

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

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

MONDAY, MARCH 13, 2017

9:02 A.M.

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

COMMITTEE MEMBERS:

Mr. Henry Jones, Chairperson

Mr. Bill Slaton, Vice Chairperson

Mr. Michael Bilbrey

Mr. John Chiang, also represented by Mr. Frank Moore

Mr. Richard Costigan

Mr. Rob Feckner

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. J.J. Jelincic

Mr. Ron Lind

Ms. Priya Mathur

Mr. Theresa Taylor

Ms. Betty Yee

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matt Jacobs, General Counsel

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

Ms. Natalie Bickford, Committee Secretary

Mr. Dan Bienvenue, Managing Investment Director

Ms. Christine Gogan, Investment Director

Ms. Rina Lessing, Investment Manager

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

STAFF:

Ms. Kim Malm, Chief, Operations Support Services Division

Mr. Simiso Nzima, Investment Manager

Mr. Anne Simpson, Investment Director

Mr. Wylie Tollette, Chief Operating Investment Officer

Mr. Lou Zahorak, Investment Director

Ms. Gretchen Zeagler, Assistant Chief, Office of
Legislative Affairs

ALSO PRESENT:

Mr. Dan Crowley, K&L Gates

Mr. Al Darby, Retired Public Employees Association

Mr. Rose Dean, Wilshire Consulting

Mr. Allan Emkin, Pension Consulting Alliance

Mr. Andrew Junkin, Wilshire Consulting

Mr. Jose Moran, Tesla

Mr. Will Pittz, United Auto Workers

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1
2 CHAIRPERSON JONES: We're calling the Investment
3 Committee meeting to order. First item on the agenda is
4 roll call, please.

5 COMMITTEE SECRETARY BICKFORD: Henry Jones?

6 CHAIRPERSON JONES: Here.

7 COMMITTEE SECRETARY BICKFORD: Bill Slaton?

8 VICE CHAIRPERSON SLATON: Here.

9 COMMITTEE SECRETARY BICKFORD: Michael Bilbrey?

10 COMMITTEE MEMBER BILBREY: Good morning.

11 COMMITTEE SECRETARY BICKFORD: Good morning.

12 John Chiang?

13 Richard Costigan?

14 COMMITTEE MEMBER COSTIGAN: Here.

15 COMMITTEE SECRETARY BICKFORD: Rob Feckner?

16 COMMITTEE MEMBER FECKNER: Good morning.

17 COMMITTEE SECRETARY BICKFORD: Morning.

18 Richard Gillihan represented by Katie Hagen?

19 ACTING COMMITTEE MEMBER HAGEN: Here.

20 COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

21 COMMITTEE MEMBER HOLLINGER: Here.

22 COMMITTEE SECRETARY BICKFORD: J.J. Jelincic?

23 COMMITTEE MEMBER JELINCIC: Almost awake.

24 COMMITTEE SECRETARY BICKFORD: Ron Lind?

25 COMMITTEE MEMBER LIND: Here.

1 COMMITTEE SECRETARY BICKFORD: Priya Mathur?

2 COMMITTEE MEMBER MATHUR: Good morning.

3 COMMITTEE SECRETARY BICKFORD: Good morning.

4 Theresa Taylor?

5 COMMITTEE MEMBER TAYLOR: Good morning.

6 COMMITTEE SECRETARY BICKFORD: Good morning.

7 Betty Yee?

8 COMMITTEE MEMBER YEE: Here.

9 CHAIRPERSON JONES: Okay. Thank you.

10 The next item on the agenda is the Executive
11 Report, Chief Investment Officer briefing. Mr.
12 Eliopoulos.

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: Good
14 morning, Mr. Chair, and members of the Investment
15 Committee. I have a discussion that might take a little
16 longer than our normal 2 to 3 minutes. So i'll just give
17 you a heads up that we're going to cover quite a bit of
18 material, which I think is appropriate given that this
19 March Investment Committee agenda item really does give us
20 an opportunity to explore and gather feedback from the
21 Investment Committee on some very important areas of work
22 on CalPERS sustainable investment strategy.

23 It includes our focus on Federal priorities for
24 the new Congress, the integration of ESG into our asset
25 classes, and the annual review of CalPERS Global

1 Governance Principles, plus engagement options for
2 consideration related to the Dakota Access Pipeline.
3 These all represent important areas of work for the
4 Investment Office.

5 I'd also like to highlight for the Investment
6 Committee in some detail some of the other initiatives
7 we've been working on, which show how we're making
8 progress on our 5-year strategy on ESG.

9 Overall, we can see significant accomplishment.
10 However, as always, we recognize in humility that we are
11 in the, as Anne Simpson likes to remind me, the foothills
12 of a long climb. I love that analogy towards sustainable
13 investment.

14 The new strategy, the governance architecture to
15 support that strategy that we've introduced within the
16 Investment Office via the Governance and Sustainability
17 Subcommittee of our Investment Strategy Group expanding
18 our talent throughout the Investment Office and realigning
19 for true and real integration within the Investment
20 Office. That's a lot of work.

21 However, we can see that it is definitely bearing
22 fruit. I'm hopeful that the Committee will see that in
23 the course of the day today. CalPERS can feel proud that
24 the market is recognizing the commitment that this
25 organization is making to sustainable investment.

1 Two recent examples I'd like to highlight show
2 knew the Board's leadership is being recognized worldwide.
3 In January of this year, CalPERS was ranked number 1 by
4 Extel's report and survey among leaders in the sustainable
5 investment field. We ranked top in their poll of over
6 1,200 financial analysts in more than 680 firms and 35
7 countries. This accolade meant a lot to our Investment
8 staff as the competition was fierce.

9 The top 5 rated investors included some of the
10 world's largest funds at the forefront of sustainable
11 investment, our global peers who we respect and admire.
12 The Extel global rankings, as reported in CIO Magazine in
13 January as I mentioned, their top 5 included CalPERS, as
14 well as 4 of the largest pension funds in Europe, Denmark,
15 France, Norway, and the Netherlands.

16 We were also pleased to see that the website
17 Savvy Investor cited CalPERS 5-year ESG strategic plan for
18 sustainable investment as one of the top 10 papers for the
19 calendar year of 2016. To have this work highlighted as
20 recommended reading on a mainstream financial blog is very
21 encouraging.

22 With the tremendous support from our Public
23 Affairs team, CalPERS insight and opinion is regularly
24 sought by the financial press. We've benefited from
25 front-page coverage in the Economist, the Wall Street

1 Journal, Financial Times and beyond. This shows how we're
2 taking our Investment Beliefs to the mainstream on being
3 long term on the nature of multi-faceted risk and the
4 sustainable value creation we seek through managing not
5 just financial capital, but also human and physical
6 capital.

7 Here are lights -- some highlights on progress
8 under our framework from the strategic plan. First,
9 leveraging partnerships. We have continued to play a
10 leading role through having a Board role at PRI - thank
11 you, Ms. Mathur - and new staff and Board appointments
12 with partners that are critical to delivering on our
13 strategy. The State Controller, Controller Yee, was
14 appointed to the Ceres board recently, which leads the
15 Investor Network on Climate Risk. On our staff, Divya
16 Mankikar joined the Western North America Committee for
17 PRI to increase our engagement with local peers. And she
18 has been at their meetings in Vancouver and Berkeley
19 recently.

20 Our General Counsel, Matt Jacobs, has just been
21 elected to CII's board. As you know, Anne Simpson was
22 appointed to the SEC Investor Advisory Committee, and she
23 was just there last week in Washington D.C. on hearings on
24 non-voting shares and financial inclusion. And joining it
25 -- and she has just recently joined its Investor as Owner

1 Working Group.

2 Within our fixed income group, Lou Zahorak has
3 been invited to join the Board of FASAC which is the
4 Financial Accounting Standards Advisory Council, which
5 provides advice to FASB, which will certainly strengthen
6 our asset class input into accounting standards.

7 I've been proud to join the Investor Advisory
8 Group of SASB, the Sustainable Accounting Standards group
9 which is focused on material disclosure on ESG. As you
10 know from the report to the IC -- to the Investment
11 Committee last year from Janine Guillot and Jean Rogers
12 their CEO.

13 We've also seen some significant moves by
14 companies in response to our engagement in proxy voting.
15 To highlight some important themes from our 5-year
16 strategy: On climate change, engagement is bearing fruit.
17 Certainly, many factors are at work in this area,
18 including the impact of the Paris Accord, which CalPERS
19 worked hard to support. We also know that supplies -- new
20 supplies of shale gas and oil are keeping crude prices
21 low. And this is prompting a helpful coincidence of
22 pressure to rethink strategy at the major oil companies.

23 This is a strong mix, an international policy
24 driver from the Paris Accord, new supply keeping prices
25 low, and gathering financial market pressure from

1 investors. We are redoubling our efforts on engagement.
2 We're filing proposals and winning high votes following
3 major proxy solicitation efforts across major markets.

4 We know that the shift to a low carbon economy is
5 a big shift of immense complexity, and immense importance
6 for long-term investors like CalPERS. It has to take
7 place over the long haul, but we see some important moves
8 in the short-term by major energy players.

9 Looking at the past month alone, the major energy
10 companies we've engaged have taken some important
11 decisions, Exxon, ConocoPhillips, and Shell have together
12 written down billions of dollars worth of reserves related
13 to the Canadian oil sands.

14 There's also been some significant cancellations.
15 Shell, for instance, pulling out of Arctic drilling for
16 example, while other energy companies are talking openly
17 about the transition itself. Total has said it will
18 become a portfolio energy company with a shift to
19 renewables. And BP is predicting a world of permanent low
20 oil prices, which means that it will be harder and harder,
21 according to their outlook, to extract oil, as it becomes
22 too expensive to reach.

23 This is a major rethink in the financial world.
24 And financial modeling and sets the stage for important
25 strategic considerations.

1 We've also seen a response to our call for
2 climate competent boards, which as the Controller Yee
3 asked, that we introduce into our investment principles.
4 In the wake of a proxy access proposal, which we worked
5 hard to win with our partners in New York City, Exxon
6 appointed its first climate scientist to its board, Dr.
7 Susan Avery. This is an extremely encouraging response in
8 recognition that Exxon needs to bolster its capacity on
9 climate change.

10 Risk reporting is also improving. Last week,
11 Chevron released its first climate risk report following a
12 40 percent vote in support of a proposal which CalPERS
13 carried out the proxy solicitation. As you know, CalPERS
14 is co-filing this year at Exxon, Chevron, and Occidental
15 will be carrying out 17 proxy solicitations around climate
16 risk proposals to support fellow investors in the
17 Ceres-led investor network on climate risk. That's up
18 from last year's total of 12, where we effectively doubled
19 the level of support to an average of 30 percent plus in
20 support of these proposals.

21 Finally of note on the Montreal Pledge
22 engagement, our global 100, which we have dubbed the
23 Systemically Important Carbon Emitters, we are working
24 hard to build consensus with our peer asset owners and
25 investor networks globally. We hope to have a planning

1 meeting at Ceres April annual meeting in San Francisco and
2 launch the initiative in the summer potentially around the
3 PRI meeting in Germany.

4 On human capital, we will cover our engagement of
5 banks financing the Dakota Access Pipeline in greater
6 detail during today's presentations. We, in the last
7 month, have carried out a multi-stakeholder dialogue to
8 include labor, indigenous peoples, the banks, the IFC
9 which drafted the Equator Principles, which we'll talk
10 about later in the meeting, and the MLP, which is
11 constructing the pipeline.

12 We've also helped build a coalition over \$1
13 trillion of investors calling on the banks to respond to
14 the concerns of the Sioux Tribe. This has led to several
15 issuing statements of concern and support, including by
16 Citibank, which is one of the 2 lead banks.

17 CalPERS has transferred its talent pool for board
18 diversity to a new home with a highly successful relaunch.
19 It is now housed by Equilar in a Suite of resources called
20 BoardEdge to date, 3D has the highest log-in rate, 78
21 percent, of any other group in Equilar's diversity
22 network. Equilar confirms that our candidates are
23 receiving profile views by companies seeking directors.
24 Over 50 public companies are currently signed up for the
25 service. The most utilized keywords for those profile

1 searches are "finance", "international", and "technology".

2 We are also working hard to encourage other
3 diversity networks to use 3D, in addition to our
4 long-standing partners like Toigo. So far, we've invited
5 the following new groups to join: American Leadership
6 Forum, the Association of Latino Professionals in
7 Accounting and Finance, the Cal-Asian Chamber of Commerce,
8 the California Black Chamber of Commerce, the California
9 Hispanic Chamber of Commerce, California Women Lawyers,
10 California Women Leads 100 Most Powerful Woman Network,
11 Diversity Director, Directory Asia Pacific, Latino
12 Directors, Women to Boards, and Women in Technology.

13 And on the diversity topic, now is probably a
14 good time to put in a plug for our diversity forum that is
15 coming in May. Specifically, on May 10th, CalPERS will
16 host the 2017 CalPERS and CalSTRS diversity forum at the
17 Sacramento Convention Center.

18 This event will focus on the business case for
19 diversity, recent search on diversity initiatives that
20 work, and those which may not work, and insight and
21 experience of industry leaders from Harvard, McKinsey,
22 Mellon Bank, State Street, the CFA Institute and other
23 prominent organizations. We're very fortunate to have as
24 our keynote speaker John Thompson, Chairman of the Board
25 of Microsoft.

1 CalPERS and CalSTRS external managers have been
2 invited to attend, and CalPERS staff is engaging with our
3 establishing external investment managers regarding this
4 event.

5 CalPERS strategic partners, including the
6 Executive Leadership Council, CFA Institute, Toigo, the
7 Association of Asian American Investment Managers, the New
8 America Alliance, and the 100 Women in Finance have
9 assisted very much in the planning of this event.

10 Last a note, a topic on advocacy. We've been
11 engaged with the SEC. We submitted a 40-page document
12 commenting on regulation S-K Concept Release, and followed
13 up with meetings with SEC leadership on topics such as
14 diversity and inclusion, and climate risk disclosure.

15 Last week, we signed the investor statement in
16 support of the SEC's pay ratio disclosure rule. We signed
17 on to the Ceres letter to members of Congress and the new
18 administration and global leaders regarding continued U.S.
19 support for the Paris Accord.

20 In December, the Financial Stability Board issued
21 recommendations for disclosure on climate risk from public
22 companies. CalPERS responded to the FSB's task force
23 request for comment. And our feedback along with peer
24 funds will go into the G-20 meeting this July.

25 In conclusion, I think it's fair to say that we

1 have done a lot in this field. But as always, there is
2 always more we can do. But I want the Investment
3 Committee to know that we as your staff are committed to
4 this endeavor for the long haul, and appreciate all your
5 guidance and support.

6 Thank you.

7 CHAIRPERSON JONES: Okay. Thank you very much
8 on -- for that report.

9 Mr. Jelincic.

10 COMMITTEE MEMBER JELINCIC: Thank you, Ted.
11 The -- you said we wrote a 43-page letter on S-K, which I
12 assume is a good thing, but what's S-K?

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: So that is
14 the most important rule in terms of corporate disclosure
15 for companies. It provides the guidance for investors and
16 public companies for disclosure of material issues. So
17 it's the bedrock of the financial disclosure.

18 COMMITTEE MEMBER JELINCIC: So it defines what
19 should be disclosed and what needn't be disclosed?

20 Okay. Thank you.

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: Along many
22 other topics, but yes. Thanks for asking.

23 CHAIRPERSON JONES: Mr. Chiang.

24 COMMITTEE MEMBER CHIANG: Ted, can you share with
25 us the level of proxy efforts that we've engaged in? I

1 know it fluctuates, so the engagement with the petroleum
2 companies this year, what does it look like?

3 CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, we're
4 gearing up for the proxy season, so we'll have, I think
5 it's 17 proxy efforts on climate change directed at energy
6 companies in this proxy season asking for disclosure of
7 their climate change strategy among other topics. In
8 order to drive the votes at those companies, we're
9 building on our networks of peer engagements. So we're
10 working very hard working with the various associations
11 that I described in my talking points, and this committee
12 knows well, to really drive the vote at these company --
13 at these companies amongst investor owners.

14 So the effort will really focus on the proxy
15 season coming up, build on the strength that we had this
16 past year in terms of proxy voting, and hope to increase
17 the percentage of votes in favor of these initiatives in
18 this coming proxy season. It should roughly be over the
19 next 3 months.

20 COMMITTEE MEMBER CHIANG: Is this year's effort
21 going to look any different than prior years just to give
22 you a context, so -- right, this was elevated to the
23 Board's attention when I first joined the Board in 2007.
24 CalPERS, amongst others, participated with Ceres and
25 others to challenge some of the practices in regards to

1 funding studies -- so-called studies that deny the
2 existence of climate change. And then the next year it
3 elevated in participants from the Rockefeller family
4 joined that particular effort. So I just wanted to see
5 what -- what is being envisioned for this upcoming proxy
6 season?

7 CHIEF INVESTMENT OFFICER ELIOPOULOS: Our major
8 focus, and we're open to feedback in this regard, because
9 what we want to be is maximally successful, our focus has
10 been on winning the votes and increasing the share of
11 investors on these proxy resolutions. Ideas and thoughts
12 on how we can gain thought leaders in this area to join
13 the effort in other ways are areas that we would -- we
14 would appreciate and welcome input.

15 COMMITTEE MEMBER CHIANG: Thank you.

16 CHAIRPERSON JONES: Okay. Ms. Yee.

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

18 First, I want to just thank you, Ted, for the
19 really comprehensive report and -- but also just to
20 express my gratitude for all of the great work on the ESG
21 strategic plan, because given the amount of uncertainty
22 that faces us, I think it's really -- it gives me
23 confidence that we have a foundation upon which to
24 continue to buildup on our work, and continue to be a
25 leader, frankly, in this space. So I'm very appreciative.

1 And then just to the ongoing sustained leadership
2 of Anne Simpson and Dan Bienvenue who's just like -- I
3 mean you're just stepping up and taking on huger chunks of
4 this. So I'm just very, very grateful.

5 I also very much appreciate the specific plans
6 about the Montreal Pledge companies, because I can tell
7 you with a bit of confidence that there are many investors
8 very interested in being a part of this. This was really
9 the momentum that came out of the -- shortly after the UN
10 summit that the Treasurer and I attended in New York. And
11 the conversations pretty much started right after that,
12 that came to the culmination that this was something that
13 investors and many of our partners could really sink their
14 teeth into. It's tangible. It's a finite number of
15 companies. And I think you'll see a lot of interest when
16 we have this session at the Ceres conference in San
17 Francisco. And very happy that we're going to work
18 towards a public launch at PRI in June.

19 So thank you.

20 CHIEF INVESTMENT OFFICER ELIOPOULOS: Thank you
21 so much, Controller, for your comments and your leadership
22 in this area. It's a team effort. This Board, and the
23 entire Investment Office. And part of what we're hoping
24 to showcase today in the agenda items I think you'll see
25 deployed the full value of our really broad team of

1 experts with varying strength. And it's a real testament
2 to the hard work of really knitting together the strengths
3 within this office to be deployed at all levels
4 strategically and tactically. So hopefully, you'll see a
5 glimpse of that today.

6 COMMITTEE MEMBER YEE: I think your announcement
7 about the -- our continuing to work on the Montreal Pledge
8 100 will probably up the Ceres attendance significantly.
9 So thank you.

10 CHIEF INVESTMENT OFFICER ELIOPOULOS: Thank you.

11 CHAIRPERSON JONES: Okay. Thank you very much.

12 The next item on the agenda is the action consent
13 item, approval of the February 13, 2017 Investment
14 Committee Meeting --

15 COMMITTEE MEMBER MATHUR: Move approval.

16 CHAIRPERSON JONES: Moved by Mrs. Mathur.

17 COMMITTEE MEMBER HOLLINGER: Second.

18 CHAIRPERSON JONES: Second by Mrs. Hollinger.

19 All those in favor say aye?

20 (Ayes.)

21 CHAIRPERSON JONES: Opposed?

22 Seeing none. The item passes.

23 Oh, just a minute. I'm sorry, Mr. Jelincic.

24 COMMITTEE MEMBER JELINCIC: Yeah, I just had a
25 question. On page 3 of the minutes, we identify the

1 speakers and the groups. It's not clear to me that they
2 actually were speaking on behalf of that group. I thought
3 for the most part they were simply given that as -- for
4 identification purposes. And I'm just wondering if the
5 minutes ought to somehow reflect --

6 CHAIRPERSON JONES: We really don't know.

7 COMMITTEE MEMBER JELINCIC: Well, maybe we ought
8 to reflect we really don't know then.

9 CHAIRPERSON JONES: Yeah. No, that's not
10 appropriate for the minutes.

11 Okay. Any other questions on the action?

12 Okay. That item passes.

13 The next item on the agenda is the consent items,
14 information items. Now, I do have a request to speak.
15 Mr. Darby, Al Darby, you requested to speak on Item 4, but
16 there are 6 items under 4. So I don't know which one
17 you're referring to. Is it --

18 MR. DARBY: Asset allocation.

19 CHAIRPERSON JONES: Asset allocation.

20 CHIEF INVESTMENT OFFICER ELIOPOULOS: Perhaps
21 that's 4f, the terminated agency pool rebalance.

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Or
23 it could be the monthly update of performance and risk,
24 which includes our current asset allocation.

25 CHAIRPERSON JONES: Okay. Mr. Jacobs.

1 GENERAL COUNSEL JACOBS: I don't believe you took
2 a vote on the minutes. You had a first --

3 CHAIRPERSON JONES: Yeah, we did.

4 GENERAL COUNSEL JACOBS: You did?

5 Okay. My bad. Thanks.

6 CHAIRPERSON JONES: J.J. had raised a question
7 afterwards.

8 So, Mr. Darby, you indicated that you wanted to
9 speak on Item 4. You want to come down.

10 And there's -- if you could -- there's no
11 specific item that refers to asset allocation, so if you
12 could identify the item that you're speaking, we would
13 appreciate it. And also you will have 3 minutes to make
14 your comments.

15 MR. DARBY: Good morning. Al Darby, vice
16 president, Retired Public Employees Association
17 representing 23,000 CalPERS members from all employers.

18 As of this date, the domestic public equities
19 market continues to rise. The economy considers --
20 continues to grow at an accelerated rate. The Federal
21 Reserve is poised to raise interest rates probably 3 times
22 this year, probably Wednesday this week, the first one.

23 Consumer confidence is high. Oil prices are
24 fairly stable. Construction is strong. Regulation of
25 industry is being reduced. Trade policy will favor

1 U.S. -- favor the U.S., and taxes will be reduced.

2 All of these factors strongly support the notion
3 that our bull market can continue for several more years.
4 This would almost dictate a larger commitment to public
5 equities in the asset allocation.

6 The Wall Street gurus in Monterey, which you all
7 heard in January, almost unanimously recommended a larger
8 public equities allocation. A recent report from Goldman
9 Sachs sees it that way as well. CalPERS has experienced
10 double digit returns in years when the stock market
11 experiences a significant rise. This positive equities
12 performance has repeated itself over the past 20 years on
13 several occasions and is repeating itself now.

14 Only uninterrupted long-term investing in the
15 stock market can produce maximum benefit from the
16 inevitable ups and downs in the market. Only greater risk
17 produces greater rewards.

18 In a rising interest rate environment, bond
19 yields decline. Fixed income investments rarely produce
20 above 6 percent annually. Private equity is still
21 illusive for you because of the fees issue and investment
22 opportunities shrinking. Only public equities offers the
23 potential for double digit gains, and this has been proved
24 time and time again by CalPERS. If you chart the past
25 experience, you'll see that.

1 Prudent infrastructure investment in California
2 may be a useful fixed income instrument. To rebuild the
3 funded status to 80 percent and maintain a 7 percent
4 discount rate, we must see returns well above 7 percent
5 for the next several years in order to restore the funded
6 status of the PERF to 80 percent.

7 PEPRA will help in the long run, but it's not
8 going to contribute much right now. Restoring public
9 equity allocation to pre-2016 levels would contribute a
10 lot to reaching the 80 percent funded status that we're
11 all hoping to restore.

12 Thank you.

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

14 Okay. We'll move to the next item on the agenda,
15 Item 5, Legislation, Review of Investment Committee
16 Delegation.

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

18 Thank you, Mr. Chairman. Wylie Tollette, Chief
19 Operating Investment Officer, Investment Office staff.

20 Good morning.

21 CHAIRPERSON JONES: Good morning.

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

23 This is the annual review of the Investment
24 Committee delegation. We are not recommending any
25 changes. I'm happy to take questions. But pending that,

1 I would request a motion to approve and move this forward
2 for the full Board to approve next month.

3 CHAIRPERSON JONES: Thank you.

4 COMMITTEE MEMBER TAYLOR: Move it.

5 COMMITTEE MEMBER MATHUR: Second.

6 CHAIRPERSON JONES: Okay. It's been moved by
7 Mrs. Taylor, second by Mrs. Mathur.

8 All those in favor of the -- okay. Just --
9 question. Mr. Jelincic.

10 COMMITTEE MEMBER JELINCIC: Wylie, you said for
11 the Board to approve next month. Is there any reason it
12 can't go 2 days from now?

13 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: My
14 understanding was that the other committees were going
15 next month. But if they're going this month, then no,
16 there's no reason it couldn't go on Wednesday.

17 COMMITTEE MEMBER JELINCIC: Okay. So...

18 CHAIRPERSON JONES: Okay. Well, if others are
19 going Wednesday, then that's fine. But otherwise, we'll
20 just wait until the others are going. Okay. So that's
21 your judgment.

22 Okay. Thank you.

23 Okay. Then we -- we had a motion and it's been
24 seconded.

25 All those in favor say aye?

1 (Ayes.)

2 CHAIRPERSON JONES: Opposed?

3 Hearing none. The item passes.

4 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

5 Thank you.

6 CHAIRPERSON JONES: Okay. We move to Item number
7 6, Federal Investment Priorities. And this is where we
8 would get Mr. Crowley on the phone, I think, isn't it.

