CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION MINUTES OF MEETING OPEN SESSION Wednesday, December 20, 2017

The Board of Administration met on Wednesday, December 20, 2017 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:02 a.m. and the following members were present:

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

Board of Administration Members excused: Ron Lind

AGENDA ITEM 3 – PRESIDENT'S REPORT

President Feckner congratulated the new Board Members, Margaret Brown and David Miller, on their election to the Board. President Feckner also congratulated Ralph Cobb on his retirement.

President Feckner thanked JJ Jelincic and Michael Bilbrey on behalf of the CalPERS Board of Administration for all they have done for the members and to better the system.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Ms. Frost expressed appreciation on behalf of the entire CalPERS team for JJ Jelincic and Michael Bilbrey's years of service to the CalPERS Board.

Ms. Frost congratulated Ralph Cobb on his retirement. Ms. Frost also congratulated Wylie Tollette and wished him well in his new position.

Ms. Frost reported on the Investment Committee approving the Asset Allocation mix that will set the course for our investment strategies over the next four years. Ms. Frost thanked the team for all the outstanding work and dedication in providing thorough information.

As of October 31, 2017, the total fund performance for the fiscal year-to-date is 5.1 percent. The three-year return of the total fund is 6.6 percent and the five-year return is at 9.0 percent. The ten-year return is at 4.4 percent and the 20-year return of the total fund is 6.7 percent. All asset allocations are within their policy ranges. The total fund assets are valued at \$341.5 billion.

AGENDA ITEM 5 – CONSENT ITEMS

Action Consent Items:

- a. Approval of November 15, 2017 Board of Administration Meeting Minutes
- b. Board Travel Approvals

On **MOTION** by Priya Mathur, **SECONDED** by Dana Hollinger and **CARRIED**, the Board approved Action Consent Item 5a.

On **MOTION** by Richard Costigan, **SECONDED** by Priya Mathur and **CARRIED**, with one no vote by JJ Jelincic, the Board approved Action Consent Item 5b.

On **MOTION** by Richard Costigan, **SECONDED** by Dana Hollinger and **CARRIED**, with one no vote by JJ Jelincic, the Board approved Henry Jones traveling to South Africa.

AGENDA ITEM 6 - CONSENT ITEMS

Information Consent Items:

- a. Board Agenda Item Calendar 2017/2018
- b. Draft Agenda for February 14, 2018 Board of Administration Meeting
- c. General Counsel's Report
- d. Communications and Stakeholder Relations

AGENDA ITEM 7 – COMMITTEE REPORTS AND ACTIONS

a. Investment Committee

Henry Jones, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, December 20, 2017.

Additional information may be found in the December 20, 2017 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for February 12, 2018 in Sacramento, California.

b. Pension and Health Benefits Committee

Priya Mathur, Chair, Pension and Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 19, 2017.

On **MOTION** by Committee and **CARRIED**, the Board approved the final proposed amendments to California Code of Regulations section 586.1 defining Normal Retirement Age and submission of the final rulemaking package to the Office of Administrative Law for adoption. (PHBC Item 5)

On **MOTION** by Committee and **CARRIED**, with one abstention by Richard Costigan, the Board approved the Committee's decision to not risk adjust the Health Maintenance Organization and Preferred Provider Organization health plan premiums beginning with the 2019 plan year. (PHBC Closed Session Item 2)

Additional information may be found in the December 19, 2017 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for February 13, 2018 in Sacramento, California.

c. Finance and Administration Committee

Richard Costigan, Chair, Finance and Administration Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 19, 2017.

On **MOTION** by Committee and **CARRIED**, with one abstention by JJ Jelincic, the Board approved the December 2017 Prospective Report of Solicitations, Contracts, Purchase Orders and Letters of Engagement. (FAC Item 3b)

On **MOTION** by Committee and **CARRIED**, the Board approved staff's recommendation that an additional one-year contract term extension is necessary for the external investment manager contracts without a defined duration. (FAC Item 3c)

On **MOTION** by Committee and **CARRIED**, the Board approved the second reading of the California Public Employees' Retirement System Fiscal Year (FY) 2017-18 Mid-Year budget totaling \$1,675,851,000 and 2,875 positions. (FAC Item 5a)

On **MOTION** by Committee and **CARRIED**, with one abstention by Ralph Cobb on behalf of CalHR, the Board approved sponsoring legislation to require members who elect to purchase or convert service credit on or after January 1, 2019, to pay any remaining balances on the member's retirement date, or to elect an actuarial equivalent reduction (AER), in lieu of making installment payments into retirement. The same payment options will also be provided to the survivor or beneficiary upon notification from CalPERS following the member's pre-retirement death. (FAC Item 6a)

On **MOTION** by Committee and **CARRIED**, with one abstention by Ralph Cobb on behalf of CalHR, the Board approved maintaining the status quo in administering the Replacement Benefit Plan (RBP). (FAC Item 6b)

On **MOTION** by Committee and **CARRIED**, with one no vote by JJ Jelincic, the Board approved the following:

- The discount rate at 7.00% corresponding to the candidate portfolio selected by the Investment Committee.
- Adopt new actuarial assumptions as presented in the Experience Study report to be effective with the June 30, 2017 actuarial valuations. Contribution rates due to changes in assumptions for the State and Schools will be impacted in the FY 2018-19. Contribution rates for public agencies will be impacted in FY 2019-20. And
- Use the recommended assumption changes in all affected member calculations effective as follows:
 - a) For service credit purchase applications postmarked on or after December 20, 2017
 - b) For retirement applications dated on or after December 20, 2017. (FAC Item 7a)

Additional information may be found in the December 19, 2017 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Finance and Administration Committee is scheduled for February 13, 2018 in Sacramento, California.

d. Performance, Compensation and Talent Management Committee

Michael Bilbrey, Chair, Performance, Compensation and Talent Management Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 19, 2017.

