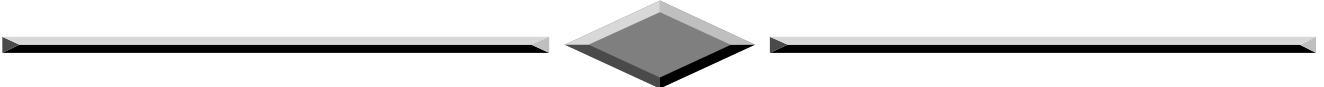


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
MINUTES OF MEETING
Wednesday, December 21, 2016**



The Board of Administration met on Wednesday, December 21, 2016 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:01 a.m. and the following members were present:

Rob Feckner, President
Henry Jones, Vice President
Michael Bilbrey
Steve Juarez for John Chiang
Richard Costigan
Richard Gillihan
Dana Hollinger
JJ Jelincic
Ron Lind
Priya Mathur
Bill Slaton
Theresa Taylor
Lynn Paquin for Betty Yee

Board of Administration Members excused: None

AGENDA ITEM 3 – PRESIDENT'S REPORT

President Feckner thanked the CalPERS Choir for the beautiful music and holiday cheer. President Feckner recognized and thanked Doug McKeever for his dedicated service to CalPERS.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Ms. Frost also recognized Doug McKeever and wished him well in his new position. Ms. Frost also wished Laurie Weir the best in her retirement.

Ms. Frost thanked all the Board members for their leadership and willingness to listen and take on tough issues. Ms. Frost also thanked the stakeholders for their willingness to work with us.

Ms. Frost reported on the following:

- The Strategic Plan,
- The Comprehensive Annual Financial Report,
- The new pharmacy benefits manager OptumRx,
- CalPERS new management program to include diabetes prevention,
- And the Chief Actuary position update.

Ms. Frost recognized the Financial Office for receiving the Distinguished Budget Presentation Award for the third straight year.

b. Chief Investment Officer Report

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

As of October 31, 2016, the total fund performance for the fiscal year-to-date is 2.3 percent. The three-year return of the total fund is 4.9 percent and the five-year return is at 7.8 percent. The ten-year return is at 4.6 percent and the 20-year return of the total fund is 6.9 percent. The total fund assets are valued at \$300.8 billion.

AGENDA ITEM 5 – CONSENT ITEMS

Action Consent Items:

- a. Approval of November 16, 2016 Board of Administration Meeting Minutes
- b. Board Travel Approvals

On **MOTION** by Priya Mathur, **SECONDED** by Theresa Taylor, and **CARRIED**, the Board approved Action Consent Items 5a and 5b.

AGENDA ITEM 6 – CONSENT ITEMS

Information Consent Items:

- a. Board Agenda Item Calendar 2016
- b. Draft Agenda for February 15, 2017 Board of Administration Meeting
- c. General Counsel's Report
- d. Communications and Stakeholder Relations

AGENDA ITEM 7 – COMMITTEE REPORTS AND ACTIONS

a. Investment Committee

Henry Jones, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, December 19, 2016.

Additional information may be found in the December 19, 2016 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for February 13, 2017 in Sacramento, California.

b. Pension and Health Benefits Committee

Priya Mathur, Chair, Pension and Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 20, 2016.

Additional information may be found in the December 20, 2016 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for February 14, 2017 in Sacramento, California.

c. Finance and Administration Committee

Richard Costigan, Chair, Finance and Administration Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 20, 2016 in Sacramento, California.

On **MOTION** by Committee and **CARRIED**, the Board approved the CalPERS Fiscal Year 2016-17 Mid-Year Total Budget of \$1,786,873,000 and 2,880 positions. (FAC Item 5a)

On **MOTION** by Committee and **CARRIED**, the Board approved the extension of Backup/Restoration & Disaster Recovery (BR/DR) services contract for an additional 12 months through June 30, 2018 at a cost of \$2,200,000. (FAC Item 6a)

On **MOTION** by Committee and **CARRIED**, with one abstention by JJ Jelincic, the Board approved the staff recommendations to lower the assumed rate of return over the next three years as follows:

- For fiscal years 2017-18 7.375 percent
- For fiscal years 2018-19 7.25 percent
- For fiscal years 2019-20 7.0 percent

These reductions would in turn be implemented as follows:

- Contributions rates for the State would be impacted beginning in 2017-18.
- Contribution rates for school employers' and local public agencies would begin in 2018-19.
- For purposes of calculating member service credits and optional settlements, the reduction in the discount rate would be applied immediately.