9 Okay.

10 MR. CROWLEY: Yes, sir. I'm here

11 CHAIRPERSON JONES: Thank you.

12 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Hi.

13 Good morning, Chair Jones, and members of the Committee.

14 Mary Anne Ashley, CalPERS team member. And here also is

15 Gretchen Zeagler. She's an Assistant Division Chief in

16 Legislative Affairs. And she oversees our Federal Policy

17 Unit. And as noted, we have Dan Crowley of K&L Gates and

18 his team available on the phone.

19 We are presenting Agenda Item 6, the Federal

20 Investment Priorities, which is an action item. We are

21 seeking Committee approval of the federal investment

22 priorities for the 115th Congress.

23 If you recall in November, we began the process

24 of updating and reviewing our legislative and engagement

25 policy guidelines. That item was put over until

1 post-election, and discussed further in January. And then
2 in February, the Committee decided to dispense with the
3 investment legislative and engagement policy guidelines in
4 favor of relying on other Board-approved documents, such
5 as the Investment Beliefs.

6 However, also in January, the Board directed
7 CalPERS team members to work with our federal
8 representatives in developing federal investment
9 priorities for the 115th Congress. The priorities provide
10 a framework for CalPERS to engage in legislative,
11 regulatory, and policy proposals in a manner that is
12 consistent with the Board's existing Beliefs, principles,
13 and policies.

14 The federal priorities are more specific and are
15 particular to a current congressional session and the
16 dynamics of a current administration.

17 The recommended federal priorities were developed
18 collaboratively with CalPERS team members and our federal
19 representatives, and they are based on the CalPERS
20 Strategic Plan, Investment Beliefs, and also in
21 consideration of the current dynamics and political
22 atmosphere of the new Trump administration.

23 And with that, Gretchen will review the
24 guidelines with you. And Dan and his team will be
25 available to answer any questions.

1 CHAIRPERSON JONES: Okay. Dan, did you want to
2 make any opening comments before I open the floor up to
3 questions.

4 MR. CROWLEY: Well, just that, you know, as we
5 discussed at the last meeting, the political environment
6 in Washington D.C. has changed pretty dramatically. And
7 so this set of recommendations is consistent with that new
8 environment.

9 CHAIRPERSON JONES: Okay. Thank you.

10 And, Gretchen, did you have some comments? I see
11 your light is on.

12 LEGISLATIVE AFFAIRS DIVISION ASSISTANT CHIEF
13 ZEAGLER: Thank you. Thank you, Mary Anne. Good morning,
14 Chair Jones and members of the Committee. As Mary Anne
15 said I'm Gretchen Zeagler, the Assistant Division Chief of
16 Federal Policy and Legislative Affairs. And I'm here to
17 present the recommended action item on the federal
18 investment priorities in the 115th Congress.

19 Very quickly, those priorities are corporate
20 reporting and governance. Under this priority, we would
21 continue to advocate for an enhanced shareowner rights and
22 protections, as well as greater corporate accountability.

23 Next would be derivatives regulation. Under this
24 we would continue to advocate for open, transparent,
25 competitive, and financially sound derivatives markets.

1 Next would be Dodd-Frank Act. Under this, we
2 would support reasonable reform efforts to ensure that the
3 Securities and Exchange Commission is able to protect
4 investors, maintain fair and orderly and efficient
5 markets, and facilitate capital formation.

6 Next, would be housing and finance reform. Under
7 this, we would advocate for housing and finance reform
8 that includes a role for private capital, national
9 mortgage servicing standards that protect investors, honor
10 seniority of debt holders, and provide enhanced data
11 access.

12 Lastly, we would ask for infrastructure priority.
13 Under this, we would advocate for infrastructure plans
14 that include a role for public pension funds. With that,
15 we respectfully request your approval of these priorities.
16 As Mary Anne stated, they are consistent with CalPERS
17 strategic plan, Investment Beliefs, and Global Governance
18 Principles.

19 At this time, I'd like to open up this action
20 item for any discussion or questions that you might have.

21 Thank you.

22 CHAIRPERSON JONES: Okay. Thank you. Yeah, we
23 have a few.

24 Mrs. Mathur.

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

1 So my question is possibly for Ms. Ashley and Ms.
2 Zeagler, but also I'm sure for Crowley. Given that the
3 current administration has expressed a strong desire to
4 move forward with public-private partnerships around
5 infrastructure, and clearly that is one of the priorities
6 that is listed here, how can we leverage that on the
7 pension side to defend defined Benefit plans? Can we?
8 And particularly given our structure of now having 3
9 separate federal representatives, how do we coordinate
10 that work?

11 LEGISLATIVE AFFAIRS DIVISION ASSISTANT CHIEF

12 ZEAGLER: That's a very good question. In this position,
13 we're looking at all of these priorities collectively, and
14 how the organization approaches them altogether.

15 So we're looking at CalPERS from one perspective.
16 And we are looking for areas where there could be some
17 overlap. We've seen a few come up, you know, particularly
18 with the issues that are surrounding health care, and
19 others in Investments. But I know that Dan Crowley also
20 has a lot to say specifically in that infrastructure, and
21 those P3 partner arrangements. And I know he wanted to
22 offer some input on that as well.

23 Dan, would you like to speak to that?

24 MR. CROWLEY: Well, sure. We've had some
25 preliminary discussions with Ted and his team. And I

1 think the most direct role that CalPERS can play is as an
2 authoritative expert on what pension funds are interested
3 in investing in. And, in particular, we're looking for
4 repeatable models. There's some concern about sort of the
5 bespoke nature of infrastructure projects in the U.S.
6 Whereas, in Australia, and Canada, and elsewhere, they
7 have more of a systematic model that is repeatable.

8 And I think, you know, CalPERS is in a perfect
9 position to provide that kind of input, so that there is a
10 stream of investable securities that CalPERS can then
11 participate in. That's it in a nutshell.

12 We're obviously in the very preliminary stages of
13 discussion about infrastructure with the new
14 administration. They're still staffing up, trying to get
15 people confirmed at Treasury. Most of the recent
16 appointments have been in the -- at the National Economic
17 Council, and it's slower to get some of the other folks
18 confirmed.

19 But our objective is to have a seat at the table,
20 So CalPERS can provide its considerable expertise to
21 inform those discussions.

22 COMMITTEE MEMBER MATHUR: Okay. And, Mr.
23 Crowley, do you see opportunities to sort of leverage our
24 role in sort of some -- in other areas in terms of gaining
25 support for defined benefit pension plans and other large

1 pools of capital?

2 MR. CROWLEY: Absolutely. I think that's
3 implicit for -- it's in all of our recommendations, which
4 is to have a seat at the table for discussion on the
5 salient policy issues, and also to advance the rest of the
6 agenda where the opportunity presents itself.

7 But I think the key, and really sort of the core
8 of our recommendations, is finding issue areas that are on
9 the current agenda, where CalPERS can assert its
10 prerogatives, maintain a seat at the table, and there --
11 and implicitly advance the rest of the agenda.

12 COMMITTEE MEMBER MATHUR: Okay. And then I had a
13 second question about environmental and social issues,
14 which are not explicitly listed as priorities here. Are
15 those embedded in the corporate reporting and governance
16 item? How are we going to continue to try to sort of
17 advocate for appropriate disclosure around the E and the S
18 in particular.

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll start
20 that off and then I'll hand it off for Anne to take from
21 the strategist's standpoint for sure.

22 Much of it is encapsulated in the corporate
23 reporting and govern, in terms of advocacy, where the E
24 and the S will be advanced. Much of the work on the
25 environment and on diversity and other social issues we

1 think will be accomplished in the 5-year plan in the
2 corporate world.

3 So most of the strategic advancements we see
4 happening in the corporate level for this next 5-year run,
5 and not necessarily depending on either regulatory or
6 legislative action in those -- in those arenas. So it was
7 a choice to focus more on the corporate side for
8 advancements on that side, while not ignoring the
9 disclosure opportunities or defense that we might have to
10 play over the next 5-year plan.

11 Anne, any...

12 INVESTMENT DIRECTOR SIMPSON: Thank you. Anne
13 Simpson.

14 I think that's absolutely right. We see real
15 momentum in the financial markets, and that's what we want
16 to harness, both with the strategic focus on the Montreal
17 Pledge, the global 100. And also I think a lot of the
18 policy momentum is coming from the international side.

19 Obviously, the Paris Accord. We don't know yet
20 what the administration's response to the U.S. role will
21 be, but there is such strong commitment from other major
22 economies internationally, we think that that framework is
23 going to remain a robust platform for the engagement with
24 companies.

25 I think because we have done such good work with

1 our fellow funds on strengthening shareowner rights, we're
2 in a position to really begin to make progress with
3 companies. And the examples that Ted gave you I think
4 it's early, but they're very encouraging signs that major
5 companies like Exxon and Chevron are responding to the
6 votes that we got out last year.

7 So we're not hanging our hat on the political
8 process. We really see sound economics driving what we're
9 doing on climate change and diversity. And that means
10 this agenda is a sustainable strategy, to coin a term.
11 It's something which is going to weather political storms.
12 And that was really intentional when we were putting this
13 strategy together.

14 COMMITTEE MEMBER MATHUR: So then just one final
15 question, if I might. I know we had been advocating quite
16 strongly for a price on carbon. This might not -- it
17 doesn't like this is the environment to con -- to be
18 successful there. Is that -- I'm gathering that's why
19 that's not on the list. But do you think that there might
20 still be an opportunity?

21 INVESTMENT DIRECTOR SIMPSON: Well, there's a
22 really interesting proposal that's come out of the
23 Republican side of the aisle in the private sector, which
24 is to put carbon pricing forwards as a market mechanism.
25 And, of course, this is something on which both sides can

1 agree. Market mechanisms are really important for driving
2 the response to climate change.

3 The difference and the interesting twist that
4 they've put on carbon pricing is that every single
5 American family should benefit from a carbon dividend. In
6 other words, the funds that are gathered in through a
7 carbon tax will be redistributed. So it also chimes in
8 with the idea of sharing in -- sharing in the benefits of
9 the transition. So it remains to be seen I think whether
10 this idea gets traction. But the fact that it has come
11 out of a Republican think tank is very interesting.

12 COMMITTEE MEMBER MATHUR: That is.

13 INVESTMENT DIRECTOR SIMPSON: So all is not lost.
14 I think we'll sit, and watch, and wait, and encourage.
15 And as Ted mentioned, we did sign a letter with a broad
16 group of investors led by Ceres just to remind Congress
17 and the new administration that there is strong financial
18 market support for the Paris agenda.

19 And, of course, that does beckon toward carbon
20 pricing, but it wasn't actually included in the final
21 deal. So it's too tricky to get that on a
22 one-size-fits-all basis out of that accord.

23 And we're also seeing carbon pricing continuing
24 to develop in other markets. I mean, China is making
25 extraordinary progress in this regard. So it's not an

1 idea that has come to an end at all. I think we're going
2 to see it being experimented with in coming years, and
3 maybe even in the U.S.

4 COMMITTEE MEMBER MATHUR: Great. Thank you very
5 much.

6 CHAIRPERSON JONES: Okay. Mr. Lind.

7 COMMITTEE MEMBER LIND: Thank you. Two issues.

8 Just to follow up a little bit on Priya's line of
9 questioning. I guess on the broad topic of climate
10 change. You know, given the fact that we have a climate
11 denier -- climate change denier in The White House, you
12 know, I wonder if -- and given Ted's great report about
13 the great work that we do - and obviously long ago, we've
14 identified climate change as a serious long-term
15 investment risk - how that isn't a priority for us
16 defending, you know, attacks on the environmental
17 protection agency, and a lot of, you know, other issues
18 that obviously are coming to the forefront. So I'm
19 wondering if that might be -- why that might not be a
20 priority or close to one.

21 My second issue is on our work around Dodd-Frank,
22 and, you know, the language about support reasonable
23 reform efforts. The reality is I think we're more likely
24 to be having a priority of opposing unreasonable reform
25 efforts, again given the situation in Washington. And I

1 would like to see that -- that reworded a little bit, so
2 that we -- it's very clear to our lobbyists that we want
3 to play some defense. We want to oppose attacks on
4 Dodd-Frank. So I would suggest we somehow, you know,
5 manipulate that language a little bit.

6 CHAIRPERSON JONES: Okay. Ted, you want to
7 respond to that?

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure. Let
9 me -- on the Dodd-Frank side, and Dan Crowley can speak to
10 it as well, we're very well versed in the key priorities
11 within Dodd-Frank. And we'll be aggressively looking at
12 whatever reforms are proposed to make sure they work for
13 investors. So the language, one way or the other, I
14 don't think you need to be concerned that we're not going
15 to be paying attention to the changes that are going to be
16 made. But your attention to the nuances of the language
17 or even the statement in the language is well taken.

18 I'll pause -- I'll pause there to see if Mr.
19 Crowley, who's the person that will be executing, you
20 know, sees it the same. But let me stop there and then
21 I'll take up the climate change point second.

22 MR. CROWLEY: Sure. Well, I think it's important
23 to remember that what we're -- what we're proposing here
24 is going from strength to strength in terms of preserving
25 the gains that CalPERS has worked over a period of years

1 to achieve.

2 And, in particular, the Title 7 reforms relating
3 to the derivatives market, and in particular the fiduciary
4 duty owed to special entities like CalPERS, is not
5 currently at risk. It's not in any of the legislative
6 proposals on the table. We expect Chairman Hensarling's
7 Financial CHOICE Act to be reintroduced here in the next
8 few weeks.

9 But the draft he had last year really reserved a
10 lot of the gains -- the hard fought gains that CalPERS
11 worked on for many years. And that's why we, you know,
12 are suggesting that we work to support reasonable reform
13 efforts.

14 There are a number of other provisions of
15 Dodd-Frank on which there is bipartisan agreement that
16 there are unintended consequences. And we've seen just
17 last week a series of bills marked up in the Senate
18 Banking Committee and the House Financial Services
19 Committee that passed both committees with overwhelming
20 bipartisan majority.

21 So certainly, we are prepared to respond if we
22 need to object to provisions that are bad, but I think
23 it's also important that we're there to embrace the good.

24 On the -- on the climate change issue, I think,
25 you know, the key there is just -- we're trying to focus

1 the lobbying efforts on issues that are currently on the
2 agenda in Washington D.C. But I want to emphasize the
3 points that Ted and Anne made about the fact that they're
4 still very much on the agenda in the corporate governance
5 world, both domestically and internationally.

6 And Ted went through the organizations that
7 CalPERS senior management are involved in with Matt at
8 CII, Anne at the Investor Advisory Committee, Lou at
9 FASAC, and Ted in the Investor Advisory Group. I think
10 all of that is really important to keep in mind, but I
11 just want to also mention CalPERS leadership role on the
12 international corporate governance network. I think Anne
13 Simpson, in particular, has worked over a number of years
14 to position CalPERS very effectively in the international
15 community.

16 And the reason that's important is that while the
17 political pendulum will continue to swing both ways in
18 Washington D.C., that international community around
19 corporate governance and ESG will withstand any of the
20 short-term political jockeying. So I would encourage you
21 to consider remaining an active participant on the
22 international level as well.

23 CHAIRPERSON JONES: Okay.

24 CHIEF INVESTMENT OFFICER ELIOPOULOS: Clearly,
25 you're hearing that's a theme from your Investment staff

1 as well, that we -- we think we should focus on climate
2 change on all of the initiatives that we have pointed at
3 these networks, and at the financial world. We think
4 that's where our voice will have the most impact.

5 We will take occasion to sign on to letters and
6 write letters on topics related to climate change, but we
7 think in terms of our priority of our engagement, it
8 should be focused in the financial markets for this next
9 2-year run.

10 CHAIRPERSON JONES: Okay. Thank you.

11 Mr. Slaton.

12 VICE CHAIRPERSON SLATON: Thank you, Mr.

13 Chairman.

14 I want to come back to an issue that I talked
15 about when we discussed this topic in January, and that
16 was the need for flexibility in the federal lobbying area.
17 And as we're seeing in the health care arena, sometimes
18 things can move very rapidly, and we only meet monthly.

19 So I want to come to page 2 of 3 of the document
20 in the background section, second paragraph last sentence.
21 And what this -- what the document says is, "They do not
22 bind the Board in considering or adopting a position on
23 any specific proposal, nor do they supersede or alter any
24 existing policies, beliefs, or principles".

25 And that's fine, but I would be more comfortable

1 if it said they do not bind the Board or staff, because
2 you're the operational folks, along with our federal
3 lobbyist, who have to execute. And there will be things
4 that will occur when we're not meeting. So I would like
5 clarity that we are giving you the authority to take
6 positions consistent with the policies that have been
7 established by this Board. But I think that needs
8 clarification there.

9 Thank you.

10 CHAIRPERSON JONES: Yeah. And I -- and the Chair
11 would direct that that be changed. Okay.

12 Okay. Mrs. Yee.

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

14 I have a couple questions. One is kind of a look
15 back, if you will, certainly predating my time on the
16 Board. But I was interested or curious about the priority
17 setting that maybe took place after the last market crash,
18 and how -- did it go through kind of a similar process
19 with respect to how we identified our priorities back
20 then?

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: I'm going
22 to turn it over to Anne in a second here, because she was
23 right in the midst of that turmoil. It went through a
24 similar, but more intensive, process I think following the
25 financial crisis of extreme looking at what -- what places

1 to concentrate our effectiveness. But what came out of
2 that turmoil was a focus principally on what became the
3 Dodd-Frank Act, housing finance reform, which you'll
4 remember was at the center of the storm of the financial
5 crisis, and derivatives regulation.

6 And CalPERS, I think, coming in the financial
7 crisis and coming out of the financial crisis played a
8 very significant role in developing what came out to be
9 the new protections around transparency and clearing
10 houses for derivatives reform.

11 We've always had a focus I think on corporate
12 reporting and governance. I think if we had a priority
13 listing going back 25 years, it would be -- it would be
14 there each time. So what's new this time really is the
15 infrastructure engagement that we're proposing. I don't
16 know, Anne, if you want to add anything to that in terms
17 of the crisis?

18 INVESTMENT DIRECTOR SIMPSON: No. Thank you. I
19 do remember those days very well, because that was when I
20 was being recruited to CalPERS. And Joe Dear, who was
21 also being recruited to CalPERS at the same time, Joe
22 played a very important role in something called the
23 Investor Working Group that was set up by the CFA
24 Institute and CII, which really gathered great minds and
25 big funds around the table to shake out, well, what do we

1 think went wrong?

2 We also did our own sort of consideration. I
3 remember going with the engagement team to meet with the
4 banks which had received TARP money to simply ask the
5 question of the lead directors and the chairs of those
6 banks, well, what happened, and what's the plan for making
7 sure we have some safety for next time?

8 So I think the 3 themes -- I mean, touching on
9 derivatives, as Ted said, but Eric Baggesen and others had
10 real impact on the rule writing around derivatives reform.
11 And I think real progress was made.

12 The other big area of work was credit ratings.
13 And the fixed income team and Curtis spent a lot of time.
14 We gave testimony. We also met with regulators. And
15 although the financial solution on credit rating reform
16 was not achieved, which is that they work for investors
17 not for companies. There were a lot of really important
18 steps that the SEC and the other regulators took, you
19 know, to make sure, first of all, that they're regulated,
20 that they don't have privileged information, that their
21 data and methodology are disclosed. So I really think
22 there was tremendous progress in that area.

23 On the corporate governance agenda, I think it
24 really focused our efforts on the engagement in proxy
25 voting around majority voting. Because although it isn't

1 very long ago, it wasn't actually possible to hold boards
2 accountable. We weren't able, however large, however long
3 term, to vote against the reelection of a board member.
4 So we started a 5-year plan, which was to say if we can't
5 hold boards accountable, then you can just about whistle
6 for everything else.

7 So we, you know, did, you know, great work by
8 Todd Mattley and others to start with the top 50 companies
9 in our portfolio and work our way down. Now that work
10 continues, but it's extraordinary to think we were running
11 campaigns at these big banks and these big companies
12 simply to get the vote.

13 So I really think the crisis highlighted that
14 lack of accountability, which wasn't very visible, and it
15 was a tremendous effort right across the market to make
16 improvement. But again, you know, to echo Ted's comment
17 this morning, we're humble. We know that we've made some
18 progress here, but there's a heck of a lot still to do.

19 You know, and I have to say I think one of the
20 areas we didn't look at was the whole world of supervisory
21 bank regulation through Basel[bal] or Basel{bas-el},
22 depending on how you prefer to pronounce it. But, you
23 know, matters like too big to fail, capital adequacy, a
24 lot of that financial sector reform was embedded in that
25 Investor Working Group agenda that Joe Dear worked so hard

1 on.

2 COMMITTEE MEMBER YEE: Okay. So I guess given
3 that -- and I can appreciate that all these priorities
4 are, to some degree, interrelated, and -- but it seems to
5 me that to Mr. Lind's point that, you know, I think our
6 position should be kind of in the affirmative with respect
7 to kind of preserving and protecting what we've got. I
8 mean, it was a long hard-fought battle since the last
9 crisis.

10 And so, I mean, I would agree with Mr. Lind to
11 kind of take that more affirmative approach to just, you
12 look, at it with respect to the other protections that we
13 currently have, and comment on the changes that are being
14 proposed as they come.

15 To Mr. Slaton's point about how do we then have
16 the process that would allow for a shifting or priorities?
17 And particularly on issues of health care and maybe
18 perhaps to some degree the immigration debate could really
19 have some impact on financial markets as well. So -- and
20 I guess maybe to Mr. Crowley, how would you -- I mean, I
21 though you're -- you're nimble on the ground for us, but
22 what kind of a process do you contemplate if those types
23 of things should take the attention of everyone?

24 MR. CROWLEY: Well, I think if you look back to
25 the model that we established in the fall, after Gretchen

1 Zeagler joined, I think, you know, Gretchen has added
2 tremendous value as sort of the hub on the wheel, if you
3 will. And we are in a position to be monitoring
4 developments in real-time. And we often communicate daily
5 with things that are happening. And then Gretchen is very
6 good about getting us feedback from the right people
7 inside CalPERS.

8 And the result was that we were able to get a
9 number of letters out very quickly that were relevant and,
10 I think, you know, positioned CalPERS effectively at the
11 time. And I would hope that that's a model that we can
12 continue. But I couldn't agree more that staff need to be
13 empowered to make those calls on the fly, because when
14 they do come up, they tend to be very short-fused items.

15 And so I think we've got a system that's working,
16 but certainly subject to periodic review. As we get
17 further into Dodd-Frank reform, there's no doubt that
18 there will be a number of, you know, sort of fast-breaking
19 items that we will have to be responsive to. So I think
20 we've got a pretty good plan in place.

21 COMMITTEE MEMBER YEE: Okay. Great. And I would
22 just ask that that plan just also include obviously some
23 real-time communication to us, so that as we're out and
24 about we're aware of positions that maybe staff has taken.
25 So that would be terrific.

1 And then my last question has to do with how are
2 we working, Dan, with -- I guess with you being on the
3 ground, how do you identify, I guess, other partners that
4 could, you know, help lend voice to these issues, whether
5 they be our colleagues in other states or other investors?
6 But I think obviously CalPERS is very much looked upon as
7 the leader, but I still do believe in the strength -- in
8 having strength in numbers, so...

9 MR. CROWLEY: Yeah. I couldn't agree more.
10 Leveraging relationships and identifying third-party
11 advocates is part and parcel of what we've been doing.
12 And I think, you know, having as I've reviewed the senior
13 management in CalPERS involved in these various
14 organizations, I had the privilege last week of speaking
15 at the Council of Institutional Investors meeting on a
16 panel with the former SEC Chair Harvey Pitt and former SEC
17 Commissioner Annette Nazareth.

18 And what I was struck by was the breadth of the
19 people in the audience. It really was the entire
20 institutional investor community not only pension funds,
21 but also sort of the large registered funds as well. And
22 as you say, there's strength in numbers. And so I think,
23 you know, staying involved in those organizations, being
24 aligned whenever it's appropriate, signing on to joint
25 letters, but also being willing to step back and, you

1 know, use some discernment, in terms of whether you want
2 to be on every letter.

3 Because I think as important as it is to leverage
4 those outside resources, it's equally important to
5 maintain your posture as a credible and authoritative
6 opinion leader on issues that are being debated currently.
7 And sometimes that means not signing on to every letter,
8 if it's simply posturing as opposed to trying to advance
9 the agenda in some positive way.

10 So I think you have to use discretion, and that
11 involves some give and take and continuing discussion.
12 And again, I think we've done a pretty good job of that
13 over the last 6 months or so.

14 COMMITTEE MEMBER YEE: Great. That's terrific,
15 Dan. Thank you. And then I guess to Gretchen and to Dan,
16 in terms of the monthly reports that we will be receiving,
17 to the extent that these are the priorities that have been
18 identified, I assume that the report will be structured so
19 that the priorities will be kind of the topics. And we'll
20 get updates on each of those, and anything else that might
21 be added in the intervening time?

22 LEGISLATIVE AFFAIRS DIVISION ASSISTANT CHIEF
23 ZEAGLER: We can certainly do that. We can update all of
24 the monthly updates to include what priorities that we're
25 seeking after touch on. That's very doable.

1 COMMITTEE MEMBER YEE: Okay. Very good. Thank
2 you.

3 CHAIRPERSON JONES: And so does that address
4 real-time concern that you raised earlier?

5 COMMITTEE MEMBER YEE: I think the monthly
6 report, but there may be things that will be moving --

7 CHAIRPERSON JONES: Faster.

8 COMMITTEE MEMBER YEE: -- more furiously on a
9 quicker pace. So if that's the case in between meetings
10 and rise to the level of, you know, I think our being in
11 the know, I would like some communication.

12 CHAIRPERSON JONES: Yeah, I think that's a valid
13 request.

14 CHIEF INVESTMENT OFFICER ELIOPOULOS: We'll work
15 with our CEO to --

16 CHAIRPERSON JONES: Okay.

17 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- provide
18 the Committee memos in between the months.

