director is fine. You may want
16 to start CC'g the electeds so that they know what's going
17 on, because that is the next elevation just as
18 Mr. Jelincic raised. Someone taking a shot at us in the
19 press. Go back and go take a look at it. Because these
20 type of documents, how you get 18 months behind. And I
21 understand we're working on our process. But they knew on
22 their end as well. I'm sure every month they kept
23 wondering is the check coming or not, because they knew
24 they weren't paying. So...

25 Anything else on this item?

1 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

2 D'ADAMO: Well, the last slide I just wanted to highlight
3 for you, is actually we've provided a timeline for the
4 collection process. And so what we really wanted to point
5 out was that at day 31 an account is considered delinquent
6 if the payment hasn't been received. And by day 36 they
7 start getting -- the employers start getting collection
8 calls and notices from our system.

9 At day 60, a final collection letter is sent
10 giving them 10 days to pay. And at this point the members
11 receive notification of that letter. So we're really
12 trying to engage the members early on so that they can
13 actually be aware of it and put some pressure on if they
14 can.

15 At day 91 we send a final demand letter, which
16 has 30 days to pay. And again at day 31 members are
17 notified of the status and the risk of a possible
18 termination.

19 And then at day 92 the agency is elevated to our
20 contract management team, which is what I spoke of before.
21 That's our cross-divisional group where we are actively
22 engaging with those agencies to find a good resolution to
23 the situation.

24 So we thought it would be helpful to provide you
25 with this timeline so that you can actually see some of

1 the things that we've been doing.

2 CHAIRPERSON COSTIGAN: What happens after day 92?

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

4 D'ADAMO: I'm sorry?

5 CHAIRPERSON COSTIGAN: What happens after day 92?

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

7 D'ADAMO: Well, at that point then it goes to our contract
8 management team, where we're actively discussing what are
9 the next steps. So, for instance, in East San Gabriel,
10 one of the things that came out of that was to send the
11 demand letter to the employer members. So we'd sent the
12 demand letter to East San Gabriel, we sent it to the
13 members -- the members. But then we also sent it to the
14 employer members. And now we've sent it to them and we're
15 awaiting some sort of response from them.

16 CHAIRPERSON COSTIGAN: So from day 1 to what day
17 would this Committee see an action item? So assume that
18 it's day 93, 30-day notice, they don't pay. Okay. So now
19 we're five months removed from our initial letter. When
20 would this Committee see it in the timeline?

21 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

22 D'ADAMO: So it probably depends on what the specific
23 circumstances are of the agency. But at day 92, that is
24 when we start actively talking about what are the next
25 steps and if there is a step that can be implemented prior

1 to the recommendation to terminate. That of course is the
2 last step.

3 CHAIRPERSON COSTIGAN: Okay. So we're working on
4 a timeline for when this Board -- this Committee would be
5 notified and then -- again, it sounds though it just hangs
6 out after day 92. I know there's more that could be that
7 goes on. But I think process and timelines are important.
8 So at day 150 if no payment has been received it gets
9 calendared for this Committee for action.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: Okay.

12 CHAIRPERSON COSTIGAN: I mean that's I -- I would
13 like staff to bring a recommendation back to the
14 Committee. But I don't see what happens -- so you're
15 going to have a conversation, they still don't pay.

16 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

17 Correct. And part of -- in November is part of
18 our collection and termination process. The next step at
19 day -- when the final demand letter, the next step is
20 we -- when all -- we double check all avenues, would be
21 agenda item for termination if that's what the Committee
22 decides.

23 CHAIRPERSON COSTIGAN: Great.

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25 D'ADAMO: And in fact in the final demand letter we

1 indicate that the next step is termination.

2 PENSION CONTRACT MANAGEMENT SERVICES CHIEF PAIGE:

3 Correct.

4 CHAIRPERSON COSTIGAN: Any other questions?

5 If not, we are going to adjourn until 1:45 for
6 lunch and then come back. And I think we'll go about --
7 I'm sorry, recess. Sorry. Thank you -- 30 more minutes
8 of time, right?

9 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

10 D'ADAMO:

11 Probably -- not more than that.

12 CHAIRPERSON COSTIGAN: Great. Thank you.

13 (Off record: 1:10 p.m.)

14 (Thereupon a lunch break was taken.)

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

2 (On record: 1:44 p.m.)

3 CHAIRPERSON COSTIGAN: All right. We're going to
4 reconvene. We're going to take up Item 10b, which is
5 voting options.

6 I believe, Ms. Malm, this is your item.

7 (Thereupon an overhead presentation was
8 Presented as follows.)

9 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

10 Okay. Good afternoon, members of the Finance and
11 Administration Committee. Kim Malm, CalPERS team member.
12 With me today I have Dallas Stone, the assistant division
13 chief of operations. This is his first time at the
14 speakers table.

15 Welcome to Succession Planning.

16 (Laughter.)

17 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

18 Agenda Item 10b is an information item to provide
19 the Board with an update on the development of the new
20 Board election voting options and to provide a
21 demonstration of the online and telephone voting systems.

22 For the past three years we have been on this
23 journey to change the Board election process to include
24 online and telephone voting, with a goal to increase voter
25 participation. In order to do this we knew that we'd have

1 to develop a system that would entice our members to vote.

