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P R O C E E D I N G S

CHAIRPERSON JONES: I'd like to call the
Investment Committee meeting to order. The first order of
business is roll call, please.

COMMITTEE SECRETARY BICKFORD: Henry Jones?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY BICKFORD: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY BICKFORD: Margaret Brown?

COMMITTEE MEMBER BROWN: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

John Chiang represented by Frank Moore?

ACTING COMMITTEE MEMBER MOORE: Here.

COMMITTEE SECRETARY BICKFORD: Dana -- excuse me
Rob Feckner?

Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY BICKFORD: Adria
Jenkins-Jones?

COMMITTEE MEMBER JENKINS-JONES: Here.

COMMITTEE SECRETARY BICKFORD: Priya Mathur?

COMMITTEE MEMBER MATHUR: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

David Miller?

COMMITTEE MEMBER MILLER: Here.

1 COMMITTEE SECRETARY BICKFORD: Ramon Rubalcava?

2 COMMITTEE MEMBER RUBALCAVA: Here.

3 COMMITTEE SECRETARY BICKFORD: Bill Slaton?

4 COMMITTEE MEMBER SLATON: Here.

5 COMMITTEE SECRETARY BICKFORD: Theresa Taylor?

6 COMMITTEE MEMBER TAYLOR: Here.

7 COMMITTEE SECRETARY BICKFORD: Betty Yee?

8 COMMITTEE MEMBER YEE: Here.

9 CHAIRPERSON JONES: Okay. Thank you very much.

10 And the next item is approval of the Investment
11 Committee timed agenda.

12 COMMITTEE MEMBER TAYLOR: So moved.

13 CHAIRPERSON JONES: Moved by Ms. Taylor.

14 COMMITTEE MEMBER MATHUR: Second.

15 CHAIRPERSON JONES: Second by Mrs. Mathur. Thank
16 you.

17 Before I call on the Chief Executive -- Chief --

18 COMMITTEE MEMBER MATHUR: We need to make a -- we
19 need to take a vote.

20 CHAIRPERSON JONES: Take a vote.

21 All those in favor, aye?

22 (Ayes.)

23 CHAIRPERSON JONES: Opposed?

24 Hearing none. The item passes. Thank you.

25 Before I call on the CIO, I would just like to

1 make a couple comments. As some of you may have seen, we
2 officially announced our new Chief Investment Officer
3 today, Ben Meng. Ben is familiar -- is a familiar face to
4 CalPERS. He worked for us for seven years before leaving
5 to become the Deputy CIO at the State Administration of
6 Foreign Exchange, or SAFE, in China.

7 We are excited to have him back. Ben has a
8 strong investment background and a deep understanding of
9 our system and our investment operations. We look forward
10 to introducing him personally to our members, employers,
11 stakeholders in the future when we returns to the United
12 States. So with that, I'll call on the current CIO, Mr.
13 Eliopoulos.

14 CHIEF INVESTMENT OFFICER ELIOPOULOS: Perfect.
15 Good morning, Mr. Chair and members of the Investment
16 Committee. I'm just -- I'll just say I'm just delighted
17 for CalPERS. What an incredible selection, what an
18 incredible leadership team with Ben Meng and Elisabeth
19 Bourqui and the rest of the senior investment staff. It's
20 quite remarkable the level of talent that resides here
21 already, and is being added. And I just -- I'm just
22 thrilled.

23 That wasn't my prepared remarks --

24 (Laughter.)

25 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- but

1 having heard that announcement this morning, I'm really
2 happy for CalPERS.

3 We have a full agenda today before you.
4 September kicks off the time for a deep dive into the
5 individual program areas for review of their annual
6 performance for the year and looking for highlights into
7 the next -- the next -- the coming fiscal year.

8 Today, we have our annual review of our Global
9 Fixed Income Program, and our Real Assets Program. These
10 are our two principal diversifying assets to our global
11 equity exposure. They're also the asset classes that
12 provide, you know, the highest component of return to us
13 through income and cash yield. Very important parts of
14 the overall program and important for the Committee to
15 understand their role, and how they go about structuring
16 their portfolio and their organization.

17 In addition to that, we have an action item with
18 respect to the annual California Public Divest from Iran
19 and Sudan Act, which you'll be hearing from as well as
20 some important information items, including a update from
21 our Global Equity Corporate Governance unit on the
22 component of their work on proxy voting, shareowner
23 campaigns, and corporate engagement. And more to come
24 from me and the team on that when we get to that agenda
25 item.

1 The other point I wanted to emphasize today,
2 thinking about the fall and getting back to school, as you
3 might recall last year, we had our Sacramento Mayor
4 Darrell Steinberg here to talk about the Sacramento 1000
5 Strong Program that the Mayor launched last year with the
6 goal of bringing together school districts, community
7 based organizations, state and local funding partners,
8 students and businesses to provide year-round paid
9 internships for local youth, while fostering a highly
10 trained and diversified workforce for Sacramento
11 businesses.

12 This program, in addition to coordinating intern
13 placement, a 1000 Strong also provides students with 40
14 hours of workplace training in preparation for their
15 internship tenure. This program has personally been an
16 important one for me and for the entire Investment Office.
17 It's been a very positive experience for the Investment
18 Office to be part of this program this past year.

19 Our investment managers took the time to expose
20 the interns to investments and to learn about investments
21 as a potential career.

22 We looked at this as an opportunity to mentor
23 students and give back to the Sacramento community with an
24 eye on our selfish desires to attract these students back
25 to the Investment Office at some point in their future

1 career.

2 When the students arrived last year, most were
3 quiet, some, and actually almost all, had never been in an
4 office before, which was a particularly poignant and
5 important point for me, because I remember my own career,
6 being their age, and have never been in an office building
7 before either. And the opportunity to expose these young
8 adults with so much potential and so much talent to this
9 opportunity is -- is incredibly important for their lives,
10 but more importantly it infuses our Investment Office with
11 talent, and optimism, and an infusion of energy for the
12 future.

13 When the -- over time, these students have
14 learned to do seasonal clerk work, they've learned the
15 expectations of being in an office environment, they've
16 watched how work gets done sometimes with amazement,
17 sometimes with -- you know, with the learning that comes
18 with actually being part of an organization.

19 In addition to that, each of the -- each of our
20 interns got through the difficulties of the first year of
21 college, and balancing, you know, that important first
22 year in school with having a job. After this first year,
23 we thought they would graduate from the program and move
24 on. Instead, we are very fortunate to have two of the
25 students stay with us in the program this year. And the

1 other two students were hired as seasonal clerks to work
2 part-time in the office as they pursue their degrees.

3 All four of these 1000 Strong interns and
4 graduates are in class today, as we'd want them to be in
5 school. So they're not able to, you know, be here in the
6 auditorium to be recognized, but they are very much part
7 of our team and continue to contribute to the Investment
8 Office, and will continue to contribute to the Investment
9 Office.

10 I am, you know, very proud to reintroduce and
11 name them to the Board for your recollection. So coming
12 this -- coming this year we have Kendo Turner will be back
13 with us. He is currently enrolled at American River
14 College. We have Yeng Xiong, who is currently enrolled at
15 Sacramento City College will be back with us as an intern.

16 In addition, we have Anna Razo and Abrina Lemar,
17 both will be seasonal clerks. And both are enrolled at
18 California State University, Sacramento.

19 In addition to that, I'd now like to welcome our
20 two newest interns who we are just absolutely -- our new
21 thousand strong interns and we're absolutely thrilled to
22 have them with us today. I'd ask if you -- the two, if
23 you could just stand up for a minute. They're super
24 nervous, but I told them they don't need to be nervous at
25 all.

1 (Laughter.)

2 CHIEF INVESTMENT OFFICER ELIOPOULOS: We have
3 Andria Torres, who graduated from Sacramento Charter High
4 School, and is currently taking on-line classes part time
5 at Liberty University in pursuit of a behavioral science
6 Bachelor Degree. Andria is bilingual and fluent in both
7 English and Spanish. Thank you for being here.

8 In addition, we have Alyssa Hampton. Alyssa
9 graduated from Sacramento Learning Tree Academy in June
10 2014, and is pursuing her associate degree in childhood
11 education. So thank you for being here. We're thrilled
12 to have you.

13 (Applause.)

14 CHIEF INVESTMENT OFFICER ELIOPOULOS: And with
15 that, Mr. Chair and members of the Committee, I'm thrilled
16 to start the day on a very uplifting and hopeful note.

17 CHAIRPERSON JONES: Okay. Thank you for your
18 report.

19 We now move to action consent item, approval of
20 the August 13, 2018 Investment Committee meeting minutes.

21 COMMITTEE MEMBER HOLLINGER: Move approval.

22 COMMITTEE MEMBER MATHUR: Second.

23 CHAIRPERSON JONES: Moved by Ms. Hollinger,
24 second by Ms. Mathur.

25 All those in favor?

1 (Ayes.)

2 CHAIRPERSON JONES: Opposed?

3 Seeing none. The item passes. Thank you.

4 We have information consent items next on the
5 agenda, but I have received no requests to remove anything
6 from that item.

7 So we will go to the next item, which is Item 6,
8 California Public Divest from Iran Act and Sudan Act.

9 INVESTMENT DIRECTOR CROCKER: Thank you and good
10 morning.

11 CHAIRPERSON JONES: Good morning.

12 INVESTMENT DIRECTOR CROCKER: Agenda Item 6a is
13 part of the annual review process mandated by the
14 California Public Divest from Iran and the Sudan Act.

15 As this Committee is aware, these acts prohibit
16 the Boards of both CalPERS and CalSTRS from investing in
17 companies with specified business activities in Iran and
18 Sudan, subject to the fiduciary duties of the Board. The
19 acts require identification of and engagement with
20 companies identified as potentially subject to the acts,
21 and submission of an annual report to the California
22 legislature.

23 The CalPERS annual report to the legislature is
24 scheduled to come before this Committee later this year in
25 December. For our report to the legislature, CalPERS

1 groups companies related to the Act into three categories:
2 Divested restricted, under review, and monitoring.

3 Divested restricted companies have been
4 determined to meet the threshold criteria for divestment
5 under the Act. And this Committee has concluded that
6 divestment is consistent with its fiduciary duties.

7 The under review list is comprised of those
8 companies that are undergoing the engagement and
9 communication cycle as specified in the Acts.

10 And the monitoring category is comprised of
11 companies that do not yet meet the threshold for
12 divestment -- the threshold criteria specified in the Act,
13 but that we nonetheless want to continue to monitor for
14 possible changes in status that are relevant to the Act.

15 From time to time, companies are recommended for
16 removal from the review category where staff's engagement,
17 or possibly just research activities, have led to the
18 conclusion that the companies are no longer subject to the
19 Act, and today's item is of that nature.

20 Specifically, staff is recommending that the
21 Committee take action to remove the 12 specified companies
22 from further consideration under the Acts. Additional
23 information as to key findings for each company is
24 provided in the item.

25 So with that, I'll pause and ask if there are any

1 questions.

2 CHAIRPERSON JONES: I see no questions, but I do
3 have one comment. Our divestment policy is to bring a
4 report every five years. And I know, Mr. Costigan and I
5 have spoken with Mr. Eliopoulos about whether or not we
6 can combine these reports into one. And I understand
7 you're looking into that, because it may require a lot of
8 additional work to bring them all at one time.

9 CHIEF INVESTMENT OFFICER ELIOPOULOS: That's
10 correct, Mr. Chair. The Committee directed us and allowed
11 us to bring the five-year review for Iran/Sudan two years
12 from now. And we're looking to see whether we can bring
13 all the five year reviews at that same time in a way that
14 is efficient for the Investment Committee and not
15 overwhelming.

16 CHAIRPERSON JONES: Okay. Thank you very much.
17 Okay. This is an action item.

18 Oh, Mr. Moore.

19 ACTING COMMITTEE MEMBER MOORE: Thank you. Sorry
20 about that.

21 Most of these organizations are cut and dried,
22 and not subject to the divestment acts. But there are two
23 companies Dubai Islamic and ENGIE that look like it's
24 subjective, whether or not they're subject. Can you
25 describe why you think they're not?

1 INVESTMENT DIRECTOR CROCKER: They gave us a very
2 good response to our inquiries that was persuasive to
3 staff.

4 ACTING COMMITTEE MEMBER MOORE: Well, for
5 instance, ENGIE looks like they have some investments in
6 Sudan that are related to the requirements in the Act. Do
7 you not disagree with that?

8 INVESTMENT DIRECTOR CROCKER: You know, I'd be
9 happy to go back and explore that further. That was not
10 the conclusion we reached, but we will definitely go take
11 a closer look.

12 ACTING COMMITTEE MEMBER MOORE: Okay. Thank you.

13 INVESTMENT DIRECTOR CROCKER: Thank you.

14 CHAIRPERSON JONES: Thank you.

15 Okay. Thank you. Seeing no further questions.

16 As I said, that the -- this is an action item.

17 VICE CHAIRPERSON COSTIGAN: I'll move it.

18 CHAIRPERSON JONES: Moved by Mr. Costigan?

19 COMMITTEE MEMBER HOLLINGER: Second.

20 CHAIRPERSON JONES: Second by Ms. Hollinger.

21 All those in favor?

22 (Ayes.)

23 CHAIRPERSON JONES: Opposed?

24 Hearing none. The item passes.

25 The next agenda Item, 7, informational agenda

1 items.

2 The first one is Global Fixed Income, Annual
3 Program Review.

4 Mr. Phillips.

5 (Thereupon an overhead presentation was
6 presented as follows.)

7 CHAIRPERSON JONES: And these reviews on an
8 annual basis, Mr. Eliopoulos, the -- we alternate who will
9 do a deep dive on these type of reviews, like one year
10 staff, the next year it's the Board consultants, is that
11 correct?

12 CHIEF INVESTMENT OFFICER ELIOPOULOS: Not quite.
13 So we do alternate when we do the total fund report. We
14 alternate who goes first --

15 CHAIRPERSON JONES: Okay.

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- whether
17 the staff or the consultant goes first.

18 CHAIRPERSON JONES: Okay.

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: For the
20 annual program reviews of each asset class, we have not
21 alternated. We have the staff go first and then the
22 consultant. Each has done a deep dive.

23 CHAIRPERSON JONES: Okay.

24 CHIEF INVESTMENT OFFICER ELIOPOULOS: So for this
25 presentation, first, you'll hear from our staff. And you

1 have the ability to, you know, talk with our staff. And
2 then secondly, Wilshire who's the Board's investment
3 consultant has done a -- has done a deep dive --

4 CHAIRPERSON JONES: Okay.

5 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- and will
6 give you -- give their -- give those conclusions.

7 CHAIRPERSON JONES: Okay. Thank you.

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yep.

9 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:
10 Good morning. I thought I'd be formal, since
11 some of you might be wondering where Curtis is at.

12 (Laughter.)

13 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

14 My name is Arnie Phillips. I'm the Interim
15 Managing Investment Director for Global Fixed Income. To
16 my left I have Lou Zahorak, who's an Investment Director
17 and heads up our Global Corporate Credit Team. And I do
18 want to give a thanks to Lou. I think when Curtis was up
19 here, I think there's always the perception that they're
20 the be-all and do-all. And the reality is, is in my role
21 my name I'm just the name plate for a great staff. And
22 Lou has been extremely helpful in this transition. And I
23 appreciate it. And we're fortunate to have somebody of
24 his character and knowledge here, in addition to myself.

25 So the protocol today, I'll get it started. I'll

1 talk about the performance. I'll talk about the role of
2 fixed income. I'll hand it over to Lou to talk about the
3 accomplishments for the past, what we're working on in the
4 current year, we'll pause at that point for any questions
5 you may have. And then following that, Wilshire will jump
6 in.

7 This is a -- I joked about Curtis, but this is
8 the first time in a long, long time that somebody has
9 been, other than Curtis up here, giving this presentation.
10 And the reality is is a lot of what we will talk about
11 today is actually during Curtis's time, and should be
12 reflected of the great work he did.

13 The -- I have worked for Curtis for 25 years.
14 And I think I have a pretty good read of his strengths and
15 weaknesses, but more importantly his accomplishments. I
16 think two of his greatest legacies are something that Ted
17 mentioned at Curtis's has last Board meeting when he
18 talked about Curtis just being laser focused on returns.
19 And I do think that was Curtis's focus, and I think when
20 we get to the performance you'll see why Curtis cared and
21 why it was very productive.

22 But I think more importantly going forward, what
23 I view as one of Curtis's greatest legacies is what he
24 left behind, which is a great staff of fixed income
25 professionals that will continue what he built at this

1 point.

2 Speaking of staff, last -- last Board meeting,
3 John Rothfield from the Fixed Income staff was up here
4 doing his semiannual economic update. At the end, I saw
5 and heard the admiration that many of you had for John's
6 work. And I think it's important to recognize that we
7 have a whole staff of John Rothfields doing similar work.
8 They may not have the Australian accent that John has,
9 but --

10 (Laughter.)

11 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

12 -- but they're all doing similar high quality
13 work in the mortgage market and the credit market,
14 international investments, and global governments.

15 And I do think that speaks highly to Curtis's
16 legacy and the team that he built. And it's important.
17 We manage 93 percent of the fixed income assets
18 internally. So having a good staff is paramount.

19 Turning to page two, which I guess I --

20 --o0o--

21 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

22 There we go. Reviewing the performance side
23 here. The -- last month, when we were looking at total
24 fund performance, we briefly touched on fixed income
25 performance. And I think it's important to view it in two

1 different ways. There's the absolute returns, just the
2 pure return we get, and then there's the excess return we
3 get or the amount we earned over what the index returned.

4 And starting -- so the top box up there, the top
5 little matrix, the bottom line that says excess return,
6 you can see that over any of the period you pick there,
7 including back to inception, which is 1988, we've
8 generated positive return.

9 If you look at just the five-year number to put
10 that into context, Eric Baggesen last month at his
11 presentation talked about a basis point on total fund
12 equaling about \$35 million. Well, we don't have all the
13 assets, but we have a good chunk of them. And if you look
14 at our five-year return, take the average balances during
15 those five years, take the alpha or excess return that was
16 generated in those years, it comes out to about \$1.9
17 billion of incremental value over, if we just indexed.

18 And given our employees are somewhere in the 40
19 to 50 in fixed income, it's somewhere around 40 to 45
20 million per employee for that five-year period. So I
21 think again focusing on Curtis on returns matter, I think
22 when you put it in dollars, it sort of jumps out how much
23 we are able too add and how important it is.

24 The -- but that's the excess return side. When
25 you look at the absolute return numbers, it's more evident

1 that our job is challenging going forward, and actually
2 has been challenging over the prior years. If you look
3 starting at the right of the chart since inception and
4 move to the left, the numbers just keep getting smaller
5 and smaller.

6 And in simple terms, we get our returns from two
7 places. We get a coupon on our portfolio, and we get a
8 price change on that portfolio.

9 And following the global financial crisis, global
10 central banks around the world went to a more easy
11 monetary policy, which equaled for us lower interest
12 rates. Those lower interests rates are the coupon portion
13 that we get. But now, those same central banks are
14 starting to unwind slowly, but starting to unwind that
15 easy monetary policy, and interest rates are rising.

16 In the fixed income world, higher interest rates
17 mean lower prices. And what you have seen in the last
18 year, but actually is the last two years, while we've eked
19 out a slight positive return, for all intents and
20 purposes, it's been close to nothing. And that is, I
21 think, largely the effect of the global financial crisis,
22 taking rates low, and now starting to unwind those to
23 where price performance is offsetting the coupon we're
24 receiving annually.

25 The other interesting thing is when you look at

1 the capital market assumptions that go into our asset
2 liability process, we made the assumption at the last
3 asset liability process that income would generate 3.5
4 percent. If you look at our three-year number, we're more
5 like 3.2 percent, index more like 2.7 percent.

6 The declining interest rate environment we've
7 been in, which really started in the early 1980s, has
8 flattened out, and a lot of people would argue, is -- is
9 in the process of maybe going the other direction. So I
10 think the expectation for fixed income in coming years is
11 it's going to be a challenging environment for us from an
12 absolute return basis.

13 Mark Anson, a former Chief Investment Officer was
14 sort of famous for his top 10 lists. And at Curtis's
15 going away party, he sent in a top 10 list. And one of
16 the 10 reasons he quoted Curtis as leaving were for the
17 first time in Curtis's career interest rates were actually
18 going up.

19 And I think it was funny. It was a joke, but it
20 had a hint of truth to it, to the extent that I think that
21 is the environment that we are going to challenged with in
22 coming years.