19 COMMITTEE MEMBER YEE: That's great.

20 CHIEF INVESTMENT OFFICER ELIOPOULOS: We have a
21 good process for that.

22 CHAIRPERSON JONES: Okay. Thank you.

23 COMMITTEE MEMBER YEE: Thank you.

24 CHAIRPERSON JONES: Mrs. Hollinger.

25 COMMITTEE MEMBER HOLLINGER: Thank you. I

1 appreciate the update. This -- Mr. Crowley, this is for
2 you. It's regarding the infrastructure. I know under the
3 previous administration a lot of money was set aside for
4 infrastructure deals. But it was my understanding that to
5 get those deals done in the United States, it could take
6 20 years, where Europe, Australia, these other countries,
7 you know, those deals can be approved in about 2 years.
8 So I wanted to know what are we doing specifically to
9 create that opportunity and potentially streamline that
10 process?

11 MR. CROWLEY: Well, that's a very good question.
12 And the candid answer is that we're in the very beginning
13 of what will likely be a long discussion around those
14 issues. My marching orders so far from your investment
15 team are to find opportunities for CalPERS to commit
16 knowledge and expertise, but not necessarily capital.

17 As you will recall, the Obama administration was
18 always interested in getting commitments from pension
19 funds and others to fund particular projects. And so our
20 directive has been to take a step back and take a broader
21 view of what's possible and seek to position CalPERS, as
22 an opinion leader, as these issues are discussed.

23 But I think we're in an -- we're in a preliminary
24 phase internal to CalPERS and also a preliminary phase
25 internal to the new administration. So far, they've been

1 kicking around ideas involving tax credits primarily, but
2 I think there's a lot of work to be done on both sides.

3 COMMITTEE MEMBER HOLLINGER: Got it. I just want
4 to make sure that in expending our efforts, we do it in
5 such a manner so that they're doable. You know what I
6 mean? Otherwise, it's just theory.

7 MR. CROWLEY: Yeah. I think that, you know, the
8 idea of trying to look around the globe for models that
9 are repeatable, and are, you know, oriented primarily
10 toward brownfields initiatives as opposed to greenfields
11 initiatives, this is the type of feedback we've been
12 getting from your investment team so far. And again,
13 we're in the preliminary stages, but we'd be happy to
14 discuss it along the way as these ideas crystallize.

15 COMMITTEE MEMBER HOLLINGER: Okay. Thank you.

16 CHAIRPERSON JONES: Okay. Mr. Jelincic.

17 COMMITTEE MEMBER JELINCIC: Two questions. I'll
18 throw them both out there and you can figure out the
19 sequence to answer them.

20 Recognizing you have to do these in advance to
21 get them to us, and recognizing the stability in the Trump
22 administration - he said sarcastically - the -- would you
23 have changed any of this if you were writing it today
24 rather than a month ago when did you write it? That's
25 question one.

1 And the other question is, Anne, you said that
2 China is making some significant progress on carbon
3 pricing. And I don't know whether the point to ask you
4 about that is here or in your report later. And I will
5 give you the option of where it fits better.

6 INVESTMENT DIRECTOR SIMPSON: Thank you. Yes,
7 China has had 5 major cities piloting carbon pricing. And
8 you'll have seen when it had the Presidency of the G-20
9 last year, the Peoples Bank of China chief economist, Ma
10 Jun, who's a tremendous ally in all of this work, he
11 chaired a Green Finance Task Force, which includes
12 important work in this arena.

13 So China has been ahead of the U.S. in terms of
14 taking major metropolis and industry areas to pilot. And
15 now, their plans are to ramp this up to a bigger scale.
16 But maybe we could provide you with the Green Finance Task
17 Force plan, which China led, because that's now intended
18 for the G-20 as a broader plan to drill down from the
19 Paris Accord into more detail on these sorts of policy
20 measures.

21 COMMITTEE MEMBER JELINCIC: Okay.

22 LEGISLATIVE AFFAIRS DIVISION ASSISTANT CHIEF
23 ZEAGLER: And to your question on would these issues
24 change if we -- if we wrote them today?

25 So what's interesting to note here is essentially

1 within this current administration, we're seeing a lot of
2 the same issues. What we're seeing though is a dramatic
3 perspective shift on those issues, and that's what we're
4 really looking to really capture. There are a lot of
5 things that we anticipate could come up, but they're
6 further down the road. And from all accounts that we're
7 seeing, what's being reported in the media, what we're
8 getting from Dan and others that are, you know, on the
9 Hill, these are definitely predominantly the issues we
10 think are likely to rise within the first 100 to 200 days,
11 I think, particularly with regard to Dodd-Frank Act.

12 We know that we're going to see something. And I
13 can let Dan speak to that a little -- a little more
14 closely. But for issues like infrastructure is mentioned
15 on the Board, that was an issue that we were always
16 looking at, is again it's just a perfect example of that
17 dramatic shift in the focus and how we're going to harness
18 that to the advantage of CalPERS.

19 But I think Dan probably wants to offer you a
20 little bit more perspective on this as well.

21 Dan.

22 MR. CROWLEY: Yeah. Thanks. I think, you know,
23 on Dodd-Frank, the freight train has slowed a little bit
24 for a number of reasons, not the least of which is that
25 the administration has not fully staffed up, and

1 therefore, you would expect Treasury to be providing input
2 on Dodd-Frank reform. Among the bit of open questions are
3 what did Secretary Mnuchin mean when he said during his
4 confirmation hearings that we need to have a modernized
5 Glass-Steagall for example.

6 That's certainly not coming from the Hill. And
7 so I think the Hill process has slowed somewhat to provide
8 an opportunity for the administration to staff up and to
9 provide input. And also, I think there's been a
10 recognition that in order to get anything through the
11 Senate, they're going to have to attract 8 Democratic
12 votes.

13 And so I think that's why you're starting to see
14 the -- both committees moving legislation in bipartisan
15 fashion.

16 To just address the question is there anything we
17 would add to this? The only thing I can think of is
18 that -- and this is probably covered by your tax and
19 retirement team, but to the extent that there are tax
20 issues that overlap with the investment agenda, I think we
21 will be coordinating on those. And I'm thinking in
22 particular about the border adjustment tax, which most
23 people are thinking of, I think, with respect to goods,
24 and how it might increase the cost of imports from China
25 on the store shelves at Walmart, for example.

1 But it's important to remember that it also
2 applies to services, and to intangibles, like royalties,
3 and goodwill, and things like that. And so it has a
4 direct impact on financial services and investment issues.
5 And so that's also something we're working -- we're
6 keeping careful tabs on, and we'll be working with your
7 tax advisors where -- in the areas where it overlaps with
8 investment policy.

9 COMMITTEE MEMBER JELINCIC: Thank you.

10 CHAIRPERSON JONES: Okay. Thanks.

11 Ms. Simpson, you made reference to a document you
12 said that was available in response to Mr. Jelincic's
13 question. So could you just provide that to all
14 Committees members.

15 INVESTMENT DIRECTOR SIMPSON: Yes, we'll be glad
16 to. Thank you.

17 CHAIRPERSON JONES: Okay. Thank you.

18 Okay. Ms. Taylor.

19 COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr.
20 Chair. I appreciate the report. And I think we -- I
21 think you have done a great job on identifying what's
22 important that we look at right now under this current
23 administration. I wanted to kind of walk back to Mr.
24 Lind's point about the Dodd-Frank Act. And, Mr. Crowley,
25 I'm not sure I heard an answer in terms of making sure

1 that we oppose reform. I think what you were saying you
2 talked about there was bipartisan support for specific
3 things that have gone through right now, because there are
4 fixes that need to be done to Dodd-Frank.

5 I've been reading that some of that bipartisan
6 support, however, is still issues that could deteriorate
7 the protections of Dodd-Frank. So I think it's important
8 that we're careful about, you know, oh, well, that's
9 bipartisan support. But I think there are a lot of times
10 where we're looking at that bipartisan support tearing
11 down Dodd-Frank, because there's a lot of bank lobbyists
12 there talking to both parties, and they're listening.

13 So I want to make sure that we are recognizing
14 that Dodd-Frank was put in place to -- to stop what
15 happened in 2008, and that we're not letting it get
16 stripped. And I know that that's something that's primary
17 or you wouldn't have identified it, but I just wanted to
18 make sure that Mr. Lind's point about opposing any efforts
19 to strip away these protections somehow be -- it doesn't
20 necessarily I guess have to be in this, but I think it's
21 important that we recognize that.

22 And then I think the second point I wanted to
23 make sure I got to was keeping Ms. Yee's point about
24 keeping us in the loop, and -- absolutely. I hope that --
25 you know, that everybody can feel like they're nimble and

1 can respond quickly, but at the same time keeping the
2 Board in the loop, so that we can have knowledge of what's
3 going on, and input, if we need to.

4 But I would, Mr. Crowley, ask that you answer to
5 the issue -- oh, and then my last point was on the housing
6 finance reform, I'm not -- I think there's an issue that's
7 just like the Dodd-Frank reform, where we're looking to
8 advocate for housing finance reform that includes a role
9 for private capital, but we're not talking about making
10 sure that those protections are still in place, so that
11 those mortgage companies cannot continue, or cannot start
12 doing what they did before to bring down the economy.

13 So I wanted to make sure that we are recognizing
14 that we're opposing any stripping of both of these issues.
15 And I wanted to hear your thoughts on that, Mr. Crowley.

16 MR. CROWLEY: Well, sure. I think, you know, the
17 letters that I referred to a little while ago, I think
18 were all in the category that you described of opposing
19 certain changes to Dodd-Frank. And, in particular, one
20 letter had to do with the reforms to the SEC that would
21 impose cost-benefit analysis, and things like that, that
22 look to us like really more of an effort to tie the SEC up
23 in knots, as opposed to reform anything.

24 And so we sent a strongly worded letter to the
25 Committee opposing that provision. We did the same with

1 the proposed reforms on proxy advisors, where we very
2 strongly opposed. And that was an example, by the way,
3 where CalPERS chose to send its own letter as opposed to
4 signing on to joint letter, which was sort of more
5 political and less substantive.

6 CalPERS, I thought, took a very constructive
7 approach of offering concrete suggestions on how to
8 improve what was pretty clearly a bad proposal from
9 CalPERS perspective.

10 Another had to do with opposing the increase for
11 the threshold for disclosure for private equity funds.
12 CalPERS is on recent record as opposing those things. And
13 if they come back up in Financial CHOICE Act 2.0, please
14 be assured that we'll be right there to continue the
15 opposition.

16 On the other hand, I think it's important to
17 remember that Dodd-Frank was passed in about a 14-month
18 period, and revisited every financial services law from
19 the 1864 National Bank Act through Sarbanes-Oxley. And
20 both Chris Dodd and Barney Frank have said publicly
21 repeatedly that there's no way to cover that much
22 waterfront quickly and get it all right.

23 And so that's why I emphasized the fact that
24 there is a lot of bipartisan agreement on needed
25 Dodd-Frank fixes, but that is not, in any way, to suggest

1 that we won't also be there to vigorously oppose changes
2 that we disagree with.

3 On housing finance reform, the point is very well
4 taken. I think some of the reforms implicit in Dodd-Frank
5 will be things that we will need to talk about. And just
6 to throw one issue on the table that, you know, we will
7 have to work with your investment team on to come up with
8 a position one way or the other. Dodd-Frank contains a
9 risk retention rule that was intended to have banks hold a
10 share of the risk on their balance sheet before they
11 securitize residential mortgages.

12 But it applaud -- it applied much more broadly.
13 It applied to credit card receivables, auto loans, and
14 bunch of other things that really had nothing to do with
15 the residential mortgage crisis.

16 And so that issue will be on the table, and we're
17 going to have to sort through to determine what the
18 CalPERS' position is going to be. And there are, as you
19 might expect, two sides of the coin. On the one hand, you
20 have a strong interest in minimizing risk, but on the
21 other hand, as investors in the markets and in a lot of
22 the companies that have been adversely impacted by an
23 overly broad risk retention rule, you may very well decide
24 that changes to that provision are appropriate.

25 But I think our key and our goal is to make sure

1 that CalPERS is positioned with -- A, with a seat at the
2 table, and B, as a credible opinion leader, so that when
3 we do weigh in, it has some impact. That's the ultimate
4 objective.

5 COMMITTEE MEMBER TAYLOR: All right. Thank you
6 very much. And then one last question, and this may come
7 from my ignorance. I'm not sure. So strongly worded
8 letters, I've heard that several times, that we send out.
9 And, of course, you know, having our opinion out there,
10 what other strategies do you employ when -- I mean, are
11 you visiting legislative offices? What other strategies
12 do you deploy?

13 LEGISLATIVE AFFAIRS DIVISION ASSISTANT CHIEF
14 ZEAGLER: I'll start that and then follow up with Dan, but
15 yes, we have a variety. So one is from the stakeholder
16 perspective. We look at harnessing the energy there. I
17 think we mentioned that earlier. The second would be
18 letters. And then, of course, obviously, congressional
19 visits.

20 In September, both Dan Bienvenue and I went and
21 made a lot of visits. I believe that we have plans to do
22 that very soon again, and continue that on, as well as
23 Dan's relationship -- Dan Crowley on the phone -- and any
24 other opportunities that we see fit beyond just
25 monitoring, but any opportunities for engagement. We're

1 looking at wherever they can come. But, Dan, would you
2 like to add to that.

3 MR. CROWLEY: Yeah, I think we're making good
4 strides there. I still would love to have a sense of when
5 CalPERS principals are going to be in D.C., and in
6 particular Board members, because we can capitalize on
7 that. You can't minimize the value of sort of water
8 cooler chit chat and walking the halls of Congress. James
9 Andrus did quite a bit of that last year I think very
10 effectively

11 But there's no substitute for having
12 principal-to-principal interaction, both in Washington and
13 in California. And so to the extent we can put senior
14 staff and Board members, as available and appropriate, in
15 front of policy-makers, I think that that's something we
16 need to pursue as part of the strategy.

17 COMMITTEE MEMBER TAYLOR: Excellent. Thank you
18 very much. I like that.

19 INVESTMENT DIRECTOR SIMPSON: Could I -- could I
20 add one additional area of work that I think is helpful?
21 And it's giving testimony when there are hearings.

22 COMMITTEE MEMBER TAYLOR: Excellent.

23 INVESTMENT DIRECTOR SIMPSON: And we were invited
24 to give testimony for the reading in the House Financial
25 Services Capital Markets Subcommittee, when the Financial

1 CHOICE Act was getting its first reading. And that was an
2 opportunity really for CalPERS to scope out what our
3 priorities are, and also to take some of the hyperbole out
4 of the discussion around issues like shareholder hyperbole
5 rights, where a lot of ideas we're kicking around that
6 weren't very well grounded in fact.

7 So I think written and oral testimony is also a
8 way for us to have a presence with Congress.

9 COMMITTEE MEMBER TAYLOR: Great. Thank you.

10 CHAIRPERSON JONES: Okay. Thank you.

11 MR. CROWLEY: That's a very good point, Anne.
12 Thank you.

13 CHAIRPERSON JONES: Okay. Good.

14 Yeah, Dan, I'm glad to hear that your response to
15 Ms. Taylor's question regarding the Board members'
16 engagement, because you may recall at the off-site in
17 January, the majority of the Board suggested that we make
18 sure that Board members are engaged and make these visits
19 to policymakers, so that when the issue does come up, you
20 have a relationship already built. So I'm glad to see
21 that you've indicated that that would be part of your
22 plan.

23 Okay. Mr. Lind.

24 COMMITTEE MEMBER LIND: Thank you. I think we're
25 probably getting close to voting on this, but I wanted to

1 step back, because it kind of went fast to the issue that
2 Mr. Slaton raised about the sort of the month to month and
3 taking positions. And then, Mr. Chair, you said you'll --
4 you're going to direct that change. I'm not clear what
5 actually was the direction of change.

6 CHAIRPERSON JONES: He wanted to add in that last
7 sentence in that section, it makes reference to the Board,
8 and he wanted to add staff, so it reads staff and Board.

9 COMMITTEE MEMBER LIND: Okay. So I've got a
10 concern about that, and let me raise it. And, look, I
11 have full trust and faith in our team and all of that,
12 but, I mean, it sets up the potential that Board and
13 staff, you know, could take a different position, not that
14 that would, or hopefully would ever happen. But it just
15 seems a little awkward.

16 Might I suggest that we just say they do not bind
17 CalPERS in considering or adopting positions, because if
18 the sentence -- or the clause starts with CalPERS, I think
19 it ought to end with CalPERS. That way it's real clear,
20 it's the organization. We're all working together as a
21 team.

22 CHAIRPERSON JONES: Yeah. Okay. As long as it's
23 the whole -- embodied the whole team, so -- okay.

24 COMMITTEE MEMBER LIND: With that, I'll move
25 adoption of the policy.

1 COMMITTEE MEMBER MATHUR: Second.

2 CHAIRPERSON JONES: Okay. It's been moved by Mr.
3 Lind and seconded by Mrs. Mathur.

4 We have further discussion.

5 Ms. Gillihan -- no Ms. Hagen.

6 (Laughter.)

7 ACTING COMMITTEE MEMBER HAGEN: That works. Good
8 morning.

9 (Laughter.)

10 CHAIRPERSON JONES: Sorry about that. I was
11 reading to the right.

12 ACTING COMMITTEE MEMBER HAGEN: No problem.
13 We're commonly mistaken, the two of us.

14 (Laughter.)

15 ACTING COMMITTEE MEMBER HAGEN: I have a
16 question. In reference to the Dodd-Frank discussion, and
17 I was going to ask it further down in the agenda, so let
18 me know if it's not appropriate to ask that question now.
19 But there was -- in February, there was an -- in the
20 media, there was some discussion about reconsideration of
21 the pay ratio rule implementation around Dodd-Frank. And
22 I was wondering, there's -- I understand there's a 45-day
23 comment period currently. And it sounded like from the
24 media, it allows the companies that are struggling with
25 compliance to submit comment. But I was wondering if

1 CalPERS was planning on submitting comment during that
2 comment period?

3 INVESTMENT DIRECTOR SIMPSON: Thank you very
4 much. Anne Simpson. Interim Chair Piwowar has opened up
5 this consultation for companies who is, as you rightly
6 say, may have further comment on this rule. We're joining
7 quite a major group of investors, although, perhaps not
8 formally invited to comment, to lend our support, and
9 reiterate the good economic arguments for having
10 disclosure about compensation right through the companies.

11 You know, we're very grateful to know about the
12 top 5, but most companies rely upon teams right through
13 the organization. We recognize it's only one data point.
14 It doesn't give you a full picture of how employees are
15 being incentivized, or how compensation is being developed
16 across the company. But it does give companies an
17 opportunity to provide that data point and then to explain
18 it.

19 And that is the start of a very important
20 discussion around the management -- effective management
21 of human capital, which is one of our important concepts
22 in the Investment Beliefs.

23 So that -- the comment period is open till March
24 the 22nd, I think, but certainly worth speaking out. And
25 we did write initially to support this rulemaking. And I

1 think the SEC gave some excellent guidance to companies on
2 how to -- how to implement it.

3 ACTING COMMITTEE MEMBER HAGEN: Right. I was
4 just wondering specifically around the delay aspect of it,
5 because it seems like they just keep kicking it down the
6 road further. And I didn't know if we were weighing in on
7 that. Just curious.

8 INVESTMENT DIRECTOR SIMPSON: I think a lot of
9 the SEC's work has been hit by budget -- budget cuts. And
10 currently, the SEC is hit by the federal hiring freeze.
11 So chiefs of divisions went, and have not yet been
12 replaced. So we got some sympathy with the slow progress,
13 and it's why we support full independent funding for the
14 SEC. It will then able it to move more quickly, where it
15 has a mandate from Congress.

16 ACTING COMMITTEE MEMBER HAGEN: Thank you. That
17 helps. I just assumed it was the companies that were
18 delaying and not actually impacting SEC. So thank you for
19 that view.

20 CHAIRPERSON JONES: Okay. Thank you.

21 Mr. Slaton.

22 VICE CHAIRPERSON SLATON: No, I didn't.

23 CHAIRPERSON JONES: Oh, no?

24 Okay. Mr. Costigan.

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

1 I didn't know we were going to move so quickly, so I do
2 have a few questions.

3 On the bullet point for Dodd-Frank, support
4 reasonable reforms. What I had understood Ms. Taylor to
5 talk about was potentially some opposition. So the
6 language only says that they'll support reasonable
7 reforms. What if it's something we don't like? Where is
8 that set forth?

9 CHIEF INVESTMENT OFFICER ELIOPOULOS: Can I take
10 that one up?

11 Just the -- what we took the discussion to mean,
12 and maybe it would be helpful for it to be more explicit
13 language, is support reasonable reform efforts. We think
14 that is important for all the reasons that have been
15 discussed.

16 COMMITTEE MEMBER COSTIGAN: Oh, I agree with
17 that. It's the inverse.

18 CHIEF INVESTMENT OFFICER ELIOPOULOS: And then
19 maybe we can add to get to your line drawing question,
20 which I think is a good one, Anne and I put some language
21 together for you to think about. So support reasonable
22 reform efforts and protect core provisions. That would
23 give us some guidance as to those things that we would try
24 and either oppose or advocate against. It's really the
25 core pieces of it. We do see lots of technical changes

1 that should be made on the edges, but the core provisions
2 we should support or even oppose.

3 COMMITTEE MEMBER COSTIGAN: Right. I think it
4 needs to be as clear as possible, since we're delegating
5 authority. So right now the bullet just says support.
6 And if they were to take a position to oppose anything,
7 they would not have the authority to do it.

8 I also have a concern, Mr. Chair, as it relates
9 to housing finance reform. One of the principles is honor
10 the seniority of debt holders. And if I recall correctly,
11 and I can't remember how far to go, but in the Stockton
12 case, one of the issues actually related to debt holders.

13 And so we are now -- now that was not a priority
14 I believe in the bankruptcy matter, was we saw priority as
15 CalPERS over the debt holder. And yet, now we're going to
16 be advocating a position of supporting seniority of debt
17 holders. So I'd like someone to sort of reconcile that
18 for me.

19 Because again, that was an argument in the
20 Stockton case was -- I'm going to look at him. I'm
21 looking at you -- because there was one bondholder who
22 made that argument that we said no to.

23 CHIEF INVESTMENT OFFICER ELIOPOULOS: We clearly
24 weren't thinking or applying this in the context of
25 priority between municipal holders of debt or pension

1 funds versus private debt holders. This, in the housing
2 reform context, applies to the level of mortgage holders
3 from first to second to third.

4 COMMITTEE MEMBER COSTIGAN: So why would
5 CalPERS -- I'm just curious, why would we advocate a
6 position of honoring the seniority of debt holders? Are
7 we a debt holder?

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, we're
9 a significant --

10 GENERAL COUNSEL JACOBS: Yes.

11 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- housing
12 mortgage holder.

13 COMMITTEE MEMBER COSTIGAN: Can you walk through
14 that, please?

15 GENERAL COUNSEL JACOBS: Matthew Jacobs.

16 I think our position in the bankruptcy was
17 that -- and will continue to be that CalPERS has priority,
18 or rather that the bankruptcy court jurisdiction does not
19 extend to being able to reduce pensions of cities who are
20 in bankruptcy. So if you want to think of it in terms of
21 consistency with the priority that's been put forward, it
22 is consistent in the sense that we believe we have first
23 priority.

24 COMMITTEE MEMBER COSTIGAN: All right. Then I
25 would actually suggest Mr. Jones, either potentially

1 adding a word seniority of mortgage debt holders. Just
2 any document out there talking that honors the seniority
3 of debt holders seems awfully broad to me. Thank you, Mr.
4 Jones.

5 CHAIRPERSON JONES: Okay. Thank you. The maker
6 of the motion, Mr. Lind, the language that Ted mentioned
7 to add, "and core provisions", does that meet with --

8 COMMITTEE MEMBER LIND: That's acceptable.

9 CHAIRPERSON JONES: Okay. It's acceptable.
10 Okay. So good. Okay. And what about the second part to
11 senior -- what was your statement, seniority?

12 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: To
13 add the word "mortgage" in front of debt.

14 CHAIRPERSON JONES: Okay. Mortgage. Okay.
15 Mortgage. Okay. Good. Good.

16 Okay. Okay. Mr. Jelincic.

17 COMMITTEE MEMBER JELINCIC: Yeah. I have no
18 particular problem with that, but this bullet point
19 relates directly to housing, you know. And so I don't
20 think you can say we're talking about housing and
21 therefore we're implying something elsewhere.

22 CHAIRPERSON JONES: Okay. Thank you.

23 Okay. That -- we're going to take a vote on
24 this. But before we do, I want a clarification on the
25 role of private capital. The reason I'm asking the

1 question, I was reading recently where a private equity
2 firm is building houses, and going through Fannie Mae and
3 et cetera. And the comment was that they would -- these
4 debt would be more expensive to the mortgager.

5 So what does private capital mean here? Is the
6 it traditional banks, and savings and loans institution,
7 or are we talking about private equity types of private
8 capital?

9 CHIEF INVESTMENT OFFICER ELIOPOULOS: No, it
10 wasn't -- it wasn't referring to private equity in this --
11 in this sentence. It meant more broadly a provision. And
12 we would consider even CalPERS capital to be private in
13 that context.

14 CHAIRPERSON JONES: Okay. Thank you. Okay. So
15 there's -- it was moved by Mr. Lind and second by Mrs.
16 Mathur with the modification.

17 So all in favor, say aye?

18 (Ayes.)

19 CHAIRPERSON JONES: Opposed?

20 Hearing none. The item passes. Thank you very
21 much.

22 Thank you, Dan.

23 MR. CROWLEY: Yes, sir. Thank you.

24 CHAIRPERSON JONES: Okay. Okay. Now we'll move
25 to the Item 7, Contract Administration: Change to Private

1 Equity Board Consulting Contract.

2 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

3 Thank you, Mr. Chairman and Investment Committee.
4 Wylie Tollette, CalPERS Investment Office.

5 This is an action item related to recent changes
6 associated with your private equity Board consultant
7 relationship. You will note attachment 1 in your
8 materials that is a resignation letter from PCA effective
9 March 13th, today.