2 Adding online and telephone voting in addition to
3 the current paper ballot we believe will accomplish this
4 goal.

5 --o0o--

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

7 To recap the last few years, in 2014 the Board
8 approved the addition of online and telephone voting.

9 Once it was approved by the Board, we updated the Board
10 election regulations to include these new voting options.

11 We worked closely in 2015 with the Secretary of
12 State so that they would continue to certify our Board
13 election results with the new voting options.

14 In 2016, CalPERS procured the new Board election
15 vendor and awarded the contract to IVS / Everyone Counts.

16 Changes to the Board election regulations became
17 effective last month, in January 1st, and the new voting
18 options will be used for the upcoming 2017 Member-at-Large
19 election.

20 --o0o--

21 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

22 When designing the system, securing our members'
23 information was our number one priority. Based on best
24 practices, members will receive a randomly generated
25 eight-digit PIN in their candidate statement booklet, and

1 use a unique identifier which is the last four digits of
2 their Social Security number to log on to the system to
3 vote.

4 --o0o--

5 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

6 The new voting options are convenient, secure,
7 and easy to use. The voting system is designed to give
8 the voters the flexibility to use their laptop, tablet or
9 smartphone.

10 At this time we'd like to demo the online and
11 telephone voting systems. These systems are prototypes
12 and are still in the final development stages. We'll walk
13 you through each screen of the online voting system and
14 then play for you a demonstration of a successful and an
15 unsuccessful phone vote.

16 --o0o--

17 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

18 So this next screen Dallas will get you to. This
19 is the screen that the voters will see once they type in
20 the URL from the candidate statement booklet - there we
21 go - or click on the link from the CalPERS website. This
22 is the front page.

23 They will type in their eight-digit PIN that is
24 assigned by the vendor to them and only them. It will be
25 in their candidate statement. They will then type in the

1 eight digits -- or, sorry -- the four digits of their
2 Social Security number. As you can see, if you don't put
3 in -- if you put in less than eight digits for the PIN or
4 less than four digits for the Social Security number, the
5 log-in on the bottom is grayed out.

6 So go ahead and put in the eight. Now you see
7 a check mark next to PIN. And when Dallas puts in the
8 four, you'll see a check mark. And now log-in is blue.

9 Click on the log-in in order to continue. On the
10 left-hand side you'll see a summary of your actions.

11 You would click to start voting, the "start
12 voting" on the bottom right, for position A. You will see
13 the candidate statements that will be listed to the right
14 of the candidate's name. You can click on the candidate
15 statement in order to read their statement right there on
16 line, and then go back by using the "return to position"
17 button.

18 The order of the candidates will be the order on
19 the ballot, which is done via random drawing on June 6th.

20 Now, let's go ahead and try and vote. Select the
21 box to vote. You'll see that if you try to select the
22 second box, it will not allow you to do so. You would
23 have to unclick the first box in order to click a
24 different box.

25 Now, hit "next position" down at the bottom. And

1 you would be moving to position B.

2 So let's vote for A and B so we can see how to do
3 it correctly. Now press "vote summary," and you will see
4 that you will get a summary of your voting of the two
5 positions and who you voted for. You would hit "submit"
6 at this point to be done.

7 But let's go back and let's not select somebody
8 for position B and hit "vote summary." You'll notice that
9 you will get an "error" message letting you know that you
10 have not voted for someone in position B.

11 CHAIRPERSON COSTIGAN: I'm sorry. You have to
12 vote for someone?

13 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
14 You do not have to vote for a position B. But it
15 will give you an "error" message so that -- to make sure
16 that you realize that you have not done so.

17 But you could go ahead and see the "error"
18 message and hit "submit" if you wanted to.

19 Let's go ahead and go back in and change the
20 selection, select one, and say "vote summary."

21 So once you say yes and you hit "submit," you
22 will not be able to go back and vote again. Once your PIN
23 number is used, you cannot do a phone vote or a mail paper
24 ballot. The first vote that is received is the only vote
25 that will count.

1 And there's your "congratulations" screen. So it
2 was about four slides.

3 I'm going to stop here and ask if there's any
4 questions on the online demo before we move to the phone.

5 CHAIRPERSON COSTIGAN: Mr. Jelincic.

6 COMMITTEE MEMBER JELINCIC: Looking at the
7 "error" message if you didn't vote, I think you may want
8 the change that message somewhat, because it really
9 implies that you kind of have to vote, although that's not
10 the intent.

11 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
12 Okay.

13 COMMITTEE MEMBER JELINCIC: And the other thing
14 is you talked about a unique identifier, which was the
15 last four digits of your Social Security number, and you
16 can't get a million unique numbers out of four digits.
17 So --

18 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
19 That's why they also receive the eight-digit
20 randomly generated number.

21 COMMITTEE MEMBER JELINCIC: But you had described
22 the last four digits as a unique identifier.

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
24 Unique to them.

25 COMMITTEE MEMBER JELINCIC: But it's not.

1 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

2 Okay. So we will look at the "error" message,

3 Mr. Jelincic.

4 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

5 CHAIRPERSON COSTIGAN: Mr. Feckner.

6 PRESIDENT FECKNER: Yes, thank you, Mr. Chair. I
7 want to say it's been a long time coming. I really like
8 and appreciate all the work that's gone into it, and
9 hopefully this will increase our voter participation. So
10 thank you and your team for all the hard work.