Additional information may be found in the December 19, 2017 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Performance, Compensation and Talent Management Committee is scheduled for February 13, 2018 in Sacramento, California.

e. Risk and Audit Committee

The Committee did not meet.

The next meeting of the Risk and Audit Committee is scheduled for February 13, 2018 in Sacramento, California.

f. Board Governance Committee

Theresa Taylor, Chair, Board Governance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 18, 2017.

On **MOTION** by Committee and **CARRIED**, with one abstention by JJ Jelincic, the Board approved the schedule for 2018 Board Meetings and the omission of Board and Committee meetings in October 2018. (GOV Item 5)

The next meeting of the Board Governance Committee is scheduled for March 20, 2018 in Sacramento.

AGENDA ITEM 8 - PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

On **MOTION** by Henry Jones, **SECONDED** by JJ Jelincic, and **CARRIED**, the Board moved to adopt the proposed decisions of Administrative Law Judges (ALJ) for Agenda Items 8a; 8c through 8o as the Boards own decisions with minor modifications to Agenda Items 8g and 8o as argued by staff.

On **MOTION** by Priya Mathur, **SECONDED** by Theresa Taylor, and **CARRIED** the Board approved to remand Agenda Item 8b back to the Administrative Law Judges (ALJ) for the taking of additional evidence on a possible internal condition.

AGENDA ITEM 9 – PRECEDENTIAL DECISION DESIGNATION

On **MOTION** by Henry Jones, **SECONDED** by JJ Jelincic, and **FAILED**, with a roll call vote, to designate the Sherrie L. Benson decision at Agenda Item 9a as a precedential board decision.

Board Member	Yes	No
JJ Jelincic	х	
Priya Mathur		х
Bill Slaton		х
Theresa Taylor	х	
Lynn Paquin for Betty Yee		х
Steve Juarez for John Chiang	х	
Ralph Cobb for Richard Gillihan		х
Michael Bilbrey		х
Richard Costigan		х
Dana Hollinger		х
Henry Jones	х	

PUBLIC COMMENT:

Wesley Kennedy, retired CalPERS member, spoke in opposition to the Board making the Benson decision precedential.

On **MOTION** by Henry Jones, and **SECONDED** by Richard Costigan, and **WITHDRAWN** after discussion, to have Agenda Item 9a tabled for further review.

AGENDA ITEM 10 – PETITIONS FOR RECONSIDERATION

On **MOTION** by Henry Jones, **SECONDED** by Priya Mathur, and **CARRIED**, the Board approved to 1) grant only the employer's petition for a reconsideration at Agenda Item 10a and remand the matter for the taking of additional evidence as argued by staff and 2) deny the petitions for reconsideration at Agenda Items 10b through 10f.

AGENDA ITEM 11 – STATE AND FEDERAL LEGISLATION UPDATE

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

AGENDA ITEM 12 – SUMMARY OF BOARD DIRECTION

No new Board direction was given.

AGENDA ITEM 13 – PUBLIC COMMENT

Neal Johnson, representing SEIU 1000 thanked Rob Feckner for his time as President of the Board. Mr. Johnson also thanked JJ Jelincic and Michael Bilbrey for their time as well. Mr. Johnson congratulated Ralph Cobb on his retirement.

The public meeting adjourned at approximately 10:40 a.m.

Prepared by: KARA BUCHANAN Committee Secretary

MARCIE FROST Chief Executive Officer



December 20, 2017

Item Name: Board Travel Approvals

Program: Board of Administration

Item Type: Action Consent

Recommendation:

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

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

Board Member	Date	Destination	Purpose of Travel
Ron Lind	January 1 – 31, 2018	Washington, DC	Attend NCPERS Legislative Conference
Henry Jones	March 3 – 10, 2018	Cape Town and Johannesburg, Africa	Attend USAID delegation to explore investment opportunities.
Henry Jones	March 13 – 17, 2018	Washington, DC	Attend PPI Board Meeting and Roundtable
Ron Lind	September 12 – 14, 2018	San Francisco, CA	Attend PRI in Person Conference



December 18, 2017

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

The Investment Committee met on December 18, 2017.

The Committee discussed and approved:

- The selection of the Strategic Asset Allocation for the Public Employees' Retirement Fund
- The Annual Report to the California Legislature CalPERS Emerging Manager Five-Year Plan

The Committee received reports on the following topics:

- The Consultant Review of CalPERS' Divestments
- The Responsible Contractor Policy Program
- An update on the Investment Office Roadmap and Target Operating Model

The Chair directed staff to do the following:

- Add a Closed Session discussion regarding Emerging Managers
- Work with the CEO and Public Affairs to develop additional ways to present CalPERS efforts in the Emerging Manager and Responsible Contractor Policy Programs
- Work with Staff to determine the appropriate frequency of the CalPERS Diversity Forum

The Committee heard public comment on:

- Asset Allocation,
- Support of the CalPERS Emerging Manager Program,
- Support of Staff work in the Responsible Contractor Policy Program, and
- Feedback regarding divestment mandates

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

- A Report to the Legislature on Holocaust Era and Northern Ireland Investments,
- A Review of the Investment Committee Delegation,
- Strategic Asset Allocation Implementation,
- Staff and Consultant Reports on the CalPERS Trust Level Review for the calendar yearend, and
- The First Reading of the Revision of the Total Fund, Real Assets, and Private Equity Investment Policies

The next meeting of the Investment Committee is scheduled for February 12, 2018, in Sacramento, California.