10 And so that change precipitates some decisions
11 for the Committee, again related to your -- you private
12 equity consultant. The first you have to decide whether
13 you're going to accept that resignation. Second, we would
14 request that you authorize staff to then contract on your
15 behalf for a interim private equity Board consultant for
16 the remaining term of the contract.

17 And then last, but not least, consistent with the
18 Private Equity Board Consultant Policy, we have an ongoing
19 work with Meketa, who is who we are proposing as your
20 interim private equity Board consultant. We have current
21 staff work, and that your policy requires us to request
22 authority to continue to use Meketa for that time period.
23 We expect that work to be done by June, so we're
24 requesting that associated with this action item.

25 So 3 things: accept the resignation, authorize

1 staff to contract on your behalf, and then allow us to
2 continue and wrap-up the existing staff work with Meketa.
3 So with that, I'll take questions.

4 CHAIRPERSON JONES: Okay. Yes. Mr. Jelincic.

5 COMMITTEE MEMBER JELINCIC: On 2, you know,
6 contracting with Meketa. I assume you will try to
7 negotiate rates down and all that stuff that we normally
8 do.

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
10 actually already did undertake that negotiation, and
11 Meketa was unwilling to budge from their original proposed
12 fees that were outlined in their RFP back in 2015. They
13 indicated that if they were to bid it again today, they
14 would actually come back with a higher fee. So from their
15 perspective I think they -- they thought this was a
16 reasonable fee.

17 It is more expensive. It's about \$235,000 more
18 expensive for the remaining term of the contract than the
19 existing fee with PCA.

20 COMMITTEE MEMBER JELINCIC: And then the other
21 question is actually for legal. Are we on solid legal
22 ground to do this outside of an RFP process?

23 GENERAL COUNSEL JACOBS: I'm going to defer to
24 Kim.

25 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

1 Thanks, Matt.

2 (Laughter.)

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

4 Kim Malm --

5 COMMITTEE MEMBER JELINCIC: She said
6 sarcastically.

7 (Laughter.)

8 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

9 -- CalPERS team member.

10 We are use utilizing an Investment Office
11 spring-fed pool that is currently established. It has the
12 same types of actions and activities that your RFP had.
13 And so we are able to go ahead and utilize that with your
14 permission to do a letter of engagement to do the
15 services.

16 COMMITTEE MEMBER JELINCIC: Thank you.

17 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

18 Thank you.

19 CHAIRPERSON JONES: Okay. Thank you.

20 Mr. Feckner.

21 COMMITTEE MEMBER FECKNER: Thank you, Mr. Chair.

22 I move staff's recommendation on all 3 points.

23 COMMITTEE MEMBER MATHUR: Second.

24 CHAIRPERSON JONES: Okay. Moved by Mr. Feckner,
25 second by Mrs. Mathur.

1 Questions?

2 Seeing none.

3 All those in favor say aye?

4 (Ayes.)

5 CHAIRPERSON JONES: Opposed?

6 Hearing none. The item passes.

7 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

8 Thank you.

9 CHAIRPERSON JONES: Thank you.

10 And I would just like to thank PCA for their work
11 and contributions on our private equity portfolio. And we
12 look forward to continuing to work with them in their
13 capacity as our real estate and secondary general
14 investment Board consultant. So thank you for the past
15 service.

16 Okay. Moving now to Item 8, ESG Asset Class
17 Integration.

18 (Thereupon an overhead presentation was
19 presented as follows.)

20 CHIEF INVESTMENT OFFICER ELIOPOULOS: So Mr.
21 Chair, I'll kick this off. We have quite a team coming up
22 to the dais here. And I'm going to give time. But
23 hopefully just the sheer time and number of people coming
24 up here really is much of the point today that the work of
25 ESG asset class integration is a team effort across asset

1 classes, across disciplines, across a variety of skill
2 sets and across a very large, and complicated, and complex
3 portfolio.

4 So the work of over the next 5 years of putting
5 together the framework and the actual activities of
6 integrating these considerations into investment decision
7 making reaches into every part of the portfolio, as well
8 as the Investment Office itself. And I hope beyond
9 anything else today, in terms of the words that are spoken
10 or conveyed, this concept of our team being deployed
11 across -- across the field by really talented
12 professionals is really one of the main messages, in
13 addition to how complex the effort is going to be over
14 time to weave these considerations into really the
15 different components of the different asset classes and
16 the business models that we employ.

17 So with that, I think I'd pass it over first to
18 Dan and then to Anne, is that the plan?

19 MANAGING INVESTMENT DIRECTOR BIENVENUE: I think
20 just me.

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: Okay. Just
22 you.

23 MANAGING INVESTMENT DIRECTOR BIENVENUE: All
24 right. Dan Bienvenue, Managing Investment Director for
25 Global Equity.

1 So as always, joined by Anne Simpson. Certainly
2 Anne and I are partners and compatriots in this effort and
3 joined at the hip. So joined by Anne Simpson, and then
4 also by the senior members of the Governance and
5 Sustainability Subcommittee. We have Lou Zahorak, an
6 Investment Director with fixed income; Christine Gogan, an
7 Investment Director in Private Equity; Rina Lessing an
8 Investment Manager in Real Assets; and hopefully soon to
9 be joining us is Simiso Nzima and Investment Manager in
10 Global Equity.

11 On slide 2 you can see -- and I don't know if we
12 have the clicker somewhere. Oh, there we go.

13 --o0o--

14 MANAGING INVESTMENT DIRECTOR BIENVENUE: On slide
15 2 you can see that the topics for consideration today are
16 just to briefly talk about the strategic plan that we
17 developed together between staff and the Board working
18 together to come up with a plan on what we're trying to
19 execute in this space. Then we'll look at the structure
20 that we use to achieve it, both from a organizational
21 structure, but then also a governance structure. And then
22 finally we'll take a deep dive into asset class by asset
23 class what we're doing across the asset classes.

24 Both in December when we talked about manager
25 expectations and then again last month, it was very clear

1 to us that there was an appetite for a real deep dive an
2 understanding on behalf of the Committee to understand
3 what we're doing in this space. And certainly the idea of
4 this item is to take that deep dive and take ample time to
5 really dig in.

6 Each asset class will have a couple of minute
7 presentation 2, 3, 4 minutes, and then plenty of time for
8 the -- for Board members to ask questions. So that's kind
9 of the idea for this.

10 --o0o--

11 MANAGING INVESTMENT DIRECTOR BIENVENUE: Moving
12 on to slide 3, and as mentioned and very much appreciated
13 by Ms. Yee, this is our ESG strategic plan. Obviously, we
14 view this as our -- as our guiding light in terms of the
15 implementation of our ESG priorities, certainly along with
16 discussion with the Board and across our whole team. And
17 as Ted referenced the term "team", you'll -- you'll
18 probably get tired of hearing me saying the word "team"
19 this morning, but it really is the case that it's a --
20 it's a team, and we view actually the discussion on the
21 previous item being something that we view also very
22 importantly, which is that we're one team with the
23 Committee working together to get this activity done --
24 this very important activity done.

25 So you'll see our 3 columns, which are

1 environmental, social, and governance. They are the E,
2 the S, and the G. And then also horizontally, we've got
3 our strategic work and our core work.

4 --o0o--

5 MANAGING INVESTMENT DIRECTOR BIENVENUE: So if we
6 move now to slide 5, I'll just walk briefly through what
7 the key initiatives are. From a strategic standpoint,
8 they are data and corporate reporting standards; they are
9 the work as discussed earlier on our engagement with the
10 Montreal PRI companies, the large carbon emitters in our
11 global equity portfolio; our work around diversity
12 inclusion; the work on manager expectations; research; and
13 then finally, of course, private equity fee and profit
14 sharing transparency.

15 So those are the 6 main strategic initiatives.
16 That said, that's also in addition to all the core work
17 that's going on around carbon footprinting and responsible
18 contractor policy, proxy voting, shareowner campaigns, and
19 corporate engagements. And then, of course, partnerships,
20 and then all of the legislative things which we discussed
21 in Item -- in Item 6.

22 So that was the sort of what of how we're going
23 to achieve. On slide 6, we start off with the how we're
24 going to look to achieve it.

25 --o0o--

1 MANAGING INVESTMENT DIRECTOR BIENVENUE: And one
2 thing you'll notice is that we made a handful of
3 organizational changes trying to be as effective as we can
4 in this space.

5 First off, we established the Sustainable
6 Investment Program under the leadership of Anne Simpson.
7 This is intended to be that -- that we've used the term
8 "hub", but this is the sort of central point of our
9 strategy work, our policy work, building our partnerships,
10 all of the work that is kind of the -- the really forward
11 looking trying to drive the strategic initiatives.

12 Some of the core work we've actually moved into
13 some of the asset classes and programs really trying to
14 get the activity closer -- closer to the assets that
15 represent the activity so to speak. So in the case of the
16 federal legislative and regulatory work, we've moved that
17 into the Execution Services and Strategy Team, or ESS. In
18 the case of proxy voting engagement, we've moved that into
19 Global Equity to put it right next to the assets. And
20 then finally the divestment work we moved into ICOR,
21 Investment Compliance and Operational Risk, just because
22 that team is very effective in this space.

23 But critically, and one thing you'll see again on
24 the future slides is that this is all about a team. And
25 so while we have these org structures, we are very much

1 working as a team to get this activity done.

2 So if we move on to slide 7 --

3 --o0o--

4 MANAGING INVESTMENT DIRECTOR BIENVENUE: -- this
5 shows the sort of governance structure. And primarily Ted
6 alluded to it in his comments around the Governance and
7 Sustainability Subcommittee, or the GSS as we refer to
8 ourselves. That's how this team comes together to drive
9 this very important strategic work for the Investment
10 Office, and really the entire enterprise.

11 The GSS is a subcommittee of the ISG, or the
12 Investment Strategy Group. Please recall that the
13 Investment Strategy Group is that core deliberative body
14 around investment decision making and investment policy
15 setting.

16 And the Governance and Sustainability
17 Subcommittee of that Investment Strategy Group is tasked
18 with making sure that ESG risk and opportunity
19 considerations are integrated into the investment process
20 and the investment decision-making process specifically.

21 It's co-chaired by Anne Simpson and myself.
22 Again, I mention that Anne and I are joined at the hip on
23 a lot of these topics. And this is one of those where
24 Anne Simpson and I co-chair this committee trying to
25 really make sure that we integrate the ESG topics into the

1 investment decision-making process.

2 --o0o--

3 MANAGING INVESTMENT DIRECTOR BIENVENUE: If we
4 move forward to slide 9, this really represents the team.
5 So this is the Governance and Sustainability Subcommittee.
6 You'll note that it's made up of very senior level members
7 from across both INVO and the enterprise. And you'll
8 notice that every asset class is represented with senior
9 level people, Investment Director and Investment Manager
10 level folks, some of whom are up here with us. And then
11 also senior people across the program, whether it's ICOR
12 and otherwise.

13 Further and importantly, the enterprise is
14 represented, again bringing us together as a team. So
15 we've got senior members from Legislative Affairs, from
16 Public Affairs, an from Legal.

17 So this is really a strong and thoughtful team of
18 people brought together to really address this critical
19 strategic body of work.

20 --o0o--

21 MANAGING INVESTMENT DIRECTOR BIENVENUE: Finally
22 and though obviously there's a number of people listed on
23 slide 9, if we move on to slide 10, you can see that
24 there's even a greater depth of digging into these topics.
25 So in addition to the main Governance and Sustainability

1 INVESTMENT DIRECTOR ZAHORAK: Thank you, Dan.

2 Today, we have the representatives from each of
3 the asset classes to discuss ESG integration. As a group,
4 we are here to communicate and answer your questions on
5 how our internal and external asset managers are
6 integrating ESG analysis into their investment process.

7 In order to provide a consistent framework in our
8 presentation, you'll see that we chose to use the UN PRI
9 principles to show how we are moving forward and toward
10 the goal of ESG integration.

11 I'd like to go to slide 2.

12 --o0o--

13 INVESTMENT DIRECTOR ZAHORAK: In global fixed, we
14 manage over 90 percent of our assets internally, so we
15 have more direct control over ESG integration. The
16 specific portfolios within fixed income where we apply ESG
17 integration is really focused in our corporate portfolio,
18 and then also in our foreign non-U.S. sovereign bond
19 portfolio.

20 Both areas use various measures to assess ESG
21 risks. For example, in the corporate team, we use ESG
22 ratings and research data on specific companies, while the
23 sovereign team focuses on governance indices, such as
24 indices that measure corruption, transparency, and income
25 inequality in countries.

1 that in both cases we did not use ESG ratings or
2 governance indices in isolation. We look at the ESG risk
3 factors like other investment risk factors. And it's the
4 job of the portfolio managers to really determine if the
5 price of the securities provide compensation for all of
6 the risks, not just ESG.

7 --o0o--

8 INVESTMENT DIRECTOR ZAHORAK: Now, in terms of
9 what we are doing with our external managers in fixed
10 income. We started surveying and having discussions with
11 our external managers regarding ESG over 2 years ago. And
12 as of 9 -- now, 8 of our 9 external fixed income managers
13 are signatories to the UN PRI. The one remaining external
14 manager that did not sign does integrate ESG into their
15 investment process.

16 So what are the next steps for ESG integration in
17 fixed income?

18 The first is we will be coming back to the Board
19 in a future months to review a carbon footprint analysis
20 of our corporate portfolio. And by year-end, we plan on
21 updating the guidelines of the internal and external
22 managers to reflect the requirement that ESG risk be
23 incorporated in our investment processes.

24 And now, I'd like to open for questions, if there
25 are.

1 CHAIRPERSON JONES: Yes. Mr. Jelincic.

2 COMMITTEE MEMBER JELINCIC: Yeah on slide 13, you
3 talk about the use of covenant review. Can you describe
4 the process and when you actually go dig out the
5 indentures to look at it and --

6 INVESTMENT DIRECTOR ZAHORAK: Sure. You know, it
7 could be as soon as a bond is issued when it comes to the
8 new issue market. There will be covenants with regards
9 to, as I mentioned, change of control, limitation on liens
10 restricted payments. So when we're offered a bond - like
11 this morning, there were various bond offerings - our
12 analysts will review those specific documents.

13 If we're reviewing a portfolio -- our analyst is
14 reviewing an existing position, that's where, in this
15 case, the Viacom bonds were a bond which had been existing
16 in the portfolio, the circumstances in terms of the
17 economics and where the stock of Viacom was trading, and
18 how it had declined in price, and what was going on with
19 the Redstone family, increased the risk we thought that
20 there could be a leveraging transaction, so we relooked at
21 those bonds and looked at the situation.

22 COMMITTEE MEMBER JELINCIC: So you look at
23 new -- when you're doing a new issue, you read the
24 covenants?

25 INVESTMENT DIRECTOR ZAHORAK: Correct.

1 COMMITTEE MEMBER JELINCIC: And then other than
2 that, it's when something comes to your attention that
3 there may be an incremental risk and then you go back and
4 look at the covenants?

5 INVESTMENT DIRECTOR ZAHORAK: Yes, yes.

6 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

7 CHAIRPERSON JONES: Mr. Lind.

8 COMMITTEE MEMBER LIND: Thank you.

9 I just wanted to compliment you on this small
10 piece of the report, particularly the action examples,
11 because, you know, as -- when we've heard these reports in
12 the past, and I've been one that's always sort of pushed
13 back. Okay. We've got -- you know, you've got the
14 policies and things you talk to managers about, and we've
15 got the metrics, and the ratings, and all, but what kind
16 of investment decisions do you actually make based on all
17 of that? And these are great examples of what you've
18 done. So I really appreciate you putting this piece of it
19 together.

20 INVESTMENT DIRECTOR ZAHORAK: Thank you.

21 MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah.
22 For what it's worth Mr. Lind, this is very intentional.
23 We -- we really tried to hear everything the Board had to
24 say over several sections, and then tried to incorporate
25 that. So one of the things is examples, and you'll see

1 those across the asset classes.

2 CHAIRPERSON JONES: Thank you.

3 Mrs. Mathur.

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

5 Well, first, I just want to say how happy I am to
6 be spending so much time talking about these set of risks
7 and opportunities that I -- you all know is one of my
8 areas of interest and focus. And I think a lot of really
9 important and good work has gone into this, so I'm so
10 happy to be a part of this.

11 One question I had, and I guess it was sort of
12 back to Dan's opening presentation. On page 7 of the
13 presentation, it talks about governance and sustainability
14 as ensuring that risk considerations are integrated. But
15 on the following page, it talks about risk and
16 opportunity. And most of the presentations that I've --
17 or most of the asset class focus has been on the risk
18 side. But I'm wondering and I -- and it will bring me to
19 my question on specifically to fixed income, to what
20 extent are we also focusing on the opportunity side? And
21 with respect to fixed income specifically, are we looking
22 at green bonds? What does -- how are we evaluating that
23 set or other opportunities?

24 MANAGING INVESTMENT DIRECTOR BIENVENUE: So why
25 don't I start with the Governance and Sustainability

1 Subcommittee slide. And to be perfectly candid, I stole
2 this slide from Wylie --

3 (Laughter.)

4 MANAGING INVESTMENT DIRECTOR BIENVENUE: -- to
5 try to use a slide that you had seen before.

6 (Laughter.)

7 MANAGING INVESTMENT DIRECTOR BIENVENUE: And my
8 belief is, looking at the -- exactly -- looking at the
9 slide itself, my guess is that since opportunity is such a
10 long word, it was hard to get it to fit, but it was
11 absolutely the case that we are looking at risk and
12 opportunity. In my comments, I mentioned risk and
13 opportunity.

14 COMMITTEE MEMBER MATHUR: Yes.

15 MANAGING INVESTMENT DIRECTOR BIENVENUE: And you
16 will -- it will always be both sides. It certainly is a
17 risk consideration --

18 COMMITTEE MEMBER MATHUR: Yes.

19 MANAGING INVESTMENT DIRECTOR BIENVENUE: -- but
20 very much an opportunity consideration.

21 COMMITTEE MEMBER MATHUR: Okay.

22 INVESTMENT DIRECTOR SIMPSON: And it's in the
23 charter, which we --

24 COMMITTEE MEMBER MATHUR: Yes. On the following
25 page, it was listed there. Yeah. Thank you.

1 And then with respect to green bonds.

2 INVESTMENT DIRECTOR ZAHORAK: Sure. With respect
3 to green bonds, we -- when a new issue does come, as I'd
4 mentioned, we look at green bonds. And we will look and
5 see if they meet the parameters of our portfolio first of
6 all.

7 The history that we've seen so far the last
8 several years is, first of all, our portfolio tend -- is
9 managed against a benchmark, which is 7 years and longer.
10 What we've seen is the preponderance of green bonds have
11 been from non-U.S. issuers, and they've been shorter than
12 7 years.

13 There was an issue that came up in the past year,
14 literally in the last few months, which we had looked at
15 hard. We assessed whether it was compensating us at the
16 same level of interest rates. And I can't remember
17 necessarily if we did invest it. I think Curtis looked at
18 it in his portfolio, so we did give it a hard look, and
19 it -- but I'd have to get back to you as to whether we
20 actually invested in that.

21 We did?

22 We did invest in it.

23 COMMITTEE MEMBER MATHUR: Okay. Thank you.

24 And then my final question is on page 13, you
25 said -- you state -- it's stated there under the second

1 head bullet, the first sub-bullet, "Quarterly review of
2 our internal credit portfolio positions to ESG scores".
3 Could you expand on what that means --

4 INVESTMENT DIRECTOR ZAHORAK: Sure.

5 COMMITTEE MEMBER MATHUR: -- and how you use --

6 INVESTMENT DIRECTOR ZAHORAK: Sure.

7 COMMITTEE MEMBER MATHUR: -- the information,
8 and...

9 INVESTMENT DIRECTOR ZAHORAK: Sure. We have ESG
10 ratings on every company. And what we do is we -- we're
11 managing a \$10 billion portfolio with approximately 200
12 different companies in it.

13 What we look at is the names that we are the most
14 overweight, the most underweight that have the very
15 poorest ESG scores. And then we'll take that list, we'll
16 give it to our analysts that are covering those companies
17 in those specific industries, and we ask them 4 questions.

18 Number 1, explain the risk that's cited from the
19 poor rating. Are you concerned about this risk? Is the
20 risk -- risk priced into the security? And should we
21 change our portfolio due to this risk?

22 And we do this in a forum where we literally get
23 all 10, 12 of our analysts, our PM team in a conference
24 room and we go around the table one by one asking those
25 questions, answering them. And the purpose of this is

1 that, number 1, the analysts see that we're serious about
2 this, that we keep ahead of -- on top of these situations,
3 and that we have a dialogue about the ESG risks that could
4 be prevalent.

5 An example of what we learned is, and this was a
6 learning moment was that one of these reviews, the analyst
7 that covers the paper sector, you know, explained to us
8 that water risk was really important, because there was --
9 the paper industry in the processing used a very large
10 volume of letter water.

11 Well, you know, not everybody knew that, that was
12 around the table. So that was a learning moment in a
13 sense. And that -- there's value in that.

14 The other example that I mentioned about Viacom
15 and the governance risk. What that kind of spring-boarded
16 us into a discussion of, well, what other companies in any
17 of the other industries have a similar corporate
18 investment structure. And then from there, we can do a
19 deep dive on those companies and look at the covenants in
20 the bonds of those companies.

21 And from that, we also ended up having expanding
22 some additional training for our analysts, specifically on
23 corporate structure and covenants. So, you know, the
24 process -- I say the process has served us in many
25 different ways, in terms of, you know, improving our

1 awareness of ESG risks on a broader basis on our team.

2 And I would say that for fixed income, ESG
3 awareness is really -- it's predominantly for risk
4 management. Barclays Capital Came out with a research --
5 research piece recently, and they cited that in corporate
6 bonds, the one risk factor where there is benefit is in
7 the governance side.

8 They do not see statistically that, you know,
9 using an ESG rating for envi -- the environment or for
10 society added to any reduction in risk in a portfolio, but
11 on the governance scores it does. And so those are the
12 ones we really are also focusing on in a very focused
13 manner.

14 COMMITTEE MEMBER MATHUR: And what was the time
15 frame of the Barclays analysis?

16 INVESTMENT DIRECTOR ZAHORAK: It went back, I
17 want to say - it was a longer term study - 5 or 10 years.
18 And what it was looking at was if a company had a lower
19 ESG rating and you -- you created a portfolio, what --
20 what was the returns versus a random portfolio?

21 And what they found was that companies that had
22 poor ESG governance scores tended to have more ratings
23 downside risk. And thus, if they had more ratings
24 downside risk, you ended up having more price -- potential
25 price depreciation.

1 COMMITTEE MEMBER MATHUR: Okay. Well, thank you.
2 It sounds like a robust process. I'm really happy to get
3 the expanded view.

4 Thank you.

5 INVESTMENT DIRECTOR ZAHORAK: Sure.

6 CHAIRPERSON JONES: Ms. Taylor.

7 COMMITTEE MEMBER TAYLOR: Yes, thank you.

8 There we go.

9 Thank you, Mr. Chair. I wanted to compliment you
10 on the report so far. I just -- I'm very, very impressed
11 on how deep the dive is. One of the things I think that
12 you guys know that I'm concerned with, and it looks like
13 you're starting to incorporate is metrics on how we're
14 going to kind of measure our accomplishments and how we're
15 going forward.

16 So I want to make sure if we could, in our
17 reporting -- right now, it looks like we're kind of in
18 first steps. And I get that, but I would love to make
19 sure that in our reporting we're including metrics on how
20 we're getting there, measurables of some sort. And I know
21 that some of this is hard to measure, and we're coming up
22 with the standards on how to measure this, and how to
23 measure our success. But these examples are great
24 examples of how the successes are happening. So maybe
25 there's something that you guys are coming up with.

1 MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah.
2 So you alluded to a number of really important points
3 there. One, this is an evolving area, and we're -- we are
4 trying to figure out how to measure, and how to just
5 determine our effectiveness. We do think, as Ted
6 mentioned earlier, that some of the scores that we've
7 received from Extel and others is something that we're
8 very proud of.

9 COMMITTEE MEMBER TAYLOR: Right.

10 MANAGING INVESTMENT DIRECTOR BIENVENUE: Recall
11 when we went through the strategic plan for each of the 6
12 strategic initiatives we came up with KPIs at Mr.
13 Slaton's -- that request. And certainly, that's very
14 important, so that will be probably the main measuring
15 stick, but we are going to continue to try to figure out
16 our metrics on how we're -- how we're being successful,
17 because there will be little ones along the way. For
18 example --

19 COMMITTEE MEMBER TAYLOR: Sure.

20 MANAGING INVESTMENT DIRECTOR BIENVENUE: -- when
21 we were here in February Simiso mentioned that we're now
22 down to, of the, you know, 9 companies that didn't have an
23 element of diversity on the Board, we're now down to --
24 down to just 1.

25 COMMITTEE MEMBER TAYLOR: The one, yeah.

1 MANAGING INVESTMENT DIRECTOR BIENVENUE: And we
2 are working through that. So there will be constant --
3 constant measuring, both at the micro level, and we'll try
4 to share those, and then also really importantly at the
5 KPI level.

6 COMMITTEE MEMBER TAYLOR: That's excellent. I
7 appreciate that. And then I had one other kind of a
8 comment for Anne. The -- on page 10 of the presentation,
9 it shows that you are over the Research Working Group, and
10 it's an organized approach to understanding research, and
11 emerging trends in ESG. And how much of that is us?
12 Because aren't we the thought leaders in this?

13 INVESTMENT DIRECTOR SIMPSON: Yes, but so easy to
14 let the crown slip.

15 (Laughter.)

16 INVESTMENT DIRECTOR SIMPSON: We -- we really use
17 this group, and it's only just begun of course, to bring
18 in a broader group from the Investment Office. So it's
19 not just the subcommittee members who sit on it. But an
20 example will come up here in the next item when we look at
21 some new language in the principles.