23 But that I think focuses on what's the role of
24 fixed income. And Ted had mentioned earlier it's to
25 provide a source of income and be a shock absorber for

1 equities. Part of our shock absorber mechanism is we have
2 40 percent of our portfolio in longer maturity U.S.
3 treasury securities. The longer maturity means they also
4 have higher interest rate risk. And they're really a form
5 of insurance for the total fund.

6 And I like to think of it using a personal
7 finance example. Oftentimes when people buy insurance,
8 whether it's home insurance or auto insurance, it always
9 seems expensive, and something you'd rather not pay for
10 until you actually need it.

11 And your son or daughter takes your new Lexus
12 out, wrecks it. The first thing you make sure they're
13 okay. Then you call your insurance agent and you're
14 really happy you have insurance at that point. As it
15 relates to CalPERS, I would say global equity is the
16 Lexus, global fixed income is the insurance policy.

17 And it is important, because having that profile
18 in a rising rate environment is going to make absolute
19 returns in fixed income a challenge.

20 Switching to the inflation portfolio, which is
21 the second box up there. Again, we've had solid five-year
22 returns, and -- but what's really I think challenging for
23 the Investment Office and something that we are talking a
24 lot about, and have a road work -- or have roadmap
25 initiative looking at is when you look at the mandate for

1 fixed income, it's -- or for the inflation portfolio, it
2 is to provide protection against inflation.

3 And yet, if you use something like the Consumer
4 Price Index, or CPI, you look back at the last three-year,
5 the five-year, the last 10-year period, CPI has been
6 averaging somewhere in the neighborhood of 1.4 to 1.7
7 percent.

8 But if you look at our inflation index, which is
9 the middle column there where it says policy index, we're
10 not getting anywhere near 1.4 to 1.7 percent out of our
11 inflation index. Now, our staff is outperforming it, but
12 we're outperforming in an index that doesn't seem to be
13 accomplishing what we need to get out of it.

14 And so the capital market assumption there was we
15 were going to get three percent. If you look at the
16 three-year return, it's 0.8 percent. If you look at the
17 index, it's even lower at 0.5 percent.

18 So we have, as I mentioned, a roadmap initiative
19 to look at possibly doing something better in the
20 inflation program that better matches what we need going
21 forward for inflation protection.

22 And then finally moving to the liquidity portion,
23 the liquidity -- we care about the returns there, but
24 they're really secondary to, as the name says, provide
25 liquidity for the fund, if we need it elsewhere, but it's

1 really about capital preservation. And just making sure
2 the money is there when we need it at some future point.

3 And so while we've had decent returns there, it's
4 just sort of icing on the cake. That's not the main
5 purpose for those assets.

6 I think at this point, I'll hand it over to Lou
7 to talk about some of the accomplishments, one of them
8 specifically to the liquidity bucket there. And then Lou
9 will talk about what we're working on in the current year.
10 And then, at that point, I think we'll stop and answer any
11 questions you may have.

12 --o0o--

13 INVESTMENT DIRECTOR ZAHORAK: Lou Zahorak
14 Investment Director, Global Fixed Income. I'd like to
15 highlight on page four of 43 a key total fund
16 accomplishment that global fixed income implemented this
17 last fiscal year was the roll-out of the internally
18 managed CalPERS short-term investment fund, or as what we
19 internally call it the CalPERS STIF fund.

20 At least year's fixed income review, Todd Smith
21 discussed this project and the development of this fund.
22 The genesis of this project was identified before and
23 after the global financial crisis. At that time, senior
24 staff at CalPERS determined that we needed to have a more
25 efficient and more conscious way to have risk in our most

1 liquid portfolios.

2 By bringing the management of this fund
3 internally, we are better positioned to control that risk,
4 and the characteristics of that liquidity pool, and
5 ultimately to be able to access that pool -- that
6 liquidity pool in the most extreme financial stress
7 periods. That was -- that's one of the most important
8 factors why we decided to bring it in-house.

9 As I said, Todd Smith in fixed income led that
10 development. But I would have to say we could not have
11 accomplished this implementation without the help of Matt
12 Flynn and his team in the Investment Servicing Group, and
13 without the collaboration and flexibility of State Street
14 Bank to help modify our custody and cash management
15 processes so we could sweep funds from our external
16 managers into our internal STIF fund.

17 And honestly, I'd like to acknowledge our
18 Internal Credit Trading staff and the Execution Services
19 Strategies Group that work on the day-to-day trading and
20 portfolio construction of this portfolio. The portfolio
21 has grown in size from about \$8 billion prior to the
22 strategy being developed to this past year, we've managed
23 anywhere from 25 to 35 billion dollars internally now.

24 Through these efforts, we are -- we've calculated
25 we're saving anywhere between three and a half million to

1 seven million dollars. So it's a big one for us
2 internally.

3 For the current fiscal year, global fixed income
4 is continuing to help the Investment Office develop skills
5 and capabilities as it relates to total fund returns. In
6 the prior years, global fixed income has made extensive
7 contributions in developing ESG efforts, and incorporating
8 those in our investment process internally and with our
9 external managers.

10 This year, we have committed two employees to
11 spend 10 to 20 percent of their time working with Beth
12 Richtman's Sustainable Investments Team specifically on
13 research.

14 In addition, we have four credit research staff
15 members working on specific research groups focused on
16 water issues and disruptive technologies. Finally, Arnie
17 and our entire team are focused on working with the Trust
18 Level Portfolio Management and the Opportunistic
19 Strategies Group to develop the total fund liquidity and
20 leverage capabilities in the future.

21 We'll stop there and see if there's any
22 questions.

23 CHAIRPERSON JONES: Yes, we have one.

24 Mr. Moore.

25 ACTING COMMITTEE MEMBER MOORE: Can you go back

1 to page two of 43 again where you have your returns by
2 subasset class. The inflation asset class did great for
3 the last one year period, but inflation was only up 2.7
4 percent for the last year. What accounts for the
5 premium -- the difference on that yield?

6 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

7 It's completely driven by the commodities side,
8 and specifically the oil side of it. Oils had a very nice
9 run this year.

10 ACTING COMMITTEE MEMBER MOORE: Thank you.
11 Appreciate that.

12 CHAIRPERSON JONES: Ms. Mathur.

13 COMMITTEE MEMBER MATHUR: Yeah. Thank you.

14 I think it's quite something that we have -- that
15 we manage so much of our fixed income portfolio
16 internally. I mean, 93 percent is the number that you
17 shared. And it's extraordinary that we've been able to
18 develop such a high caliber truly talented team
19 internally. And I really appreciated your opening
20 comments, Arnie, about Curtis's leadership. And I think
21 that has been important.

22 But really the fact that the team has all --
23 works together and across -- and increasingly across the
24 entire portfolio, the entire Investment Office to really
25 drive value, I think is so important. I mean the credit

1 side -- understanding credits is essential, not just to
2 fixed income, but, of course, to global equity and to
3 other asset classes -- asset classes as well. So I really
4 appreciate that increased commitment to sort of that
5 enterprise-wide focus.

6 I noted -- I think you were very clear about
7 sharing your concerns sort of moving forward around
8 absolute return, and what -- how is this -- how is this
9 asset class going to perform moving forward. And, of
10 course, it is an important component of the portfolio even
11 in times when it's not performing well, because as you
12 say, it's a shock absorber. But how -- and I don't want
13 to -- obviously, we can't get -- I don't want to get too
14 much into detailed strategy, but how are we positioning
15 the portfolio, how are we looking at it differently moving
16 forward, given that we are in a rising interest rate
17 environment, and that's expected for some time to come.
18 Are we doing -- are we doing anything differently?

19 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

20 Well, everything we do daily is dynamic. It's
21 what I like about the job. What I knew yesterday helps me
22 today, but isn't going to do my job today. I have to keep
23 learning.

24 The interest rate exposure is, in a lot of ways,
25 a given. We have never, at least in the 25 years that

1 I've been here, been big proponents that we have the skill
2 or necessarily anybody has the skill to necessarily
3 predict interest rates. So I don't think you'll see us
4 deviate a whole lot from that index as it relates to
5 interest rate risk.

6 I know -- I don't know what the exact, five,
7 seven years ago, there was talk about shortening our
8 interest rate exposure by changing our index based on what
9 seemed reasonable at the time that rates were going to go
10 up.

11 And yet, here we are, however many years later
12 and nothing has changed, and would have cost us a lot of
13 money had we done that. So I don't think you'll see us
14 that -- we don't view that as even it's a tool in our tool
15 box, not one that we feel we're necessarily very good at,
16 nor really anybody is.

17 But within the portfolio, we certainly can
18 position for different interest rate environments and how
19 they impact the economy. And I think we view it as sort
20 of late cycle right now.

21 Certainly, the tax policy in the last year has
22 given us a little bit more runway. But I would say given
23 where things are trading, we're a lot closer to home at
24 the moment, keeping powder dry for potential opportunities
25 down the road.

1 Within asset classes, I know Lou has a sort of a
2 defensive tilt in his -- you know, higher quality tilt in
3 his corporate portfolio within mortgage portfolio we can
4 position for higher interest rates and what that might
5 mean for specific parts of that product.

6 So we'll continue to manage within our asset
7 classes. I think you'll find tilts across asset classes,
8 we're probably leaning towards doing, when it's more
9 obvious in the past. And a lot of that - not that it
10 didn't necessarily work in the past - is we have a lot of
11 total fund responsibilities now, and we want to make sure
12 that -- I think it's Investment Belief 7 -- that we're
13 being compensated for the risk.

14 And I think you'll see when we have broad
15 consensus among our senior staff that something is
16 attractive, we will continue to make those bets like we
17 always have. But probably not when it's -- it kind of
18 seems cheap, you'll probably find we try to make money
19 within our specific subsectors and not cross over nearly
20 as much.

21 But certainly, higher interest rates have
22 implications throughout the economy. And we will try to
23 get those into our portfolio to still take advantage of
24 it.

25 COMMITTEE MEMBER MATHUR: Thank you. And I know

1 in fixed income, we have less exposure to international
2 credits than we do in our global equity portfolio, can you
3 just share a little bit about how thinking is evolving in
4 that regard and what our current exposure is.

5 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

6 So our index has approximately 10 percent to the
7 international area split between developed markets and
8 emerging markets. And what we have found is that the vast
9 majority of the return comes from the foreign exchange
10 exposure, and much less from the actual bond aspects of
11 it.

12 And the dollar has been extremely strong. And so
13 we've been underweight international and that has worked.
14 But again, we think the dollar rises sort of late stage
15 also. We don't necessarily think it's going to turn
16 tomorrow, but maybe closer to the end than not.

17 So we are starting to close some of that
18 underweight. But it's a relatively low yielding part of
19 the world. And in a lot of areas, the international
20 markets have had negative returns -- or negative interest
21 rates in recent years. And so optically, and when we run
22 scenarios, they often don't kind of pencil out as
23 extremely attractive, because they're so low yielding. So
24 we've had a natural kind of underweight, but given the
25 dollar positioning, we're getting more neutral, but I

1 would be surprised if we got to an overweight any time
2 soon.

3 COMMITTEE MEMBER MATHUR: Okay. Thank you so
4 much.

5 CHAIRPERSON JONES: Yeah. Thank you, Ernie.
6 Ernie, you made -- Arnie, you made a comment that
7 triggered a memory about five, six years ago at the
8 Investment Committee, where we had this, I don't know,
9 maybe two or three different meetings about duration with
10 the interest rate risk. And what triggered my memory is
11 you said we would have lost a lot of money, if we had
12 adopted that change.

13 And so I think it's probably intuitive that
14 periodically when we have these lengthy debates on policy,
15 and then we go out four or five years and come back and
16 say, well, what would have happened. So it helped us be
17 informed on our decision making as we go forward. So
18 thanks for holding the ground on that decision.

19 Okay. Mrs. Taylor.

20 COMMITTEE MEMBER TAYLOR: Yes. Thank you.

21 Arnie, I wanted to thank you for your
22 presentation. Getting in front of the Board is never fun
23 or easy, I don't think. But also the fact that you gave
24 credit to Curtis, but your team -- and that this is such a
25 team effort. As my colleague Ms. Mathur side, I really

1 appreciate that you acknowledged all of that. And I think
2 you guys are doing a great job.

3 I did have a couple of questions. And I think --
4 I think you kind of answered the one question I had, which
5 was you had mentioned that you were looking at -- let me
6 make sure I can find my notes here -- possibly doing
7 something else to change the returns, because they were
8 becoming lower, or because of the rising interest rates.
9 And you sort of talked about that. Could you expand?

10 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

11 Sure. So on the income portion, we will only be
12 changing within our portfolio trying to position, but
13 won't be taking interest rate tilt in our portfolio per
14 se.

15 COMMITTEE MEMBER TAYLOR: Okay.

16 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

17 Where we will be hopefully relooking at and
18 potentially doing something different is in the inflation
19 component, simply because the index we're targeting is not
20 returning anything near what actual inflation is running.
21 And so if our goal is to protect ourself to inflation, it
22 doesn't appear our index is necessarily going to do that.

23 COMMITTEE MEMBER TAYLOR: Okay.

24 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

25 And so that is something we have a INVO-wide

1 process working on to reevaluate that and decide if
2 something should change, and if so, what should it look
3 like.

4 COMMITTEE MEMBER TAYLOR: Okay. Great. Thank
5 you. I'm glad I asked, because I didn't quite understand
6 that.

7 And then I also wanted to thank you for making
8 sure that you're integrating our ESG policy. The 10 --
9 was it two to three people, is that what it was?

10 INVESTMENT DIRECTOR ZAHORAK: There's two
11 individuals specifically. One is contributing 10 percent,
12 the other one is contributing 20 percent. So it's in that
13 range.

14 COMMITTEE MEMBER TAYLOR: Oh, wow. Okay.

15 INVESTMENT DIRECTOR ZAHORAK: Yeah.

16 COMMITTEE MEMBER TAYLOR: And I really appreciate
17 you guys looking into that and working on that with Beth's
18 office. So thank you very much.

19 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

20 One other thought, it was interesting when the
21 water topic came up. We literally had like half the staff
22 wanting to work with it, because it's a -- just a --

23 COMMITTEE MEMBER TAYLOR: It's huge issue,
24 especially in California.

25 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

1 Yeah, exactly. And so we ended up with a couple
2 people, but I know Beth even outside of fixed income had a
3 lot of people willing to help out -- help out on what's a
4 very interesting topic.

5 COMMITTEE MEMBER TAYLOR: Great. Thank you very
6 much.

7 CHAIRPERSON JONES: Ms. Yee.

8 COMMITTEE MEMBER YEE: I was just going to ask
9 you about the water topic.

10 (Laughter.)

11 COMMITTEE MEMBER YEE: Just generally, and I know
12 it's obviously here in California top of mind for
13 everyone. But what opportunities at this early stage have
14 you identified with regard to water or other disruptive
15 technologies that look promising?

16 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:

17 Well, I'll take the first shot at it. Lou might
18 have some thoughts too. My day job, when I'm not filling
19 in for Curtis's retirement, is the mortgage portfolio.
20 And we've been thinking quite a bit about availability of
21 water and what it means for housing. And you can pick
22 your warm climate desert condition U.S. places and kind of
23 wonder long term, you know, will they have a water issue
24 going forward if we see climate change.

25 And so we've been thinking about it from that

1 standpoint. I think the most fascinating presentation
2 that I've seen in my time here at CalPERS was about
3 climate change, and just immigration patterns that come
4 out of -- you can identify the obvious areas that -- or
5 somewhat obvious area that will feel the initial brunt of
6 climate. But what's really interesting is when you see
7 the migrations from those areas and what it might mean for
8 others areas.

9 And so it's sort of like demographics in a way
10 that it's interesting. It's not always easy to put the
11 tilt into your portfolio because it's sort of slow and
12 glacier in its pace, but it is definitely something that
13 we do think about for specific investments, if not just
14 the whole portfolio.

15 COMMITTEE MEMBER YEE: Okay.

16 INTERIM MANAGING INVESTMENT DIRECTOR PHILLIPS:
17 Paul, do you want to comment?

18 Paul Kramer from our Investment staff is one of
19 the folks that works most close with Beth Richtman's
20 Sustainable Investments Team, and has done a lot of work
21 in this area.

22 INVESTMENT MANAGER KRAMER: Good afternoon,
23 ladies and gentlemen. Yes, I work on that research
24 project with Sustainable Investments. I guess I would say
25 initially -- I don't want to make too many definitive

1 comments about that, because we're really kind of early in
2 the research process. I would say that right now we're
3 very focused on trying to define water risk from an
4 investment perspective. We're looking at ways to screen
5 the portfolio for water risk across the fund, which kind
6 of has, you know, different implications, depending on the
7 asset class. So that's sort of a nuance we're exploring.

8 And I think the last piece, which is maybe what
9 you were getting to, was what investment opportunities
10 might come out of that, so -- but that's kind of the steps
11 we're following right now. And I think I would probably
12 wait to talk about, you know, observations or conclusions,
13 you know, to a later time.

14 COMMITTEE MEMBER YEE: Yeah. That's great. And
15 I really appreciate you looking beyond just this asset
16 class with respect to your review.

17 Thank you.

18 CHAIRPERSON JONES: Okay. Thank you.

19 Does that conclude staff's part of this
20 presentation?

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: I just --
22 I -- yes, I would just add one thing for the Committee's
23 attention is page 40 of the attachment. I don't know
24 whether we can -- we can shift to it quickly. I don't
25 have the clicker in front of me, but there we go.

1 Because we often get asked, you know, this topic
2 of ESG integration is it all politics, is it fluff, is
3 it -- you know, is it pressure on the Investment staff?
4 And it's hard sometimes to give some specific examples.
5 And I think you can appreciate with our Global Fixed
6 Income Team, the men and women of our Fixed Income Team
7 are active traders and investment professionals in the
8 markets all the time.

9 And really, their stock and trade is security
10 analysis and risk management. And so when we've -- when
11 we've talked about ESG integration over time with all of
12 our asset classes, but particularly our Fixed Income
13 Group, you know, they look at it from the perspective of
14 what does it mean to be a great investor, and how do we
15 analyze, you know, our positions for potential risk,
16 because as Arnie said, you know, we -- absent, you know,
17 price changing during the course, if you hold the security
18 to its maturity, all you get is the income that was
19 promised.

20 So risk awareness, risk mitigation is, you know,
21 the principal duty of this great Fixed Income Team that we
22 have. And they really see this ESG integration as part of
23 what they've already been doing for decades, but really
24 focusing on some of these emerging risk factors. You
25 know, water risk being one of them the Controller

1 underscored.

2 But as you look -- as you look at, just four
3 examples out of many, what we're trying to do is start to
4 provide the Committee with some more specific and tangible
5 areas where anyone in the public that's looked at these
6 four topics would say, yes, that's what you want investors
7 to do, and that is what our Investment Team sees as their
8 core of their investment activity.

9 In reviewing, you know, holding a security with
10 a -- with a potential gas company, you'd want them to
11 explore their risk mitigation with respect to pipeline
12 leaks, and really weigh what are -- you know, in the
13 pricing of it what is the reward from the security versus
14 the risk.

15 Now, sometimes, they'll be satisfied and say we
16 like the reward of that gas pipeline company, and we're
17 going to take that risk. And other times we're going to
18 say no. The point is, the Investment Committee, and we as
19 Investment staff, you want us to be considering these risk
20 factors very specifically, as we combine them with other
21 risk factors in the portfolio, principally price and risk.

22 The other example they gave is this energy bond.
23 You know, our team views it as part of their principal
24 duty to explore what are -- what are -- what is this
25 company doing in terms of carbon reduction and

1 deleveraging?

2 And then lastly on the sovereign side,
3 underweighting Turkey sovereign bonds and overweighting
4 Mexican sovereign bonds, you know, looking at what the
5 future will hold in terms of the governance situation in a
6 given country is really the core of an investment
7 professional's duties and risks, so that we really see
8 this as, you know, the fabric of how we approach
9 investing, and what we're trying to do in these examples.

10 And we've -- you know, we have 43 slides, and
11 we're trying to just highlight four or five. That's
12 our -- that's our agreement with the Investment Committee.

13 But this one in particular I think is worth, you
14 know, reading through and pointing out publicly, because
15 it starts to answer some of the questions in terms of,
16 well, what does this ESG integration mean? Why would you
17 care about it?

18 And I think anyone that knows our Fixed Income
19 Team, and knows the investment professionals, and the
20 fiber of earning a risk-adjusted return will look at these
21 examples and not their head and say yes. Okay, this is
22 what we want investment professionals to be doing.