11 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

12 Thank you. Thank you to the Board for your
13 direction in allowing us to do this.

14 So let's go --

15 CHAIRPERSON COSTIGAN: Mr. Bilbrey.

16 BOARD MEMBER BILBREY: Just a quick question.

17 So will you go over a little bit about what
18 happens if someone does try to do a paper ballot or a
19 phone ballot after they've already done say the online.

20 What, do they get some sort of message or --

21 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

22 They will not get a letter that says that they've
23 already voted one time. However, if they are on the
24 phone, you'll hear an unsuccessful attempt, that if they
25 voted once before, it won't let them. If they try -- if

1 they -- if we've received their paper ballot and they try
2 and go and vote online, it will reject it as well. It
3 will not allow you to log on and --

4 BOARD MEMBER BILBREY: And if they voted online
5 and received the paper ballot, what hap -- how does it --

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
7 We would discard the -- we would not count the
8 paper ballot.

9 BOARD MEMBER BILBREY: So when you look at the
10 paper ballot, then there's nothing --

11 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
12 It would -- they'd scan it in -- the vendor would
13 scan it in, see that that has already been a unique
14 identifier and the eight-digit randomly generated number
15 was already used, and they would not count that paper
16 ballot.

17 BOARD MEMBER BILBREY: Okay. Thank you.

18 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
19 Okay. So we're going to go ahead and listen to a
20 successful attempt on the -- on the telephone. And this
21 does take a couple of minutes. But I thought -- we
22 thought it was important for you to hear what happens when
23 people do a telephone vote.

24 (Thereupon Member-at-Large election recording
25 demonstration.)

1 MODERATOR: "Welcome to the 2017 CalPERS Board of
2 Administration Member-at-Large Election. The purpose of
3 this election is to elect two representative seats,
4 position A and position B, to the CalPERS Board.

5 "To log into the system, you will need to enter
6 your PIN and the last four digits of your Social Security
7 number. Please enter your PIN followed by the pound key.

8 "Now enter the last four digits of your Social
9 Security number followed by the pound key.

10 "You are now successfully logged into the
11 election.

12 "Positions are in the order as shown on the paper
13 ballot. To hear the candidates for position A, press 8.
14 To repeat these instructions, press 1. You can access a
15 menu of additional options at any time by pressing the
16 star key.

17 "You are now selecting candidates for position A
18 and will choose from five candidates which are listed in
19 the same order as shown in the paper ballot. To hear the
20 first candidate, press 8. To repeat these instructions,
21 press 1.

22 "John Doe. To select this candidate, press 5.
23 To hear more about this candidate, press 3. To move down
24 to the next candidate, press 8. To move up to the
25 previous candidate, press 2. To hear these instructions

1 again, press 1.

2 "John Doe is selected. Press the pound key to
3 save your selection. To move down through the list of
4 candidates, press 8. To move up through the list of
5 candidates, press 2. To change your selections to the
6 current position, press 5. To repeat these instructions,
7 press 1.

8 "You have chosen to save your selections.

9 "To continue to position B, press 5. If you wish
10 to go back and change your selection, press 2. To repeat
11 your selections, press 1.

12 "You are now selecting candidates for position B
13 and will choose from two candidates which are listed in
14 the same order as shown on the paper ballot. To hear the
15 first candidate, press 8. To repeat these instructions,
16 press 1.

17 "James Stewart. To select this candidate, press
18 5. To hear more about this candidate, press 3. To move
19 down to the next candidate, press 8. To move up to the
20 previous candidate, press 2. To hear these instructions
21 again, press 1.

22 "Callie Grace. To select this candidate, press
23 5. To hear more about this candidate, press 3. To move
24 down to the next candidate, press 8. To move up to the
25 previous candidate, press 2. To hear these instructions

1 again, press 1.

2 "Callie Grace is selected. Press the pound key
3 to save your selection. To move down through the list of
4 candidates, press 8. To move up through the list of
5 candidates, press 2.

6 CHAIRPERSON COSTIGAN: All right. I think we
7 have it.

8 So I do have a question for you.

9 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
10 We were trying to get to the confirm. But yes.

11 CHAIRPERSON COSTIGAN: Why was the decision made,
12 rather than say here are the five candidates, you know, 1,
13 2, 3, 4, 5, why is it you're rolling through? Because
14 first placement actually does pretty well on this one,
15 fifth placement, if you have multiple -- I mean, what was
16 the decision not to hear everybody's name and go first?

17 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
18 I'm going to phone a friend.

19 CHAIRPERSON COSTIGAN: Okay. That's fine. Is
20 that push number 1?

21 We'll get number 2 --

22 VICE CHAIRPERSON TAYLOR: Is that your life line?

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
24 That's my life line.

25 Introduce yourself.

1 MS. CHARLESTON: Hello. My name is Dani
2 Charleston and I am the project manager with Everyone
3 Counts. We -- so the reasoning behind the number scheme
4 that you see on the online -- or the paper -- my goodness,
5 I'm nervous up here --

6 CHAIRPERSON COSTIGAN: Telephone.

7 -- with the phone demonstration is because it is
8 meant to mock an actual paper ballot. There's been a lot
9 of research on how to have an IVR system work for voters
10 with disabilities. And so the moving up is with the 2,
11 moving down with the 8, and selecting with the 5 is set to
12 mirror how you would move through paper ballot if you were
13 a visual voter.