22 The first thing we did was look at our own
23 sustainable investment research initiative. You remember
24 we've twice now done a complete review of the academic
25 literature. So that's fantastically important for staying

1 with the scholarship on the topic. But also what we look
2 at is what our global peers are doing, because the most
3 important thing we get from the partnership is not just
4 pooling influence and sharing resources, it's also sharing
5 best practices. And to stay at the cutting edge, we
6 really want to learn from the best.

7 So it's sort of a "pracademic" approach --

8 COMMITTEE MEMBER TAYLOR: Good. I like that.

9 INVESTMENT DIRECTOR SIMPSON: -- practical and
10 rigorous and academic. And I think that we've made real
11 progress by being focused on evidence.

12 And where we don't know, being willing to put our
13 hands up and say, well, this is just something we have to
14 watch and we have to encourage. As Dan said, our focus on
15 data and corporate reporting is where we want to drive
16 more information into the market, that that will then
17 allow us to demonstrate where the risks and opportunities
18 are connected to this agenda.

19 And right now, we're strong on some issues, and
20 elsewhere we're having to use our insight and experience
21 and we don't have the data.

22 COMMITTEE MEMBER TAYLOR: Great. Thank you very
23 much.

24 CHAIRPERSON JONES: Okay. Ms. Yee.

25 COMMITTEE MEMBER YEE: Great. Thank you, Mr.

1 Chairman. I must say I'm sitting here quietly bursting as
2 well with tremendous progress, and just really want to
3 thank the staff for the deep dive. I had a couple
4 questions, and I know this will probably take time to work
5 through. But as I'm just looking at the organization of
6 kind of the subcommittees and the working groups, I guess
7 what I'd like to encourage, and you all will know this
8 over time, but it seems to me this Research Working Group
9 needs to be kind of threaded throughout, because that kind
10 of drives, you know, a lot of the current thinking and
11 kind of what's, you know, best practices. This is just
12 done in finance.

13 So, I mean, I just see that as kind of being a
14 little bit more overarching, and it seems to be kind of on
15 equal par, but just something to explore going forward.

16 And then I -- just in relationship to the federal
17 priorities discussion we just had, I wanted to get your
18 feedback with respect to how nimble these different bodies
19 are going to be in terms of responding to, you know, kind
20 of emerging priorities. And we're in this world of where,
21 you know as I said, issues can just kind of start coming
22 in sideways, and are we going to be equipped to really
23 respond, and let's just say, you know, some federal action
24 related to the SEC or, you know, some environmental, you
25 know, policy change that could really be devastating to

1 our work here.

2 But I guess I just want to get some assurance
3 that we -- we'll be nimble enough to act quickly and to be
4 able to respond.

5 CHIEF INVESTMENT OFFICER ELIOPOULOS: Nimbleness
6 piece, you see I was so anxious to jump in, because it's
7 something that we talk quite a bit as a leadership team.
8 And this governance structure is so important to be
9 nimble --

10 COMMITTEE MEMBER YEE: Yeah.

11 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- because
12 Anne and I, we would joke quite a bit over the last couple
13 years that she and I would be kind put in the position of
14 supplicants going around to the asset classes trying to
15 get feedback, because we didn't have an organized
16 governance structure in place for this type of
17 consideration to put in place. And it really impeded our
18 nimbleness, because we would literally have to go down the
19 halls and track down various asset class experts to get
20 individual opinions. And it was just too unstructured,
21 unorganized, so that we were unable to be nimble.

22 We're taking the time to get organized. And the
23 benefit of these working groups and the governance
24 structure is they're across the whole asset class
25 structure. And we have experts that are feeding into the

1 leadership of the asset classes, so that while it seems
2 like a lot of bureaucracy at the front end to put these
3 governance structures in place, having them in place do 2
4 things for us.

5 One, they're a ready-made forum for discussion
6 and building up of team work and also expertise, but the
7 scores that Lou mentioned and our own work in the SIRI
8 tell us that governance is the most important factor that
9 we've been able to see in the evidence across the spectrum
10 of investment management for performance, so we need to
11 have our own well governed architected structure to
12 deliver on this as well.

13 Anne.

14 INVESTMENT DIRECTOR SIMPSON: Yeah, I just wanted
15 to give you a couple of examples. This image of Ted is he
16 and I running around the corridors begging for 10 minutes
17 from a lot of different people. Well, we got a lot done,
18 but it wasn't efficient. So what we're able to do now is
19 send out even -- we have monthly meetings. We've got a
20 charter. We have -- Dan and I meet and prepare an agenda,
21 so we can have input from -- people can raise things, put
22 them on the agenda

23 But the other thing we're able to do is this
24 rapid consultation. So a good example is the latter that
25 New York invited us to sign to Texas on LGBT rights. We

1 were able to send that around, not just for the asset
2 class input, but from the Legal Office, who are extremely
3 helpful - thank you, Salony- and Public Affairs got heads
4 up that something is coming along as well. So it's given
5 us a very fluid way to get input from all sides. And I
6 think that's invaluable.

7 The monthly meetings we can have the discussion
8 and the feedback from the research groups, but we're using
9 email just to, you know, get lightning speed when we need
10 it.

11 COMMITTEE MEMBER YEE: Sure. Okay.

12 MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah.

13 And the only thing I would -- I would add to that is
14 exactly on the working groups, they are staffed with both
15 enterprise people -- just to underscore what Anne said,
16 both people from the enterprise as well as the Investment
17 Office.

18 And the idea of the working groups is to get --
19 bring expertise to bear. So there are people around that
20 may or may not have the expertise, but to bring that to
21 bear and then come to a recommendation to the governance
22 and sustainability subcommittee, which to Ted's point,
23 that's about broad ownership of the position whatever that
24 is. And even going back to Ms. Hagen's question on the --
25 on the SEC pay ratio, that was another one where, you

1 know, the topic came up. We knew we had plenty of time,
2 but we also really wanted to get ourselves, actually in
3 advance of this meeting, get ourselves to together with a
4 perspective on that.

5 And I think we got agreement in about 2 days
6 through people looking at it, emails going around making
7 sure everybody was comfortable in every asset class, and
8 the programs. All the voting members of Governance and
9 Sustainability Subcommittee were willing to -- or we're
10 comfortable saying yes, we should -- we should sign on to
11 this letter. So these are the ways, to Ted's point, on
12 trying to be more efficient and more effective in this
13 space.

14 COMMITTEE MEMBER YEE: Yeah, that's great. And I
15 think certainly the presentation herein is demonstrating
16 that has come to bear.

17 I am going to ask you to just consider whether
18 this Research Working Group ought to be a little bit more
19 overarching, because I do think it has the potential of
20 informing, particularly with outside perspectives on a
21 more regular basis. And I think to the extent that there
22 are so many, as -- during Ted's presentation this morning,
23 I mean, there's just so many interested parties that are
24 going to be very supportive of what we do, and it might be
25 that we can get to their quicker if we have the input and

1 the ability to share some of those outside perspectives,
2 so -- but I'm just going to put that out there and see how
3 that can be incorporated down the road.

4 CHAIRPERSON JONES: Okay. Seeing no further
5 questions, we're going to take a break in a minute, but I
6 do have one question in it goes to Ms. Taylor's questions
7 about the ratings and ability to see how we're doing. You
8 know, the G of ESG we do very well. Have been doing very
9 well for a long, long time. And the S we're beginning to
10 make some inroads, and achieving some very high goals in
11 that area.

12 But the E is new. And so even though you're
13 collecting information, and I'm sure there's value from
14 collecting that information, but there's no standard in
15 the E. And so my question is we have received a
16 presentation from SASB both here and at our off-site. So
17 what's the status of that, so that we ultimately can get
18 to a point where we have some standards to measure how
19 we're doing.

20 CHIEF INVESTMENT OFFICER ELIOPOULOS: It really
21 underscores the inn of having adopted standards across all
22 industries, on ESG. And so SASB is up and running. The
23 Investor Advisory Committee chaired by Chris Ailman that
24 I'm on is meeting regularly. They had -- SASB had its
25 first public corporation agree to adopt the SASB standards

1 for its corporate reporting recently.

2 But it's going to take -- it's a long -- it's
3 going to be a long task, but it really -- it's a
4 commercial for the need to have recognized standards,
5 particularly uniform and material for the measurement
6 purposes that you're underscoring. It doesn't -- it
7 doesn't make as much difference for us to just measure the
8 decisions CalPERS is making internally, if we have a set
9 of data. The market, as a whole, will be using that data
10 and measuring the effectiveness of it, so, that you, know
11 future studies will be able to point to whether or not the
12 E and the S factors played a role in improving or
13 detracting from performance. And that's the key metric
14 that speaks in the investment world and will move the
15 needle the most in this area, if we have adopted measures.

16 So, yes, I think the work of SASB is going to be
17 important, but it will take every bit of the next 5 years,
18 I think, to make progress.

19 CHAIRPERSON JONES: Okay. Thank you very much.

20 INVESTMENT DIRECTOR SIMPSON: Could I -- could I
21 add something, Chair --

22 CHAIRPERSON JONES: Yes.

23 INVESTMENT DIRECTOR SIMPSON: -- specifically on
24 this issue of environmental reporting. CalPERS has
25 identified climate change, risk and opportunity, as the

1 cross-cutting issue over time, and also across markets,
2 and across our asset classes. And Ted touched on it
3 briefly this morning in his overview, but the Financial
4 Stability Board task force has issued a set of
5 recommendations for disclosure on climate change, which we
6 strongly support, because they cover governance, climate
7 competent boards, strategy, risk, but also data and
8 metrics, Scope 1 and Scope 2 emissions, and so forth with
9 specific guidance by sector.

10 Now, SASB's been an active supporter of this, but
11 what's important I think for us is that we've got the
12 moral authority and the economic clout of the world's
13 central banks behind the idea that climate change is a
14 systemic risk potentially. So moving this disclosure into
15 the absolute heart of the financial risk industry is very
16 significant.

17 The -- we've been very involved in helping
18 develop the recommendations. They're going to the G-20 in
19 June. And if they're adopted by the G-20, we'll have a
20 global framework. That's going to help us with
21 engagement. But I do not doubt that many markets will be
22 starting to attach this type of reporting into their
23 required regulatory disclosure. So I think that's going
24 to jump start the environmental side. But I fully agree,
25 the E is where it's new, and we're finding our way. But

1 this initiative is really going to make some big impact,
2 and we're really looking forward to seeing what starts to
3 come out through that.

4 CHAIRPERSON JONES: Thank you very much.

5 Mr. Jelincic.

6 COMMITTEE MEMBER JELINCIC: Ted, you said that
7 the first public corporation adopted the SASB standards.
8 Who was it that -- I think they kind of deserve a shout
9 out.

10 CHIEF INVESTMENT OFFICER ELIOPOULOS: They do
11 deserve a stand out[sic], but I want -- I don't want to
12 make -- make the mistake of misidentifying them, so give
13 me -- after the break.

14 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

15 CHAIRPERSON JONES: Okay. Then we will take a
16 10-minute break, and so we will return at 11:25.

17 (Off record: 11:16 a.m.)

18 (Thereupon a recess was taken.)

19 (On record: 11:25 a.m.)

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

22 Okay. Okay. Ready to go?

23 CHIEF INVESTMENT OFFICER ELIOPOULOS: Great.

24 Before I hand it over to, I think, private equity is in
25 next, on the SASB. The first public company to announce

1 alignment of their 10-K disclosures with SASB is actually
2 it's a real estate investment trust, Kilroy, based in
3 Southern California. So we thank them for their
4 pioneering effort.

5 CHAIRPERSON JONES: Send a shout-out to them.

6 CHIEF INVESTMENT OFFICER ELIOPOULOS: We just
7 did.

8 (Laughter.)

9 CHAIRPERSON JONES: Okay.

10 --o0o--

11 INVESTMENT DIRECTOR GOGAN: All right. Good
12 morning. Christine Gogan, Investment Director, Private
13 Equity. I'm happy to be here this morning to talk with
14 you about ESG integration in private equity. Turning your
15 attention to slide 17.

16 --o0o--

17 INVESTMENT DIRECTOR GOGAN: Turning your
18 attention to slide 17, during the pilot period, private
19 equity has explicitly built ESG considerations into both
20 our monitoring, as well as our investment decision making
21 processes. It is important to recognize that many of the
22 private equity staff's responsibilities include ESG,
23 whether it is the staff who underwrite the investments,
24 the people who manage the investments on a day-to-day
25 basis, or the people who run the operations for the group.

1 All of these professionals have a component of their job
2 that touches upon ESG. During the pilot period, private
3 equity staff has taken a two-pronged approach.

4 First, in the investment management process,
5 staff has been focused on understanding how ESG policies
6 are implemented and monitored. Whereas, during the
7 underwriting process, staff is focused on understanding
8 how ESG matters are incorporated into the general partners
9 decision-making process.

10 --o0o--

11 INVESTMENT DIRECTOR GOGAN: Specifically on page
12 18, you can see that staff implements several of the UN
13 PRI principles in our investment processes. Underwriting
14 staff uses several questions from UN PRI's limited partner
15 responsible investment due diligence questionnaire in our
16 own underwriting process.

17 Further, in our monitoring efforts, we are
18 actively engaging our general partners regarding ESG
19 issues and practices as this area continues to develop in
20 the private equity world.

21 Importantly, staff has been engaging with other
22 limited partners to explore how we can move towards
23 discussing private equity ESG issues in a more uniform
24 fashion across private equity strategies and funds. Staff
25 recognizes that there is not one single source that

1 provides an exhaustive list of ESG factors pertinent to
2 all private equity investments, so we look for those
3 pertinent ESG factors that are relevant to any particular
4 investment.

5 On page 19, we share some of our high level
6 conclusions from the pilot period. The majority of the
7 commitments private equity made over the last 16 months
8 have included an ESG section in the legal documentation.
9 Not surprisingly, larger general partners are leading the
10 way with ESG. Also, we would point out that CalPERS is
11 typically one of the limited partners that is eager to
12 engage in ESG topics, and often brings this at either the
13 annual meeting or the Limited Partner Advisory Committee
14 meetings.

15 --o0o--

16 INVESTMENT DIRECTOR GOGAN: And page 20 and 21 we
17 wanted to share with you 2 examples of the ESG integration
18 in our portfolio. On page 20, Axalta, a global
19 manufacturer and distributor of coatings is discussed. As
20 you can see one of the coatings manufactured by Axalta is
21 applied to building roofs, absorbs solar heat, reduces
22 air-conditioning costs and helps customers meet LEED
23 criteria. Axalta also redesigned its coatings to work
24 with high strength composites and plastics needed to meet
25 more stringent auto fuel economy standards.

1 And a second example is depicted on page 21.

2 --o0o--

3 INVESTMENT DIRECTOR GOGAN: Vogue International,
4 who is a U.S. manufacturer and distributor of hair care
5 and other personal products is discussed. Vogue has
6 implemented environmental criteria into its ingredient
7 selection and new product development, gradually
8 eliminating ingredients of concern.

9 Additionally, Vogue has introduced new product
10 labels made from less fossil fuels, less energy and water,
11 as well as reducing greenhouse gas emissions resulting in
12 a savings of 26 percent to 34 percent in every category.

13 These sustainability actions have made the
14 product more attractive both to consumers, as well as
15 retailers.

16 --o0o--

17 INVESTMENT DIRECTOR GOGAN: Last, but certainly
18 not least, I wanted to update the Board on a key
19 governance initiative for private equity. Progress has
20 been made on the ILPA fee and profit sharing template,
21 which is displayed on page 22. Private equity staff has
22 been working diligently with all of our general partners
23 to communicate the importance to CalPERS of having fee and
24 profit sharing information provided to us in a uniform and
25 consistent manner over time.

1 CalPERS now has 5 consecutive quarters of
2 collecting the ILPA fee template. Over this time period,
3 we have seen improvement in the overall provision of the
4 templates, such that overall, we're receiving templates
5 from a little over two-thirds of our funds, or about 80
6 percent by net asset value.

7 CalPERS believes the standard templates offer
8 significant benefit to the limited partner community in
9 terms of collecting and understanding key cost metrics.

10 Turning to page 23 --

11 --o0o--

12 INVESTMENT DIRECTOR GOGAN: -- I'd like to
13 provide some closing remarks before we engage in some
14 questions here.

15 Staff has surveyed our existing manager base
16 regarding both who is a UN PRI signatory currently, as
17 well as who has a ESG policy in place. As you can see, a
18 limited number of our existing private equity managers are
19 currently UN PRI signatories. However, a larger number,
20 about 40 percent of the manager base, does have a formal
21 ESG policy.

22 It is fair to conclude that private equity
23 managers are increasingly adopting formal ESG policies.
24 Staff continues to engage both limited partners and
25 general partners regarding the importance of the ILPA fee

1 template as a consistent uniform mechanism to collect
2 detailed fee information.

3 Staff will also continue to engage both general
4 partners and limited partners regarding ESG issues in
5 general.

6 At this time, I'm happy to take any questions you
7 may have.

8 CHAIRPERSON JONES: Thank you, Ms. Gogan.
9 Mr. Costigan.

10 COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.
11 I just have some general questions more about private
12 equity. So first, on the right-hand column -- along my
13 page, sorry -- when you get to governance, how do we
14 ensure that private equity firms that own companies are
15 diversifying their boards?

16 Because I've looked at a series of them. And
17 while we're over on the public equity side and we're able
18 to go over and vote on Board members, we don't seem to
19 have that same ability. So how do we ensure the other
20 side?

21 And then I have a follow-up question.

22 INVESTMENT DIRECTOR GOGAN: Yeah, and I will
23 start out answering that question and ask Ms. Simpson to
24 jump in as well.

25 Simply stated, we don't have a direct right as a

1 limited partner based on the structure of the commingled
2 fund to actively engage directly in who is on the Board.
3 However, I would say a major social initiative within
4 private equity is when we're developing relationships with
5 general partners to convey the importance of diversity to
6 our organization, to the partners in which we invest in,
7 and to encourage them to try to adopt the same principles
8 that we adopt on the public side.

9 COMMITTEE MEMBER COSTIGAN: So down the road, why
10 are we not bringing in those private equity managers and
11 having this discussion with them, so that they understand?
12 So I -- again, some concerns when you look at the lack of
13 diversity overall in private equity. I mean, they all own
14 a series of companies, privately-held companies with
15 boards of directors. I mean, it's this granular.

16 You know, you just talked about the 2 and 20 in
17 fees. Now, we've got to start rolling down, because
18 you've got the parent company, then you've got the
19 subsidiary, then you've got -- and we've been through this
20 before.

21 The other is -- is on the social and governance
22 aspect. A large ride-sharing company has recently been in
23 the news, because their CEO didn't seem to have control
24 over the way their hiring practices and retention of
25 senior employers, and allowed certain things that if

1 happened here, we'd have zero tolerance for. How do we
2 address that?

3 So you have a company with explosive growth, it
4 stays privately held, that appears on the surface to lack
5 governance structure. And if you look at -- I know it's a
6 commingling. There are couple of the companies that
7 invest in that ride sharing company who we invest with. I
8 mean, a Goldman Sachs, Fidelity, things of that nature.
9 What is the accountability?

10 And I guess I'm struggling -- and if the answer
11 is we don't have any, that's fine. I mean, from the
12 standpoint it's much harder with private equity. But it's
13 like they're skating, because they are under the guise of
14 we're not a publicly-traded company. We're privately
15 held. And yet, they're out there raising money from
16 entities, such as ourself.

17 CHIEF INVESTMENT OFFICER ELIOPOULOS: You're
18 raising very good and strong points. And I guess I'll
19 cover it in a few ways.

20 Number one, you're highlighting one of the
21 principal issues in the capital markets today, which is
22 the nature of the governance, and -- with public
23 corporations and the nature of governance of the private
24 equity industry.

25 And I think it's fair to say there's been more

1 and more of a shift of capital into the private markets
2 and away from the public markets. And that's one of the
3 things that we discuss quite a bit, and that CalPERS has a
4 vested interest to make sure that the health of both the
5 public markets as well as the private markets, because
6 both are very important to us to meet our return goals
7 over time, and the governance structures of the 2 are
8 disparate.

9 And I think we believe they're most likely
10 beneficial elements to both the public and the private
11 structure and working to ensure the health of both is very
12 important. So capital market is a very important time
13 right now where much of the talent is moving from the
14 public into the private realm.

15 In terms of how to be most effective with the
16 private equity general partners, and in turn the portfolio
17 companies that they own, the strategy that we've employed
18 is to work with our other limited partners. So for
19 instance, the State of Washington, Theresa Whitmarsh has
20 been a very strong advocate for increasing the diversity
21 of the boards and management of private equity firms and
22 their portfolio companies. And we regularly join meetings
23 with her and other LPs to try and advance this topic.

24 But as Ms. Gogan was saying, it's a -- it's
25 a -- it's a long -- it's a long push and a long

1 discussion, because of the rights are with the general
2 partner in terms of the structuring of their own firms, as
3 well as the portfolio companies they invest in.

4 COMMITTEE MEMBER COSTIGAN: Well -- and I
5 understand, that, Mr. Eliopoulos. I guess the concern I
6 have is on one hand we celebrate if they sign an
7 environmental document with us on climate change. Yet, we
8 don't seem to almost hold them to that. So on E, applaud.
9 They're great. On the S and G, we don't hear much. So
10 why is it we lack the leverage on the S and G that we have
11 with the E?

12 CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, one,
13 I think it's -- it's an evolving -- it's an evolving area.
14 There are disparate approaches by different actors within
15 the marketplace. There isn't a accepted standard or
16 accepted belief around either best practices or changes to
17 be made for any given company in and industry. So it's
18 going to take time for this to sort out over time.

19 The data around environment and social is less --
20 less developed than under the G. And perhaps, that's why
21 it's lagging farther behind in adoption, both in the
22 public and in the private arena.

23 But the only -- the only answer to this question
24 is to have both time, advocacy, and engagement to learn
25 more, and push for better adoption in this area over time,

1 and hopefully demonstrate the increased performance as a
2 result of attention to these areas. Ultimately, it's the
3 performance that will drive the change more than anything.

4 COMMITTEE MEMBER COSTIGAN: Now, and I -- again,
5 I want to appreciate all you all are doing. I mean, the
6 fact that we're having this discussion is a testament to
7 the hard work that you are doing. And it's great that we
8 can call these folks out.

9 I mean, just one element. In your opening
10 remarks you talked about our diversity summit in May. And
11 what your data has shown is that diverse boards
12 outperform -- outperform their benchmarks. So what I'm
13 looking at is why aren't we holding private equity funds
14 to that same standard that we're looking at a publicly
15 traded company, because they'll say that they'll
16 outperform.

17 And yet, over here on the private equity side, we
18 don't hand it -- and if the data shows that they would
19 outperform, why -- and they are a considerable element
20 within the overall fund benchmark, why don't we push them?

21 Anyway. I mean, we can talk later, but that's
22 just -- it just -- it just does concern me on the recent
23 ride sharing company. It seemed a complete lack of
24 control. And where is the management among the general
25 partners and how do you address that? Because those type

1 of activities could end up cratering that entire company.

2 So thank you, Mr. Jones.

3 CHAIRPERSON JONES: Okay. You're welcome.

4 Mr. Lind.

5 COMMITTEE MEMBER LIND: Thank you. Two
6 questions.

7 First, you also included examples, which I
8 appreciate, but it's not clear to me how these 2 examples
9 relate to our ESG integration. Did we wind up investing
10 with those managers because of all these wonderful
11 characteristics, or did they do a number of these
12 wonderful things, because in part we engaged with them
13 over time.

14 INVESTMENT DIRECTOR GOGAN: And so I think that
15 it's a combination of both. I think this particular
16 manager for both of the examples is Carlyle. And they
17 have given us permission to share that information with
18 the Board. And they view that our engagement in this
19 space is extremely important in helping them continue to
20 evolve.

21 They now have a chief sustainability officer and
22 continue to focus more deeply on these ESG issues, because
23 it matters to the bottom line, whereas, Ms. Taylor has
24 pointed out moving towards trying to understand and evolve
25 towards more measurement of these issues over time. But I

1 believe if Carlyle was before you, they would tell you
2 that CalPERS, amongst one of several of their limited
3 partners, has driven them to focus more on the ESG issues.

4 COMMITTEE MEMBER LIND: Great. That's the
5 outstanding answer I wanted to hear.

6 Thank you. My second question --

7 INVESTMENT DIRECTOR GOGAN: And it happens to be
8 true.

9 (Laughter.)

10 COMMITTEE MEMBER LIND: I'm sure. Yeah. Great.
11 Thank you.

12 My second question on slide 19, about a vast
13 majority of commitments include an ESG section in the side
14 letter or limited partnership agreement. Can you just
15 give me an overview of what is an ESG section?

16 INVESTMENT DIRECTOR GOGAN: And so with respect
17 to the ESG section, what we're counting by that is, if you
18 will, a formally adopted ESG policy where the firm has a
19 regimented way in which they evaluate ESG in a consistent
20 basis across their investments over time.

21 The actual policy can and will differ across
22 private equity firms, but we're looking for a formal
23 commitment, and a regimented approach to evaluating those
24 issues that we can look at. And then as part of our
25 ongoing monitoring and management of the portfolio, we can

1 have access to their policy and see, okay, you said you
2 would evaluate ESG risks and opportunities on your
3 portfolio companies, help us understand how you're doing
4 that. So it serves as a roadmap for us to help evaluate
5 their commitment to the space over time.

6 COMMITTEE MEMBER LIND: So what do we do -- and I
7 guess this is probably similar to Richard's line of
8 questions. We have this wonderful ESG section with a --
9 you know, with a general partner, and they are just
10 blowing it off. Yeah, we signed off on this section as
11 part of our limited partnership agreement, but we're not
12 doing anything. What is our recourse? What do we do?

13 INVESTMENT DIRECTOR GOGAN: I don't know that
14 we've actually, I guess, ran into a situation as yet,
15 where we have seen a general partner not following their
16 ESG policy. The way they're crafted is reasonably broad,
17 so that it describes activities and processes that they
18 engage in just because -- if you think of the variety of
19 different sectors that private equity firms invest in, the
20 considerations for an energy company would be very
21 different than those for a financial services company.