23 So I just wanted to underscore that before we had
24 to turn it over to the consultant.

25 CHAIRPERSON JONES: Yeah, a very good

1 observation. We did have a couple of questions.

2 Ms. Yee.

3 COMMITTEE MEMBER YEE: Thank you, and thank you,
4 Ted, for that response. You know, I think when any number
5 of us are engaged more globally on these issues, the
6 leadership of CalPERS is not lost. And I think these are
7 just, you know, some examples. And I think we could
8 probably come up with a pretty lengthy list of this type
9 of work in each of our asset classes.

10 I wanted to ask you about the slide prior to
11 that, slide 39. This has to do with the carbon
12 footprint -- carbon footprint comparison of the internal
13 credit portfolio relative to the benchmark. And I was
14 curious about this one, because the use and reliance on
15 the MSCI carbon data to complete our work, I guess, two
16 questions.

17 One, when do you hope to have the process
18 completed, and I guess more importantly, and I'm excited
19 about the possibility of eventually tying this into some
20 of the leadership role that CalPERS is playing with
21 respect to the Climate Action 100 initiative. Yeah.

22 INVESTMENT DIRECTOR ZAHORAK: Lou Zahorak,
23 Investment Director. If you remember a year ago at our
24 last fixed income review we did present to you the carbon
25 footprint analysis for our portfolio I believe as part of

1 the reporting process. I don't think we're due to present
2 that again for another year.

3 COMMITTEE MEMBER YEE: Okay.

4 INVESTMENT DIRECTOR ZAHORAK: You know, we're
5 just highlighting that we -- and we are -- in the past,
6 we've used MSCI's carbon data. Paul actually was the
7 Investment Manager that worked specifically on that
8 project. So that's where that's really at stage.

9 COMMITTEE MEMBER YEE: Okay. All right.

10 There will be a lot of interest in this. So I
11 just want to be sure that when we are at that point of,
12 you know, having some findings that I think that could be
13 helpful for others as well.

14 CHAIRPERSON JONES: Mr. Rubalcava.

15 COMMITTEE MEMBER RUBALCAVA: Thank you.

16 Ted, I just want to thank you for bringing up the
17 ESG. I'm glad you pointed out to those screens. And I
18 was going to bring it up, because I was looking at my
19 old -- and old issue this summer from a plan sponsor and
20 they had a brief article on ESG how everybody is finally
21 catching up, and the U.S. is an outlier behind.

22 But I'm glad that CalPERS on -- with your team
23 has taken a big role. And it gives me confidence for
24 sustainability in the future, because that is one of the
25 principles we keep seeing in a little literature

1 horizon -- you know, this long-term horizon, and that's
2 going to be -- I think it will be -- we will be rewarded
3 for our members, for our -- our beneficiaries, so I thank
4 you for that, and for this.

5 CHAIRPERSON JONES: Thank you.

6 So now we move to 7b, Consultant's Review of
7 Global Fixed Income.

8 MR. TOTH: Good morning. Tom Toth with Wilshire
9 Associates. I'm going to start my comments with, I think,
10 the key takeaway. And I think this is important that
11 Wilshire's evaluation and our discussion with staff and
12 our understanding of the portfolio and the process used to
13 build that portfolio has led us to conclude that it
14 continues to be managed in a very effective and
15 risk-conscious way. It leverages the deep expertise of
16 the team.

17 Now, that being said, there is some uncertainty
18 with changes in the MID, which are reflected in our score.
19 And I think that's appropriate, and we'll talk a little
20 bit more about that as we move through the item.

21 As we've talked a bit about so far today, their
22 investment approach is very consistent with the strategic
23 role that fixed income is meant to play in the total
24 portfolio, as staff mentioned, providing income, some
25 stability and equity diversification is critical as you

1 manage the portfolio through a variety of market cycles.

2 We've talked a lot about the performance, and the
3 numbers speak for themselves. The portfolio has done an
4 outstanding job adding value over and above its
5 benchmarks. I thought it was also important to point
6 out -- I won't ask you to move to the chart, which is in
7 the appendix of the memo, but you'll also see that the
8 realized risk of the portfolio over the last couple of
9 years has actually come in below or at the risk of the
10 benchmark.

11 So the portfolio has outperformed over time at
12 the same or less risk than the index. So from a
13 risk-adjusted return perspective, excellent results there
14 as well.

15 If I could have you flip forward to our scoring
16 matrix, which is page 116 of the packet. I never thought
17 I'd have the opportunity to use this term, but -- and I'll
18 use this opportunity to correct some fake news, which
19 we've seen a bit recently in the press. The overall score
20 for our review of the Fixed Income Program is a score of
21 B, which is an outstanding score overall.

22 There are some subcomponents that you might
23 naturally question why have we derived these scores? And
24 so I wanted to touch on those very specifically. And it
25 starts right there at the top with the organizational

1 score. The organizational score is a component of two
2 things. It's the overall firm, and then it's the team.
3 And where you'll see a more challenged score is in the
4 firm score of D. And that's the -- that's the mark that
5 made news some headlines earlier.

6 And I think that's -- when you think about the
7 way we generate these scores, and what we're comparing the
8 money management component of CalPERS too, it's other
9 large asset managers in the space, the PIMCO's,
10 Vanguard's, Fidelity's, Wellington's, what have you.

11 And as we've talked about for many years, there
12 are challenges that CalPERS, as a public entity, faces
13 that other private for-profit entities don't face, things
14 like equity ownership. And specifically to the stability
15 of the investment team, we're going through the process of
16 a change in CIO. And if you were to -- if there were a
17 change in CIO at Fidelity, or at Wellington, or what have
18 you, our level of uncertainty goes up. And I think
19 naturally the score should reflect that and it does in
20 this case.

21 Our expectation is that going forward, that score
22 is likely to improve. As we get the team in place, and we
23 see that stability return, and therefore that score should
24 increase as we move forward.

25 Now on the team side, it's a similar story,

1 although the team score is a bit higher. It's rated as a
2 B. To put that in context, that's essentially one notch
3 down from where it was this time last year. And that's
4 just a direct reflection of the change in MID, and the
5 fact that a stated successor has not been made.

6 And so that's again just uncertainty, which we
7 would expect to dissipate over time as that team gels, and
8 we get a better sense that the process, which is generated
9 the excellent results that we've seen over the last number
10 of years, remains in place.

11 And that's something we're in constant contact
12 with the team to understand what they're doing in the
13 portfolio. I think they provided an outstanding overview
14 on that point here so far.

15 Now, when you look at some of the other scores, I
16 think the broad takeaways that they're outstanding quite
17 frankly. When you look at the information gathering and
18 forecasting, both of them are rated as A's, which is right
19 there at the top, given the strength of the team, and the
20 depth of resources that they're able to bring to bear.

21 All of that is reflected here. And when you
22 think about the process that they go through for
23 constructing a portfolio, all of those rank very highly.
24 And so at the end of the day, we have a weight for each
25 those scores, and that's what rolls up to that overall

1 score for a B.

2 So I certainly wanted to use my opportunity here
3 to correct some of the misinformation that was out there
4 from earlier this week.

5 I'm going to stop there, because we think the
6 staff has done an excellent job walking through the
7 portfolio, but I'd be happy to answer any questions on the
8 methodology or any specific scores that you may have.

9 CHAIRPERSON JONES: Yeah, seeing no questions,
10 but I just want to thank you, Tom, for expanding on that D
11 letter, because you're so correct in that the -- sometimes
12 the general viewpoint is that they take one little piece
13 of information and they want to expand that over the
14 entire organization. And that was the fake news, as you
15 made reference to, that I saw this morning also.

16 So I'm glad you were able to expand on that and
17 identify what a narrow implication of that D is, as
18 opposed to that story that is the entire organization.

19 MR. TOTH: Right.

20 CHAIRPERSON JONES: So appreciate that.

21 Okay. Before we move to 7c, the -- were you
22 complete. You finished?

23 MR. TOTH: (Nods head.)

24 CHAIRPERSON JONES: Okay. Before we need Item
25 7c, I forgot to welcome Ms. Jenkins-Jones to her first

1 Investment Committee meeting, the representative from
2 CalHR. So, welcome, Ms. Jenkins-Jones. I forgot to do
3 that.

4 Okay. Now, we'll move to Item 7c, Real Assets
5 Annual Program Review.

6 (Thereupon an overhead presentation was
7 presented as follows.)

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: While we're
9 waiting for the Real Assets team to come up, I just want
10 to underscore, you know, the -- one, the incredible talent
11 that we have within the Investment Office, I think, in the
12 Fixed Income team, and now as we see the Real Assets team
13 combining. And we need -- you know, we need to value
14 that, especially, you know, any time that we see a
15 headline like that. You know, it goes to, in the fixed
16 income team's perspective, professionals that have worked
17 here 20, 30, 40 years of their careers to build this
18 incredible success.

19 I do think it's fair, as Wilshire mentioned in
20 their comments, for them to grade those components the way
21 they have pursuant to methodology. Of course, you want to
22 signal to the Committee and elsewhere when there's
23 transitions going on, pay attention. And I just want to
24 assure you we're all paying attention on the transition.
25 And we fully expect to have these positions filled. You

1 have the announcement on the CIO. I would expect we'd be
2 able to fill these MID positions by the end of the year,
3 so that, you know, at the beginning of the year, you'll
4 have a full team on the playing field in a sequence that
5 makes sense for us.

6 The one area that we won't be able to address in
7 the Wilshire scoring is on compensation and ownership.
8 You know, that's -- we've always received a -- you know,
9 basically a C grade on that, because as Wilshire notes,
10 we're not able to offer ownership or equity compensation
11 for our team that you would see at a PIMCO, or a asset
12 management firm. So we're always going to hit a ceiling
13 in terms of the equity ownership and the overall level of
14 compensation that we offer to these great teams. We're
15 always going to have this ceiling of a, you know, rather
16 middling grade.

17 So with that, I see the team is here now, but I
18 wanted to just emphasize those points while we were
19 waiting for Paul and his team to get here.

20 CHAIRPERSON JONES: Okay. Thank you.

21 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Good
22 morning, Investment Committee. It's a pleasure to present
23 the annual program review for real assets. I'm Paul
24 Mouchakkaa, CalPERS staff. And I'm joined by three
25 members of the team, Jane Delfendahl, Mike Inglett, and Ed

1 Yrure.

2 I wish to emphasize, however, that the prepared
3 report was a total team effort. Last year, we discussed
4 the strategic position of the Real Assets Program. Staff
5 continues to strengthen the position of the portfolio, but
6 it is a portfolio still in transition.

7 There has been more than \$24 billion of
8 investment activity in the program over the last three
9 years stemming from the acquisition of long-term strategic
10 assets, and the disposition of non-strategic assets. What
11 has guided staff has been the Investment Beliefs, the role
12 of real assets prescribed from the ALM, the strategic plan
13 for real assets, and ESG integration.

14 But the main ingredients borne from those four
15 cornerstones are not as tangible. They are the
16 intangibles and the behaviors of consistency, and
17 methodical adaptation. So what does that actually mean?

18 One example of consistency heard by the Board
19 regularly has been to grow our core exposures in a
20 measured and disciplined way. This has resulted in 12.5
21 percent returns for real estate, and over 17 percent
22 returns for infrastructure over the last five years in the
23 core category.

24 Another area of consistency has been to expand
25 execution through our separate accounts, and direct

1 ownership, which now stands at 90 percent of the program.
2 This has resulted in significant cost savings, Investment
3 Belief number 8.

4 But we also need to adapt to changing market
5 conditions. Examples where we have adapted is through the
6 introduction of the Emerging Manager Program. We have
7 invested over \$900 million and achieved 15 percent returns
8 for the last five years.

9 Another area of adaptation has been to invest in
10 energy optimization in our buildings. This is done to
11 improve returns, lower our operating costs, and lower our
12 energy usage. Balancing between staying the course and
13 being steady and adapting is key to our success. Real
14 assets has maintained discipline around vintage year
15 management. We all know timing is a very important part
16 of investing.

17 As a long-term investor, Investment Belief number
18 2, it's our responsibility to do so, as it will benefit
19 the fund in the long run.

20 The team will now take you through where we have
21 been and where we are going. Jane Delfendahl will discuss
22 our performance, and our report card to our role, which we
23 have presented for the last two years.

24 Mike Inglett will discuss our portfolio position,
25 and then Ed Yrure will discuss our current initiatives and

1 our accomplishments.

2 Thank you.

3 Jane.

4 INVESTMENT DIRECTOR DELFENDAHL: Thank you, Paul.

5 Good morning Investment Committee members.

6 --o0o--

7 CHAIRPERSON JONES: Good morning,

8 INVESTMENT DIRECTOR DELFENDAHL: I'm Jane
9 Delfendahl, Investment Director. I will talk about the
10 performance of real assets, which can be found on page two
11 of your program review.

12 For fiscal year 2017-18, the real assets total
13 performance exceeded the benchmark. Given the illiquid
14 nature of private real assets, however, more emphasis is
15 placed on longer term performance. For the five-year
16 period ended, real assets underperformed the benchmark by
17 20 basis points. The five-year real assets
18 underperformance resulted primarily from forestland
19 assets, and secondarily from non-core real estate assets.

20 What really powered our performance is our core
21 holdings in real estate and infrastructure. Core real
22 estate exceeded the benchmark by approximately 200 basis
23 points, and core infrastructure exceeded the benchmark by
24 nearly 1200 basis points. It can be noted that since the
25 Real Assets Strategic Plan of 2011, the real assets role

1 shifted to a greater emphasis on core and income-producing
2 holdings.

3 Further, the real assets performance for the one,
4 three, and five years exceeded the 2013 ALM expected
5 return of seven percent as referenced in the box on page
6 two.

7 Moving to page three of the report, this is our
8 report card with respect to our role. It shows how the
9 real assets portfolio is increasingly meeting our role of
10 real assets, which entails three pillars. These are
11 stable cash yield, partial inflation protection, and
12 diversification of equity risk.

13 --o0o--

14 INVESTMENT DIRECTOR DELFENDAHL: The improvement
15 of alignment with our role is evidenced by our production
16 of more stable positive income in a falling yield
17 environment. Note our income has stabilized and greatly
18 improved, and sits at 3.5 percent.

19 This shift has been through acquisition and
20 growth of our core portfolio, and through the methodical
21 disposition of our non-core portfolio which was largely
22 acquired in the latter part of the last business cycle.

23 The hard work that has been put into place since
24 the end of the global financial crisis has had a
25 cumulative effect bringing us to the position of strength

1 we're in today, allowing us to be adaptable to changing
2 market conditions.

3 Now, I'll pass it off to Mike Inglett who will
4 discuss the portfolio positioning of the real assets
5 portfolio.

6 Mike.

7 --o0o--

8 INVESTMENT DIRECTOR INGLETT: Thanks, Jane. And
9 good morning, members of the Board. Mike name is Mike
10 Inglett. I'm an Investment Director in the real assets
11 unit.

12 I will discuss with you the real assets portfolio
13 positions on page four of the annual program review. Over
14 the past several years, we have made significant progress
15 in repositioning the portfolio. All the efforts made by
16 the team were guided by the Investment Beliefs, the real
17 assets role, and the strategic plan. These moves resulted
18 in a higher quality and lower complexity portfolio.

19 Starting with higher quality. Over the past
20 three years, the real assets core portfolio percentage has
21 increased from 46 to 78 percent. During that same period,
22 portfolio value growth in real assets core exposure has
23 increased by approximately \$15.5 billion.

24 At the same time, the non-core exposure was
25 reduced by approximately \$8.5 billion. In the context of

1 a private illiquid asset class, this is significant, as
2 there was a total shift of approximately \$24 billion of
3 equity.

4 Further validating the shift over the past
5 three-year period core investments have outperformed
6 non-core investments by approximately three times with
7 returns of nine percent and three percent respectively.

8 Shifting gears to lower complexity in the
9 portfolio over the last three years, first real assets has
10 continued to maintain discipline in using leverage. The
11 LTV has remained around 33 percent, which is well under
12 the policy limit.

13 Second, the percentage of assets under management
14 in separate accounts has increased from 80 percent to 90
15 percent. Third, one of the goals of Vision 2020 is to
16 reduce complexity by lowering the number of external
17 investment managers.

18 Real assets has significantly reduced the number
19 of managers from 50 to 30 -- 58 to 30 in that period.
20 This is allowed for improved oversight from staff and
21 strengthened strategic relationships with our partners.
22 The lower complexity mentioned have lead to stronger
23 governance, better control, and reduced fees.

24 In summary, the result is that through these
25 efforts, we have contributed to strengthening the

1 portfolio position and increasing alignment with the role
2 of real assets. I'm going to pass it over to Ed Yrure to
3 cover accomplishments and initiatives.

4 --o0o--

5 INVESTMENT DIRECTOR YRURE: Thank you, Mike.
6 Good morning, members of the Board. Ed Yrure, Investment
7 Director.

8 --o0o--

9 INVESTMENT DIRECTOR YRURE: My discussion points
10 center around pages five and six, fiscal year '17-'18
11 accomplishments, and current year initiatives,
12 highlighting where staff demonstrates consistency and
13 adaptability.

14 As Paul touched upon earlier, our program's
15 achievements have been and continue to be driven by these
16 two key ingredients. We have been deliberate in our
17 approach as we implement our strategic plan, and build a
18 stronger portfolio in a disciplined manner.

19 I will now highlight a few key examples covered
20 on pages five and six where staff has exhibited
21 consistency and adaptability.

22 On page five, we identify accomplishments across
23 varied categories. A few noted examples that point to
24 staying the course at implementing our strategic plan are
25 as follows:

1 Number one, completion of three segment plans
2 providing guideposts for portfolio construction. Number
3 two, continued focus on increasing our core exposure in
4 both real estate and infrastructure. For example, the
5 infrastructure portfolio has doubled in size over the past
6 three years. And number three, achieving significant fee
7 savings through contract renegotiations utilizing our
8 preferred alignment model.

9 In terms of adaptive accomplishments, examples
10 include: Staff's inclusion of energy optimization into our
11 annual investment planning process; the roll-out of an ESG
12 consideration matrix for underwriting new investment
13 opportunities. Another is adapting our emerging manager
14 program through expanded guidelines and additional capital
15 commitments; and further, establishing a defined focus for
16 the launch of the transition manager program based on
17 portfolio needs.

18 --o0o--

19 INVESTMENT DIRECTOR YRURE: Moving to page six,
20 several initiatives that further highlight consistency
21 include: Staff completing its segment planning process;
22 also, expanding our preferred business model in
23 infrastructure to facilitate an active pipeline.

24 Additionally, the team is piloting its energy
25 optimization plan utilizing a systematic approach across

1 real estate in identifying economically attractive
2 opportunities.

3 Continuing with page six, examples of adaptive
4 initiatives include: One, strengthening our investment
5 process to be responsive to changing conditions, such as
6 climate risk; two, restructuring the forestland portfolio,
7 improving governance as well as alignment; three,
8 evaluating our retail portfolio and its underlying
9 strategies; four, launching a search for the Transition
10 Manager Program.

11 In summary, the adaptive components of our
12 program become an ingredient to our consistent and
13 deliberate approach. These are the common threads as we
14 strive to be disciplined and incremental in building a
15 stronger portfolio.

16 At this time, I would like to pass it back to
17 Paul. Thank you very much.

18 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Thank
19 you, Ed.

20 We hope that this presentation has illuminated
21 the strategic position of the real assets portfolio. We
22 are nine years into a positive market cycle. We cannot
23 predict the exact timing of the next downturn. But staff
24 firmly believes that you cannot take the cycles out of
25 investing in private real asset markets. Equity markets

1 have risen and core returns have significantly been
2 lowered.

3 It's in these times that there's a tendency to do
4 four things: Increase deployment to catch up to the
5 allocation; go up the risk curve to try to attain higher
6 returns; shorten due diligence periods to close more
7 deals; and fourth, reduce your focus on governance.

8 Engaging in these behaviors will impair the
9 alignment of real assets with its role and the Investment
10 Beliefs. Instead, it is even more critical for CalPERS,
11 within the real assets group, to focus on pace deployment,
12 strong governance, and sound internal controls and systems
13 to underwrite, manage, and monitor a portfolio.

14 These activities honestly are not eye catching,
15 and they don't -- and results do not show up instantly,
16 but this approach will allow us to maintain consistency
17 and adapt to changing market conditions into and through
18 the next cycle.