14 CHAIRPERSON COSTIGAN: Okay. But what I'm -- I
15 guess the question I'm asking is, I dial in, and if there
16 are five people on it, why did we just not -- I get the
17 decision of moving down on it. But why don't we have, for
18 position A, here are the following five candidates, boom,
19 boom, boom, boom, boom.

20 Candidate Theresa Taylor, press 1, right, and
21 then go through that -- you don't -- if I want to vote for
22 candidate 5 where I don't have the paper ballot in front
23 of me, I have to go -- I want to know where in the
24 position that's going to be. I'm just trying to
25 understand what the policy was. You cut everybody -- you

1 immediately jump to candidate 1 as opposed to defining the
2 field. Because on the ballot I can look and I can see
3 everybody. I can still move down the same way. What was
4 the rationale for not doing that?

5 MS. CHARLESTON: So the rationale is that the
6 research was based upon IVR specifically for elections.
7 We looked at different organizations within the United
8 States and a lot within Australia as well that looked at
9 how to best do IVR for voting.

10 We do have the option to -- there's some
11 flexibility with the recording. So if you wanted when
12 they present the first position, we could read all
13 candidates and then state that they would be read in that
14 particular order moving down vertically. It would still
15 be the move back up with the 2, move down with the 8,
16 select with the 5, but we could put a recording at the
17 very beginning of that position that states, "These are
18 your five candidates. Be prepared to hear them as listed
19 vertically on a ballot."

20 CHAIRPERSON COSTIGAN: Okay. Because I mean, I'd
21 be curious -- because part of it, let's say if we get
22 Donna Jones and Henry Jones and I get them confused, oh,
23 it's B -- candidate B versus -- I mean -- I'm just saying,
24 the visual, I get it. It's just we jump to it.

25 But are there other questions or anybody else has

1 issues with this?

2 Okay.

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

4 We can -- we can --

5 CHAIRPERSON COSTIGAN: Go to the -- let's hear
6 the not successful one.

7 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

8 Okay.

9 (Thereupon Member-at-Large election recording
10 demonstration.)

11 MODERATOR: "Welcome to the 2017 CalPERS Board of
12 Administration Member-at-Large Election. The purpose of
13 this election is to elect two representative seats,
14 position A and position B, To the CalPERS Board.

15 "To log into the system you will need to enter
16 your PIN and the last four digits of your Social Security
17 number. Please enter your PIN followed by the pound key.

18 "A vote has already been registered for this PIN.
19 To be transferred to the election call center, please
20 press 0."

21 VICE CHAIRPERSON TAYLOR: Are you going to have a
22 call center.

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

24 I will answer that question.

25 VICE CHAIRPERSON TAYLOR: Thank you.

1 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

2 So that's the unsuccessful. You can hear what
3 happens if they've tried to do it again.

4 And also, as you can see on the screen, paper
5 ballot is still being available for the election.

6 Okay. If you have any issues, there is a 1-800
7 number that will be manned 24/7 by the IVS/Everyone Counts
8 team. If it's policy or procedure related, like something
9 that our Board election coordinator should answer, they
10 will transfer them to our 800 number. However, if it's
11 something on like I can't find my PIN or my eight-digit
12 number or I need help navigating through the system, then
13 the 1-800 number that's manned 24/7 will be handling those
14 calls.

15 VICE CHAIRPERSON TAYLOR: So I want tell you how
16 much I appreciate this. I think that this will spur
17 voting. I think that you guys have done a great job.

18 I will say that I think -- I agree with Richard
19 in that as a visual voter, at least me who votes at the
20 ballot, I see all of the names and then -- and maybe I
21 already know who I want to vote for and maybe I don't, but
22 some -- and sometimes I don't, right. So I need to see
23 all the names. So I'm thinking maybe we should hear all
24 those names first and then go down.

25 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

1 And we can do that at the beginning. But as
2 Dallas just pointed out, after we go through those we want
3 the names individual because their candidate statement has
4 been tied to that individual after that.

5 VICE CHAIRPERSON TAYLOR: Absolutely agree. I
6 agree. Absolutely I agree with that.

7 But again I do want to compliment you all on
8 making this happen. And I'm hoping that we see an
9 increase in participation. I think that's our biggest
10 goal here.

11 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

12 So do we.

13 VICE CHAIRPERSON TAYLOR: All right. Thank you.

14 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

15 So, finally, in order to enhance and entice
16 CalPERS members to vote, we partnered with Public Affairs
17 and we rebranded the candidate statement booklet, the
18 envelope and the ballot card. The booklet will provide
19 more clarity regarding the role of the Board, the new
20 voting options with online being the recommended choice,
21 as well as five questions that we recommended the
22 candidates answer.

23 --o0o--

24 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

25 This last slide is an example of the rebranded

1 packet that all members will receive in September to vote.

2 If I may, Mr. Chair, I would like to appreciate
3 and congratulate Mr. Stone, the OSSD Board Election team,
4 Public Affairs, IT, and the IVS / Everyone Counts for
5 working so hard together as a team to make this a reality.

6 They've rebranded, like I stated, the candidate's
7 statement package, the ballot, the envelope; they've
8 updated regulations; they've developed and designed the
9 online voting website, the verbiage for two phone options,
10 and all made it a reality for today's presentation.