22 And so at this point, the policies are at a
23 higher level, and they often indicate that we will
24 consider these issues. We will evaluate them. They will
25 be discussed in the investment memorandum. And, for

1 instance, an energy company is going to have much
2 different metrics to try to evaluate how a private equity
3 firm interacts with them than the other example I gave, a
4 financial services company.

5 But I will tell you that staff has engaged at
6 both the general meetings as well as the Limited Partner
7 Advisory Committee meetings to discuss if there is not a
8 sustainability report provided, why not? What are[sic]
9 your activities been? Help us understand how you're
10 continuing to think about those, because we are -- to use
11 the baseball analogy, because we're getting close to
12 baseball season, we're in early innings here with respect
13 to ESG.

14 And so what we're seeing is right now a lot of
15 the large State funds, a lot of the sovereign funds trying
16 to engage limited -- or engage amongst themselves in the
17 limited partner community, but also with the general
18 partners to try to talk about these issues.

19 And what we're trying to do is one of our
20 partnerships that Ted and Réal have talked about in the
21 past is ILPA. One of the things that we're doing in
22 partnership with ILPA is trying to get a standardized
23 format of questions out there that we can use, so that
24 other investors can start to see the importance and start
25 to build some traction with foundations, corporates,

1 endowments, et cetera.

2 COMMITTEE MEMBER LIND: Thank you.

3 INVESTMENT DIRECTOR SIMPSON: Could I -- could I
4 add to that? It's Anne Simpson.

5 I'm not at liberty to name names, because it was
6 a private engagement, but I just wanted to give you a
7 flavor of an engagement that Christine and I undertook
8 together with a private equity firm, and it was on
9 diversity issues.

10 And troubled as we were by the situation at the
11 firm, and with support from Ted and from Réal, the senior
12 people were engaged. And our request was, first of all,
13 that we wanted a policy. We were looking for an
14 implementation of new practices. We shared our
15 expectations about diversity standards, diversity and
16 inclusion with them, which we use with public companies.
17 These were particularly on issues around gender and LGBT
18 inclusion and respect. And Christine and I had progress
19 reports.

20 In other words, able to see that hiring practices
21 had improved, that they had formed new relationships, for
22 example, with Toigo to better access the talent pool. We
23 were able to share access to 3D with them. And I
24 really -- I think that CalPERS -- I think there was a deep
25 recognition by the firm that they really needed to pull

1 this altogether, but I think that we were able to engage
2 in a very constructive way of over, it must have been
3 about, 18-months to 2-year period Christine, wasn't it?

4 INVESTMENT DIRECTOR GOGAN: Yes.

5 INVESTMENT DIRECTOR SIMPSON: And there was
6 tangible progress to the point about what can you measure?
7 With them coming back to us looking at their hiring, their
8 internships, the partnerships they were in development,
9 and how they were going to roll-out their new policy of
10 diversity and inclusion.

11 So I think speaking, even if you don't have the
12 governance framework, the first thing we have is our
13 voice. And as providers of capital, that can often be
14 influential.

15 CHAIRPERSON JONES: Okay. Mrs. Mathur.

16 COMMITTEE MEMBER MATHUR: Thank you.

17 It seems to me that private equity should be a
18 space where there's great alignment around ESG and CalPERS
19 and our managers, given the longer horizon than a lot of
20 private -- public equity managers have, for example, and
21 sort of without the pressure of short-term reporting and
22 of returns, or profits, et cetera.

23 And given sort of what Ted alluded to earlier,
24 sort of this shift from companies going public to sort of
25 remaining private, or going from public to private, where

1 we have sort of a -- this -- a trend that seems to be
2 occurring at the moment. It seems all the more important
3 that we focus on ESG in private equity.

4 And so I'm really glad to hear about a lot of the
5 efforts that you're undertaking. A couple of questions.
6 One is in the public equity space, we have this set of
7 Global Governance Principles. And it seems to me that a
8 lot of that is really relevant for private equity. Do we
9 apply that in private equity or do we have a similar set
10 of principles in private equity? I mean things around,
11 you know, the composition of a board, for example, having
12 climate competent directors, or human capital management
13 all seem very relevant for private equity?

14 INVESTMENT DIRECTOR GOGAN: What we have done in
15 private equity is we have obviously aligned with UN PRI
16 principles in drafting and putting together our
17 guidelines. But I think as several members of the Board
18 have rightly called out, private equity is evolving in
19 terms of trying to come to a consensus, if you will, as to
20 what the guidelines and the considerations are that
21 they're going to address. And so what we have done is
22 really focused on the UN PRI principles to draft our
23 guidelines to begin with, and serve as a springboard for
24 engagement.

25 But I also want to indicate that we have also

1 developed a relationship with the American Investment
2 Council to understand their principles. They got their
3 start from UN PRI, and they carved out, because this --
4 you're aware, more so than anyone, Ms. Mathur, that UN PRI
5 started in the public equity side of things. And as we've
6 discussed here, private equity certainly has differences
7 in terms of legal structure in how they do business longer
8 term, et cetera.

9 So there was a group that carved out. It's now
10 called AIC that carved out in 2009 that's tried to focus
11 on some private equity specific considerations. And so
12 what we've done in crafting our guidelines is to borrow
13 from both and try to have as broad of a net as we can to
14 just make sure that we're understanding the discourse
15 around ESG issues as this continues to evolve.

16 And I think one thing that our guidelines
17 attempted to call out is that, at this point, as the
18 industry evolves, we want to start with UN PRI, but we
19 want to remain open to other guidelines and bodies of
20 principles as they evolve over time.

21 INVESTMENT DIRECTOR SIMPSON: Yeah. It's Anne
22 Simpson again. I also wanted to make a point about our
23 own principles. When the Board with its ad hoc committee
24 took an enormous amount of time over the last 18 months to
25 revise, refresh, renew the principles, we deliberately

1 restructured them, so they'd be relevant to all the asset
2 classes. And we restructured what was a very large
3 document into 5 core issues, investor rights, Board
4 quality, diversity, corporate reporting, incentives, and
5 regulatory effectiveness.

6 And the reason for doing that was to find a
7 structure, which was going to be relevant to all the asset
8 classes. And in the preamble, we say that they're
9 intended to be a reference point for consideration,
10 notwithstanding all the difference that there is in
11 ownership and control structures. And as some of the
12 basic good work that ILPA is doing, and Christine and her
13 team are working on is getting to that first step of
14 getting the governance improved, because often we can't
15 make assessments on those issues, because we don't have a
16 line of sight, which obviously in the restructuring work
17 and the development of the strategic partnerships, we're
18 going to be in a better position as time goes. But our
19 principles do have that broad -- that total fund scope.

20 COMMITTEE MEMBER MATHUR: Thank you.

21 MANAGING INVESTMENT DIRECTOR BIENVENUE: And just
22 to underscore that, I would just mention that, recall that
23 the principle went from being called the Corporate
24 Governance Principles to the Global Governance Principles.
25 Very important that those apply to the total fund in all

1 the asset classes.

2 Also, very importantly, those went from being a
3 stand-alone Global Governance Policy, Global Governance
4 Principles to actually being subsumed into the Total Fund
5 Investment Policy, so very critically at the level of
6 total fund. And then finally, even what you'll see in
7 Agenda Item 9 is a revision of the principles. Those went
8 through this governance structure of the Governance and
9 Sustainability Subcommittee, again to make sure that all
10 the asset classes are on board and part of it.

11 It's a very -- I completely agree with your
12 points and very important that it's across the asset
13 classes.

14 COMMITTEE MEMBER MATHUR: Thank you. That's very
15 helpful. I did have a couple more questions, if I might,
16 and that is to what extent do we sit on advisory
17 committees for GPs and for funds, and how -- and do we --
18 and how -- and do we bring these issues up in that context
19 as well?

20 INVESTMENT DIRECTOR GOGAN: Absolutely. I'm very
21 glad you asked that question. One of the rights that we
22 typically try to secure with our commitment is the seat on
23 the advisory board, which is referred to as the Limit
24 Partner Advisory Committee.

25 I would say in almost all of the recent

1 commitments that we've done over the last 3 years, we have
2 a seat on the Limited Partner Advisory Committee. We
3 definitely proactively bring up the issue at our meetings,
4 whether it be the Limited Partner Advisory Committee or
5 the annual meeting. What you're seeing is with a lot of
6 the larger firms, they have specific break-out sections
7 just on either responsible investing, sustainability, ESG.
8 They call it a variety of things, but it has a similar
9 feel to it.

10 I will tell you that I was hoping you might give
11 me an opportunity to ask, because our staff has brought it
12 up. And one of the things that they brought up here just
13 in the last couple of weeks is staff reported on a
14 restaurant company diverting 90 percent of its paper waste
15 to recycling uses, and an eyeglass manufacturer used
16 33,000 pounds less raw materials in one year.

17 We're measuring these kind of things, and
18 engaging. It's more -- it's hard to say if it's just
19 environmental, or it's environmental, social, and
20 governance. It really depends on the particular
21 situation. But I will tell you that staff is engaging and
22 regularly reporting out on these things.

23 COMMITTEE MEMBER MATHUR: Great. Very exciting.

24 One last question. Lou gave a description of
25 sort of the internal process and how the information

1 sharing was working internally within the fixed income
2 group. Could you talk a little bit about with respect to
3 private equity?

4 INVESTMENT DIRECTOR GOGAN: Sure. Absolutely.
5 Happy to do that. And so within the -- there's 3 teams.
6 There's an investment management team, there's an
7 underwriting team, and there's the research team. What
8 happens with respect to the underwriting team is when
9 they're putting together a recommendation to make an
10 investment, there is a section in their investment memo
11 discussing the particular ESG considerations that are
12 germane to that particular investment. It's shared with
13 their team, the whole private equity team, and the
14 investment review committee that evaluates whether or not
15 to accept the recommendation to make the investment or
16 not.

17 With respect to these 2 recent examples that I
18 shared with you, what happens is the monitoring and
19 management staff writes together short meeting notes from
20 their engagement with the general partners. And that is
21 shared with the monitoring team, and then that also flows
22 up to the Investment Review Committee, so the entire staff
23 has the benefit of seeing what is being discussed
24 currently across private equity.

25 COMMITTEE MEMBER MATHUR: Terrific. Thank you

1 very much.

2 CHAIRPERSON JONES: Okay. Ms. Yee.

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

4 So given the uniqueness of this asset class, I'm
5 not sure what the answer to this question will be, but --
6 it's just in relationship to the presentation preceding
7 this. And as more GPs adopt ESG policies, and not
8 necessarily the cause and effect being clear, and
9 evaluation kind of taking place in different ways, and
10 involving a diverse array of investments, do you see a
11 point of where we're going to be able to assign an ESG
12 score or just kind of some metric?

13 INVESTMENT DIRECTOR GOGAN: So right now, we
14 actually do, as part of our Manager Assessment Tool, which
15 is a uniform way in which we evaluate all of our funds.
16 There are points that are given towards ESG. And as the
17 industry continues to develop, I would expect that the
18 scoring pool tool would evolve along with the industry.

19 COMMITTEE MEMBER YEE: Okay. All right. Good.
20 Good.

21 And then on slide 22, I was happy to see that
22 over three-quarters of the strategic funds are submitting
23 the template, which is terrific, but a little disappointed
24 at the legacy funds.

25 So I guess what I wanted to ask about the ones

1 not submitting, are we getting the information and the
2 reporting data that we need to incorporate into our
3 CalPERS system?

4 INVESTMENT DIRECTOR GOGAN: And so with respect
5 to the strategic ones, one thing I know that Matt Flynn
6 and Sarah Corr have been here to talk with you about
7 PEARS.

8 COMMITTEE MEMBER YEE: Yeah.

9 INVESTMENT DIRECTOR GOGAN: And so you'll all
10 understand the time that it takes to build the system.

11 COMMITTEE MEMBER YEE: Yes.

12 INVESTMENT DIRECTOR GOGAN: With respect to the
13 ILPA fee and profit sharing fee template, many firms have
14 had to adopt their accounting systems, not unlike what we
15 had to do with PEARS, in order to be able to provide the
16 reporting for this fee and profit sharing report. So with
17 respect to the strategics, we have understood that
18 although we are receiving it - to your point Ms. Yee -
19 from 75 percent now, the rest of the strategic partners
20 are building systems, whereby we expect to have that
21 information in the very near future for all of the
22 strategics.

23 With respect to the legacy funds, it's really a
24 question of how old some of those funds are. If some of
25 the funds are so old, what we're understanding is that it

1 may not make sense for certain legacy funds to invest the
2 time, effort, and energy to develop the fee and profit
3 sharing template.

4 But our staff is, I assure you, continually
5 engaging with all of our partners, as well as other
6 limited partners to try to drive a broader industry
7 adoption of this fee template, because I think that's
8 really crucial to it serving as the standard for trapping
9 this information on a consistent basis in the future.

10 COMMITTEE MEMBER YEE: Good. I'm glad to hear
11 that. I obviously don't want to lose the momentum on
12 that, so that's great.

13 INVESTMENT DIRECTOR GOGAN: No, we -- I assure
14 you, we focus on it, if not on a daily basis, for sure on
15 a weekly basis, and the entire senior team is very focused
16 on this.

17 COMMITTEE MEMBER YEE: Great. Thank you. Thank
18 you.

19 CHAIRPERSON JONES: Okay. Mr. Jelincic.

20 COMMITTEE MEMBER JELINCIC: I have argued in the
21 past, and will continue to argue, that we ought to develop
22 our standards, and say these are our standards on fees, on
23 ESG, on how you operate. And if you want our money,
24 you've got to agree to meet those standards. So we will
25 continue to have that argument.

1 However, Christine, you mentioned that in the --
2 particularly, the commingled funds, we really have no
3 significant voice in board composition, and that. I mean,
4 we can bug them a little bit, but it's controlled by the
5 GPs. How is it different in the few funds of one that we
6 have created?

7 INVESTMENT DIRECTOR GOGAN: So you're referring
8 to the customized investment vehicles where they're --

9 COMMITTEE MEMBER JELINCIC: Correct.

10 INVESTMENT DIRECTOR GOGAN: -- essentially a
11 separate account?

12 COMMITTEE MEMBER JELINCIC: Yeah.

13 INVESTMENT DIRECTOR GOGAN: Yeah, I think it
14 really depends on the particular legal agreement, but to
15 your point, Mr. Jelincic, if we have a separate account,
16 we certainly have more governance rights there.

17 COMMITTEE MEMBER JELINCIC: Okay. And can you
18 talk a little bit about what additional rights we manage
19 to pick up in those separate accounts.

20 INVESTMENT DIRECTOR GOGAN: Sometimes we have the
21 ability to indicate that we would maybe not go forward
22 with a particular investment, for instance. That's one of
23 the rights. We also -- obviously, another one is we can
24 structure for certain sectors that are of particular
25 interest to us at a time, which gives us more control of

1 the composition of the portfolio.

2 COMMITTEE MEMBER JELINCIC: And I was a little
3 surprised that Ron didn't ask the question, but how do we
4 monitor what impact our private equity portfolio is having
5 on income inequality or do we?

6 INVESTMENT DIRECTOR GOGAN: I don't know that we
7 have the ability to do that in a robust manner at this
8 time. So I think the honest answer to your question is we
9 are not doing that right now.

10 COMMITTEE MEMBER JELINCIC: Okay. Fair enough.
11 I would encourage you to think of how to do it going
12 forward. And then on 22, you're probably going to be
13 surprised that you would get a question about fees from
14 me.

15 The -- one of the -- I'm glad that we're getting
16 progress on the fee template, but one of the other
17 templates was the 2011 fee on sources of information,
18 sources of earnings. And are we making any progress on
19 that?

20 And I'm going to tie it back to PEARS, because
21 one of the things we've been told about PEARS is it will
22 help us do attribution analysis, so we can figure out how
23 we are making our money and where it's coming from.

24 So let me combine both the 2, and you can give us
25 an update on PEARS and an update on the 2011 template, and

1 put them together.

2 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

3 Certainly. Wylie Tollette, CalPERS staff.

4 Overall, the PEARS project is in its final year.

5 We expect to wrap it up by the end of this year, and we

6 have two -- the first two phases are operational being

7 used by Investment Office and Finance Office staff.

8 This last and final phase that we're working on

9 really involves changes that we are implementing within

10 the PEARS system to comply with AB 2833, the fee

11 disclosure rule that is now in effect, and basically

12 calculate and provide reporting around the gross-to-net

13 IRR calculation by investment.

14 So that's sort of a high level PEARS update. As

15 I said, we expect to be done by, I think, December of this

16 year on the PEARS system. The template that you're

17 referring to, I believe you're referring to the capital

18 call and distribution template, which is the other ILPA

19 template that we used to -- basically, whenever we get a

20 distribution from a private equity investment or have a

21 capital call to a private equity investment. And we are

22 still collecting those. We have a very high percentage on

23 the --

24 INVESTMENT DIRECTOR GOGAN: Over 90 percent.

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1 Yeah, we collect a vast -- the vast majority of
2 our cap call and distributions have a template associated
3 with them. And, yes, you're right, that's one of the
4 primary input vehicles we use into the PEARS system for
5 the data.

6 We have 2 years roughly built up of information
7 associated with that capital call and distribution
8 template. And that's not quite enough information to
9 really use. That's not enough breadth of time has elapsed
10 to use to draw terribly helpful information on
11 attribution, but it's getting close. It's getting close.
12 We think after another year of accumulating the data,
13 we'll be able to at least have 3 solid years of
14 information on flows and structures, so that we can begin
15 to use that -- and portfolio company information, so that
16 we can then begin to use that to really draw meaningful
17 attribution information.

18 COMMITTEE MEMBER JELINCIC: Yeah, because we need
19 to know how we are making our money, where is it coming
20 from?

21 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
22 Absolutely.

23 COMMITTEE MEMBER JELINCIC: We need it not just
24 at the fund level, but at the company level. And that's
25 one of the promises you've given PEARS, and I look forward

1 to it. And I can assure you I will ask the question again
2 in less than a year.

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
4 would count on it.

5 COMMITTEE MEMBER JELINCIC: Thank you.

6 CHAIRPERSON JONES: Mrs. Hollinger.

7 COMMITTEE MEMBER HOLLINGER: Thank you.

8 I just want to give a shout-out to staff and let
9 me fellow Board members know I attended a women in private
10 equity event, which probably has all the funds that we're
11 invested in, and 500 representatives.

12 And when it came to ESG, you guys will be
13 shocked, maybe in the room of people who focus, less than
14 15 people showed up. They -- and of those 15, some were
15 European funds, and 2 were focused on emerging managers.
16 So you guys are really fighting an uphill battle in trying
17 to create something in an industry that, you know,
18 hopefully, we're shifting in that direction, but I
19 don't know that everybody really understands the context
20 or enormity, they just are not focused on this issue.

21 But my question, Christine, I know the SEC just
22 came out with a guide -- they're focused and their
23 priorities, and they're focusing on advisors to public
24 pension funds in terms of reporting and looking at our
25 managers and conflicts. Do you think this will impact

1 that industry in terms of coming along?

2 INVESTMENT DIRECTOR GOGAN: You know, it's
3 certainly -- anecdotally, I'll offer you my opinion. And
4 I will say that the SEA -- SEC, pardon me, their recent
5 engagement with private equity firms has done a lot for
6 limited partners in terms of having greater clarity around
7 limit partnership agreements, and how, shall we say,
8 general partners are interpreting the agreements and
9 giving more transparency to limited partners. And so I
10 would only speculate that continued engagement would be
11 beneficial.

12 COMMITTEE MEMBER HOLLINGER: Thank you.

13 CHAIRPERSON JONES: Mrs. Taylor.

14 COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chair.

15 Really, really good report back here. And I just
16 am happy to see, because I know this is such a difficult
17 asset class to integrate this into. And you had mentioned
18 a couple of guidelines that you're using our own, as well
19 as UN PRI to standardize what we do. But on page 18 of
20 35, you talked about what is the broader industry
21 dialogue, and is there consensus around industry
22 standards?

23 So that's my question to you. I mean, you talked
24 about the broader dialogue, but I mean what is it -- that
25 broader dialogue?

1 INVESTMENT DIRECTOR GOGAN: Yeah. Thank you for
2 asking the question. And it relates to what Ms. Hollinger
3 was talking about. The point that we were trying to make
4 is just given the stage at which the private equity
5 industry is combined with the variety of sectors and
6 investments that can be made, there aren't super clear
7 industry standards that are uniformly adopted across the
8 base that facilitate that dialogue.

9 I think Ted and Wylie had talked about SASB
10 earlier. There is definitely the potential for adopting
11 those in the private equity space to sort of, if you will,
12 provide a consistent framework to help with that dialogue.
13 But I think certainly don't want to declare victory to Ms.
14 Hollinger's point. But I think what is going on is,
15 although there were 15 people in the room you were in, you
16 know, 3 years ago there would have been 1 or 2. And so,
17 you know, it takes time, and it takes momentum.

18 When -- and I'm sure Ms. Simpson can correct me
19 if my facts are incorrect here. But in 2006, when UN PRI
20 started I think there were 6 signatories, 6 years later
21 there were 1,000. So I think as people see the value that
22 this engagement provides, you're going to see more people
23 engaged, because they'll understand the value that it
24 provides.

25 So I would -- long-winded way of answering your

1 question. But I think what we're moving towards is
2 something like a SASB to help facilitate a consistent
3 dialogue across the different sectors in private equity.

4 COMMITTEE MEMBER TAYLOR: Okay. Well -- and
5 that's great to hear, because we definitely need that.
6 And then I had kind of a follow-up to J.J. And I wasn't
7 going to -- and it's also a follow up to Mr. Lind, because
8 he talked about the E being new, and that we've done some
9 work on the G and the S, but I kind of see that we, in all
10 of our asset classes - so it could be a question for all
11 of you - that we don't focus on our human capital.

12 And then in addition to that, Mr. Jelincic's
13 point of income inequality. And I know that what we
14 decided on was we were going to do some research, but I
15 think that there are portions of the S, the human capital,
16 that we could be engaging on in any event, whether or not
17 that falls under income inequality.

18 For example, how workers are treated, are
19 we -- is this part of the questionnaire, or the template
20 that you're using for private equity? Is it being
21 included in our global equities? Are we seeing a response
22 to - and I think Ms. Yee talked about this - a nimble
23 response to when violations occur when it comes to workers
24 across the world, not just in this country, but across the
25 world? Are we -- are we responding to that, because I

1 think that's a very important part of our ESG. No, we're
2 not quite there to get income inequality, but that's the
3 bare, you know, blank of where that starts, I think.

4 So anybody?

5 CHIEF INVESTMENT OFFICER ELIOPOULOS: That's a
6 very big question --

7 COMMITTEE MEMBER TAYLOR: It is.

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- in terms
9 of how to respond to all working conditions across the
10 globe. It's a big playing field. We have a very specific
11 policy in our real estate portfolio and our Responsible
12 Contractor Policy.

13 COMMITTEE MEMBER TAYLOR: Right.

14 CHIEF INVESTMENT OFFICER ELIOPOULOS: It's a very
15 specific policy. We have in our principles, as we'll see
16 later, standards regarding human capital that are meant to
17 be used across the entire portfolio. In fact, we used it
18 in the context of the Dakota Access Pipeline engagement.
19 So those principles are there to be used as engagement
20 opportunities. And often, they come up in the context of
21 either abuses or potential abuses that we see in the
22 marketplace globally. And we use that principal screen to
23 see where we might engage, both in the public company
24 context where we have from time to time, as well as in the
25 private context. You'll note that we've had several

1 public speakers here from time to time over the past few
2 years in terms of human capital issues within private
3 equity portfolio companies, and we regularly follow up
4 with the general partners on those.

5 So it's a combination of having a set standard of
6 principles and then applying them to conditions as they
7 arise.

8 COMMITTEE MEMBER TAYLOR: And you said later on
9 in the report you have the principles?

10 CHIEF INVESTMENT OFFICER ELIOPOULOS: They're the
11 very next agenda item.

12 COMMITTEE MEMBER TAYLOR: Oh, there you go.

13 INVESTMENT DIRECTOR SIMPSON: I also wanted to
14 flag another piece of work with our partners. As the
15 Board will remember, when there were the tragedies in
16 Bangladesh, the garment workers several years ago, many
17 lives lost, it really raised this question about the
18 supply chain, which took us back to companies which
19 weren't even aware that they had people putting together
20 their garments, and even less idea about really what was
21 going on with health and safety.

22 Out of discussions with fellow investors, we
23 helped to develop a framework on human capital management
24 to use as a tool for talking to companies when we needed to
25 talk about these issues, because as Ted said says,

1 these -- it's often when tragedy is brought to your door
2 step, that we're called upon to respond. But we wanted
3 some framework, which was aligned with our Investment
4 Beliefs that would enable other investors, as well as
5 ourselves, to work together.

6 I'm very pleased that the Human Capital
7 Management Group was formed with about 9 -- I think, just
8 under 19 different investors, and it's now chaired by
9 VEBA, which again I think is a wonderful example of where
10 an issue can come to us, we can do some work on a
11 framework. And we found it's been very effective engaging
12 other companies on human capital management issues.

13 So those sorts of frameworks are really
14 important, because they translate what can often sound
15 very vague, aspirational language into something specific
16 that you can take to a company and ask for information.

17 COMMITTEE MEMBER TAYLOR: Great. Thank you.

18 CHAIRPERSON JONES: Thank you.

19 Mr. Lind.

20 COMMITTEE MEMBER LIND: Yeah, just quickly with
21 respect to the income inequality piece. Our 5-year plan
22 that we looked at earlier this morning included work
23 around income inequality, research, and then potentially
24 looking at an action plan based on that research, so that
25 action plan may include details around integration with

1 the private equity or other asset classes, I think.