19 With that, we are happy to have a discussion with
20 the Investment Committee and answer questions.

21 CHAIRPERSON JONES: Okay. Thank you.

22 Ms. Mathur.

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

24 Well, thank you so much for this review. You
25 know, you said it right there in your closing, Paul, that

1 just how important maintaining a methodical, thoughtful,
2 consistent, diligent approach to investing is essentially
3 to driving long-term returns. We've seen what happens
4 when shortcuts are taken, and that might not bear out
5 immediately, but certainly will come home to roost in the
6 future. So essential that the team is continuing to focus
7 on that.

8 We have talked before about infrastructure, and
9 how do we improve the pipeline. I'm glad to see that
10 there's some efforts underway to sort of push out our
11 preferred model. We'd love to hear a little bit more
12 about that, and also just share with you that I've
13 recently had a conversation with Kevin Uebelein CEO of
14 AIMCo, the Alberta Investment Management Company. And
15 they've been doing some engagement work with developing
16 countries around what does it -- what does it take to be
17 investable, to have an infrastructure project that could
18 be investable by an entity like -- an institutional
19 investor like AIMCo.

20 And just curious whether we've participated in
21 any of those conversations or if we would, and what we --
22 whether we think that would be fruitful?

23 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: On the
24 first part, Ms. Mathur, on your comment regarding the
25 pipeline, we'd be happy to get -- to discuss that in

1 closed session. We have a fairly active pipeline today
2 that staff is working on.

3 On the second point, I see Elisabeth reaching for
4 the microphone, so I'll -- I'll let her go.

5 CHIEF OPERATING INVESTMENT OFFICER BOURQUI:

6 Sure. Absolutely. Thank you. Thank you very
7 much for your point about infrastructure and how to bring
8 sustainable infrastructure forward as well in our
9 portfolio. We are participating and very proud and happy
10 to participate a very exciting initiative, which is the G7
11 initiative together with some Canadian plans and some
12 European plans. And this initiative has different parts,
13 some of them on climate change, and diversity as well as
14 job description of the future, and also one particular
15 initiative on sustainable infrastructure.

16 So it's really about bringing, first of all,
17 the -- on the emerging market side a certain kind of -- I
18 mean, guidelines and rules in order to be able to
19 efficiently work on those markets in terms of
20 infrastructure.

21 It's also about sharing experience, both on the
22 deals, and also on the due diligence and the risk taking
23 about those infrastructure projects. So we are very happy
24 to participate to those very, I would say, very exciting
25 and very innovative approach that was taken as part of

1 this G7 initiative. So more to follow on that, because we
2 have just started, and we'll be able to update you
3 together with our team on infrastructure.

4 Thank you.

5 COMMITTEE MEMBER MATHUR: Thank you.

6 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: I will
7 just add one more thing in addition to that. We have
8 responded to surveys that have been put on by various
9 emerging market. One in particular was about Africa,
10 where we worked with a group - NASP I believe is the name
11 - to provide our feedback, both from an experience
12 perspective and from a strategic investment perspective on
13 what would be an investable project, and what tenets we
14 would look for in terms of governance and returns, et
15 cetera.

16 COMMITTEE MEMBER MATHUR: Thank you very much.

17 CHAIRPERSON JONES: Ms. Taylor.

18 COMMITTEE MEMBER TAYLOR: Yes. Thank you. Thank
19 you, Paul. That was a really good presentation. And I
20 appreciate your closing statement, because throughout the
21 review, I was reading that we were -- you know, equity
22 markets had risen, and our returns are going to go down,
23 and I was a little concerned that maybe we were looking at
24 doing what put us in trouble in 2008 and getting, you
25 know, a little bit -- well, maybe we need better returns,

1 so we're going to do those mortgage-backed securities
2 again.

3 So I'm glad to hear that you guys are staying the
4 course and working on our core returns, regardless of
5 whether they are declining, and just staying in that
6 position.

7 And then I had a question on the improving the
8 pipeline for the infrastructure. I just wanted you to --
9 and I know Ms. Mathur talked about it a little bit, but I
10 wanted you to kind of elaborate on that a little bit for
11 us, and how this came about, and how you're working it.

12 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: So in
13 terms of specifics, we'll go through. We're happy to
14 discuss that what -- you know, what the active items are
15 today. I want to add just a few comments.

16 First, we have built the largest infrastructure
17 portfolio of any U.S. public plan, at close to four and a
18 quarter billion dollars. There's a high degree of
19 scarcity of infrastructure investments that match our role
20 today. And they tend to be highly competed. And the
21 transactions are, for lack of a technical term, just
22 lumpy. They're big. They're airports, or a port, or a
23 toll road. So they come at you in a very episodic big
24 chunky way.

25 We have really been working hard to establish a

1 repeatable business model where we can, you know, operate
2 in a more consistent way knowing full well that the
3 transaction markets we have little or no control over, and
4 they will remain lumpy at least for the foreseeable
5 future.

6 I will add a few more points, which is we have
7 three investment managers in a new investments teams, and
8 they spend almost -- and their sports staff underneath
9 them, spend the majority if not all of their time working
10 on these various projects in the pipeline, which again
11 we'll discuss.

12 But the strong returns that we've achieved are
13 high -- there's a high degree of dispersion in those
14 returns, which Meketa points out very well in their
15 letter. And that dispersion from our perspective means
16 that being selective in the portfolio construction is very
17 critical. So we have to balance being -- creating that
18 repeatability, but also remaining selective.

19 CHAIRPERSON JONES: Okay.

20 COMMITTEE MEMBER TAYLOR: Thank you very much.

21 CHAIRPERSON JONES: Ms. Yee.

22 COMMITTEE MEMBER YEE: Excuse me.

23 Thank you, Mr. Chairman. I just want to thank
24 you and your team, Paul. This is a very, very impressive
25 degree of work. And the performance is obviously showing.

1 And I wanted to just ask you a question with respect to
2 something on slide 6. And it had to do with the savings
3 realized from the alignment model, and whether you
4 anticipate any additional savings from --

5 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Page
6 five?

7 COMMITTEE MEMBER YEE: I'm sorry, five.

8 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Five.
9 So it's -- we showed up through this fiscal year,
10 because we are aware of the actual returns that have
11 happened.

12 COMMITTEE MEMBER YEE: Right.

13 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: It's
14 hard to anticipate the future without knowing what returns
15 come from our portfolio, because the component where we
16 have really reduced our fees are both on the asset
17 management fee, but also in the quote profit-sharing
18 payments that we've restructured. So it's hard to
19 forecast exactly the amount going forward. I will say
20 that a lot of the low-hanging fruit, like in most
21 situations, has been squeezed out. We don't anticipate
22 that the fee savings will mirror what has happened in the
23 last three years.

24 But we do anticipate, depending on returns, that
25 we can find other opportunities to expand our model as I

1 mentioned before.

2 COMMITTEE MEMBER YEE: Right, right.

3 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: But it
4 does stand at 90 percent of the program today. Around the
5 global financial crisis, that number was significantly
6 lower than where it stands today. So that's where a lot
7 of those fee savings were borne from.

8 COMMITTEE MEMBER YEE: Gotcha. Okay. Great.
9 Thank you.

10 And then I wonder if you could just make a brief
11 mention about -- I know the retail study is in progress.
12 Any initial insights at this point?

13 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: It is
14 early on on that, so there's more work to do. You know,
15 retail is a very fickle animal. It's always evolving.
16 And we focus. And I -- it's something that PCA has
17 highlighted consistently for a number of years with the
18 Board. We focus on having a dominant retail strategy,
19 keeping that evolution in mind, and that fickleness, if
20 you will, in mind.

21 We also have our annual investment plan. So with
22 our annual investment plan, our partners, whether they're
23 retail, office, multi-family, they come in and see us at
24 least once a year, and go over the portfolio. We discuss
25 the needs in our existing portfolio and the opportunities

1 going forward.

2 With our partners active in the market
3 day-to-day, they give us real-time information in terms of
4 where to tilt the portfolio and where not to. And they're
5 incentivized to provide that information through their
6 profit-sharing payments and whatnot.

7 As we look ahead, we are in the midst of doing a
8 fairly robust review. And our focus is to always improve
9 the quality of our retail portfolio. And if there's any
10 opportunities for us to do that, that's what we -- that's
11 really the underlying current, and focus in our retail
12 view today.

13 COMMITTEE MEMBER YEE: Thank you.

14 CHAIRPERSON JONES: Okay. Ms. Brown.

15 COMMITTEE MEMBER BROWN: Thank you.

16 Early in the presentation, you talked about
17 disposition of non-core assets. So can you just explain
18 that to me in layman's term? Is that like selling things?
19 And what is non-core versus core?

20 Thank you.

21 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA:

22 Non-strategic assets, some non-core assets we own
23 are strategic, but an example of some of the sales that
24 we've executed. First, we had a very large commingled
25 fund -- opportunistic commingled fund program. It was

1 north of \$3 billion. We have disposed of that very large
2 complex portfolio, very high fees, and was a drag on our
3 performance for a number of years.

4 We also recently disposed of a timberland holding
5 that was tied up with very onerous leverage and difficult
6 supply agreements that made -- that had some unique
7 circumstances in our structure, that -- so these are a
8 couple of examples.

9 And the underlying -- again, the underlying
10 current, as I mentioned to Ms. Yee on retail, is focusing
11 on properties and infrastructure projects that align with
12 the role. And that role being stable cash flow,
13 diversification of equity risk, and inflation protection.

14 So in terms of how we call our portfolio, it
15 really has that in mind.

16 COMMITTEE MEMBER BROWN: Great. And I know we
17 talked at great detail about the timberland sale. So
18 would I find the other dispositions in some of the charts
19 and details we get maybe in closed session, is that where
20 I would find them, or are they listed anywhere?

21 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Some
22 are. Some are done just through natural attrition from
23 our port -- from our core partners.

24 COMMITTEE MEMBER BROWN: Okay.

25 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: The

1 more significant ones, such as the timberland one and the
2 commingled funds that I highlighted, these would be found
3 in the reports that go to the Board.

4 COMMITTEE MEMBER BROWN: Great.

5 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: But in
6 our annual investment plan, one of the other features that
7 comes up as I mentioned earlier, when our partners come
8 and they don't just say this year we see an opportunity
9 pipeline of X million dollars for us to pursue. They also
10 give us information about our portfolio, and may say there
11 are four properties that we believe are the right time to
12 exit from, and-cash out.

13 They would no longer will be -- they're no longer
14 positioned to be aligned with the role and what you're
15 looking to achieve

16 COMMITTEE MEMBER BROWN: Great. And so that --
17 those dispositions totaled about 8.5 billion, is that what
18 I heard?

19 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: The
20 dispositions are probably not the full 8.5 billion,
21 because what we've included in that is the change in value
22 of the portfolio.

23 COMMITTEE MEMBER BROWN: Okay.

24 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: But it
25 is the lion's share.

1 COMMITTEE MEMBER BROWN: Great. Thank you.

2 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: You're
3 welcome.

4 CHAIRPERSON JONES: Okay. Thank you. So I see
5 no further questions from staff. And before we go to Item
6 7d, we have a request to speak on 7c. Mr. Michael Ring,
7 if you can come up. You will have three minutes, and take
8 your seat here at my left, end of the dais, and the clock
9 is right below me here, and you know the drill.

10 MR. RING: I know the drill.

11 Good morning, Chairman Jones, Committee members.
12 Michael Ring, Service Employees International Union. Just
13 a brief comment that I think your staff is not taking as
14 much credit as they should for one component of your
15 real -- with your estate portfolio, which is that CalPERS
16 has a long-standing responsible contractor policy, and is
17 someone who represents members on both sides of your
18 equation, members in the system, and members in the real
19 estate markets who provide janitorial and security
20 contracting services.

21 I think CalPERS is at great advantage compared to
22 many other institutional investors we work with, because
23 the responsible contractor policy is baked into your
24 process from the beginning. I don't have to share with
25 this Committee how many issues you mitigate and risks you

1 mitigate from worker, community, or tenant concerns that
2 your partners and your own staff have much greater control
3 over and an ability to ensure a positive outcome by having
4 it on the front, and everyone IS considering this from the
5 very beginning.

6 It's very difficult for investors when they find
7 out on the back end that the quality and value at the
8 building is being threatened because someone is being
9 sexually harassed, someone is being -- not being paid,
10 someone is not providing the services that they were
11 contracted for. So I just wanted to emphasize how
12 important this Committee's work has been in having this
13 policy, and how great its been to work with your staff in
14 implementing the policy across the years.

15 Thank you.

16 CHAIRPERSON JONES: Okay. Thank you very much.
17 And we appreciate you coming here to share your comments
18 with us today, Mr. Ring.

19 Now, we will go to 7D, the Consultants' Review.
20 We have Wilshire Associates, Pension Consulting Alliance,
21 and Meketa.

22 Who's going first? Wilshire?

23 MR. JUNKIN: Which order would you like for it to
24 go?

25 CHAIRPERSON JONES: Wilshire you go first.

1 MR. JUNKIN: Happy to. All right. That's good,
2 because I think mine may be the shortest.

3 So we've provided an opinion letter, and no
4 additional slides, but we make comments both as the
5 general consultant on the overall Real Assets Program and
6 then as the forestland consultant, so I'll phrase my
7 comments in those two directions.

8 Overall, we believe that the Real Assets Program
9 is being run in exactly the way that you want from a
10 strategic standpoint. It's focused on cash flows. It's
11 focused on inflation sensitivity, whether that's real
12 estate or infrastructure --

13 CHAIRPERSON JONES: Pull the mic towards you.

14 MR. JUNKIN: -- whether that's real estate or
15 infrastructure, or at this point forestland with the
16 changes in the portfolio there.

17 So from a very high level standpoint, we're
18 pleased with how the Real Assets Program is going. If you
19 look on page two of six, 224 of mine, you can see the top
20 chart is rolling correlation with the growth assets of
21 CalPERS or the income portfolio of CalPERS.

22 This is supposed to be a diversifier. You can
23 see more recently it has been. There's that spike at the
24 beginning, which it's fair to say is a crisis. And during
25 a crisis, all assets tend to correlate towards one. So

1 that's not to say that if there was another crisis now, we
2 wouldn't see the same kind of spike. I think it would be
3 lessened by the changes that you've made predominantly in
4 the real estate portfolio over the last decade.

5 Moving onto the forestland portfolio, there are a
6 few graphs in here about timber prices. We've covered
7 this I think pretty extensively over the last couple of
8 meetings, so I'm not going to spend a lot of time here.
9 You had a portfolio up until the sale of Crown Pine that
10 was really focused primarily on south eastern timber. If
11 you look at the prices and you sort of step back a little
12 bit and try to discern a pattern, you can see southeastern
13 timber was probably flat at best.

14 Northeastern was probably trending up a little
15 bit, and then northwestern was up pretty significantly.
16 And so that was the headwind that the portfolio faced.
17 The sale of Crown Pine has really changed the structure of
18 the forestland portfolio.

19 First off, it's not nearly as big.

20 Second, the debt issues that plagued Crown Pine
21 have been removed from the portfolio. There's essentially
22 zero debt at this point on the portfolio. And so staff
23 now has plenty of time to make decisions about whether or
24 not the remaining assets should be retained, should be
25 sold at some point in the future, given the changes in the

1 overall benchmark for real assets, which it now has a real
2 estate only benchmark, meaning infrastructure and
3 forestland essentially have to compete with real estate,
4 it could be the case that staff decides these remaining
5 timber assets are competitive and should remain or they
6 may decide it's not an important strategic part of the
7 ongoing part of the Real Assets Program.

8 So I'll stop there. That's a pretty high level
9 review of our written comments. Happy to take any
10 questions.

11 CHAIRPERSON JONES: Okay. Seeing no questions on
12 that item, we'll go now to PCA.

13 MS. FIELDS: Good morning. Christy Fields, PCA
14 real estate

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

17 MS. FIELDS: I was actually happy to hear Paul's
18 closing comments describe real estate as not eye-catching.
19 I'm really happy to be not eye-catching at this point.

20 I think staff has done a great job of describing
21 the program over the last year, and over the last 10 years
22 really. And I was just here with my colleague David last
23 month, speaking about the performance. So I won't spend a
24 whole lot of time on that.

25 --o0o--

1 MS. FIELDS: I would like to just reiterate the
2 point about the focus of the program being on core
3 portfolio -- core properties, and those being really high
4 quality income-producing assets in durable locations.

5 And you can see the results of those. If you
6 look particularly at the five-year in the top table, these
7 are returns for the different risk subsectors in the
8 portfolio, and you can see the very strong performance of
9 the core program.

10 The bottom table peels back on the onion just a
11 little bit more in that it focuses on the income returns.
12 And you can see that overall, the program generated an
13 income return in line with the benchmark, but that the
14 core portfolio has produced an even stronger income
15 return. And as Ted mentioned in his earlier opening
16 comments, that is one of the main objectives of the
17 program, so delivering strongly on those objectives.

18 --o0o--

19 MS. FIELDS: I wanted to touch as most people do
20 on the Investment Beliefs, but just to acknowledge what a
21 strong tool this has been for the system in whole, but for
22 the Real Assets Program. Specifically, it's been very
23 deeply and well integrated into the investment
24 decision-making process, and is a strong -- it's one of
25 the strengths that I mentioned later in the SWOT analysis

1 as a really kind of guiding light for the whole program,
2 along with a very specific role of the program.

3 --o0o--

4 MS. FIELDS: I don't have my buddy Sarah
5 Bernstein who's our ESG expert, but I did want to
6 highlight all the many ways, some more nascent than
7 others, that the program is really beginning to
8 integrate -- integrate all these ESG objectives into
9 decision making and portfolio management efforts.

10 CalPERS continues to be a leader in U.S.
11 institutional ESG efforts. And it's -- as we've mentioned
12 before, real estate is one of the asset classes with the
13 strongest reasons for and the most benefits to gain from
14 these ESG integration efforts.

15 You're particularly advantaged by your business
16 model, which -- through which you invest in -- in a
17 smaller number of separate account structures over which
18 you have control in comparison to other investors who are
19 not able to use separate accounts to the extent that you
20 do, and are -- have to gain most of Their real estate
21 exposure through closed and commingled funds over which
22 they do not have as much control. And this has allowed
23 you really to continue your leadership efforts in the ESG
24 area.

25 --o0o--

1 MS. FIELDS: I'm going to skip a little ahead, so
2 I don't take up too much time, to the SWOT analysis on
3 page nine of our deck.

4 You'll notice, if you read through these, that
5 some of the attributes are both -- can be scene both in a
6 positive and in a less positive way. Scale is kind of an
7 obvious one, and we've talked about that before. But it
8 really gives you the ability to pursue the business model
9 that you do, and it also gives you -- the size of your
10 portfolio gives you tremendous market insight just given
11 the number, and the breadth, the geographic distribution
12 of your portfolio.

13 Scale on the other hand is -- can be a challenge
14 when you're trying to be innovative. And I think Paul's
15 discussion of doing -- of pursuing innovation in small and
16 targeted and disciplined ways is the right response.

17 Also among strengths, I think in addition to the
18 strong purpose and Board direction, really again is an
19 incredibly talented and diverse team, under a very steady
20 hand with the MID very disciplined, and the culture of the
21 team is very positive and collaborative. And I think
22 really inures to the Benefit of the system.

23 I think on weaknesses here, the other one I'd
24 like to highlight is -- and some of these are not
25 necessarily specific to CalPERS, but rather to market

1 conditions currently. But when I was here in August, we
2 talked a bit about your -- the opportunities present in
3 your existing portfolio to deploy capital to either add
4 additional space or to improve the quality of the assets,
5 and to increase your revenues generated by those assets.

6 The cost of maintaining and improving those
7 assets are increasing. So some of the returns on that --
8 the deployment of that capital may not be as large as they
9 might have been in the past. But that's not just
10 impacting CalPERS, that's impacting all real estate
11 investors.

12 On the opportunity side, again, your business
13 model and your strategic partners offer a tremendous
14 opportunity, in that they have very deep footings in their
15 individual sectors, and can do a lot of working of the
16 individual assets at the operational level to improve the
17 net operating income and the profitability. And in this
18 market where acquisition, where acquiring assets is so
19 competitive and so fully priced, being able to do that
20 is -- is a specific benefit to CalPERS.

21 Amongst the threat -- the threats, we put
22 organizational change on there. I think just to recognize
23 that there's been, over the past 12 to 18 months, a fair
24 amount of change at senior leadership positions. It looks
25 like the system is addressing that well. Very excited to

1 hear about Ben, by the way.