11 We had some really great feedback from our
12 members at the CalPERS Education Fair in Sacramento last
13 week regarding the Board's direction to move to online
14 voting. And Dallas and I have been requested to go and
15 attend some meetings for the Cal retirees, CSEA,
16 California Faculty Association, and the California
17 Association of Professional Scientists to demo the new
18 election. And so we're looking forward to sharing that so
19 that we can help increase the vote.

20 This concludes my presentation, and Dallas is
21 happy to answer any questions you may have.

22 (Laughter.)

23 CHAIRPERSON COSTIGAN: I just wonder who's going
24 to take Dallas's place for everybody that calls needing a
25 little special attention.

1 (Laughter.)

2 CHAIRPERSON COSTIGAN: Ms. Hagen.

3 ACTING BOARD MEMBER HAGEN: Thank you. I just
4 want to congratulate you two. It's a very cool system I
5 like a lot.

6 I did have one question. Are there any plans for
7 LEP, limited English proficiency, callers? Can they dial
8 a number and get something translated or --

9 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

10 Not at this time, any more than we offered that
11 previously with the online ballot -- I'm sorry -- with the
12 paper ballot.

13 ACTING BOARD MEMBER HAGEN: Okay. Thank you.

14 CHAIRPERSON COSTIGAN: Okay. Any other
15 questions?

16 And this was an information item. So thank you
17 very much.

18 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

19 Thank you.

20 CHAIRPERSON COSTIGAN: All right. Next item,
21 10c. It's also an information item. This is a
22 responsible contractor as it applies to other CalPERS
23 contracts.

24 So, Ms. Malm, back to you.

25 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

1 Okay. At the December 2016 Investment Committee
2 meeting the Board requested we provide information and
3 background on the application of the Responsible
4 Contractor Policy at the February 2017 Finance and
5 Administration Committee.

6 It was requested in an effort to ascertain
7 whether the policy's appropriate for the rest of CalPERS
8 contracts. The RCP Policy currently applies to all
9 contracts in real estate and infrastructure investments in
10 which CalPERS owns at least 50 percent majority of these
11 companies.

12 CalPERS maintains contracting policies and
13 processes that align with state contracting laws and
14 regulations as prescribed in the Public Contract Code,
15 Government Code, Military and Veterans Code, the State
16 Administrative Manual, and the State Contracting Manual.

17 Changes to these standards and practices of
18 CalPERS contracting activity similar to those embedded in
19 the RCP policy would require legislative changes to
20 existing contracting law and procedures utilized by all
21 California state agencies. Additionally, enforcement of
22 this policy without legislative and/or regulatory changes
23 could be considered as imposing an underground regulation.

24 State contracting law outlines specific terms and
25 conditions required for all State contracts. As such,

1 CalPERS 33-page contract template contains 77 standard
2 terms and conditions not counting the specific IT and
3 investment terms.

4 Of those 77 terms and conditions, eight directly
5 support fair employment practices and ideals adopted by
6 labor unions, as well as encourage development of small
7 business and disabled veterans business.

8 CalPERS is dedicated to promoting lawful behavior
9 and decency with respect to workers employed by CalPERS
10 contractors and subcontractors, and believes an adequately
11 compensated and trained worker delivers higher quality
12 product and service and therefore incorporates the
13 following eight terms, which are in your attachment 1,
14 into every contract:

15 Sweatfree Code of Conduct,
16 Benefits for Domestic Partners,
17 Child Support Compliance Act,
18 Nondiscrimination,
19 National Labor Relations Board Certification,
20 Americans with Disabilities Act,
21 Drug-Free Workplace, and
22 Small Business and Disabled Veteran Business
23 Enterprise Participation Goal.

24 In addition to these provisions, CalPERS always
25 remains neutral in regards to employee's right to organize

1 at the their place of employment.

2 Implementation elements of the RCP Policy for all
3 CalPERS contracts would require collaboration with
4 multiple program areas, including Legal, Investments,
5 Enterprise Compliance, Human Resources, Operations, and
6 the Board of Administration.

7 Multiple considerations would need to be taken,
8 including:

9 What would the parameters of the program be?
10 Would they be required on all contracts or just some?
11 Would there be a dollar threshold?

12 Who would be responsible for monitoring program
13 compliance?

14 Would the RCP continue to be reported to the
15 Board on an annual basis? If so, who would be responsible
16 for gathering and presenting this data?

17 And how would complaints and investigations be
18 handled?

19 The practicality and method of extending this
20 policy in the future beyond only majority-owned real
21 estate and infrastructure investments depends on the
22 factors and considerations described.

23 If it pleases the Committee, I have some
24 information on our janitorial and our cafe workers and
25 security staff here at CalPERS, because the Board is very

1 supportive of ensuring fair pay for our workers. And this
2 is primarily what this -- this RCP Policy was written for.

3 And so I'd just like to share that, you know,
4 currently our janitorial staff make an average of 17.05
5 per hour. They have a special rider in the BOMA contract,
6 which is 51.56 percent more than the rest of Sacramento.
7 It just is a testament to the CalPERS Board and their
8 belief in fair wages and pay for staff.