2 CHAIRPERSON JONES: Okay. That's the end of the
3 questions on that one, we will now move to who's next?

4 MANAGING INVESTMENT DIRECTOR BIENVENUE: We're
5 moving on to real assets next.

6 CHAIRPERSON JONES: Okay.

7 MANAGING INVESTMENT DIRECTOR BIENVENUE: So I'll
8 pass it over to Rina.

9 INVESTMENT MANAGER LESSING: Thank you. Good
10 morning. Rina Lessing, Investment Manager with Real
11 Assets.

12 --o0o--

13 INVESTMENT MANAGER LESSING: It's a pleasure to
14 be able to present to you today. So for real assets, our
15 ESG integration efforts continue to evolve. We have
16 incorporated the Sustainable Investment Practice
17 Guidelines into our procedures manual. We have seen the
18 ongoing adoption and implementation by staff, and
19 increased engagement with managers regarding ESG risks and
20 opportunities.

21 Real assets has supported the development of ESG
22 related tools, metrics, and analysis. And infrastructure
23 staff developed a proprietary ESG consideration matrix. A
24 similar tool is under development and being finalized for
25 real estate.

1 We also assess the capabilities of managers to
2 incorporate ESG issues with an ongoing review of our
3 Responsible Contractor Program Policy compliance, and
4 reported energy use into ULI Greenprint.

5 This year, we will be able to review results from
6 the Global Real Estate Sustainability Benchmark survey,
7 otherwise known as the GRESB survey, for real estate and
8 infrastructure managers.

9 So on to the next slide.

10 --o0o--

11 INVESTMENT MANAGER LESSING: One of the potential
12 benefits of utilizing the GREBS -- GRESB survey is the use
13 of standardized ESG aspects. GRESB collects ESG data
14 around management, policy and disclosure, risks and
15 opportunities, monitoring and energy management systems,
16 performance indicators, certifications, and stakeholder
17 engagement.

18 --o0o--

19 INVESTMENT MANAGER LESSING: On the next slide,
20 we've provided a couple of examples of ESG integration in
21 our portfolio. One is an office asset, City National
22 Plaza, consisting of two 51-story buildings in downtown
23 Los Angeles.

24 ESG strategies incorporated into the business
25 plan included an update to the lighting system, better

1 controls for equipment, and installing efficient water
2 fixtures. These efforts resulted in a 38 percent
3 reduction in annual energy use, 40 percent reduction in
4 annual water use, and approximately 4.3 million in annual
5 savings.

6 --o0o--

7 INVESTMENT MANAGER LESSING: The next example is
8 Desert Sunlight, an infrastructure investment in a solar
9 powered generation project in Riverside County, California
10 serving approximately 160,000 homes and displacing about
11 300,000 tons of CO2 annually.

12 --o0o--

13 INVESTMENT MANAGER LESSING: And last -- on the
14 last slide, looking forward, we are planning for the
15 roll-out of GRESB across Infrastructure and Real Estate.
16 In the coming year, we look forward to engaging with our
17 managers across the portfolio on sustainable investment
18 aspects, performance, and benchmarking.

19 In addition, we have launched the Energy
20 Optimization Research Initiative with the objective of
21 identifying portfolio priorities in this area, as
22 mentioned in our Real Assets Strategic Plan.

23 And with that, I'm happy to take any questions.

24 CHAIRPERSON JONES: Okay. Seeing no questions on
25 that item, we'll move to the next one.

1 --o0o--

2 INVESTMENT MANAGER NZIMA: Chairman Jones,
3 members of the Investment Committee, good afternoon. My
4 name is Simiso Nzima, Investment Manager, Global Equities.

5 Please bear with my raspy voice today. I seemed
6 to have caught the bug.

7 Starting on slide 31, basically what I'm showing
8 here is the 4 channels via which we integrate ESG into the
9 global equity portfolios, active ownership or governance,
10 responsible investments, sustainable investments, and
11 manager expectations.

12 Today, I'll only focus on 2 of those 4 channels,
13 the active ownership channel, as well as the manager
14 expectation channel.

15 --o0o--

16 INVESTMENT MANAGER NZIMA: Moving on to slide 32.
17 Again, using the same framework that my colleagues are
18 using the same UN PRI framework. On active ownership,
19 really this is the core work of the corporate governance
20 team. Active ownership allows us to maintain a seat at
21 the table, and as a result, offers us the opportunity for
22 dialogue and engagement to improve our corporate conduct.

23 Staff engages companies on ESG risk and
24 opportunities through the 3 channels of proxy voting,
25 shareowner campaigns, and corporate engagement.

1 The beauty of this approach really is it allows
2 us to leverage both internal and external partnerships, a
3 number of trade organizations externally. And internally,
4 again going back to the theme of the day really, if you
5 look at the Governance and Sustainability Subcommittee,
6 the proxy working groups, those actually made up of staff
7 across the enterprise, and relays that in the issues when
8 we're discussing some of the work that we're doing in
9 corporate governance.

10 One example of that is an example on the Montreal
11 Pledge, where we're coming up with the engagement agenda
12 on this. We have Divya Mankikar who's actually sitting
13 here, and Craig Rhines, working together to come up with
14 engagement objectives, and, even on a only weekly basis,
15 Anne and I meet to talk about the 2 areas in terms of the
16 hub, as well as the corporate governance to see what is
17 out there, what are the things that we're thinking about,
18 how to resource for certain activities and things like
19 that. So that's on the active ownership approach.

20 At the February 13th Investment Committee
21 meeting, I presented the 2017 workplan for the Corporate
22 Governance activity. And I'll be back here towards the
23 end of the year to present the results of the workplan.

24 --o0o--

25 INVESTMENT MANAGER NZIMA: Moving on to slide 33,

1 this really talks about partnership expectations. And one
2 thing I want to emphasize here is the breadth of, you
3 know, the people involved in this area. So manager
4 expectations do not fall under the corporate governance
5 team. They fall under the portfolio evolution and
6 strategy analysis team.

7 This is a team that is responsible for the
8 oversight on all internal and externally managed
9 portfolios in global equity. And this team holds both
10 internal portfolio managers, as well as external portfolio
11 managers accountable to the Global Equity Sustainable
12 Investment Practice Guidelines.

13 And in terms of the activities in there, there's
14 the selection, contracting, monitoring and management, and
15 ongoing activities. But I'll focus on the monitoring and
16 management.

17 Over the past year or so, as staff has been
18 acquiring and integrating analytical tools to be able to
19 monitor the global equity portfolio, both on an aggregate
20 level, as well as individual portfolios. So on a monthly
21 basis, they generate reports from MSCI ESG manager, which
22 scores the global equity portfolio, both at an individual
23 level as well as the aggregate portfolio on E, on the S,
24 as well as on the G.

25 Once these reports have been generated, they are

1 then uploaded to an ESG trend dashboard. So this is the
2 dashboard that tracks the ESG scores for the portfolio on
3 a rolling 12 month basis. So staff is able to see
4 graphically in terms of the trend on ESG scores for those
5 portfolios.

6 If staff actually identifies an outlier, staff
7 then carries out further report, where they're using
8 assessed analytics or E -- MSCI ESG Manager Database to
9 drill down to the key issue causing that outlier, as well
10 as to the exact company.

11 Once staff has this information, they'll then
12 engage the portfolio manager, 1, to make sure that the
13 portfolio manager is aware of the issue; 2, to make sure
14 that if the portfolio manager is aware of the issue, are
15 they actually pricing this into their risk models, because
16 again the thing -- when we look at active ownership is
17 there could some issues associated with bad governance,
18 but we want to make sure those issues are actually, you
19 know, priced into the risk systems, and then also ask the
20 manager whether there's an engagement plan.

21 --o0o--

22 INVESTMENT MANAGER NZIMA: I'll move on to slide
23 34. Just like my colleagues did, I'll provide 2 examples
24 from external managers in terms of applying ESG
25 integration. The first example really shows the idea of

1 active ownership, active engagement, where the Manager I
2 went in and engaged the company.

3 And the second example, this is where you look at
4 actually pricing the ESG factors where, from a fundamental
5 analysis, a factor-based analysis, the company looked
6 really a good candidate for investment. But once an ESG
7 screen was applied there, you could -- the manager
8 realized that there were issues that were not priced in
9 that company's price, so they ended up not investing in
10 the company.

11 I'll move on to slide 35.

12 --o0o--

13 INVESTMENT MANAGER NZIMA: So this really shows
14 some of the activities around the surveys that we do. We
15 have an annual survey, which we actually do with managers.
16 And this survey is actually shared with the corporate
17 governance team in terms of actually the design of that.
18 So we have that again cooperation between the Corporate
19 Governance team, as well as the portfolio evolution and
20 strategy team.

21 But one thing that I want to emphasize on GEs on
22 the next steps in talking about the Global Equity ESG
23 Research Project, it was the end of February this year,
24 global equity launched a request for information RFI to
25 get information from managers out there on investment

1 strategies, which have investment efficacy that integrate
2 ESG.

3 Again, this is part of our -- you know, our
4 learning and developing and looking out there to see
5 what's going on in the market.

6 With that, I'll pause and take any questions.

7 CHAIRPERSON JONES: Okay. Mr. Jelincic.

8 COMMITTEE MEMBER JELINCIC: Some managers have
9 said they done particularly like --

10 CHAIRPERSON JONES: Hold on, J.J.

11 COMMITTEE MEMBER JELINCIC: Some managers have
12 said they don't particularly look at ESG, because they're
13 not really convinced that it has an impact on security
14 pricing.

15 My question is have we ever fired a manager for
16 paying insufficient attention to ESG issues?

17 INVESTMENT MANAGER NZIMA: Thank you for the
18 question. I think -- so this is a relatively new area in
19 terms of the surveys and -- something which has happened
20 in the last 2 years or so. And so we're working through
21 that. I don't believe we've ever fired a manager for not
22 looking at ESG issues.

23 But one thing that I would like to point out is
24 that sometimes the difference is how people view what ESG
25 is. Because if you look at fundamental managers, the work

1 that you actually do when you are looking at a company,
2 you're looking at corporate reporting, you're looking at
3 strategy, you're looking at, you know, a lot of those
4 issues, actually ESG issues.

5 So when you ask someone and say, are you
6 incorporating ESG, they may say no. But if they're
7 actually carrying out fundamental equity analysis, they're
8 a fundamental stock picker, then they actually are. You
9 know, they may not realize it.

10 So it -- again, it depends on the strategy that
11 the manager is using, because if it's a quantitative
12 manager, that's a different area, but if it's a
13 fundamental stock pick again, you know, they are
14 incorporating that without maybe explicitly referring to
15 ESG.

16 COMMITTEE MEMBER JELINCIC: Thank you.

17 MANAGING INVESTMENT DIRECTOR BIENVENUE: The only
18 thing I would -- I would add to that is that similar to
19 what Christine was saying earlier that it is part of
20 our -- in global equity our Manage Assessment Tool. So as
21 we're looking at managers both in looking to create
22 contracts or, you know, looking for a new manager, but
23 also in monitoring our existing, this is very much a part
24 of the score. And, you know, kind of to lose point on the
25 investments, you know, ESG is a consideration. It's one

1 of many. It's part of the mosaic as we try to make the
2 best investment decisions that we can. But it is a
3 critical part, it gets a score, and we have -- you know,
4 we -- that score definitely contributes to the overall
5 score that decides on selection or not.

6 COMMITTEE MEMBER JELINCIC: Thank you.

7 CHAIRPERSON JONES: Yeah, I just want to applaud,
8 Ted, you and your staff for the outstanding work that you
9 have done, and continue to do in the ESG space. It's
10 evident that you and your staff have taken a leadership
11 role in this area, because Ms. Gogan's response to Ms.
12 Hollinger about a few years ago 1 person was in the room,
13 but now there's 15. So next year, it may be 30.

14 And I've experienced that with Ms. Simpson when
15 we were dealing with the 3D, corporate board of directors.
16 I was engaged in a dialogue at one of her meetings at CII,
17 and the first one we had I said, "Where are the people?
18 Did you sent out an invitation?"

19 (Laughter.)

20 CHAIRPERSON JONES: And then a couple years
21 later, it was standing room only. They had to bring in
22 chairs. So I -- it does take time, but I know that you
23 guys are doing outstanding work, but it just takes time to
24 have that permeate throughout the industry. So I just
25 want to congratulate you on fine work you're doing.

1 Okay. Mrs. Mathur.

2 COMMITTEE MEMBER MATHUR: Thank you.

3 Well, I want to thank you for really sharing how
4 information is shared between intern and external managers
5 around key risks or ESG risks with respect to individual
6 companies. That was interesting. And so I wanted to
7 actually ask a question of Ms. Lessing. And I guess I
8 didn't hit my button quite fast enough on real estate. So
9 can I go back to real estate?

10 CHAIRPERSON JONES: Okay. Sure. Sure.

11 COMMITTEE MEMBER MATHUR: I was wondering if you
12 could just talk a little bit more similar to the question
13 that I asked of fixed income and private equity, sort of
14 how the internal process goes, how you're sharing
15 information, how you're learning from reach other
16 internally?

17 Obviously, there's the sustainability --
18 governance and sustainability working group too, but
19 within fix -- real assets.

20 INVESTMENT MANAGER LESSING: So one of the ways
21 we're sharing with each other is we have ESG as a regular
22 agenda item with our external managers on a quarterly
23 basis, along with other topics. And we will get together
24 and share sector updates among our staff, which includes
25 an outline of any ESG issues or opportunities of things

1 that have been discussed.

2 Another way that we share, and this is more, I
3 guess, how we encourage our managers to share amongst each
4 other. We're sort of learning more how to do that. One
5 example of that is with our ESG -- I'm sorry, with our
6 Energy Optimization Research Initiative. We'll hold
7 roundtables which will have staff and external managers,
8 kind of different property types, industry experts, and
9 just have a -- just an open exchange of ideas.

10 But I think it's something we still continue to
11 work on. It was one of our, kind of, lessons learned that
12 we could do some more sharing. When we get reports back
13 from our managers, when we're seeing their energy
14 consumption, what are they doing best practices wise?
15 It's something that we can certainly do more -- do more.

16 COMMITTEE MEMBER MATHUR: Thank you.

17 If I -- and then I just wanted to make sort of a
18 broad comment. Real ESG integration is sort of the gold
19 ring for investors, I think. And it's something that none
20 of us, nobody, has fully mastered yet. And I'm just so
21 pleased with all of the progress and the focus, and
22 attention, and energy that CalPERS is putting into this
23 effort. It is very hard to do, I think.

24 And I know some of the largest, you know, asset
25 owners in the world are also similarly trying to do this

1 in an effective way. So I really just want to say how
2 pleased I am with this strong start. And I know that
3 we're going to continue to learn and continue to evolve,
4 but I really appreciate all of your efforts.

5 So thanks.

6 CHAIRPERSON JONES: Ms. Lee -- Yee.

7 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.
8 I also wanted to go back to real estate for a moment,
9 because there was, I think, a bit of reliance on the
10 sustainability benchmark that is being developed. And I
11 guess my question is if the -- if the system doesn't meet
12 the needs of the project, is there -- are there
13 alternatives that are available that we could use?

14 INVESTMENT MANAGER LESSING: This is in terms of
15 evaluating tools. You know, it is -- we are certainly
16 early in evaluating GRESB. We had -- we're a co-founder
17 of GRESB infrastructure, and so we -- on the
18 infrastructure side of things, I think we're helping to
19 develop the survey.

20 On real estate side, we do have a seat on the
21 advisory board, and we'll continue to take a look at the
22 questions being asked. There's 42 questions being asked,
23 many subquestions. We may or may think some are really
24 more applicable to our portfolio than others. So I think
25 we will continue to be open-minded about evaluating other

1 tools to assess ESG in our portfolio. And we're -- we're
2 early in -- in seeing once we -- once we get assessment
3 reports back from GRESB, what it -- what it allows us to
4 use them for and engaging with our managers on various ESG
5 aspects.

6 COMMITTEE MEMBER YEE: Okay. But you're not
7 worried -- I mean, there's a lot out there that still can
8 be drawn from to develop what we need?

9 INVESTMENT MANAGER LESSING: I think so. And I
10 also think we can learn from our fellow asset classes,
11 and, you know, SASB and see, you know, what's -- how this
12 is evolving and are we able to -- are the tools we are
13 using adapting to what the industry is doing.

14 So I think we were open-minded and we are -- we
15 have a, I guess, a seat at the table on the advisory
16 board, so...

17 COMMITTEE MEMBER YEE: Okay. Good.

18 And then I really like the slide 35 that we ended
19 with that speaks to some best practices, and one of which
20 is speaking about the -- tying integration to incentive
21 compensation.

22 Do you see a point of where that actually, since
23 we're all trying to move towards integration, to where
24 that may not be a benefit, or are we still -- or is it
25 still mostly viewed as a potential benefit to incentivize

1 integration?

2 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
3 might be able to respond to that, Controller Yee. We
4 have, in fact, incorporated ESG-related performance
5 objectives into many of the Managers and Investment
6 Directors and Managing Investment Directors, and COIOs,
7 and CIOs for the Investment Office to date. And we think
8 that is the right thing to do, and we think it aligns all
9 of our interests around this effort.

10 COMMITTEE MEMBER YEE: Uh-huh. Will we ever get
11 to a point of where that doesn't need to happen?

12 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
13 That's a -- that's a great question. I'm not
14 sure. I think it's fair to say that people respond to
15 incentives.

16 COMMITTEE MEMBER YEE: Sure.

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: And
18 so I think that I would advocate that you get what you pay
19 for. And so that -- this may be an area that you want to
20 continue to look at and focus and structure, so as to
21 align individual incentives with the organizational
22 incentives.

23 COMMITTEE MEMBER YEE: Okay. Good. Thank you.

24 CHAIRPERSON JONES: Okay. Mr. Costigan.

25 COMMITTEE MEMBER COSTIGAN: Just a couple quick

1 observations. I do want to thank all of you all for the
2 work you have done. I know on one hand it looks like
3 we've moved a little slowly. On the other, I'd like to
4 say I started working on this issue back in 2003 after the
5 recall. And if you recall, Governor Schwarzenegger
6 carried on after Senator Pavley's tailpipe emission bill.
7 And then with the introduction of AB 32, the Renewable
8 Portfolio Standard, SB 1, and many of the other policies
9 that Governor Schwarzenegger put into play.

10 So I don't want it lost on some of the policies
11 that California adopted over a decade go -- actually now
12 16 years ago, that we're now seeing come to full fruition.
13 Because I recall when we were doing AB 32, there were lots
14 of discussion about this would never happen. You would
15 never be able to get the reporting. You'd never be able
16 to reduce the emissions.

17 And then when we SB 1, which was the solar -- the
18 million solar roof initiative, and also in conjunction
19 with the California Public Utilities Commission, no one
20 believed that we would drive down the price of solar. No
21 one would believe that would actually be able to put the
22 rooftop on, and, in effect, we did.

23 And then the same thing with renewable -- with
24 vehicles. No one assumed that we'd be able to use the PUC
25 surcharge. And so again, the fact that you all are

1 showing this on the back-end really shows when you start
2 with a public policy, and the implementation.

3 So I know I ask lots of pointed questions, but
4 again it's just because I almost have a 2 Decade history
5 of working in this space. And I remember being on the
6 front end and taking a lot of arrows as to where we would
7 eventually start, and where we've ended. So thank you all
8 very much for this great report.

9 Thank you.

10 CHAIRPERSON JONES: Mr. Moore.

11 ACTING COMMITTEE MEMBER MOORE: I just had a
12 quick question for Simiso on slide 35, your conclusions.
13 On the best practices that you came up with looking at the
14 survey summary, number -- the third from last one,
15 integration tied to incentive compensation structure.
16 What exactly is that and can you describe it a little bit
17 for me, please.

18 INVESTMENT MANAGER NZIMA: Thank you for the
19 question. So this is when we engage with managers. And
20 part of the survey that we ask them is, you know, where
21 the incentive for the portfolio manager is tied to the ESG
22 integration. So our survey when we look at it, it really
23 looks at the policy and processes, whether they actually
24 have policy and processes, and the resources that actually
25 putting aside to the integration of ESG in the investment

1 decision making.

2 And so part of that ties to you have the
3 resources in terms of humans, human capital, but also, you
4 know, in terms of tying the compensation of those
5 resources to the integration of ESG.

6 ACTING COMMITTEE MEMBER MOORE: So you've seen
7 that across some of the companies you've been looking at?

8 INVESTMENT MANAGER NZIMA: I don't think it's all
9 companies. I think -- I think it's some of the companies,
10 not all of them.

11 ACTING COMMITTEE MEMBER MOORE: Thank you.

12 CHAIRPERSON JONES: Okay. Thank you. That's the
13 last question on this item.

14 So now we will move to the next item on the
15 agenda, which is Global Governance Principles.

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: We're
17 moving chairs a bit.

18 (Laughter.)

19 CHAIRPERSON JONES: Okay.

20 CHIEF INVESTMENT OFFICER ELIOPOULOS: We'll
21 reassemble -- we've turned into a quartet.

22 (Thereupon an overhead presentation was
23 presented as follows.)

24 CHAIRPERSON JONES: And we've got some other
25 guests.

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: So, Anne,
2 why don't we -- this -- so this is the annual review of
3 our global principles. So in our policy, we bring back
4 the principles once a year for review. Now, of course,
5 this year follows the rather intensive subcommittee work
6 we did on the principles last time. So as part of that
7 process, we adopted a parking lot of issues. That parking
8 lot of issues is listed as Table 1 in your agenda item.

9 And what we'd said at that time is that we would
10 tackle a handful of those parking lot issues every year as
11 we came back over the last 5 years. And circled in red
12 are the -- are the parking lot items that we took a look
13 at, and are proposing language to address those topics
14 this year.

15 INVESTMENT DIRECTOR SIMPSON: Thank you very
16 much, Ted.

17 Could you click the clicker, Wylie.

18 --o0o--

19 INVESTMENT DIRECTOR SIMPSON: Thank you. You see
20 it's team work all around. If we could go to slide 4,
21 because -- I have one job says Wylie. Well, it's one you
22 do very well, so that's good.

23 --o0o--

24 INVESTMENT DIRECTOR SIMPSON: Slide 4, because I
25 think that Ted's introduction covered the first few

1 slides. What we've done here is show the list of topics
2 that were raised during the review of the principles.
3 We've grouped them by theme, according to our core issues.
4 And what we want to do today is present to you some
5 language, which picks up a series of concerns around the
6 topic of capital allocation.

7 If we could go to the next slide.

8 --o0o--

9 INVESTMENT DIRECTOR SIMPSON: We think the
10 language that we currently have implicitly gives the Board
11 responsibility for capital allocation. We touch on it.
12 But the reason for really the deeper thinking, and more
13 language on this topic right now is because in the U.S.,
14 our largest capital market it's expected that there will
15 be a significant repatriation of capital, which is
16 currently held overseas. Certainly, the newest
17 administration has highlighted that as an objective.

18 So the question is as money comes back to the
19 U.S., what is the highest and best use of that capital?
20 There's been a lot of consideration about the potential
21 impact of certain choices, like share buybacks on
22 executive compensation. And this is where, in the best of
23 intentions, investors have pushed over many years to have
24 EPS and total shareholder return targets built into
25 executive compensation plans, because these can be

1 inflated when there's a decision on a share buyback.

2 We've also seen some research which shows that
3 companies don't time share buybacks as well as they might.
4 No overall criticism there. Timing the market is a fool's
5 game. We know it's an extremely difficult thing to do.

6 But there's also other dimensions to capital
7 allocation, which have real importance to CalPERS.
8 Obviously, the investment for long-term value creation is
9 something that's at the heart of the Investment Beliefs.
10 Also, there are other ways of deploying capital
11 productively, be it paying off debt, mergers and
12 acquisitions that are part of the company's long-term
13 strategy, and obviously dividends, which are an
14 alternative to the share buyback model.

15 Although, there are some wrinkles in that,
16 because of the differential tax treatment as we all know.
17 So the approach that we've taken on this language is,
18 first of all, to acknowledge that this is a Board
19 responsibility. That's important, because we know that
20 some activist activity has focused on capital allocation.
21 And we feel very strongly this isn't something you can
22 work out on the back of an envelope. It's got to be
23 integral to the strategy of the company.

24 So first, we're asking for is companies to set
25 out their policy on capital discipline, explain how the

1 Board monitors and makes assessments for alternative
2 potential uses of capital, and then to disclose this with
3 the financial filings. And the reason for that is that it
4 would make sure that this process goes across the desk of
5 the CFO, and one hopes also the audit committee too.

6 On the disclosure, just to tie this in very
7 carefully to the question of incentives, we're
8 specifically asking the company to disclose if there is an
9 impact on executive compensation, of the choice that's
10 been made; and secondly, how they're addressing that
11 potential conflict of interest.

12 So if we did have this information, I certainly
13 think it would be valuable to us in understanding
14 long-term value creation. And I hope also that this sort
15 of disclosure would give us an opportunity to help
16 companies fix their attention to the long term, because
17 certainly the uses and abuses of short-term capital
18 deployment are at the heart of discussions about being
19 long term.

20 So with that, I'd be glad to answer any
21 questions.

22 CHAIRPERSON JONES: Okay. Mrs. Mathur.

23 COMMITTEE MEMBER MATHUR: Well, thank you. I do
24 think this is important. I think -- I particularly
25 appreciate the piece about tying it to executive

1 compensation plans and trying to at least get disclosure
2 on where there might be conflicts or incentives for CEOs
3 to pursue share buybacks, and other capital allocation
4 strategies.

5 And I do think that this is actually also
6 coherent with sort of our thinking around -- or our
7 beginning process around economic inequality. Because I
8 think one of the questions around capital allocation is,
9 is capital best allocated in a short-term way back to
10 investors, or shareowners, through share buybacks or is it
11 better invested in the human capital of the company?

12 And so I think, you know, I'm sure this will
13 continue to evolve, but I think this is a really important
14 first step. So thank you for doing that.