2 And then one of the other threats, and I think
3 the Fixed Income Program review touched on it also, is
4 just the pace of change, technology, and some of the
5 disruptive forces that are -- that are impacting real
6 estate, as well as many of the other industries.

7 --o0o--

8 MS. FIELDS: And on the next page, you know,
9 these are just a few of these. And I think staff is
10 spending an appropriate amount of time continuing to study
11 these, and research these, and review their portfolio
12 holdings in light of the way that these dynamics are
13 influencing the way people interact with real estate and
14 making sure that you have a very high quality portfolio
15 today and in the future.

16 I think I'll stop there.

17 CHAIRPERSON JONES: Okay. We have a couple
18 questions. Ms. Taylor.

19 COMMITTEE MEMBER TAYLOR: Yes. Thank you. Thank
20 you for a really comprehensive review, and I -- I'm am --
21 thank you very much also -- and Sarah who's not here --
22 for the ESG assessment. And it was very comprehensive.
23 So thank you very much, but also I had a couple of
24 questions.

25 One, under threats, you have -- I can speak

1 English, proliferation of new bank lenders less -- new
2 non-bank lenders and less regulation, so -- and then
3 higher leverage and more speculative supply are
4 historic harbingers of real estate downturn. So for the
5 first one, I don't understand the new non-bank lenders,
6 and then the second one, if you could explain for us.

7 MS. FIELDS: Certainly. So non-bank lenders
8 include life insurance companies, the commercial mortgage
9 backed security market, and a lot of the debt funds that
10 have proliferated recently. And we put this in here back
11 in 2007 in advance of the global financial crisis really,
12 real estate lending was all about the banks.

13 And today, non-bank lenders have made big inroads
14 into commercial real estate debt markets. And so roughly,
15 the real estate lending market is now roughly equally
16 divided amongst banks, Life Cos, the CMBS market and then
17 the debt funds. And so there is now a significant portion
18 of that market that's not regulated as the banks are.

19 And so generally, leverage is still quite
20 moderate compared to the last cycle. That said, we're
21 seeing kind of anecdotal evidence of some loosening of
22 covenants, and some easier lending in the non-bank space.
23 And so that's just something that we're continuing to
24 monitor, since it was a significant part of the
25 dislocation in the last cycle.

1 COMMITTEE MEMBER TAYLOR: So we're moni -- or
2 you're monitoring to make sure that we don't end up in the
3 same place in losing money not necessarily because they
4 have direct impact to CalPERS employees.

5 MS. FIELDS: That's absolutely right. And of
6 course you are in a much less levered position than you
7 were then, and just your investment strategy.

8 COMMITTEE MEMBER TAYLOR: Right.

9 MS. FIELDS: It does not emphasize leverage the
10 way some other investors do. So, yeah, there will be less
11 of an impact.

12 COMMITTEE MEMBER TAYLOR: Well, yeah, it would be
13 nice to make sure we do monitor that to make sure --

14 MS. FIELDS: Yep.

15 COMMITTEE MEMBER TAYLOR: -- we kind of have a
16 heads up if something like that were to occur again.

17 And then the higher -- is that what you were
18 talking about, the higher leveraged more speculative
19 supply as well?

20 MS. FIELDS: Yes, those are -- you know, supply
21 and real estate gets really dislocated when there's
22 excessive supply added, and then when there's additional
23 leverage. And so we've seen certain markets with certain
24 property types, where there has been quite a bit of new
25 supply delivered, multi-family markets and some office

1 markets.

2 And again, it's -- it's nothing like we saw in
3 the last cycle, but we're very late. We're long in the
4 tooth in this one, and we're just, you know, starting to
5 see some of these dynamics a little bit, and just keeping
6 an eye on it. So if these were -- this is not really a
7 red flag right now, but, you know, they're classic real
8 estate -- real estate disruptors, and so things that we
9 again monitoring.

10 COMMITTEE MEMBER TAYLOR: Thank you.

11 MS. FIELDS: Um-hmm.

12 COMMITTEE MEMBER TAYLOR: I do appreciate that.

13 And then I also just wanted to kind of reiterate what Mr.
14 Ring had said earlier, our Responsible Contractor Program
15 has been very successful. I hear a lot about it when I go
16 out to events. And I -- so the fact that you guys are
17 helping us with that, I do appreciate. I'm also very
18 impressed over the rest of your sustainable investment in
19 the real estate market, and -- I mean, it's just -- it's
20 just important we think about what properties we own, and
21 where we own them, and how much impact that may have in
22 the future for flooding problems, or, you know -- I mean,
23 from what I understand Miami is constantly under water at
24 this point.

25 So, you know, I think it's very important that

1 you guys covered this under this portfolio. So I do
2 appreciate that.

3 And then I had one more question. As you --
4 technology changes space use disruption and innovation are
5 influencing commercial real estate. So what's biophilic
6 design?

7 (Laughter.)

8 MS. FIELDS: It is a design that emphasizes the
9 human need for connection with nature, and for those
10 connections and how they feed and feed us, and support our
11 productivity. And so it includes -- its's a -- it's a
12 very all-encompassing type of thought around design, but
13 it includes the use of natural materials, of natural
14 light, of shapes that are found more universally in
15 nature, spheres, and other types of shapes.

16 And it's really becoming an interesting, and I
17 think it's going to be an important movement in the way
18 new -- new real estate assets are designed and integrated
19 into our cities.

20 COMMITTEE MEMBER TAYLOR: Okay. Thank you.

21 MS. FIELDS: Yep.

22 CHAIRPERSON JONES: And while you're on that
23 page, what's gig money?

24 MS. FIELDS: The gig economy basically refers to
25 a labor market that is more characterized by short-term or

1 contract type employment, rather than permanent
2 employment.

3 CHAIRPERSON JONES: Like Ubers.

4 MS. FIELDS: Like Uber, yeah, exactly.

5 CHAIRPERSON JONES: Okay. Thank you.

6 Okay. Ms. Mathur.

7 COMMITTEE MEMBER MATHUR: Thank you.

8 In your overview of the SWOT analysis, which is
9 on page nine, you -- the way I heard you talk about
10 innovation was as a strength that we were implementing
11 small, demonstrable, innovative techniques. But the way
12 you've listed it is as a weakness, and I'm just curious
13 what you meant by innovation as a weakness.

14 MS. FIELDS: Yeah. I mean, I think you are doing
15 some interesting things in the Emerging Manager Program,
16 in the ESG integration, but it's difficult to do a lot of
17 it. And it's difficult I think also -- and innovation
18 also applies to, I think, investment strategy. And so
19 it's difficult for you to move into sectors that are
20 simply -- you can't put two or five billion dollars in
21 some of these nicher sectors that have been very popular
22 in the last four or five years and have been throwing off
23 strong returns. It's more difficult for you to access
24 those types of properties.

25 So I agree that where Paul and his team have

1 picked and choosed to apply their energies and to try and
2 do some things new for the system, it's tougher. It's
3 just tougher.

4 COMMITTEE MEMBER MATHUR: So is that more -- so
5 that's -- that's related then really to scale --

6 MS. FIELDS: Yeah.

7 COMMITTEE MEMBER MATHUR: -- which is the
8 first --

9 MS. FIELDS: That's correct.

10 COMMITTEE MEMBER MATHUR: Okay. Thank you.
11 That's helpful.

12 CHAIRPERSON JONES: Mr. Slaton.

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

14 Coming back to page 10, the chart -- the
15 biophilic design. So, you know, that's an opportunity for
16 future projects. But what is it's impact on the current
17 projects that did not take that into account? And what do
18 you see as the impact on our existing portfolio.

19 MS. FIELDS: And I think that's exactly why I put
20 it on here, because it's new, and I think staff is
21 really -- given how large your portfolio is, their
22 energies are spent on deploying new capital, but also a
23 lot of their energy is spent on exist -- management of the
24 existing portfolio.

25 And really what they do and what they have

1 developed a good discipline around is doing their best to
2 see around the corner and what's coming, and adjusting
3 their portfolio, either through new acquisitions, or
4 through dispositions, or renovation to be aware of these
5 things that are coming. Because the younger generations,
6 the millennials, we talk about them all the time, really
7 interact with the built environment in a different way
8 than we did.

9 And so I think this is just one of those things
10 out there that I think is going to become a much more
11 prominent piece of new design, and so important to have it
12 on everybody's radar.

13 COMMITTEE MEMBER SLATON: Okay. And then two of
14 the other pieces of the chart are artificial intelligence
15 and machine learning. Could you help me understand the
16 difference between those two things?

17 MS. FIELDS: Yeah. I'm going to cheat with my
18 notes, because I had to see. So artificial intelligence
19 is actually kind of the pithier end development of
20 computer science that allows machines to do things that
21 have traditionally required human intelligence. And so
22 kind of easy ones are speech recognition and those type of
23 things.

24 And you're seeing that a lot, kind of the easiest
25 applications to real estate are smart business -- are

1 smart building management systems with all the sensors and
2 the monitoring.

3 The machine learning is interesting and it's
4 really just becoming important to real estate, primarily
5 because real estate has always been a very fragmented
6 industry, but also because as real estate practitioners,
7 we're all a little bit -- there's a certain amount of
8 inertia to the adoption of data, right? I mean, real
9 estate used to be who could have the secret -- the best
10 secret the longest, right, to get your building developed
11 before somebody else's did, or get your lease signed.

12 And everything -- that's all changing. And so
13 art -- machine learning now is where they are using real
14 estate data to improve investment decision making, so
15 they're actually creating machines that they feed giant
16 data sets to that then learn from the data without being
17 explicitly programmed. And the way that's getting applied
18 to real estate is kind of predictive forecasting.

19 You know, what will returns in the multi-family
20 space in Sacramento look like in a year, or three years,
21 or five years? And so it's really fundamentally changing
22 the way people are investing in real estate, but it's
23 fairly -- fairly new.

24 COMMITTEE MEMBER SLATON: Interesting. Okay.
25 Thank you.

1 CHAIRPERSON JONES: Okay. Yeah. Mr. Eliopoulos.

2 CHIEF INVESTMENT OFFICER ELIOPOULOS: Just use
3 this as a opportunity for a commercial sort of plug and
4 announcement for our Pillar 3 in our private equity plan.
5 You know, one of the driving forces and factors there is
6 to access these technology companies that will be extreme
7 disruptors across different sectors, including real
8 estate.

9 Because I think what the essence of Mr. Slaton's
10 question is, yes, our current portfolio is vulnerable to
11 that level of disruption to the extent that we're not
12 innovating and changing along the way.

13 So, one, having a portfolio with access to that
14 sort of knowledge and data around the technology
15 disruption that is coming is important for the return
16 stream that it will bring to us potentially, but it's also
17 important to us for the information that we'll receive and
18 data that we'll receive from the Pillar 3 portion of our
19 portfolio to use it to infuse into our real estate
20 portfolio in this case, so that we can assess the level of
21 change, and the pace change, and protect ourselves on one
22 side of the portfolio and take advantage on the other --
23 on the other side.

24 CHAIRPERSON JONES: Thank you.

25 Ms. Yee.

1 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.
2 Ted, your question -- or your comment just
3 triggered something in my mind. Maybe it's a question for
4 Meketa. And it has to do with the fees, and whether you
5 believe there's greater transparency between the
6 infrastructure GPs and LPs relative to fees than there is
7 typically in private equity funds.

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: I can just
9 start, and then turn it -- maybe segue over to Meketa for
10 sure. We definitely have better transparency -- well, I
11 don't want to say better trans -- the fee --

12 COMMITTEE MEMBER YEE: Different, yeah.

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: The fee
14 approach in our separate accounts is very simple, and very
15 straightforward, and something that we can monitor quite
16 explicitly. And with fewer partnerships, there are things
17 that we can do in real-time.

18 COMMITTEE MEMBER YEE: Um-hmm.

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: The private
20 equity fee structure in these commingled funds, as we've
21 discussed, have all these different fees associated with
22 it, so it's more complex. And to the extent that we have
23 hundreds and hundreds of partners, it's, you know, more
24 cumbersome and time-consuming to -- you know, to evaluate
25 the fees on a real-time basis. So for our -- for CalPERS

1 experience, that's the main difference in terms of what
2 differences there are in the infrastructure market, or
3 private equity market, or real estate market. That's --
4 you're right, that's a better question for Meketa.

5 COMMITTEE MEMBER YEE: Okay.

6 MR. McCOURT: Steve McCourt, Meketa Investment
7 Group.

8 CHAIRPERSON JONES: Excuse me. Maybe, Ms. Yee,
9 we'll have him make his presentation, because he's going
10 to talk --

11 COMMITTEE MEMBER YEE: Oh, I'm sorry. Yes.

12 CHAIRPERSON JONES: Yeah, he hasn't presented
13 yet.

14 COMMITTEE MEMBER YEE: Yes. Okay. I'm sorry.

15 CHAIRPERSON JONES: So but before we do that, why
16 don't we take a 10-minute break and reconvene at 11:25.
17 Okay.

18 (Off record: 11:14 a.m.)

19 (Thereupon a recess was taken.)

20 (On record: 11:26 a.m.)

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

23 Okay. We'll reconvene by calling on Meketa and
24 then after Meketa we'll call on Ms. Yee.

25 MR. McCOURT: Thank you. Steve McCourt with

1 Meketa Investment Group. To my left Lisa Bacon. I will
2 provide a few -- very few summary remarks on our annual
3 program review, and Lisa will go through more of the
4 details.

5 We were just presenting last month to you the
6 semiannual performance reviews of the performance of this
7 portfolio as, you know, has been very, very strong for the
8 one-year period, the return was 20.6 percent, and for the
9 trailing 10 years, 14.4 percent. So well beyond any
10 benchmarks that have been set. We've communicated to Paul
11 that that's barely good enough for us. So nice work,
12 Paul.

13 The net asset value and the size of the program
14 continues to grow at a nice clip. During the last year,
15 the net asset value increased from 4.3 billion -- from
16 \$3.8 billion to \$4.3 billion, an increase of 14 percent.

17 The program is in compliance with all key
18 parameters. Related to various policies that govern the
19 infrastructure program. The program is -- is well
20 staffed.

21 The most significant policy change in the program
22 over the last year relates to the target allocation to
23 infrastructure, which through the end of the prior fiscal
24 year was one percent. Going forward, infrastructure does
25 not have a Board-assigned target allocation. It now is a

1 discretionary component of the real assets program. As
2 Paul mentioned, staff is happy to provide detail on their
3 thoughts of growing the program and evolving the program
4 in the absence of that specific target under closed
5 session.

6 So with that, let me hand it Over to Lisa for
7 more of the details.

8 MS. BACON: Thank you, Steve. Lisa Bacon, Meketa
9 Investment Group.

10 So as Steve mentioned, since we were just here in
11 August, essentially the performance numbers that we
12 covered then are the same as we have covered in our letter
13 today for our remarks here in the open session, I thought
14 I would focus on some of the charts that we prepared for
15 you to take a look at the historical evolution of the
16 program, so that we can get a better understanding of
17 where the program is today and how it got there.

18 And so I'll direct your attention, first, to page
19 three, exhibit 1. And so the bar chart here on the left
20 side of the chart shows the NAV, and then on the right
21 side of the chart with the line going up, that shows you
22 the percent of the total fund.

23 And so it just -- in looking at the picture, you
24 can see from the period '07 to '13 that the program kind
25 of got a bit of a slow start, increasing a little bit, but

1 really there's sort of a demarcation when you start
2 looking at 2014.

3 Moving on. In 2014, the program crossed a
4 billion dollars for the first time. In 2015, it crossed
5 \$2 billion. In 2017, it crossed three. And this year it
6 crossed \$4 billion. And so as Paul mentioned in his
7 remarks, the program has made a lot of progress just in
8 the last couple years. And so from 2014 to 2018 that is a
9 doubling of the portfolio. And the thing that is also
10 notable during that period of time is the total fund was
11 growing also. And so to double your infrastructure
12 portfolio, you had to more than double the actual
13 exposure.

14 Turning your attention to the next page, on
15 Exhibit 2, gives some background on where those exposures
16 came from and how they came about. The bars here show the
17 amount of commitments, and so not deployment, but just
18 commitments either to funds or to accounts in terms of
19 what a manager would have the authority to deploy.

20 And each separate chunk of those bars is a
21 different manager or a different account. And the height
22 of the bar shows how much was committed. Similar to the
23 last chart, there's two different axes going on. And so
24 line here shows you the cumulative commitments over that
25 period of time. And so similar to the chart that we just

1 looked at, where there's a demarcation where there was a
2 much steeper increase in the NAV, you can see around 2013
3 that the line of cumulative commitments starts to steepen
4 appreciably. And currently, you're sitting right now at
5 about five billion in committed -- in commitments.

6 One of the things we see when we look at this is
7 that the commitments are not as consistent as far as
8 vintage years that you ordinarily would like to see. And
9 the amounts -- and the amounts of the commitments are
10 not -- not what are necessary to maintain a target
11 exposure.

12 I think over the current year, and the year past,
13 as staff has talked about and may talk about more, they
14 have a number of initiatives that are going to position
15 them better to take -- to have other vehicles and more
16 commitments in place that will improve the vintage year
17 profile.

18 In terms of investment activity this year, which
19 we did not remark on in August, we noted the Rocky Caney
20 Wind investment, which is one of the largest investments.
21 There were some smaller investments by existing managers
22 that we noted occurred, but didn't really profile them.
23 And so this is -- in total a 349 megawatt asset with
24 operations in Kansas and Oklahoma. And it makes a
25 meaningful addition to the renewable infrastructure

1 portfolio, moving that from 16 to 21 percent.

2 In terms of managers, drawing your attention now
3 to page five and the chart, this is again similar. We
4 wanted to take a historical perspective of the different
5 aspects of the programs. And so this chart shows the
6 percentage of the total NAV over the period of years that
7 are deployed through funds, separate accounts, or direct
8 investment.

9 And as the bars go across the period, you can see
10 that the percent managed to -- managed in funds decreases
11 over that period of time, and the amount managed through
12 direct investment and accounts increases over that period
13 of time. And so today, you're sitting at a total of eight
14 general partners. You've got three in direct, two in
15 accounts, and eight in the commingled funds. And that is
16 consistent with the policy preferences in the strategic
17 plan.

18 And then finally just to make a few comments on
19 future portfolio evolution, as Steve mentioned and as you
20 all are well aware, the previous -- the previous target
21 for infrastructure which was one percent under --
22 underneath real estate but specified is now embedded
23 within real estate's 13 percent plus or minus five.

24 Staff has been working on some strategic planning
25 and pacing planning. And as I mentioned, and Paul had

1 mentioned, working on a number of initiatives that will
2 give them more capacity and a couple different kinds of
3 vehicles. But in order to maintain the existing exposure,
4 if that's desired, and even increase it, there are a
5 number of things that are probably necessary to engage in
6 at least as much as the staff has already been doing, and
7 perhaps a little bit more.

8 We've mentioned a few of these here. These are,
9 you know, obvious things that people have already talk --
10 been talking about in terms of more separate accounts,
11 keeping with the direct targeting, possibly looking at
12 some club investments where three or four like-minded,
13 like-size investors get together essentially in a separate
14 account of three or four, which provides some advantages
15 for scale and also diversification.

16 Also, looking very selectively at commingled
17 funds. There may be some geographies or strategies where
18 going with a commingled fund manager is really the best
19 risk-adjusted return, and provides the best access to deal
20 markets. For example, if there were a desire to go into
21 Africa more, that might be a geography where finding a
22 manager that had been operating and investing there for,
23 you know, 15, 20 years would be -- would be the way that
24 you all would want to start out at least.

25 Also, looking at some more co-investment

1 opportunities, those can come by themselves, but they also
2 can come along with those commingled funds, and that's a
3 nice way to get access to those.

4 And then finally looking perhaps a little bit
5 more at value-add and opportunistic. In the first chart
6 that I showed you, the bars are colored to show the core,
7 and the value-add, and opportunistic. And as Paul
8 mentioned, you can really see both the percent and the
9 absolute amount that has been increased in the core space.
10 By the same token, there are a lot of interesting
11 strategies in the value-add and opportunistic space that
12 might be attractive with respect to access, and also with
13 respect to risk-return profile.

14 As Steve mentioned, with respect to the
15 investment policy, as we mentioned in August, everything
16 is compliant there.