The Board further approved the Committee's recommendation to:

- Have staff bring back the Funding Risk Mitigation Policy to the February meeting of the Board of Administration's with a proposed two percent reduction in the required first excess investment return threshold and proposed timelines for the funding risk mitigation event; and
- Have staff bring back a proposed commensurate change to the discount rates for the Affiliate Funds to be considered at the February Board meetings.

(FAC Item 9)

Additional information may be found in the December 20, 2016 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Finance and Administration Committee is scheduled for February 14, 2017 in Sacramento, California.

d. Performance, Compensation and Talent Management Committee

The committee did not meet in December.

The next meeting of the Performance, Compensation and Talent Management Committee is scheduled for February 14, 2017 in Sacramento, California.

e. Risk and Audit Committee

The committee did not meet in December.

The next meeting of the Risk and Audit Committee is scheduled for February 14, 2017 in Sacramento, California.

f. Board Governance Committee

Bill Slaton, Chair, Board Governance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 20, 2016 in Sacramento, California.

On **MOTION** by Committee and **CARRIED**, with one no vote by JJ Jelincic, the Board approved submission to the Office of Administrative Law of the proposed regulation establishing rules and procedures governing public comment at meeting of the Board and its committees. (GOV Item 10)

On **MOTION** by Committee and **CARRIED**, the Board approved omission of the October Board and Committee meetings and schedule for 2017. (GOV Item 7)

Additional information may be found in the December 20, 2016 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Board Governance Committee is scheduled for December 20, 2016 in Sacramento.

AGENDA ITEM 8 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

On **MOTION** by Henry Jones and **SECONDED** by Ron Lind, and **CARRIED**, the Board adopted the proposed decisions of Administrative Law Judges (ALJ) for Agenda Items 8a through 8d, Agenda Item 8f, Agenda Items 8i and 8j, and Agenda Items 8l through 8u as the Board's own decision, with the minor modification argued by staff to Agenda Items 8c, 8l and 8p.

On **MOTION** by Henry Jones and **SECONDED** by JJ Jelincic, and **CARRIED**, the Board approved Agenda Items 8e and 8h for Full Board Hearings.

On **MOTION** by Henry Jones and **SECONDED** by Priya Mathur, and **CARRIED**, the Board approved to remand Agenda Item 8g for the taking of additional evidence regarding the psychological conditions asserted by the member.

On **MOTION** by Henry Jones and **SECONDED** by Dana Hollinger, and **CARRIED**, the Board approved to remand Agenda Item 8k for the taking of additional evidence regarding whether staff's determination elevates form over substance.

AGENDA ITEM 9 – PETITIONS FOR RECONSIDERATION

On **MOTION** by Henry Jones, **SECONDED** by Richard Costigan and **CARRIED**, the Board denied the petitions for reconsideration at Agenda Items 9a through 9d.

AGENDA ITEM 10 – FULL BOARD HEARING

- a. Desi Alvarez

Agenda Item 10 was moved to be heard after Agenda Item 11.

AGENDA ITEM 11 – STATE AND FEDERAL LEGISLATION UPDATE

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

AGENDA ITEM 10 – FULL BOARD HEARING

- a. Desi Alvarez

The following members were present:

Rob Feckner, President
Henry Jones, Vice President
Michael Bilbrey
Steve Juarez for John Chiang
Richard Costigan
Richard Gillihan
Dana Hollinger
Ron Lind
Priya Mathur
Bill Slaton
Theresa Taylor
Lynn Paquin for Betty Yee

Board of Administration Members excused: JJ Jelincic

At the November 16, 2016 Board meeting, the Board rejected the proposed decision of the Administrative Law Judge (ALJ) and scheduled this matter for a full Board hearing on Mr. Desi Alvarez.