15 I have one question about the areas for future
16 review and development on page 4. One thing that has
17 arisen recently, and you and I have discussed this, and
18 Ted too, is non-voting shares and master trusts, and sort
19 of what are the implications for us? And we don't
20 currently have that on this list, but whether it's
21 appropriate there. I think maybe we want to add it. I
22 know you've already been doing some thinking around this.
23 I don't know if you want to address that at this time.

24 INVESTMENT DIRECTOR SIMPSON: Yes. Thank you.
25 To be fair, this list was meant to be new topics. And I

1 think the long-standing CalPERS principle of one share one
2 vote is, if you like, that's a foundational piece. I
3 think what we're finding with the -- certainly, with the
4 recent IPO of Snap, and the engagement that we entered
5 into through CII, in an attempt to persuade the company
6 that it would be better to conform with standard
7 governance in the U.S. market, all of that, but also
8 through the master limited partnerships that are being
9 increasingly used in the energy sector.

10 I think we've got to revisit this question of how
11 we can balance capital formation, upon which we rely for
12 returns in public markets with investor protection. And I
13 was glad that at the SEC investor advisory group, as Ted
14 mentioned earlier, this was one of the 2 topics on the
15 agenda last week. And there was some, I think, very
16 important debate that began about what are we going to do
17 about private markets, which are a opaque, richly
18 rewarded. And the public markets where we have the
19 incredible shrinking number of IPOs, not just in the U.S.,
20 but around the world.

21 So I think this is a bigger topic about capital
22 markets that we need to enter into, because, you know, we
23 are being challenged on one of our fundamental tenets of
24 investor protection. And if we can't turn to regulators
25 to fill that gap, which we can't, we're left with sell

1 your shares or sue. And sell or sue is where we were 30
2 years ago when the corporate governance movement began.
3 We've worked very hard to win voting rights on board
4 accountability. So really this is an important topic.

5 But if we make some space for that, which I think
6 Ted and I were talking about this the other day, we both
7 agree this is a size -- there are seismic shifts. They're
8 so perhaps imperceptible, but they are fundamentally going
9 to affect us on investor protection internationally, not
10 just here. So I think that's something we need to look at
11 on the research agenda, not -- not in the next week or so,
12 but Ted your thoughts.

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: And
14 probably not in the form of the principles language, as
15 Anne just said, but it is a area for both research and
16 partnership, and perhaps engagement over time that
17 we're -- it's on -- is on the table for discussion.

18 COMMITTEE MEMBER MATHUR: Thank you.

19 I -- my iPad just died on me, but is it
20 appropriate at this time to also -- are you going to talk
21 about the Dakota Access Pipeline or is that --

22 INVESTMENT DIRECTOR SIMPSON: Yes.

23 CHIEF INVESTMENT OFFICER ELIOPOULOS: What we're
24 hoping to do is maybe finish on the principles --

25 COMMITTEE MEMBER MATHUR: Okay.

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- and the
2 parking lot, and the proposed language, and then move to
3 the Dakota Access Pipeline once that's finish, if
4 that's --

5 COMMITTEE MEMBER MATHUR: That's fine. Then I'm
6 happy to move the staff's recommendation on the
7 principles.

8 CHAIRPERSON JONES: This is an information item.

9 COMMITTEE MEMBER MATHUR: Oh, this is just an
10 information item?

11 CHAIRPERSON JONES: Yeah

12 COMMITTEE MEMBER MATHUR: Oh, I'm sorry.

13 INVESTMENT DIRECTOR SIMPSON: Yeah.

14 COMMITTEE MEMBER MATHUR: As I said, my iPad just
15 died on me, so forgive me.

16 (Laughter.)

17 CHAIRPERSON JONES: You're ready to go.

18 (Laughter.)

19 INVESTMENT DIRECTOR SIMPSON: What our thinking
20 here is that this is going to be attached, as Dan
21 mentioned, to the new Total Fund Policy, which is
22 wonderful progress, because it means sustainable
23 investment will be part of the overarching policy for the
24 total fund. So the idea is subject to any changes or
25 advice on this language, we would attach it for action

1 when the Total Fund Policy comes back to you for its final
2 review.

3 I do want to also flag that we're proposing a
4 name change, which is to make this -- these principles
5 reflect the 5-year plan, and the terms of the Committee
6 that we've -- that we've developed to implement, which is
7 to go from calling it Global Governance Principles to
8 Governance and Sustainability Principles.

9 So I didn't want that to go through. There might
10 be Board members who feel very attached to the current
11 title. So we'd like your -- any comments on that, too.

12 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

13 And you'll have a chance to vote on the actual
14 language on this in April when the Total Fund Policy that
15 Anne just mentioned comes back to the Investment
16 Committee.

17 COMMITTEE MEMBER MATHUR: Thank you. All right.
18 Thanks.

19 CHAIRPERSON JONES: Okay. Mr. Jelincic.

20 COMMITTEE MEMBER JELINCIC: I won't harp on the
21 one share one vote. But if we believe that, then we
22 shouldn't be investing in things that don't comply with
23 that.

24 And I do want to commend CII for at least
25 starting a conversation with the index people about the

1 issue, because one of the -- when I asked the question at
2 CII, it was well, it creates tracking error. So let's
3 track the right thing.

4 But on the new language in capital allocation, I
5 like this, but there seems to be one thing missing, and
6 that is an explanation of why they made the decision. I
7 mean, we've said, you know, tell us what your policy is.
8 But when you actually make a specific implementation of
9 that process, why? And it just seems to be missing in
10 here. So I'll let you think about that, and maybe next
11 time.

12 INVESTMENT DIRECTOR SIMPSON: Yeah, let's think
13 about that.

14 COMMITTEE MEMBER JELINCIC: So thank you.

15 CHAIRPERSON JONES: Okay. Mrs. Yee.

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

17 Actually, just kind of along the lines of Mr.
18 Jelincic's point. If this is to help us better understand
19 long-term value creation, I do think there needs to be
20 some explanation. So I would support some additional
21 thought on that.

22 I am thrilled about the name change, so thank
23 you.

24 INVESTMENT DIRECTOR SIMPSON: Good.

25 COMMITTEE MEMBER YEE: And I wanted to just

1 comment about a couple of other issues on the parking lot
2 list, if I could. It seems to me there are a couple of
3 these that probably are going to be informed by a lot of
4 the work that will continue, based on the presentation we
5 just heard across asset classes.

6 But I just wanted to make a pitch for,
7 particularly the water related or clean air issues,
8 because they're so -- they're becoming more urgent.
9 And -- but I think we're going to learn a lot in the
10 process of engagement as well. So I just wanted to put
11 that out there.

12 INVESTMENT DIRECTOR SIMPSON: Thank you.

13 CHAIRPERSON JONES: Okay. Okay. So seeing no
14 further questions on that, we have the Wilshire, do you
15 have any comments on this item?

16 MS. DEAN: Nothing, other than to add that as we
17 pointed out in our opinion letter, this is a sort of a
18 living document, and risks, and markets change and
19 regulatory -- that this is a living document and as the
20 market environments and risk change that this should be,
21 you know, considered an ongoing work.

22 This is Roses Dean from Wilshire.

23 CHAIRPERSON JONES: Okay. Well, thank you. Then
24 that -- this item will be back in April attached to the
25 other document.

1 Okay. Thank you for that work.

2 We now move to --

3 CHIEF INVESTMENT OFFICER ELIOPOULOS: Actually,
4 Mr. Chair --

5 CHAIRPERSON JONES: Yeah.

6 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- we had
7 the Dakota Access Pipeline engagement report.

8 CHAIRPERSON JONES: Oh, yes. Yes. That's what I
9 was thinking.

10 INVESTMENT DIRECTOR SIMPSON: Thank you very
11 much.

12 At the last meeting, the Investment Committee
13 directed staff to explore engagement options. So what you
14 have as part of this report on the principles is a report
15 back to what we've been exploring and doing since then.

16 Just to sum up very briefly, you'll recall that
17 the Dakota Access Pipeline is a over 1,000 miles long. At
18 the final stage, there was protests. Important to note
19 the protests came from indigenous peoples, and they were
20 later joined by environmentalists who were flagging
21 climate change issues.

22 What we've focused on here is setting out the
23 details and our ownership exposure in the entity, the
24 master limited partnership responsible for the
25 construction. And we've also given you a brief report on

1 the conversation that we've had with the master limited
2 partnership.

3 The dialogue that we've initiated with the
4 Standing Rock Sioux Tribe, the beginning of engagement
5 with the banks who are financing not just this, but much
6 of the rest of the pipeline development in this rapidly
7 growing sector, and the potential that we'll be coming
8 forward for the proxy votes.

9 And thank you, Ted, we've, since this report was
10 completed, also had an opportunity to talk to labor, both
11 the AFL-CIO and the Laborers Union, because again, on
12 capital framework, this is an extremely important part of
13 the consideration.

14 What I think you can conclude from this, although
15 we're not making recommendations at this stage, is that
16 because the master limited partnership is structured as
17 such, we do not have voting rights, which mean that we
18 can't pursue our usual course of engagement that we would
19 in situations like this.

20 So what we've done is turn to the banks where we
21 have some significant exposure, around six and a half
22 billion dollars, and begun to engage the lead banks who
23 are financing this. And what we've done in the course of
24 our research on the bank's policies is find that many of
25 them, 13 out of the 17, are signatories to something

1 called the Equator Principles.

2 And the Equator Principles were developed by the
3 IFC, which is part of the World Bank, to require that in
4 the covenants for project finance loans over a certain
5 amount, there should be an environmental impact
6 assessment, and there should be a requirement for free
7 prior and informed consent.

8 Now what it appears on this occasion is there's a
9 question about how those commitments under the Equator
10 Principles rolled through into the decision for the Dakota
11 Access Pipeline. A number of the banks involved led by
12 Citi and TD, Toronto-Dominion in Canada, have commissioned
13 an independent review of how their principles were, or
14 weren't, or in what way they were applied on this
15 occasion, and to see what lessons learned there might be.

16 And they're also looking with fresh eyes at the
17 whole process of environmental impact assessment and
18 consultation for ETP, the master limited partnership.
19 When that report is completed, I think we'll have another
20 third-party view of what's taken place. I would though
21 like to report that I've been very -- we've really
22 appreciated having the opportunity to speak to management
23 at the master limited partnership. We've had several
24 calls with them. We very much appreciated the leadership
25 of the Standing Rock Sioux Tribe, who made a special trip

1 to come to CII and ICGN, so we could host a meeting for
2 them to talk to investors. And also the banks have been
3 very responsive.

4 We also have been flagged for us by the unions
5 that there are challenges on environmental impact, and
6 impact on communities that are arising across the sector.
7 And I think this is something therefore for us to watch,
8 and certainly we -- and I'm not sure that until we can get
9 that independent report from Foley Hoag that we have a lot
10 more to add at this stage.

11 A final note is that there will be a number of
12 shareholder proposals that we expect to vote on around
13 this topic, notably one at Marathon Oil, which is one of
14 the funders of the master limited partnership. Marathon
15 did appeal to the SEC to ask that a, what's called, no
16 action letter be granted so the proposal wouldn't go
17 ahead.

18 And to the SEC's credit, they've allowed it to
19 stay on the ballot. So there may be others as well, but
20 that certainly is one vote that's going forward.

21 I'd be happy to answer any questions.

22 CHAIRPERSON JONES: Okay. Mrs. Mathur.

23 COMMITTEE MEMBER MATHUR: Thank you.

24 Well, I just wanted to thank you and the team for
25 acting so expeditiously on this. It is an area where the

1 time is of the essence. And while we may not have been
2 able to halt the construction, maybe -- you know, at least
3 engaging around the process and moving forward,
4 particularly around the environmental and other Equator
5 Principles that -- I think that's very important work, and
6 we will be in this market for a long time to come.

7 So -- so the more robust the review and pre-work
8 done, the better. And so I look forward to hearing what
9 happens with shareholder proposals, as well as the
10 continued engagement both with the banks and with some of
11 the other companies.

12 Thank you.

13 CHAIRPERSON JONES: Mr. Lind.

14 COMMITTEE MEMBER LIND: Thank you. I also wanted
15 to compliment you on the amount of work done on this in a
16 short period of time. And, you know, particularly the
17 work we and other investors are doing around engaging with
18 the banks is very meaningful and a great example, and why
19 divestment is not a good idea, because we do lose our
20 voice, as somebody described earlier. But having said
21 that, I do have to take this bait here regarding ETP.

22 I mean, you've listed -- they're in violation of
23 everyone of our governance principles, our Investment
24 Beliefs. There's certainly, the -- you know, the
25 environmental issues. You know, they probably hate

1 puppies and kittens too. I mean, this is -- this is not a
2 good company.

3 So I guess my question is how far off of our
4 Investment Beliefs and principles does a company have to
5 get before we just determine this is not a company we want
6 to be part of? I mean, when do we -- how do we make that
7 decision, and when do -- or how do we even get into an
8 investment with a company that is so far off of those
9 principles?

10 CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, the
11 starting point is with our index, and the index providers,
12 and the exchanges. And that's the area that I, and Anne,
13 and Dan will be paying much of our attention going
14 forward, and what the standards are, because we're a buyer
15 of this index that includes these holdings.

16 In terms of divesting of individual companies,
17 that comes under the rubric of our Investment Beliefs and
18 our principles. And particularly when it comes to human
19 capital, we have, in the past, applied that screen to
20 emerging markets. But if you remember, one of the changes
21 that we've made to our principles is to make that section
22 on human capital apply throughout the portfolio.

23 So in terms of looking at a particular company
24 and seeing if actions are so egregious that they would
25 meet the standards for divestment, that's the -- that's

1 the screen that we'll undertake or would undertake.

2 COMMITTEE MEMBER LIND: Yeah. In this case, I'm
3 not focusing so much on the human capital, as I am on the
4 governance issues here. You know, we -- as you identify,
5 we have no voting rights, and, you know, diversity, and
6 all the other issues that we talk about all the time that
7 are part of our principles, this company guess an F minus.

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: And that's
9 why it will be important to engage with the indexes and
10 the exchanges to talk about listing requirements.

11 COMMITTEE MEMBER LIND: Thank you.

12 MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah.
13 And for what it's worth, Mr. Jelincic mentioned the -- I
14 believe it was Ms. Jelincic mentioned the index discussion
15 around, you know, some of the leadership that's been
16 taken. We have very much participated in each of those
17 discussions, and we'll tonight. Because to Ted's point,
18 we really think one of the places where we can be
19 impactful is with the indexed methodology on inclusion or
20 not inclusion, and then listing requirements for even
21 coming public in the United States, and others.

22 CHAIRPERSON JONES: Okay. Mr. Jelincic.

23 COMMITTEE MEMBER JELINCIC: Yeah. On the index,
24 we managed to find an index that's tobacco free, and Sudan
25 free, and Iran free, guns free, so we can find an index or

1 have one created for us.

2 But my question was actually on page 6 of 7,
3 where you talked about a provision in the Dodd-Frank that
4 basically forced ETP to have a special meeting. Can you
5 enlighten me what that was, and was it just because they
6 were increasing the number of shares or...

7 INVESTMENT DIRECTOR SIMPSON: It's because it's a
8 publicly limited -- entity.

9 COMMITTEE MEMBER JELINCIC: I'm sorry?

10 INVESTMENT DIRECTOR SIMPSON: As a publicly -- as
11 a public entity, it's listed, the Dodd-Frank provisions
12 around say-on-pay apply to the company. And so for the
13 share capital that they needed to issue to fund the
14 executive compensation, that was the provision under which
15 this vote. So that is the sole vote that we've been able
16 to cast to ETP, according to our records.

17 COMMITTEE MEMBER JELINCIC: So let's keep
18 say-on-pay as one with those Dodd-Frank things we want to
19 defend.

20 Thank you.

21 CHAIRPERSON JONES: Ms. Taylor.

22 COMMITTEE MEMBER TAYLOR: Yes. Thank you.

23 So I'd like to reiterate what Mr. Lind said.
24 That was going to be one of my things that I was going to
25 say. It's just such an egregious company that I just have

1 a hard time understanding why we still invest in. And I
2 understand our divestment purposes, but it's -- it doesn't
3 meet any of our standards in terms of our governance
4 principles, so I really -- it's just a horrible company.

5 But, be that as it may, what I'd really like to
6 know, you had mentioned the Equator Principles. So I
7 wonder if at a future meeting, you could give us some more
8 information on the Equator Principles, and how we can work
9 with other investors to incorporate these principles into
10 our long-term interests in the financial sector, if that
11 would be okay?

12 CHAIRPERSON JONES: Yes, that would. Staff --
13 the Chair is directing staff to -- at a future date, to
14 provide that information.

15 INVESTMENT DIRECTOR SIMPSON: Thank you. We'd be
16 glad to.

17 COMMITTEE MEMBER TAYLOR: Sure. Thank you.

18 CHAIRPERSON JONES: Okay. Ms. Yee

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

20 So I also want to just thank the staff for moving
21 so diligent and quickly in terms of the engagement. I
22 guess a couple things, thoughts here that just my head
23 keeps wrapping around, and that is, you know, this is all
24 triggered by the issue of the pending legislation coming
25 before us. And I hope we can actually feel comfortable

1 with having a process. And I know our CEO Ms. Frost has
2 been before the legislature, and just really speaking
3 about all the not-so-positive aspects of divestment that
4 we are very, very active in engagement.

5 And I would like to have the rest of the
6 legislature just understand why that's important. And
7 so -- you know, we were kind of in a position of taking a
8 stand on this bill. And I'm not so sure the author
9 necessarily understood, you know, kind of our work in the
10 area of engagement. And I think just short of even having
11 the opportunity to take a position on a bill, that should
12 be just kind of a regular presentation by our legislative
13 staff on any bills like this.

14 Now, having said that, the other thing that this
15 bill triggered for me is the whole engagement process that
16 we just spoke about this morning. It suggests to me that
17 we probably need to rethink some of the trigger points for
18 engagement in a more proactive way.

19 And so, I mean, I think there's some lessons
20 learned here about, you know, just kind of how to proceed.
21 So we know there's legislative interest. We have a --
22 we've had a long-standing policy with respect to
23 divestment. I think the legislature should understand
24 that, and to the extent it can, embrace it.

25 But then at the same time, understanding where

1 those concerns are with the legislature, then with this
2 process that we've just talked about this morning, that's
3 become more robust across all asset classes to see what we
4 need to do to just hopefully look at whether there are
5 some events, or facts, or circumstances that trigger, you
6 know, that engagement in a more urgent way.

7 CHAIRPERSON JONES: Yeah, I -- would you add that
8 to the parking lot issues, so that -- at the appropriate
9 time to come back with the information as to whether we
10 leave it the same, whether or not we add the processes to
11 it, or modify our process.

12 You know, one of the things you mentioned is
13 reaching out to the legislature. And I don't know, are
14 you referring to staff reaching out or are you referring
15 to Board?

16 COMMITTEE MEMBER YEE: Yeah. Sometimes I think
17 when we are presenting -- and this happens with both
18 pension funds on which I serve, where, you know, obviously
19 to the extent that there are bills that affect that -- our
20 business, we -- they rightfully come before us, and we are
21 expected to take a position, or at least have some
22 deliberation about them.

23 To the extent that we've had this policy of not
24 divesting, I just want to be sure that policy is well
25 understood. It's politically charged. I think it's a

1 tough conversation to have when you feel so passionately
2 about, you know, things like a company not really, you
3 know, compliant with many of the principles that we
4 believe in.

5 On the other hand, I think, you know, as has been
6 demonstrated, engagement really gives us more leverage,
7 and -- for change. And I just would like to spend that
8 time to -- with some of our key stakeholders in the
9 legislature to have them understand what that means. So I
10 think that's part of the work -- the ongoing work with the
11 legislative staff. And as I said, Ms. Frost has been
12 doing that as she's --

13 CHAIRPERSON JONES: Okay. So we're not talking
14 about -- because we just adopted a divestment policy.

15 COMMITTEE MEMBER YEE: No, no, no, no. No, no,
16 no I'm not. I'm not changing that. This issue just
17 raised a lot of different things about our existing
18 processes that --

19 CHAIRPERSON JONES: More reaching out to the
20 legislature to have a clear understanding.

21 COMMITTEE MEMBER YEE: Yeah.

22 CHAIRPERSON JONES: I think that's appropriate.
23 Okay. That's the last item that -- on this item.
24 So now, we will go to summary of committee
25 direction.

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: I think I
2 got it. Yeah. Wylie and I have been conferring. See if
3 I got them all.

4 There are three main items. One, the Chair
5 directed that we provide the Committee with a copy of the
6 green finance plan. We will do that.

7 Number 2, to schedule sometime in the future a
8 discussion of the Equator Principles. We'll probably time
9 that in conjunction when we hear back on the report from
10 the independent entity that has been hired to review
11 the Dakota Access Pipeline, activity by the banks, so
12 we'll just time that at that time.

13 And then third, direct staff to talk with
14 legislative staff about our divestment policy and
15 engagement policies as educational, and an information
16 sharing effort.

17 CHAIRPERSON JONES: Okay.

18 CHIEF INVESTMENT OFFICER ELIOPOULOS: In addition
19 to that, there were a number of word changes that were
20 made to the -- Agenda Item 6a, I believe it was, 6a. We
21 have each of those. If you'd like us to go through each
22 of those --

23 CHAIRPERSON JONES: No, I think it's okay.

24 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- the
25 words I think are very clearly put out. We have those,

1 and we'll take those as read.

2 CHAIRPERSON JONES: Yeah, that's clear. Yeah.
3 Okay. Okay. Very good.

4 Okay. Thank you.

5 We do have public comment. We have a request to
6 speak, Mr. Moran and Mr. Pittz.

7 If you'll come down to the microphones here and
8 please state your name and you will have -- each of you
9 will have 3 minutes to speak. And there's a clock right
10 in front of me right here, which you will start as soon as
11 you start talking.

12 MR. MORAN: My name is Jose Moran. I have been
13 working at Tesla at the Fremont factory for about over 4
14 years now. I'm proud to contribute to a company that is
15 leading the charge to meet the rising demand for electric
16 vehicles, and building a more sustainable economy.

17 Recently, my colleagues and I have begun speaking
18 out about the problems with the working conditions at
19 Tesla, especially safety and health risks. I'm really
20 concerned about the ramp up that's about to happen with
21 the Model 3 production goals, and whether this will be
22 possible for us without first improving safety conditions.

23 Preventable injuries often happen, because we are
24 not being rotated through different jobs often enough, do
25 not have the appropriate ergonomic equipment, and are not

1 properly trained on the job.

2 For example, last year for quite a few months,
3 the majority of my work team was out on medical leave due
4 to work-related injuries. Unfortunately, many of my
5 co-workers are scared to raise concerns like these to our
6 management team at Tesla. Colleagues who are hurting are
7 often too afraid to speak up. They're -- for fear of
8 being labeled a complainer, a bad worker, or for fear of
9 retaliation.

10 The company also recently asked us to sign a
11 confidentiality policy that has made many people even more
12 worried about what would happen if they speak up.

13 I share some of these same fears, but I'm here
14 today because my co-workers and I hope we can start a
15 productive conversation about building a fair future for
16 everyone at Tesla.

17 The conditions that we faced at work also impact
18 the quality and the speed of the production line. We
19 believe these issues can be resolved if we have a voice in
20 the workplace, and are included in the process of
21 collective bargaining.

22 As workers, we are invested in helping Tesla
23 succeed, and we know that you are too. Thank you.

24 MR. PITZ: Good afternoon. My name is Will
25 Pittz and I'm with the United Auto Workers union. Tesla

1 is in a lot of ways an inspirational company that is on
2 the forefront of building a strong green economy. And we
3 believe, and we hope that you also believe, in the
4 company's potentially world changing clean energy
5 aspirations, and we sincerely want the company to succeed.

6 We're here to today to talk about risks at Tesla
7 that could jeopardize their success. The importance of
8 solid human capital management practices for long-term
9 value creation is clearly enshrined in CalPERS' published
10 Investment Beliefs.

11 We believe that there are risks associated with
12 the company's human capital management. These risks have
13 been articulated clearly by Jose, Moran, and his
14 co-workers, and should be of concern to CalPERS as an
15 institution.

16 The UAW has heard from hundreds of workers at
17 Tesla who have shared similar concerns to those you've
18 heard today. And so far, CEO Elon Musk's response to
19 those concerns has been overwhelmingly dismissive.

20 Mr. Musk has first responded directly to Jose
21 Moran by questioning his honesty. Subsequently, in a
22 company-wide email, Ms. Musk responded to these real
23 workplace concerns by again disregarding that there are
24 any problems at all, and instead promised frozen yogurt
25 stations and a roller coaster.

1 We'll be reaching out to other Investors in the
2 future, who share a similar fiduciary responsibility in
3 relationship to this company. But today, we ask that
4 CalPERS engage with Tesla about its human capital
5 management practices, including labor practices, as well
6 as health and safety.

7 We believe that this is consistent with CalPERS'
8 stated Investment Beliefs, and vital to the success of the
9 company, and the well-being of all of its workers and
10 their families.

11 Thank you.

12 CHAIRPERSON JONES: Okay. Thank you for your
13 comments.

14 Okay. That concludes the agenda for open
15 session.

16 Why don't we take a -- why don't we adjourn, and
17 then we'll go right into closed session, because looking
18 at the agenda, I think we can conclude it in a few
19 minutes. So we're going to adjourn the open session.
20 Then as soon as the auditorium is clear, we're going to go
21 right into closed session.

22 (Thereupon California Public Employees'
23 Retirement System, Investment Committee
24 meeting open session adjourned at 1:18 p.m.)

25

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, Investment Committee open session
7 meeting was reported in shorthand by me, James F. Peters,
8 a Certified Shorthand Reporter of the State of California,
9 and was thereafter transcribed, under my direction, by
10 computer-assisted transcription;

11 I further certify that I am not of counsel or
12 attorney for any of the parties to said meeting nor in any
13 way interested in the outcome of said meeting.

14 IN WITNESS WHEREOF, I have hereunto set my hand
15 this 17th day of March, 2017.

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22
23 JAMES F. PETERS, CSR
24 Certified Shorthand Reporter
25 License No. 10063