17 And I think that's probably the extent of our
18 remarks for right now. Happy to take any questions.

19 CHAIRPERSON JONES: Okay. Thank you.

20 Ms. Yee, would you push your button.

21 Okay. Ms. Yee.

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

23 And this is really more of a -- kind of a question for
24 future thought, but -- and I appreciate the response, Ted,
25 earlier. But the question has to do with just fee

1 transparency, which I think we want to see more of across
2 the board. And my original question was whether there was
3 greater fee transparency between infrastructure GPs and
4 LPs than we typically see in our private equity funds, and
5 understanding that there's a distinction between looking
6 at, you know, tracking fees, whether we have separate
7 accounts or commingling of funds.

8 But I'm also just struck by the tools that we
9 might have available to us to do a better job of that.
10 And perhaps this is more appropriate when we talk about
11 the PE model again. But particularly with Pillar 3 as we
12 talk about getting into the technology space about is
13 there an opportunity to have some machine-learning
14 application that could actually enhance that particular
15 task of tracking fees?

16 So maybe that's more appropriate. But I think as
17 a -- did you -- I don't know if Meketa has any other
18 thoughts to add to what Ted had identified as, you know,
19 kind of a distinction here.

20 MR. McCOURT: Thanks. I largely agree with Ted.
21 The significant difference in transparency in fees doesn't
22 really relate as much to private equity versus
23 infrastructure. It relates to fund vehicle types, so
24 funds versus separate accounts. Separate accounts
25 generally provide you a lot more opportunity for both

1 better transparency of fees, negotiation of fees, and
2 reporting of those fees.

3 One could argue that infrastructure assets in
4 general are a little less complex than private equity
5 assets. And so generally more simple assets lead for less
6 opportunity for complex fee schedules. But the -- but the
7 big transparency difference is going to be in the vehicle
8 type.

9 COMMITTEE MEMBER YEE: Okay. Thank you.

10 CHAIRPERSON JONES: Okay. Thank you.

11 Seeing no further questions. That completes that
12 item.

13 We will go to Item 8a, Review of Investment
14 Policy Update, and information item.

15 CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr.
16 Chair --

17 CHAIRPERSON JONES: First reading.

18 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, it's
19 the first reading. Kit Crocker will be presenting this
20 from the Investment staff.

21 CHAIRPERSON JONES: Okay. Thank you.
22 Kit.

23 INVESTMENT DIRECTOR CROCKER: Thank you. Kit
24 Crocker, CalPERS staff. Item 8a is a first reading of
25 staff's proposed updates to the Total Fund Investment

1 Policy and the Real assets program Investment Policy.

2 Staff brings policy revisions before this
3 Committee at various points throughout the year. I just
4 want to point that out for general context. While these
5 are typically not ad hoc revisions. In fact, they are --
6 follow a fairly set annual review cycle.

7 For example, the more general updates to the
8 Total Fund Policy, which governs, as you know, over a
9 dozen investment programs and functions, would typically
10 arise during our annual, if you will, well-baby checkup
11 for the total fund, during which a broad range of staff
12 from across the entire Investment Office review and
13 identify any needed updates to the total fund umbrella
14 Investment Policy.

15 This annual checkup normally starts in the winter
16 months internally, and if changes are needed, culminates
17 in a presentation to this Committee in the spring. I
18 mention this mainly because that's not what we're bringing
19 to you today, which I'll explain in a minute.

20 The program policies are also reviewed annually
21 in conjunction with their associated annual program
22 reviews. And these program reviews typically start in
23 August of each year and conclude in November or December.
24 And we're in the midst of wrapping those up now.

25 For this year's review cycle, staff from the

1 Trust Level Portfolio Management, or TLPM, and Real Assets
2 teams required -- identified the required changes. And
3 just so you know, the teams from Opportunistic Strategies,
4 Global Equity and Global Fixed Income also went through
5 the exercise of reviewing and were involved, but have
6 confirmed that no changes are indicated for their program
7 areas at this time.

8 So now turning to today's specific item, this is
9 a first reading of the proposed changes arising out of the
10 two recently concluded annual program reviews, namely
11 TLPM, which was concluded this past August, and the Real
12 Assets Program review, which is on the agenda as you just
13 heard for this month.

14 Now, while these changes are, in staff's view,
15 relatively minor, we consider it important that the
16 policies be as accurate and up-to-date as possible to
17 reflect this Committee's direction to staff.

18 For the Total Fund Policy changes today, they
19 come in essentially three flavors: Changes related to
20 recent organizational changes within the Investment
21 Office, namely the transition of key analytical,
22 monitoring, and reporting functions from the TLPM team to
23 the IRP team; and updates to legacy content to reflect the
24 latest and greatest. This includes items like changing
25 the review window used to evaluate our realized tracking

1 error, which, as you've noted, we're proposing that the
2 policy reflect five-year review -- or rolling evaluation
3 rather than three years to reflect current practice.

4 And finally -- thirdly and finally, for several
5 investment and operating responsibilities, we're proposing
6 language updates just intended to better reflect our focus
7 on holistic portfolio management versus individual asset
8 classes and isolation.

9 So then finally, we're also taking advantage of
10 this opportunity as we always do to continue with our
11 efforts to increase clarity and consistency within the
12 policies. So, for example, changes in that category
13 include the collapsing of duplicative statements into
14 single concise items and minor phrasing changes to improve
15 ease of reading.

16 Regarding the Real Assets Program Policy, you'll
17 see we've explicitly called out the real assets strategic
18 plan as a key consideration for staff's investment
19 decision making. For the net asset value thresholds, the
20 Committee previously approved for the infrastructure and
21 forestland portfolios, we've clarified that as is the case
22 for the geography and risk classification, leverage limits
23 will apply only when the portfolios reach a certain size
24 to offset the comparatively lumpy nature of the
25 infrastructure and forestland portfolios.

1 So again, this is a first reading. We're seeking
2 your feedback. And with that, I'll pause for any
3 questions, and also invite PCA, Meketa, and Wilshire to
4 comment.

5 CHAIRPERSON JONES: Okay. Ms. Mathur.

6 COMMITTEE MEMBER MATHUR: Yeah. I just have one
7 question. And if -- I'm looking at attachment four page
8 seven of eight under the leverage component. You've
9 changed the language from "limitations" to "parameters".
10 So instead of reading, "Leverage limits are imposed at
11 both the program and portfolio level", you've eliminated
12 that and change it from -- to -- and now it says,
13 "Leverage parameters shall be measured on a loan-to-value
14 ratio". But then in the next sentence you added, "The
15 permitted leverage limits are as follows:" So I'm
16 just con -- I'm just a little confused about what's a
17 limit, what's a parameter, why are we using that -- you
18 know, two different terminologies? Do they have different
19 meanings and intentions?

20 INVESTMENT DIRECTOR CROCKER: And I think the
21 choice of the word "parameter" was intended to reflect
22 that we have both maximums -- you know, the loan-to-value
23 ratio was a maximum, whereas the debt service coverage
24 ratio is a minimum.

25 You raise a good point though then, that final

1 lead-in language we go back to limits. I'd be happy to
2 change that to parameters.

3 COMMITTEE MEMBER MATHUR: Okay. So what you
4 really means is parameters and -- okay.

5 INVESTMENT DIRECTOR CROCKER: Yes. Yeah.

6 COMMITTEE MEMBER MATHUR: Then that's fine.
7 Yeah, if you'd change that to parameters then that would
8 solve the problem.

9 Thank you.

10 CHAIRPERSON JONES: Okay. Seeing no further
11 questions from the Committee members, either Meketa --
12 this is an information item. There's no need to -- yeah.
13 Meketa, Wilshire, any -- have any comments?

14 MR. KAZEMI: Ali Kazemi from Wilshire Associates.

15 CHAIRPERSON JONES: Okay.

16 MR. KAZEMI: Just wanted to comment that we did
17 review the changes that staff had proposed and are
18 supportive of those changes as can be seen in our letter
19 to the Board.

20 The one comment I'll make is in our initial
21 review of the changes, some of the language that was
22 changed was in regards to what the appropriate levels of
23 risk and leverage levels would be, and how they would be
24 determined going forward. Our comments back to staff was
25 that having that level of ambiguity could be problematic

1 in the future, and so we felt that there would be -- it
2 would be appropriate to maintain some level of specificity
3 to regards to what those levels should be.

4 Staff took those comments, made further
5 revisions, and we're fully supportive of the draft that
6 you have in front of you now.

7 CHAIRPERSON JONES: Okay. PCA.

8 MS. FIELDS: Christy Fields, PCA. The proposed
9 changes to the real estate portions of the policy were all
10 very small and clean-up in nature, so we have no issues
11 with it and are supportive.

12 CHAIRPERSON JONES: Meketa

13 MS. BACON: Lisa Bacon, Meketa Investment Group.

14 As with the others, we had an opportunity to
15 review a draft. We did have a few comments on that.
16 Everything we felt strongly about was reflected in the
17 draft that you have in front of you, and we don't have any
18 comments besides what are in our letter. We are
19 supportive of the changes.

20 CHAIRPERSON JONES: Okay. Thank you. We have a
21 question. Mr. Moore.

22 ACTING COMMITTEE MEMBER MOORE: Hi. My question
23 has to do with the affiliate fund benchmarks. It looks
24 like a couple of them have changed from a FTSE-based
25 benchmark to an MSCI benchmark. What's the reason for

1 that?

2 INVESTMENT DIRECTOR CROCKER: That was to align
3 with State Street's benchmark.

4 ACTING COMMITTEE MEMBER MOORE: Thank you.

5 CHAIRPERSON JONES: Okay. No further questions.
6 Thank you very much. We now will move to item 9,
7 information agenda item. CalPERS Consultant Public Fund
8 Universe Comparison Reports. Wilshire Associates.

9 (Thereupon an overhead presentation was
10 presented as follows.)

11 MR. JUNKIN: Good morning again. Andrew Junkin
12 with Wilshire. I just need to find the right page. Bear
13 with me just one moment.

14 Oh, I could just go from this. Perfect. Problem
15 solved.

16 I want to start by saying this is an annual
17 report that we provide that compares CalPERS to other
18 large pension funds north of \$10 billion. And I want to
19 start by saying it is a very interesting data point, but
20 its usefulness I think is limited, because included in
21 this universe are some funds that are just not at all like
22 CalPERS, right?

23 There are some funds that are, I know, 30 percent
24 funded and they have a very different investment strategy,
25 and they should. There are some that are 98 percent

1 MR. JUNKIN: So starting on page two here -- and
2 now I'm going to have to pull up my report, because I --
3 the notes that I made to myself require me to be able to
4 zoom in, but I'm there.

5 If you look at the five-year return, the way this
6 page works, the top is the grass, the blue -- light blue
7 band is the 5th to 95th percentile. So there are some
8 observations that are outside of the universe technically,
9 otherwise the bars stretch to be so big as to potentially
10 be meaningless.

11 The blue square in this case is the Wilshire
12 5000. The green triangle is the Barclays government
13 credit, so high quality fixed income. And then the red T
14 would be CalPERS.

15 If you look at the five-year, the seven-year, the
16 10-year ranking down at the bottom in the table, the
17 number in parentheses is the ranking. So the five-year
18 ranking for CalPERS is in the 60th percentile. The
19 seven-year ranking is in the 55th percentile. The 10-year
20 ranking is in the 90th percentile.

21 Now, we now what's in that 10-year ranking that
22 next year won't be there. A pretty significant hit in the
23 real estate portfolio. So that's kind of the biggest
24 difference between the three and the five-year -- sorry,
25 the five year and the seven-year numbers.

1 --o0o--

2 MR. JUNKIN: Moving on to page four, this is
3 five-year risk versus return. Again, this is one of the
4 pages where you really can't see the letter. I think it's
5 right under the line, just a little bit to the right. So
6 a little bit low, and a little bit right, but pretty close
7 to median in terms of risk -- in terms of an absolute risk
8 number, and pretty close to median in terms of return. As
9 we just saw on the prior page, it's really the 60th
10 percentile.

11 --o0o--

12 MR. JUNKIN: I think page five, which happens to
13 be the clearest page in terms of our graphics is also
14 probably the most important page. And so this is actually
15 a look. This is not returns. This is the actual asset
16 allocation of CalPERS compared to that peer universe. And
17 a couple of things sort of stand out right off the bat.
18 One is alternatives where you can see CalPERS is
19 significantly below the peer median. Sort of in the
20 bottom quartile, again, in terms of allocation not
21 returns. So bottom quartile just means you have a lower
22 allocation.

23 Now, alternatives includes private equity, but
24 for the rest of the universe it also includes things like
25 hedge funds and risk parody. Two things that you just

1 done have significant exposure to. That's one of the
2 reasons why I think you're sort of as low as you are
3 there.

4 The other two things that I think jump out would
5 be the CalPERS weight to U.S. Equity, where you're in the
6 84th percentile, so you have less in U.S. equity than many
7 of your peers. And the international equity weight, where
8 you're in the 14th percentile, you have more international
9 equity than many of your peers.

10 This goes to the decision that was made probably
11 10, 11 years go to eliminate the home county bias in the
12 public equity portfolio, and to allow the weights of U.S.
13 and non-U.S. to be fully reflective of the global stock
14 market.

15 And the thinking behind that was what we really
16 want out of this portfolio is global equity beta, an
17 exposure to global GDP growth. Thus, why would we tilt
18 towards the U.S. or away from the U.S. when what we really
19 want is full global exposure.

20 Many of your peers have not done that. Many of
21 your U.S.-based peers continue to have a biased portfolio.
22 They lean heavily -- more heavily on the U.S. market. The
23 U.S. market has outperformed. I'm going to walk through a
24 few of those pages in just a minute.

25 So those are -- those I think are the two

1 critical pages. Now, I'm going to -- I'm going to skip a
2 few pages here and go to page eight.

3 --o0o--

4 MR. JUNKIN: And again, I apologize for the size
5 of the font. But if you zoom in and look at -- like the
6 five-year number here, CalPERS ranks in the 42nd
7 percentile, so just above median in terms of a U.S. equity
8 return. Pretty good.

9 If you go to page 10 --

10 --o0o--

11 MR. JUNKIN: -- and look at that five-year number
12 again, it's the 35th percentile. So pretty much the top
13 third. Again, a pretty good ranking. Now, I'm going to
14 go backwards. We're going to go to page six, which is
15 total public equity. And if you look at the five-year
16 number here, it's just below median. So how do you have
17 an above-median ranking and an above-median ranking in the
18 two components, but below median in the total. And again,
19 it's that weight in the U.S. and non-U.S. equity. So I
20 just want to make clear to everybody sort of the impact
21 that that single decision has, which again we, Wilshire,
22 have taken the same stance with all of our clients. We
23 believe that exposure to the global GDP growth -- to
24 global GDP growth is best expressed through a global
25 equity portfolio.

1 Just a couple more pages, or just a few more
2 pages. So now I'll jump to page 12, and we'll cover a
3 little bit of good news here.

4 --o0o--

5 MR. JUNKIN: This is private equity. And I'm
6 just going to look at the 10-year ranking, because
7 anything less than 10-year gets a little bit subjective.
8 Fortieth percentile above median, not quite to top
9 quartile. But in my opinion, that's a pretty solid
10 private equity peer group ranking for an investor that
11 suffers from scale at CalPERS. And there are plenty of
12 things that your staff is working on to address that.

13 Page 14, the income -- this is the full income
14 asset class ranking. And the 10-year number here is not a
15 typo that -- you are the number one fund in the peer group
16 there.

17 So it's been really -- to dovetail into the
18 comments that were made earlier during the global fixed
19 income review, both by staff and by Wilshire, performance
20 has been good. I think this -- this proves that out.

21 --o0o--

22 MR. JUNKIN: And then last, to bring it home is
23 real estate on page 20. And really this one is -- again,
24 I've made these comments. Kind of if you look at five
25 years, seven years, 10 years, the numbers are kind of all

1 over the map. The five-year ranking, yeah, in the 41st
2 percentile, the seven-year ranking in the fifth
3 percentile. So great returns for seven years. And that
4 10-year number has got, you know, one year that we won't
5 ignore in there.

6 So this will be a very different report when you
7 see it again in another year. Hopefully, that 10-year
8 return on real estate will have -- the ranking will have
9 moved up. So that's the end of that report. I'm happy to
10 take any questions that you may have.

11 CHAIRPERSON JONES: Yeah. Okay. Thank you,
12 Andrew. Yeah. I have a question regarding your comment
13 about the usefulness of this report because of our size.
14 And as we continue to grow, it appears that our size is
15 going to be even bigger than our comparison portfolios.
16 So either do we continue to use this report if it becomes
17 more and more less useful, or do you make changes in the
18 report, so that it does become more useful?

19 So I don't think we're in a position where we
20 just stay the course, so we've got to do something, if
21 you're saying this report is limited in its use.

22 MR. JUNKIN: Well, I'm going to break that into
23 two -- that -- my response into two parts. My belief that
24 there's some limit in the usefulness of universe charts is
25 true, regardless of your size. You could be a \$10 billion

1 plan, and I would have given you probably the same speech.

2 Generally, it's interesting. And I think there's
3 data that, as fiduciaries, you would want to be aware of,
4 but rarely does it lead you to take action on something
5 that you haven't already seen somewhere else, performance
6 versus a benchmark, or in an annual program review the
7 identification of a trouble spot, something like that.

8 So that's not to say you -- so that clearly
9 that's not to say you should not use this data. I think
10 it's important that you see it and digest it. But just me
11 hand it to you and then walking away without sort of
12 laying the groundwork I think is even less useful.

13 If we -- the second part of my answer would be we
14 can definitely customize the universe. As we start moving
15 the cutoff up, as an example, if we were to go from 10
16 billion, to 25 billion or 50 billion, the -- at some
17 point, the peer universe drops to such a low number that
18 it's no longer really even meaningful, right? It's you
19 versus six funds or something like that, and we can
20 probably list them off on our fingers.

21 So we've tried to sort of balance what's the
22 cutoff. But we have been at 10 billion probably for 10
23 years, and I think funds have grown, certainly CalPERS has
24 over the past 10 years. So it's probably time for us to
25 take a look at that number, and decide whether that's an

1 appropriate number or not.

2 CHAIRPERSON JONES: Okay. Okay. Thank you.

3 Ms. Taylor.

4 COMMITTEE MEMBER TAYLOR: Yes. Thank you. I
5 just had a quick question for you, Andrew. The exposure
6 to global GDP growth and having a non-bias, right, are --
7 that we decided on has put us behind more than a few other
8 like funds, specifically CalPERS -- or STRS, in terms our
9 returns, because they're weighted to the U.S. equity
10 market, is that something that we should consider changing
11 to in the future?

12 MR. JUNKIN: I think that having just gone
13 through the asset allocation process, that's the most
14 logical time to address it. It's certainly up to the
15 Investment Committee if there are other times to address
16 it. You're right, that is a decision that has had a
17 negative impact on returns. Could have easily gone the
18 other way.

19 COMMITTEE MEMBER TAYLOR: The other way.

20 MR. JUNKIN: And so --

21 COMMITTEE MEMBER TAYLOR: But it's been going
22 this way for quite some time now.

23 MR. JUNKIN: It has been. And just in thinking
24 in terms of sort of board governance, and who was on the
25 Board 10 or 11 years ago when this decision was made, I

1 probably just need one hand and -- to count the number of
2 board members. So there may be some value for you to just
3 have a refresher on that.

4 And I Elisabeth has turned on her mic --

5 COMMITTEE MEMBER TAYLOR: I see that.

6 MR. JUNKIN: -- which is generally my cue to stop
7 talking, so --

8 (Laughter.)

9 CHIEF OPERATING INVESTMENT OFFICER BOURQUI: I
10 didn't mean to be.

11 MR. JUNKIN: No, not at all.

12 CHIEF OPERATING INVESTMENT OFFICER BOURQUI: No,
13 it was just to add on your excellent question. I think
14 it's -- it's a good point at time to rethink about our
15 basic assumptions, and especially such one which is so
16 crucial as whether or not we should have home bias. I
17 would like to emphasize that this is really part the
18 strategic asset allocation and not of --

19 COMMITTEE MEMBER TAYLOR: Right.

20 CHIEF OPERATING INVESTMENT OFFICER BOURQUI: --
21 active risk per se that we take on top of that. It's
22 really the base of the strategic asset allocation. I just
23 wanted to bring it back in the context of that process
24 that we have, and that we are going to do. So certainly,
25 we know that the next -- I mean, we are within this

1 process, and the next mid-year review for 2020 as part of
2 the ALM process will address that on an extensive manner.
3 And we are already starting to think about that, you
4 know --

5 COMMITTEE MEMBER TAYLOR: Yeah, I didn't want to
6 go --

7 CHIEF OPERATING INVESTMENT OFFICER BOURQUI: --
8 and our assumptions for that process.

9 COMMITTEE MEMBER TAYLOR: I didn't want to go
10 outside the process, but I thought it should be mentioned.

11 CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes.

12 COMMITTEE MEMBER TAYLOR: So thank you very much.

13 CHIEF OPERATING INVESTMENT OFFICER BOURQUI:
14 Thank you for your point.

15 CHAIRPERSON JONES: Ms. Hollinger.

16 COMMITTEE MEMBER HOLLINGER: Thank you.
17 Appreciate this.

18 I had a quick question. I know on the CalPERS
19 direct model, the motivation behind that is to get us up
20 to -- to be able to increase our scale. But I was
21 wondering if you compare ourselves on the private equity
22 slide here, if we just compared ourselves to the Canadians
23 who do direct investing, or do they basically occupy those
24 addition -- you know, the top quadrant on private equity,
25 because it's similar in size?