9 Cafe staff are subject to SB 19134, which means
10 that they must make at least 85 percent of the State's
11 salary and benefits for the same classification. The
12 average pay for a cafe worker is \$11.38 an hour. However,
13 with their benefits it is \$18.86 to \$21.76 per hour based
14 on the number of dependents. They receive medical, sick
15 pay, vacation pay, holiday pay, and pension.

16 And for the security staff, they're also subject
17 to SB 19134, and their hourly rate is \$11.34 per hour.
18 With benefits, they average \$18.80 to \$23.52 based upon
19 their number of dependents. They also receive medical,
20 sick pay, vacation pay, holiday pay, and 401 matching.
21 We're really proud of those numbers.

22 This concludes my information that was requested
23 on the Responsible Contractor Policy for all CalPERS
24 contracts, and I'm happy to answer any questions.

25 CHAIRPERSON COSTIGAN: Mr. Juarez.

1 ACTING COMMITTEE MEMBER JUAREZ: Yes, thank you,
2 Kim, and also thank you, Doug. I had a chance to speak
3 with Kim and Doug yesterday a little bit about what our
4 intent was in asking for this information.

5 The genesis of it comes from a complaint that we
6 heard about the -- on the issue of neutrality over
7 collective bargaining agreements, which isn't part of your
8 eight, and feeling as though while we have a great regard,
9 and it's stated in the -- up front in the policies as it
10 relates to CalPERS employees or those who may be employed
11 within a CalPERS-owned building, it wouldn't seem at least
12 with regard to neutrality on collective bargaining that we
13 hold those employees that are affected in the same regard.

14 And for that reason, I believe that it's worth
15 exploring further and having the staff come back to us.
16 And quite frankly, I was enthralled with the questions. I
17 thought they were very good questions. But I sort of, in
18 my experience, I leave it to the staff to sort of define
19 what would be doable without too much administrative
20 burden in order to get this accomplished. And, again, I'm
21 going to focus only at this point on the neutrality issue.
22 There may be other issues that Board members want to put
23 forward relative to extending those to all our contracts.
24 But I do believe that it does make sense to at least for
25 us -- it does make sense for us to at least consider that.

1 Again, I think the staff has done good work here,
2 but I think there's much more to be done. I would hope
3 that this excellent start will not deter us from taking a
4 look at it, whether it's through regulation, through
5 legislation. I realize those are steps that may need to
6 be taken. But I want to encourage you, Kim and Doug and
7 others, to at least consider coming back to us with sort
8 of a how-to, less so about what to do, but how could we go
9 about doing this, what would be the cost, what would be
10 the administrative burden that we would incur in order to
11 do this. I just think it's -- if we're going to treat our
12 own employees in such a fashion -- and again I'm going to
13 focus just on neutrality -- we should extend that to other
14 contract -- employees that by virtue of their employment
15 are essentially indirect employees of ours.

16 I would also hold to the point that while it's
17 said that we do it in real estate because we have a
18 leverage, being an owner, I would say we have equal or
19 almost equal leverage with regard to being an owner of
20 that contract. If someone that we're doing business with
21 realizes that one of the terms that they have to meet is
22 being neutral in collecting bargaining situations, and
23 they choose not to do so, they have to know that we would
24 be willing to pull that contract in order to enforce that
25 provision.

1 And so with that, I'll stop there and leave it to
2 the rest of the Board. But I would seriously like the
3 staff to come back to us with a more concrete idea of
4 how-to.

5 CHAIRPERSON COSTIGAN: I just want to make sure I
6 understand it. You want to pursue any contract for
7 services?

8 ACTING COMMITTEE MEMBER JUAREZ: I would say --

9 CHAIRPERSON COSTIGAN: Could I get -- I'm sorry.

10 ACTING COMMITTEE MEMBER JUAREZ: Yeah. I'm
11 sorry, I thought you were done.

12 CHAIRPERSON COSTIGAN: Folks that we contract
13 with for cell phones, for example, for our cellular
14 service, the large company in California that currently
15 engages with its workers, a condition of our -- I just
16 want to make sure I understand what we'd be proposing is a
17 condition of contracting with them for cell phone services
18 is that their management would have to commit to
19 neutrality of collective bargaining?

20 ACTING COMMITTEE MEMBER JUAREZ: In the same way
21 that they commit to the other eight provisions that we
22 routinely put in our contracts, I would say yes. I would
23 leave it to the staff. If staff says that there are areas
24 in which we provide exemptions, that we choose not to
25 enforce it for say high level employees that are actuarial

1 services, legal services, whatever it may be, I'm going to
2 put it on staff to say, "We don't think it's appropriate
3 in these instances to have that provision." But I'm just
4 saying, just in the same way that we apply the other
5 eight, why can't we apply neutrality in collective
6 bargaining negotiations as one of those things that we
7 hold people to as a standard.

8 CHAIRPERSON COSTIGAN: Mr. Hoffner.

9 DEPUTY EXECUTIVE OFFICER HOFFNER: I was just
10 going to point out that the things that Kim reference are
11 actually all statutory changes and requirements of all
12 contracts in the Public Contract Code for the State of
13 California. So hearing the conversation and statements,
14 those all still relate to change of law. So I think --

15 ACTING COMMITTEE MEMBER JUAREZ: And as I said in
16 my remarks, I think if it means that we have to go to the
17 legislature, I think that should be something we should
18 consider.