Preet Kaur, Staff Counsel and Marguerite Seabourn, Assistant Chief Counsel appeared for CalPERS. Brad Herrema, Attorney, represented Chino Basin Watermaster. Mr. Desi Alvarez had ceded his allotted time for oral argument today to the Chino Basin Watermaster.

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

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

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

Ms. Kaur then presented CalPERS Staff's arguments.

Mr. Herrema then presented arguments on behalf of Chino Basin Watermaster.

Ms. Kaur and Mr. Herrema each presented their rebuttal arguments.

The floor was then opened for questions by the Board.

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

The Board then recessed into closed session to deliberate on the Full Board Hearing at 10:49 a.m.

Closed Session

Deliberate on Full Board Hearing (**Government Code section 11126(c)(3)**)

b. Desi Alvarez

The Board reconvened into open session at approximately 11:01 a.m.

Take Action on Full Board Hearing

c. Desi Alvarez

On **MOTION** by Henry Jones, and **SECONDED** by Priya Mathur, and **CARRIED**, the Board revised the proposed decision as argued by staff and denied the appeal on the grounds that 1) member's pay with the Watermaster was not available pursuant to his publicly available pay schedule, 2) effective November 9, 2011, member was no longer an employee of the Watermaster, and 3) the severance compensation that member received after November 9, 2011, constituted final settlement pay.

AGENDA ITEM 12 – SUMMARY OF BOARD DIRECTION

No direction was given at this time.

AGENDA ITEM 13 – PUBLIC COMMENT

Time Behrens, President of the California State Retirees, spoke in support of the discount rate motion and wished Doug McKeever the best.

Neil Johnson, SEIU Local 1000, thanked Doug McKeever for his service and wished him well.

The public meeting adjourned at approximately 11:07 a. m.

MARCIE FROST
Chief Executive Officer



Board of Administration
Agenda Item 5b
Revised

December 21, 2016

Item Name: Board Travel Approvals

Program: Board of Administration

Item Type: Action Consent

Recommendation:

Approve travel requests as required under the Board of Administration's travel policy.

Over \$500/Out of State/Country Travel Requests Approved by Board President:

Board Member	Date	Destination	Purpose of Travel
JJ Jelincic	2/25/17-3/3/17	Washington DC	Attend CII Conference
Henry Jones	2/26/17-3/1/17	Washington DC	Attend CII Conference
Bill Slaton	2/26/17-3/2/17	Washington DC	Attend CII Conference
JJ Jelincic	5/20/17-5/25/17	Philadelphia, PA	Attend Annual Chartered Financial Analyst Institute Meeting
Henry Jones	7/10/17-7/15/17	Kuala Lumpur, Malaysia	Attend Annual ICGN Conference

ROB FECKNER, President
Board of Administration

December 21, 2016

This is intended as a guide for the Committee Chair. Other than the motions, this need not be read verbatim. The Chair may add context/comment as appropriate.

The Investment Committee met on December 19, 2016.

The Committee approved the following:

- AGENDA ITEM 5a
Transmission of the CalPERS Emerging Manager Five-Year Plan annual report to the California Legislature
- AGENDA ITEM 5b
To extend the tobacco investment restrictions to the externally managed portfolios of publicly traded assets for the Public Employees' Retirement Fund and the affiliate fund portfolios. The Board instructs staff to exercise prudent timing and methods of implementation of these restrictions.

The Committee received reports on the following topics:

1. An update on the activities and plans for the Responsible Contractor Policy Program, Managers Expectations Pilot, and proxy voting activities.
2. A report on the current initiatives and activities of the Investment Manager Engagement Programs, and
3. A review of the current state of the Investment Office Roadmap and Target Operating Model

The Committee heard public comment on:

- CalPERS' tobacco restrictions
- The Investment Manager Engagement Programs Update,
- The Responsible Contractor Policy, and
- A labor dispute

At this time I would like to share some highlights of what to expect at the February Investment Committee meeting:

- The CalPERS Trust Level Review, and
- Wilshire's annual review of CalPERS divestments, and
- An update on CalPERS' governance and sustainability activities.

The next meeting of the Investment Committee is scheduled for February 13, 2017, in Sacramento, California.