1 MR. JUNKIN: In terms of performance or the size
2 of the allocation?

3 COMMITTEE MEMBER HOLLINGER: In terms of
4 performance.

5 MR. JUNKIN: That is actually not --

6 COMMITTEE MEMBER HOLLINGER: Or you may not know.

7 MR. JUNKIN: -- an answer that I know off the top
8 of my head.

9 COMMITTEE MEMBER HOLLINGER: Okay.

10 MR. JUNKIN: So the universe is that these are
11 Wilshire Universes. And they're compiled sort of with the
12 agreement that we, Wilshire, won't cherry pick individual
13 funds. We can report to you and show you the rest of the
14 universe, but there's some anonymity included. Just like
15 we wouldn't go to a Canadian fund and say, well, here's
16 where CalPERS is. That's just the --

17 COMMITTEE MEMBER HOLLINGER: Okay.

18 MR. JUNKIN: -- the nature of the agreement that
19 we have on those universes. So the answer is I don't
20 know, but I don't know for a reason.

21 COMMITTEE MEMBER HOLLINGER: Okay. I appreciate
22 that.

23 CHAIRPERSON JONES: Okay. So seeing no further
24 questions thank you for that.

25 We will move now to Item 9b, Corporate Governance

1 Update: Voting Proxy, Shareowner Campaigns, and corporate
2 engagement.

3 I see the team is coming down.

4 (Thereupon an overhead presentation was
5 presented as follows.)

6 CHIEF INVESTMENT OFFICER ELIOPOULOS: Here we go.
7 Great. I'm going to get -- I'm going to get us
8 started here, Mr. Chair. I'm just flipping to a page,
9 while we let Simiso and Beth join us.

10 CHAIRPERSON JONES: Okay.

11 CHIEF INVESTMENT OFFICER ELIOPOULOS: As I
12 mentioned in the -- in my opening remarks, and as you just
13 alluded to, this item is a corporate governance update on
14 proxy voting, shareowner campaigns, and corporate
15 engagement, which is a subset -- a subset of our overall
16 ESG strategic plan. So that's why I thought I'd start
17 with the overall plan, first, just to ground everybody in
18 what this subset is.

19 So if you look at our overall five-year plan and
20 you go to the very bottom right-hand corner, you'll see
21 proxy voting, shareowner campaigns, and focus list. So
22 we'll be covering that today. In the middle of the --
23 middle of the chart, you'll see diversity and inclusion,
24 and two dashes on engagement, and voting. So we'll be
25 addressing that today.

1 And then if you turn to the left on engage 100
2 plus on the PRI Montreal Pledge companies, what we now
3 call our Climate Action 100+, we'll have an update on that
4 today.

5 So that's just to give a little bit of a -- of a
6 setting. We have a lot of activities on ESG overall, the
7 strategic plan. The Sustainable Investments team is
8 responsible for our overar -- overarching overall strategy
9 across all of our asset classes, number one. And then,
10 number two, in March, we come back to the Committee for a
11 full discussion on our overall plan, and all of the
12 constituent parts, as well as a review of our actual proxy
13 voting principles or Global Governance Principles at that
14 time.

15 Today's discussion is meant to focus on the proxy
16 season specifically. We now have, Simiso was telling me
17 yesterday, about 9,200 votes have been cast out of what we
18 anticipate to be about 11,000 for the full season. We can
19 -- so to review how the season went, kind of give a report
20 card on the activities, how, in general, the 9,000 votes
21 went. That's a very big task to try and summarize how
22 9,000 votes went, number one.

23 Number two, to focus in on the priorities that
24 we've identified for the global equity proxy voting
25 season. We had a session in March and April together to

1 identify what would be our, you know, priority subject
2 matter areas. So in March and April, we identified
3 corporate board diversity, climate action, and executive
4 compensation as areas of priority with a continuing
5 emphasis across the board on proxy access and majority
6 vote.

7 So that is the setting for the presentation
8 today. This is the overall report, and this is the
9 overall five-year strategy, which we'll come back to in
10 March. Today is a review within our Global Equity Program
11 how the proxy season, shareowner campaigns, and
12 engagements went with our public companies, as we
13 anticipated in March and April when we were going into the
14 proxy season.

15 And with that, I will turn it over to Simiso to
16 go through the report card, and then both together Simiso
17 and Beth to give a glimpse of, you know, looking forward
18 for the coming -- for the coming year, and an opportunity
19 for the Committee to give us feedback on how the year did,
20 and things to think about as we bring back our strategy
21 and our areas of emphasis and priorities for next March.

22 In short, we think it was a successful season. I
23 think when you review the -- review the numbers across the
24 board, lots of achievements, lots of improvements across
25 the Board, particularly on the priorities that we have. I

1 think metrics are showing movement overall in the areas
2 that we care about.

3 But there's room for enhancement for sure and
4 further success next year. And that's what we wanted to
5 spend some time talking about that as well.

6 So with, Simiso, I'll turn it over to you and
7 Beth.

8 --o0o--

9 INVESTMENT DIRECTOR NZIMA: Thank you, Ted.
10 Members of the Investment Committee, good afternoon. My
11 name is Simiso Nzima, Investment Director, Global Equity.

12 --o0o--

13 INVESTMENT DIRECTOR NZIMA: Before I get into the
14 actual presentation, I just want to take this opportunity
15 to recognize the Corporate Governance team, and the work
16 that they put in, you know, over the years, and especially
17 this season. The Board gets to see me three, or four, or
18 five times per year, but they -- you know, you don't
19 really get to see members of the team. But I just wanted
20 to recognize them for the hard work and the success that
21 this program is achieving.

22 I have Todd Mattley and Craig Rhines behind me.
23 But I also have Stuart Hall and Tamara Sells back in the
24 office, you know, manning the shop so as to say.

25 But really getting back into the presentation, we

1 have 30 slides prepared. I'm not going to go through all
2 the slides. I want to focus really on the two slides
3 which locate the 2018 proxy season outcomes, as well as
4 looking ahead, so the 2019 proxy season outlook.

5 The summary of contents really shows the
6 statistics related to these two slides that I'll focus on.
7 And then in the appendix, we have the entire board of work
8 that the corporate governance team was involved with in
9 2018. And, you know, at the end of the presentation, I'll
10 be open to dialogue with the Board and take any questions
11 related to the entire presentation, not only focusing on
12 the two slides.

13 --o0o--

14 INVESTMENT DIRECTOR NZIMA: So looking back, the
15 2018 proxy season outcomes, what is it that we achieved
16 and what were the things that we focused on.

17 I'll start with corporate board diversity, which
18 is the first two bullet points. And really, you know,
19 with corporate board diversity we were energetic and we
20 were making progress. Thirty percent of the companies
21 that we engaged, starting in July last year, have added a
22 diverse director to their board. That is 151 companies
23 out of the 504 companies that we engaged last year.

24 So that's really something which we are seeing
25 movement in that area. But I want to emphasize that

1 really the work we're doing here is like trying to boil
2 the ocean.

3 (Laughter.)

4 INVESTMENT DIRECTOR NZIMA: You know, it doesn't
5 happen overnight. It will take time, but we are
6 determined that with the ownership rights that we have, we
7 will move, you know, the market and get these to move
8 along.

9 Speaking of ownership rights, we actively used
10 our ownership rights in terms holding directors
11 accountable for improving corporate board diversity. As a
12 result, we voted against 438 directors, 841 companies
13 where these engagements did not have constructive
14 outcomes.

15 And just as a point of emphasis, really here
16 we're voting against board chairs, members of the
17 nominating and governance committee, as well as long
18 tenured directors, again because we think this matters.
19 It matter for the bottom line. It matters for the returns
20 that we get. This is what really pays our pension in
21 terms of the returns that we get, and companies being
22 managed effectively.

23 Shifting gears and looking at executive
24 compensation. In March, we came to the Board and talked
25 about the enhancement that we did to the voting practice

1 on executive compensation. And as a result, we -- this
2 year, we voted against 43 percent of say-on-pay plans,
3 which is the executive compensation proposals. And this
4 compares to about 16 percent of a five-year average. So
5 this is a significant change in terms of voting on
6 executive compensation.

7 And we're hearing from other investors and, you
8 know, talking about these, and what we're actually doing
9 in this space. So we're going to continue to hold
10 companies accountable for performance. We think that
11 executive compensation should be cost effective, and also
12 show a direct and non-complex link to shareowner value
13 creation.

14 Last, but not least, on these really the
15 shareowner campaigns that we're engaged in, these
16 companies were identified either internally or in
17 partnership with some of our strategy partners. And we
18 targeted 121 companies, which resulted in 88 settlements.
19 We still have about 16 ongoing engagements. And we ran
20 solicitations at 17 companies. The results of those
21 solicitations are at the -- in the appendix on slide 29,
22 so I won't go into that here.

23 But really this is what I wanted to highlight in
24 terms of the outcome of the 2018 proxy season.

25 --o0o--

1 INVESTMENT DIRECTOR NZIMA: Looking ahead,
2 looking at the 2019 proxy season, this is really an area
3 where there's significant collaboration between, you know,
4 ourselves, Corporate Governance, Global Equity team and
5 Sustainable Investments. And our goal here is to make
6 sure that we think the corporate governance work that we
7 do with the ESG strategy plan to make sure that really we
8 are touching on those priorities that are identified and
9 which we come and report to the Board in March.

10 So we'll continue to work collaboratively with
11 the Sustainable Investments team in terms of looking at
12 strategies that we could implement and enhance, and then
13 also in the review of the global governance and
14 sustainable investments principles.

15 So here what I have really I listed some of
16 the -- a subset of some of the issues -- activities that
17 we'll be looking at. But I'm not going to go through
18 these. I'll have Beth sort of talk through some of the
19 high level thoughts that we have especially on corporate
20 board diversity, as well as on climate action 100.

21 Over to Beth.

22 MANAGING INVESTMENT DIRECTOR RICHTMAN: Thank you
23 Simiso. Good afternoon. Beth Richtman, CalPERS staff.

24 So after the great discussion we had at the Board
25 off-site, the SI team and the Corporate Governance team

1 thought about what we're doing on diversity and inclusion
2 relate to our public companies. And we concluded that
3 really we don't want to just be looking at diversity at
4 the Board level.

5 Conveniently, in the United States, there's a
6 reporting standard which requires all companies with 100
7 or more employees to file a report by law on an annual
8 basis that reports on the company's gender, race, and
9 ethnic data on key positions and overall workforce.

10 It's actually a report called the EEO-1 that's
11 grounded in the Civil Rights Act of 1964. And it's a
12 report our U.S. companies are already doing. We just want
13 them to make it public. In fact, right now -- well, as of
14 2017, the data we have, only 3.2 percent of Fortune 500
15 companies are actually reporting this data. But some of
16 the issues that create the sort of scarcity of diverse
17 boards that we've been talking about come in part because
18 of maybe the overall workforce. And so we'd like to
19 understand this better.

20 I should note that the data won't tell us about
21 every element that CalPERS cares about related to
22 diversity, but it will tell us a lot. And it will allow
23 us to compare companies within industries and across the
24 United States. And importantly, it will allow us to
25 assess how reflective a board's diversity is of its

1 workforce.

2 As Ted mention, we'll be coming back in March to
3 discuss potential updates to the ESG strategic plan. One
4 thing I'll note related to this and related to diversity
5 and inclusion is that we do intend to take a broader
6 approach to D&I. Currently, in the ESG strategic plan,
7 it's really focused on our public companies, but we are
8 working on a total fund approach. And we look forward to
9 coming back on that.

10 And additionally, after the Board off-site and
11 some updates to the Governance and Sustainability
12 Principles that you adopted in March -- sorry, in June,
13 there are a couple things that we'll probably be adding to
14 this strategy that I wanted to mention. And one is
15 harassment, and particularly sexual harassment and two is
16 related to looking at compensation, particularly
17 inappropriate pay gaps related to gender and minorities.
18 So that will be part new elements that we'll be thinking
19 about as we're working on our strategy.

20 So I look forward to your further thoughts and
21 questions on these issues and appreciate your past
22 comments.

23 The next thing I wanted to cover briefly is
24 Climate Action 100+. You know, it's funny, the numbers in
25 this presentation just prepared I guess a few weeks ago

1 are already stale, in that now, the initiative has 296
2 investors and over 31 trillion of assets behind it.

3 Climate Action 100+ has been recognized by the
4 global media as the world's largest and most ambitious
5 investor engagement project. The Investment Office is
6 quite proud of the key role that CalPERS has played in
7 building this initiative into the force that it now is.

8 And I want to recognize all the great work of
9 Anne Simpson who's the chair of the initiatives steering
10 committee, but also the other five members from Corporate
11 Governance, and also the Sustainable Investments team who
12 have been working really hard on getting this off the
13 ground.

14 You know, that's a significant amount of
15 resources going into this initiative from our team. But I
16 will mention that our holdings in the companies in the
17 Climate Action 100 list aggregate to over 20 billion. So
18 this is a very significant initiative for us for a reason.
19 And also, the systemic risk to our portfolio of climate
20 change grows as we now every year.

21 There will be an annual benchmarking of the
22 progress with the companies as part of the Climate Action
23 100 initiative, which will help inform our shareowner
24 engage -- shareowner engagement, and how, you know, our
25 proxy voting team will be exercising votes at future

1 company meetings.

2 The first report in the benchmarking analysis
3 will be published in early 2019, and we look forward to
4 sharing those results.

5 Now, back to Simiso.

6 INVESTMENT DIRECTOR NZIMA: So at this point
7 really, we'll take questions from the Board and any
8 dialogue and direction that you may have for us.

9 CHAIRPERSON JONES: Thank you.

10 Ms. Brown.

11 COMMITTEE MEMBER BROWN: Thank you.

12 I wanted to go back to the 2018 proxy season
13 outcomes. The first bullet you talked about, that the 30
14 percent of the companies you engaged with added a diverse
15 director, 151. So do those companies have none before and
16 now they have more than one, one or more than one or did
17 they -- I'm just curious.

18 INVESTMENT DIRECTOR NZIMA: They've added an
19 element of diversity that they did not have. So they may
20 have had some elements, but not -- as we look at our
21 definition of diversity it's really broad based. So it's
22 an element of diversity that they previously did not have.

23 COMMITTEE MEMBER BROWN: So they may have had a
24 woman on the board, but maybe not an African-American male
25 or something like that, is that correct?

1 INVESTMENT DIRECTOR NZIMA: Yes.

2 COMMITTEE MEMBER BROWN: Okay. So these aren't
3 brand new to diversity. These are just increasing the
4 amount of diversity potentially.

5 INVESTMENT DIRECTOR NZIMA: Some of them may not
6 actually have had any diverse directors.

7 COMMITTEE MEMBER BROWN: So I'd like to know what
8 that -- what that is, if -- which ones that didn't have
9 any, and the ones that now have increased. Because I
10 think it's great if we go from none to some, as opposed to
11 some to more.

12 My next question where you talked about you voted
13 against 438 directors. So how many of those were actually
14 ousted, did not make it back? I know we said we voted
15 against 438. Did any of them not get put back on the
16 Board?

17 INVESTMENT DIRECTOR NZIMA: We'll have to go back
18 and look at that. But in terms of our holding in these
19 companies, we don't hold enough shares in terms of
20 actually getting director being -- you know, having to
21 leave the board.

22 Some of those companies actually have majority
23 voting. So if -- for example, if the directors had
24 received, you know, less than majority support, then they
25 would have had to resign from those boards.

1 However, I just want to emphasize that the fact
2 that we may not have, you know, significant holdings.
3 It's not sort of -- it's not a handicap. The number of
4 companies which we had written before -- we'd written the
5 first letter and the second letter on this issue, and
6 which they never responded to us. But when we voted
7 against the directors and wrote to them and explained why
8 we're voting against the board chair and the nominating
9 and governance committee, they actually reached back to us
10 at that point after that -- you know, having that against
11 vote coming from us, even though we actually hold a small
12 percentage of the overall vote of the company.

13 COMMITTEE MEMBER BROWN: So because you voted no,
14 you got them to engage because they don't --

15 INVESTMENT DIRECTOR NZIMA: They -- they --
16 yes --

17 COMMITTEE MEMBER BROWN: They don't like being
18 told no.

19 INVESTMENT DIRECTOR NZIMA: -- the engagement --
20 exactly.

21 COMMITTEE MEMBER BROWN: Okay. It would be
22 helpful to know which of those did re-engage after we
23 voted no on them, and those that just sort of side we
24 don't care and turned their back. That would be nice to
25 know as well.

1 And then the last one was with pay. And I don't
2 know how successfully were any of those, where we said, we
3 voted against 43 percent of executive compensation
4 proposals. And my guess is, you know, all the CEOs got
5 their money, but let's -- let's let you tell me what the
6 answer was.

7 INVESTMENT DIRECTOR NZIMA: Yeah. So the
8 executive compensation proposal, those are advisor
9 reports.

10 COMMITTEE MEMBER BROWN: Right.

11 INVESTMENT DIRECTOR NZIMA: And, you know, at the
12 end of the day, if the company, they'll -- you know,
13 they'll pay the CEOs. But I think what this reflects and
14 what this encourages, it leads to more engagement with the
15 companies. We're already hearing from some of the
16 companies that we voted against, where they're reaching
17 out and saying, you know, what is it that we need to do,
18 why did you vote against?

19 So it leads to the start of engagement in terms
20 of -- you know, in terms of executive compensation, and
21 we'll engage these companies and see what the problem is,
22 whether the problem is with the design of their comp plans
23 in terms of the failure to link, you know, the pay to
24 performance of the company.

25 COMMITTEE MEMBER BROWN: Great. Thank you.

1 CHAIRPERSON JONES: Mr. Costigan.

2 VICE CHAIRPERSON COSTIGAN: Great. Thank you,
3 Mr. Jones.

4 Great report. Just a few questions, and I know
5 that I asked last year. And I think Ms. Simpson, as part
6 of this report, it talked about majority voting in all.
7 And I don't need an answer now, but I'd like something
8 back.

9 So last year, I raised the issue of Apple and
10 BlackRock. And so when we talk about voting against
11 people and voting for board diversity, one of the things I
12 pointed out was the lack of diversity on Apple's board of
13 directors and that the -- one of the female board of
14 directors at Apple was the head of the Nomination and
15 Governance Committee at BlackRock.

16 And when you cross-reference those two, there is
17 clearly a lack of diversity on both boards, and when that
18 same individual sits on two large boards of which we have
19 majority shareholder voting -- so all the parameters that
20 we want were in place.

21 So I'd like to know, again a question I had
22 raised last year, where are we voting where we have that
23 authority against directors that serve on multiple Boards?
24 I think as we've raised before, and I think Ms. Brown
25 raised this as well, is we've talked about geographic

1 diversity, educational diversity, gender diversity, LBGTQ,
2 race, name all of it -- so again, this was a question I
3 raised. You can go back and look at the transcripts.
4 Last year, I raised this at Apple and I also raised it as
5 it related to one of the large banks, because there was an
6 individual that sat on multiple boards.

7 And if we talk about board diversity, as we've
8 talked before, there are 25,000 boards slots. Board
9 diversity means adding more people, not the same person to
10 those slots.

11 So I don't know what we did with Apple or
12 BlackRock.

13 INVESTMENT DIRECTOR NZIMA: I can't answer the
14 specific companies. But in terms of the people sitting on
15 multiple boards, the Governance and Sustainability
16 Principles, we actually have that taken care of and is
17 part of our voting practice. So if you're a company
18 executive and sit on one other board besides where you're
19 a company executive, then we actually vote -- we vote
20 against you.