19 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

20 If I may, would you consider -- I know that in
21 the past that Investment Office has made a phone call to a
22 manager when they believe that they needed to, you know,
23 step in. There wasn't anything formal in the contract
24 terminology, or terms and conditions. But they have made
25 a phone call and, you know, placed pressure on that by

1 making that phone call. We do have a termination clause
2 in every contract where if they're not doing something
3 that we believe is fair and right, that we could terminate
4 without any cause in 10 days.

5 Would you consider staff managing that in that
6 way as opposed to --

7 ACTING COMMITTEE MEMBER JUAREZ: I would. But I
8 would hope that it wouldn't get into a situation where
9 somebody on the other end of that line says, "Well, you've
10 never told us that we were held accountable for that."

11 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
12 Okay.

13 ACTING COMMITTEE MEMBER JUAREZ: But I certainly
14 leave to you, to the CalPERS staff, to determine for us
15 what would be the appropriate way in which we chose to
16 enforce that provision. I'm not speci -- I'm not trying
17 to be as -- as least specific as possible to allow you to
18 tell us the most reasonable way to proceed.

19 CHAIRPERSON COSTIGAN: So, Mr. Eliopoulos, before
20 you make your comments, I think, Ms. Malm, we can bring
21 this up at a future date. There's many questions.
22 Because I think rather than having an entire Pandora's box
23 discussion right now about carve-outs with investments or
24 carve-outs with phone calls, I think, Mr. Hoffner and
25 Ms. Malm, let's just work towards this. Because I would

1 like an inventory -- or begin looking at the type of
2 contracts that Mr. Juarez is just raising, because I think
3 it just opens a little bit of a can of worms for
4 everything that we're going to get engaged in. So we
5 should see what's an easy piece to go forward, to build
6 off what we already have. And then, Mr. Hoffner,
7 absolutely right, every one of these items is either a
8 federal or state statutory requirement not dictated by the
9 terms of our contracts.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

11 CHAIRPERSON COSTIGAN: If that works with you --

12 ACTING COMMITTEE MEMBER JUAREZ: It does. If
13 it's not practical, you know - and go to your can-of-worms
14 analogy - then let's, you know, reduce the size of the can
15 of worms. But I would hope that we can get to a list of
16 contracts where it does make a lot of sense to hold those
17 contractors responsible for the way in which they treat
18 their employees in particular in the area of a neutrality
19 on collective bargaining arrangements.

20 CHAIRPERSON COSTIGAN: Mr. Jelincic.

21 COMMITTEE MEMBER JELINCIC: Yeah, just some
22 observations. In real estate the RCP kicks in if we own
23 50 percent at the time we get into the investment. If we
24 own 49 and then buy another 10, it doesn't fall back under
25 that policy.

1 Requiring legislative changes, maybe, at least
2 for existing contracts. But there is no legislation that
3 says we have a right not to invest in private equity firms
4 if your goal is to privatize public jobs.

5 So, I mean, we simply tell the vendor, if
6 that's -- if you can't live with that, don't come to us.

7 On page 2, you say that construction contracts
8 are exempt. I'm not sure that that's accurate. But if it
9 is, that would explain LIUNA frustrations.

10 And on page 3 you talk about the underground
11 regs. And clearly we have the ability to solve the
12 problem of underground regs. Sometimes we make them and
13 ignore them and other times we decide to fix them and make
14 them real regs.

15 So those were the observations I had.

16 CHAIRPERSON COSTIGAN: Mr. Whalen, you want to
17 come on up.

18 CHAIRPERSON COSTIGAN: All right. Any other
19 Board members on this item?

20 MR. WHALEN: Good afternoon.

21 CHAIRPERSON COSTIGAN: Hang on a second. Turn on
22 your mic. You have three minutes. And please identify
23 yourself.

24 MR. WHALEN: Good afternoon. Pat Whalen on
25 behalf of Ellison Wilson here on behalf of our client,

1 United Nurses Association of California Union of Health
2 Care Professionals. Thank you, Mr. Chair and members.

3 First of all, just by way of brief background, we
4 represent about 25,000 nurses, NPs, PAs, and other health
5 care professionals at a wide variety of hospitals -
6 Kaiser, Sharp, Tenet, Prime - many of whom are in Southern
7 California.

8 I wanted to thank staff for their report on this
9 issue, and urge -- urge -- kind of echo the comments of
10 Mr. Juarez, urge you to do a little more work into the
11 specific areas where insisting on things, like labor
12 neutrality, would be appropriate. And I would like to
13 suggest as one possible example would be the contracts
14 that CalPERS has with PPOs and HMOs, where our members
15 happen to work.

16 As just one example of how this might be a
17 benefit to CalPERS members, you may know that California
18 law currently provides nurse staffing ratios at hospitals.
19 And that's depending on patient acuity, in a NIC --
20 neonatal intensive care unit you might have a one-to-one
21 or two-to-one ration, in other units it might be four
22 nurses -- or four patients to a nurse, depending on the
23 severity of the patient.

24 Numerous studies have shown that adhering to
25 those nurse staffing ratios improve patient care and

1 improve patient outcomes.

2 You might not be so surprised to learn that some
3 hospitals adhere to those ratios better than others. What
4 we have found is that the hospitals that tend to adhere to
5 those ratios and have improved patient outcomes are those
6 where there is either collective bargaining and organized
7 union representing the health care professionals or, at a
8 minimum, labor neutrality.

9 And for that reason, we think it would be well
10 worth exploring the utility and feasibility of putting
11 those kinds of concepts in your contracts with HMOs. And
12 so, like Mr. Juarez, we would urge the Board to have staff
13 look more deeply into the legislative changes that would
14 be necessary and the feasibility in areas and particular
15 contracts where these type of provisions would work.

16 Thank you very much.

17 CHAIRPERSON COSTIGAN: Thank you, sir.

18 All right. Any other comments on this item?

19 No.

20 All right. Thank you. Thank you, Ms. Malm.

21 All right. Final item. Item 11a, Asset
22 Liability Management Policy, first reading.

23 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

24 D'ADAMO: Yes. So Forrest is going to come up and present
25 this item initially.

1 CHAIRPERSON COSTIGAN: Have Forrest present,
2 right?

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
4 D'ADAMO: Yes.

5 CHIEF RISK OFFICER GRIMES: Good afternoon.
6 Forrest Grimes, CalPERS team.

7 The 2017-18 asset liability management cycle is
8 now underway, and the Board and team will have several
9 interactions on this topic moving forward.

10 This is a first reading of this policy. So with
11 that, I would like to stop and encourage your discussion
12 and questions on the policy before you.

13 CHAIRPERSON COSTIGAN: Mr. Jelincic, I know you
14 always have questions. Do you have any on this item?

15 COMMITTEE MEMBER JELINCIC: No

16 CHAIRPERSON COSTIGAN: Oh, good.

17 Well, Forrest, you're in luck. There actually
18 are no questions on it.

19 CHIEF RISK OFFICER GRIMES: Okay. Well, thank
20 you, and have a good afternoon.

21 CHAIRPERSON COSTIGAN: Thank you.

22 (Laughter.)

23 CHAIRPERSON COSTIGAN: All right. I believe that
24 brings us to the end of our long day so far.

25 Mr. Bilbrey, what time would you like to convene?

1 So convene at 2:35.

2 That gives you enough time?

3 So this Committee will adjourn, and Performance
4 and Compensation will convene at 2:35.

5 Thank you, all.

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

7 D'ADAMO: Do we want to do Committee direction?

8 CHAIRPERSON COSTIGAN: Oh, sure. I'm sorry.

9 See, you almost got up here. There was only a few items.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: So I have, regarding the consent item on the IT
12 projects to come back to the Finance and Administration
13 Committee with more detail.

14 Also the -- bring to the Board governance
15 policy -- the Board Governance Committee the policy
16 revisions that came out of the delegation item.

17 And then to also bring back to the Finance and
18 Administration Committee the delegation that we had
19 deferred until after we had that heard in Board Governance
20 Committee.

21 CHAIRPERSON COSTIGAN: Correct.

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: I also had a recommendation about consider
24 carbon copying elected officials. This was on Item 10a
25 regarding the termination process.

1 CHAIRPERSON COSTIGAN: Correct.

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO: And then a final recommendation to come back to
4 the Committee with some recommendations for the CMT
5 process beyond the 90 days. So maybe adding to the
6 timeline that we had showed you when the Board would
7 actually be notified of the terminations.

8 CHAIRPERSON COSTIGAN: Great. That's it.

9 ACTING COMMITTEE MEMBER JUAREZ: Excuse me.

10 CHAIRPERSON COSTIGAN: Mr. Juarez.

11 ACTING COMMITTEE MEMBER JUAREZ: Yeah, did I not
12 just sit through a presentation that we also said we were
13 going to come back with additional work being done on the
14 RCP?

15 CHAIRPERSON COSTIGAN: We're just getting there.

16 ACTING COMMITTEE MEMBER JUAREZ: Okay. Well, I
17 didn't hear that going. So I just wanted to make sure we
18 don't get out of here with that --

19 CHAIRPERSON COSTIGAN: Your work here is done
20 today.

21 ACTING COMMITTEE MEMBER JUAREZ: Thank you.

22 CHAIRPERSON COSTIGAN: Thank you.

23 (Laughter.)

24 CHAIRPERSON COSTIGAN: Anything else?

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: Just what he said.

2 CHAIRPERSON COSTIGAN: Okay. All right. Thank
3 you. 2:35. Thank you.

4 (Thereupon the California Public Employees'
5 Retirement System, Board of Administration,
6 Finance & Administration Committee meeting
7 adjourned at 2:23 p.m.)

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1 C E R T I F I C A T E O F R E P O R T E R

2 I, JAMES F. PETERS, a Certified Shorthand
3 Reporter of the State of California, do hereby certify:

4 That I am a disinterested person herein; that the
5 foregoing California Public Employees' Retirement System,
6 Board of Administration, Finance & Administration
7 Committee meeting was reported in shorthand by me, James
8 F. Peters, a Certified Shorthand Reporter of the State of
9 California;

10 That the said proceedings was taken before me, in
11 shorthand writing, and was thereafter transcribed, under
12 my direction, by computer-assisted transcription.

13 I further certify that I am not of counsel or
14 attorney for any of the parties to said meeting nor in any
15 way interested in the outcome of said meeting.

16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 21st day of February,

18
19 

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22 Certified Shorthand Reporter
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