21 VICE CHAIRPERSON COSTIGAN: So then on that one
22 individual who's on Apple and BlackRock's board, I'd like
23 to know how we voted her.

24 INVESTMENT DIRECTOR NZIMA: We can check that and
25 come back to you.

1 VICE CHAIRPERSON COSTIGAN: So just again, these
2 are great reports. Look I -- and then just in some
3 specific areas -- you guys do amazing work, so I really
4 appreciate it, so I'm just asking some probing questions
5 just -- and I'm not picking on any company here. I'm just
6 looking at on slide 29, 502 of 503 of the iPad, I just
7 picked one at random MGE Energy. I just want to make sure
8 that I understand how this operates.

9 They had a climate risk proposal -- do you want
10 to go to slide 29. Okay -- had a 10 percent, which means
11 it failed, but only 10 percent -- we only garnered 10
12 percent in support. So the question I have, and you can
13 get back to us, is 10 percent of what? So how many -- how
14 many eligible votes were there? And I think you actually
15 touched on this, which oftentimes we're operating against
16 a board of directors, and a chair, and others. So if
17 there 100 percent of the voters in the universe, okay, how
18 many actually cast a vote? So it was it 70, 80, 60, 40
19 30? Okay. So it's 10 percent of what?

20 Because it's a little bit -- it failed. But if
21 it's 10 percent of 30 percent, right, we can start putting
22 votes together.

23 The other question is I know we go out and
24 solicit, as you -- you made an excellent point. We may
25 not own a lot, but we have a big voice, so we go out and

1 gather others. I'd just be interested in a case study on
2 one of these that failed, did they go out in fact solicit
3 the other way?

4 So again, I'd like to know -- and I'm not -- pick
5 anyone you want. I just picked them, because it was a
6 climate change, noticed it was 10 percent kind of a round
7 number. But again, what's the universe? How many cast a
8 vote? Because if you have 30 or 40 percent of
9 shareholders that are disinterested, why is that?

10 And then just on -- just a generic question. So
11 we voted against Elon Musk. And again, this is something
12 we can talk about all day, but I do have concerns when the
13 CEO of a company goes on a public broadcast and engages in
14 an activity that really should be a terminable offense.

15 I saw that we voted against his compensation. I
16 don't if you want to expand on that, but we didn't raise
17 any other issues, or -- I'm trying to get the timing -- or
18 did that incident occur after the proxy voting? Because
19 I'm curious as to how we dealt with what he did on the
20 radio show.

21 INVESTMENT DIRECTOR NZIMA: So since our
22 engagement with companies are private and confidential, we
23 can take this to the closed session and expand more.

24 VICE CHAIRPERSON COSTIGAN: Okay. That's fine,
25 then we can talk it then.

1 Thank you. Thank you, Mr. Chair.

2 CHAIRPERSON JONES: Thank you. Okay. Ms.
3 Mathur.

4 COMMITTEE MEMBER MATHUR: Thank you very much.
5 Well, I am -- I have to say I'm very encouraged by the
6 progress we've made, both in terms of the diversity
7 component, which we know is demonstrated to deliver
8 additional value. You know, we know that diversity on
9 corporate boards means that that company is likely to be
10 more successful and to deliver better performance. And so
11 the fact that we're making significant progress there to
12 me is incredibly encouraging.

13 And Climate Action 100+, where again, we know
14 that climate change is a real material risk to companies
15 and to CalPERS portfolio performance. The fact that we're
16 not alone, that hundreds of large institutional investors
17 agree, and have brought almost -- you know, over \$30
18 trillion of assets behind this initiative, because they
19 see it as a -- as not just an existential threat to us as
20 a society, but really as a truly material investor risk is
21 quite stunning, and I think far surpasses where we thought
22 we would be just a year ago.

23 So I'm really proud of the work that CalPERS and
24 all of our partners in both of these undertakings have
25 made over the past year.

1 I do have a couple of questions, or first a comm
2 -- another comment. With respect to the diversity
3 initiative, as I remember -- as I recall, the 504
4 companies that we sent a letter to had no women on their
5 boards. We used that as a proxy for other diversity. So
6 it would not be true that they might have a woman on the
7 Board and we're adding another element of diversity. It's
8 really that we know that there are no -- there's no gender
9 diversity. There may be other types of diversity
10 reflected on the boards it's hard to capture given current
11 data. Is that an accurate statement?

12 INVESTMENT DIRECTOR NZIMA: The -- that is an
13 accurate statement. The criteria that we used for those
14 504 was gender diversity in terms of -- because that's
15 the -- what was publicly available.

16 COMMITTEE MEMBER MATHUR: Right.

17 INVESTMENT DIRECTOR NZIMA: But as we then engage
18 with these companies, we then talk about some of the
19 elements of diversity besides women.

20 COMMITTEE MEMBER MATHUR: Right.

21 INVESTMENT DIRECTOR NZIMA: So technically, yes,
22 that's true in terms of that they wouldn't have had a
23 woman on the Board.

24 COMMITTEE MEMBER MATHUR: Right. So it's
25 possible there's some other element of diversity that's

1 not currently captured by the data that's reported. But
2 nonetheless, they are now adding a diverse director -- 151
3 of those companies are adding a diverse director. I think
4 that's quite a lot of progress over one year. I know that
5 there's -- this is only the first step in a series of, you
6 know, work that we're going to do, but I think it's an
7 important move forward.

8 I also wanted to ask -- I'm also very encouraged
9 by how we've been voting on the executive comp proposals.
10 You know, one of the things that I think we have seen in
11 the -- in the public markets is the life of a company has
12 shrunk quite considerably. I think it's -- a coupe
13 decades ago, it was something like 60 some odd years that
14 a company survived, and today it's more like 17.

15 And that is quite astonishing. And also, CEO
16 tenures have reduced, you know, for -- now I think your
17 average CEO doesn't lead a company longer than five years.

18 So ensuring that there is alignment between the
19 CEOs and the long-term performance of a company, which
20 obviously impacts the performance -- our per -- you know,
21 the performance of that company and our own performance of
22 our portfolio is essential.

23 So while focusing on, you know, obviously, the
24 executive compensation proposals are quite complex. They
25 involve lots of different elements. But I want to -- I

1 guess I'm -- my question really is, how are we thinking
2 about longevity of these companies and sort of the
3 lifecycle of these companies? Since we're going to own
4 these companies through their lifecycle, we are largely
5 passively invested in the public markets.

6 Pause there for an answer.

7 INVESTMENT DIRECTOR NZIMA: Yeah. That is an
8 excellent question, and really gets to the core in terms
9 of our engagement with these companies. When we look at
10 executive compensation, we tend to be CEO agnostic.
11 Really what we're evaluating is that the structure in --
12 of the compensation is really set up that this company is
13 being managed for long-term sustainable value creation,
14 because we're going to be owning these companies forever.
15 We really own -- it's not owning a stock. We own a
16 business essentially.

17 So the CEO may change, but even with CEO
18 changing, we want to ensure that the design of the plan is
19 focused on long-term strategy, and that strategy thinks
20 about the sustainability of value creation. So really
21 it's an excellent point.

22 We realize the tenure of the CEO is getting
23 shorter and shorter. That's why really our focus is
24 regardless of who's sitting, you know, on that chair, we
25 want to make sure that the compensation committee -- and

1 that is why we're voting -- you know, we're looking at
2 voting against the compensation committee members again in
3 terms of looking at this area, because they're responsible
4 for the design of the comp plan. And that design should
5 be aligned with the company's long-term business strategy.

6 COMMITTEE MEMBER MATHUR: Yes. And, of course,
7 we don't want to see CEOs extracting significant, you
8 know, shareowner value out of -- you know, for their own
9 benefit in a relatively short period of time when that's
10 really needed to advance the future performance of that
11 company.

12 So I appreciate that that's the focus. That is
13 absolutely -- I mean, that's consistent with our
14 Investment Beliefs. I think that's invest -- consistent
15 with our own sort of long-term horizon. So thanks for the
16 good work.

17 INVESTMENT DIRECTOR NZIMA: Thank you.

18 CHAIRPERSON JONES: Ms. Taylor.

19 COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr.
20 Chair.

21 I just want to thank you, Beth and Simiso, for
22 the report. Very comprehensive. And I saw some new stuff
23 that I hadn't seen before. So I like the fact that we are
24 using the EEO-1 data. We didn't really have a measurement
25 before, so I congratulate you on requesting companies to

1 include that.

2 How are we doing with that? Are companies
3 actually including their EEO-1 data as we requested?

4 MANAGING INVESTMENT DIRECTOR RICHTMAN: Thank you
5 for the question, Ms. Taylor.

6 So that is part of what we're going to be focused
7 on going forward. This is a new element.

8 COMMITTEE MEMBER TAYLOR: It's a new element.
9 Okay.

10 MANAGING INVESTMENT DIRECTOR RICHTMAN: Yes. So
11 right now, it's about 3.2 percent of Fortune 500 companies
12 report. So there's a -- there's a big gap there, and --

13 COMMITTEE MEMBER TAYLOR: Oh, yeah.

14 MANAGING INVESTMENT DIRECTOR RICHTMAN: -- that
15 is something that when we come back in March we'll
16 actually have so goals around what our targets are and the
17 approach. But that is a new enhancement to our -- to --
18 really for our D&I strategy for public companies to get
19 beyond just looking at board diversity.

20 COMMITTEE MEMBER TAYLOR: Great. So and I -- is
21 there a plan -- just as a thought, is there a plan to
22 partner with some other like organizations to help push
23 that through for more than three percent?

24 MANAGING INVESTMENT DIRECTOR RICHTMAN: Yeah,
25 absolutely. And there have been organizations that have

1 been putting forward proposals over time. And some of
2 them are getting very close to passing.

3 COMMITTEE MEMBER TAYLOR: Oh, good.

4 MANAGING INVESTMENT DIRECTOR RICHTMAN: They're
5 getting in the 40 percents. And so we've already started
6 talking to some. But we -- yeah, I mean, with many things
7 that we're trying to achieve, we can't do it alone.

8 COMMITTEE MEMBER TAYLOR: Right.

9 MANAGING INVESTMENT DIRECTOR RICHTMAN: And so
10 strong partnerships make a lot of sense for us on trying
11 to achieve our objectives such as this.

12 COMMITTEE MEMBER TAYLOR: Right. And it's so
13 apparent when it works so well for us in the Climate 100.
14 So I just want to make sure that we're hoping to get there
15 through other means rather than just by ourselves. So I
16 appreciate all your hard work.

17 Thank you.

18 MANAGING INVESTMENT DIRECTOR RICHTMAN: Thank
19 you.

20 CHAIRPERSON JONES: Ms. Yee.

21 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.
22 And again, thank you for the report. I wanted to just ask
23 a question that was highlighted on slide 7. And it showed
24 that there had been a -- there's a market decline in
25 support for a global management proposals, and increasing

1 support for global shareholder proposals, and just wanted
2 to get your thoughts on why you think that is, and whether
3 that's a trend to be -- that we'll be continuing?

4 INVESTMENT DIRECTOR NZIMA: Yeah. In terms of --
5 again, thank you for your question. In terms of the --
6 the decrease in support for management proposals. Again,
7 it's about us holding companies accountable for long-term
8 value creation.

9 Part of that really if you look at the
10 significant drop there, which happened in 2017 was with
11 the Japanese, you know, companies where we're pushing for,
12 you know, board independence in Japan. And a lot of
13 companies in Japan really do not have majority independent
14 boards.

15 In fact, the Japanese Corporate Governance Code
16 and the Company Act only calls for two directors in terms
17 of being independent. So we -- since 2017, really we have
18 been working on this and trying to push companies in Japan
19 to move their board diversity to at least initially
20 one-third, and then eventually to move to majority --
21 majority board independence.

22 So a significant, you know, reason for that is
23 that -- and we'll see this actually, you know, moving
24 forward increasing in terms of -- not increasing -- in
25 becoming lower and lower again as we vote against comp

1 plans, as we vote against compensation committee members
2 and so forth.

3 In terms of the support for shareowner proposals,
4 I think our view really is that, you know, everything we
5 do is grounded in the Governance and Sustainability
6 Principles. And if shareowner proposals are aligned with
7 our view of the world, we will support them. And we're
8 seeing sort of an increase in the sophistication, and
9 especially in international -- in international markets
10 where shareowner proposals are getting written in a much,
11 much better way, than they were, you know, a couple years
12 ago. So that's why we're seeing sort of an increase in
13 support for those.

14 COMMITTEE MEMBER YEE: I see. That makes sense.
15 Thank you.

16 And I had a couple of questions regarding
17 compensation. So I like the 43 percent in terms of the
18 executive comp proposals that we opposed. Were we joined
19 by a majority of other shareholders in opposing more of
20 the say-on-pay questions this year?

21 INVESTMENT DIRECTOR NZIMA: We -- we don't have
22 sort of the data for everyone right now. So what we have,
23 we looked at data, I think it was the end of August. And
24 looking at global investors that voted on at least a
25 thousand say-on-pay proposals that it already filed their

1 NPX filings. So that became, you know, public record.
2 Only 48 global investors, you know, shared -- voted on
3 more than a thousand say-on-pay proposals. Of those, 43
4 percent against vote actually is the fifth highest of
5 the -- you know, the 48 global investors that you had.

6 And if you look at those, the top eight -- if
7 there are only eight investors that voted against at least
8 20 -- you know, 20 percent of these proposals, and the
9 average for those is about, you know, 46 percent. So
10 we're close to the average in terms of the top investor
11 that voted against say on pay.

12 We will see -- we'll come back in March with the
13 full set of data to see where others are. But I think the
14 fact that we are doing these and CalPERS is known for
15 leadership in terms of, you know, governance. And we have
16 received a lot of publicity in terms of our votes against
17 executive compensation, we think that will actually help
18 when other investors look at this again.

19 COMMITTEE MEMBER YEE: Okay. And then can you
20 give us a flavor of how much the executive pay ratio
21 factored into our analysis of executive comp?

22 INVESTMENT DIRECTOR NZIMA: Yeah. So this is the
23 first year that the CEO pay ratio is being -- is being
24 reported. And so at the beginning of the year, we took a
25 decision that since this is the first year really, we

1 didn't have sort of enough data. So, for example, the
2 first company that reports is the only company that would
3 have reported. So we'd only have sort of a benchmark in
4 terms of looking at it versus its industry and versus
5 everyone else.

6 So it really didn't make sense for us to start
7 incorporating that right away. We were looking at it,
8 when we're looking at executive compensation in terms of
9 if, you know, the plan seemed like it was aligned and the
10 CEO pay ratio seemed liked really out of whack, you know,
11 really, really high, then we'd take that into account.
12 But it wasn't really from the benchmarking perspective,
13 because we didn't have a full set of companies that
14 have -- that have actually reported these. And you know
15 once this proxy season is over, we'll have a full set and
16 we'll take a look into -- into that. And our
17 understanding again is that even the -- the proxy advisory
18 firms are -- did not take that into account this proxy
19 season.

20 COMMITTEE MEMBER YEE: Okay. So more to come on
21 that.

22 INVESTMENT DIRECTOR NZIMA: Definitely.

23 COMMITTEE MEMBER YEE: Okay. Good. And then
24 lastly, can you provide an update -- I'm not sure that I
25 heard anything recently about the SEC's review of proxy

1 access advisors and kind of that whole -- whether we --
2 we're weighing in on that whole discussion or not.

3 INVESTMENT DIRECTOR NZIMA: Okay. In terms of
4 where we are right now, I think we actually weigh in in
5 terms of the comments, so there's a comment period and
6 everything. And I think we -- we did through the
7 Governance and Sustainability Subcommittee, we have a
8 correspondence working group where we do comment letters
9 and sort forth. And we understand this is still something
10 that is -- that is still ongoing. I think there's going
11 to be a meeting sometime, I think, within the next two
12 months or so looking at that.

13 And our view again is that proxy advisors, they
14 provide some recommendations and analysis, but they're
15 not -- they don't determine how we cast our vote. They
16 help us in terms of sort of looking at some of the issues
17 that are out there. And really, they help us focus on
18 things faster, but they're not really the determinant of
19 how we cast our votes.

20 And that's something which we will sort of --
21 we'll communicate. I think we still have Anne Simpson on
22 the Investor Advisory Council of the SEC. So we'll
23 communicate that through that process.

24 COMMITTEE MEMBER YEE: Okay. I guess, could
25 we -- could I just ask that we maybe get some updates on

1 that as their continues to be kind of things emerging
2 around that. I mean, it really is kind of an issue with
3 respect to, you know, just the third-party proxy voting
4 services and the issue of independence. And so to the
5 extent that there's activity there, we can get an update
6 on that.

7 CHAIRPERSON JONES: Yes, we'll include that.
8 Okay. Thank you.

9 COMMITTEE MEMBER YEE: Thank you.

10 CHAIRPERSON JONES: Yeah. I have a couple
11 questions. On the EEO-1 issue, while the government set
12 forth some standards for reporting, the first question is
13 are there any consequences of not reporting by these
14 companies?

15 MANAGING INVESTMENT DIRECTOR RICHTMAN: It's my
16 understanding it's the law. So I could find out if there
17 are fines or consequences.

18 CHAIRPERSON JONES Okay.

19 MANAGING INVESTMENT DIRECTOR RICHTMAN: But it's
20 my understanding that it's sort a requirement for
21 companies that have more than 100 people.

22 CHAIRPERSON JONES: Okay. And so the compliance
23 issue -- and there -- whether or not there are any
24 aspirational goals in this provision in this law, in terms
25 of what they're looking to, what kind of goals they're

1 seeking to obtain?

2 MANAGING INVESTMENT DIRECTOR RICHTMAN: Well, for
3 the law --

4 CHAIRPERSON JONES: Yeah.

5 MANAGING INVESTMENT DIRECTOR RICHTMAN: -- or for
6 our project?

7 CHAIRPERSON JONES: Yeah, within the law.

8 MANAGING INVESTMENT DIRECTOR RICHTMAN: Within
9 the law. That's a good question. I know that it's a
10 reporting requirement, but I'll have to look to to see if
11 there's --

12 CHAIRPERSON JONES: Okay. Okay. Okay. Thanks.

13 And then the next question is our 3D, you know,
14 you mentioned that the additional members are on corporate
15 boards. Do you have any information to determine how many
16 of those came from our 3D database?

17 INVESTMENT DIRECTOR NZIMA: I don't have the
18 information right now, but we can actually go back and
19 look at that.

20 CHAIRPERSON JONES: Yeah. Yeah.

21 INVESTMENT DIRECTOR NZIMA: I think at the Board
22 off-site in July, I think Belen from Equilar did mention
23 that we've -- I think this year we've had about 90 members
24 coming out of 3D going on public boards. But in terms of
25 the ones that I'm talking about here I don't have the

1 information to get.

2 CHAIRPERSON JONES: Yeah, it would helpful to
3 know, because, I mean, we spent a lot of time and effort
4 to create that database along with CalSTRS. And we were
5 responding to corporations that indicated they can't find
6 qualified candidates. And all of sudden, we gave them 400
7 people that are qualified, and then they said they don't
8 have any openings, so I would like to know --

9 (Laughter.)

10 CHAIRPERSON JONES: -- how that's being achieved.

11 The next question I had is the -- several years
12 ago we created our diversity forum for CalPERS. And I
13 think we've been -- the date for having another one has
14 been slipping. And I hope we got a date now, so that we
15 can start publishing when we're going to have our CalPERS
16 Diversity Forum.

17 I see...

18 MANAGING INVESTMENT DIRECTOR RICHTMAN: Carrie,
19 who's --

20 CHAIRPERSON JONES: Carrie.

21 MANAGING INVESTMENT DIRECTOR RICHTMAN: Carrie
22 Douglas-Fong who's been working on this is coming up.
23 And -- but she's -- it's been really challenging to find
24 to find a venue. But I think through some heroic efforts
25 of staff members, we do have June is -- I guess June 2019

1 is the date, and we do have a venue in Sacramento.

2 CHAIRPERSON JONES: Okay.

3 MANAGING INVESTMENT DIRECTOR RICHTMAN: And I
4 don't know if Carrie wants to add anything.

5 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: Good
6 afternoon, Carrie Douglas-Fong, Associate Investment
7 Manager. The Sacramento Convention Center will be closed
8 for about 18 or more months, including this next year.
9 We've managed to find an alternative location in
10 Sacramento at the Sheraton. And it will be hosted June
11 10th and 11th. So that is the date. And I think that's
12 as of last week.

13 CHAIRPERSON JONES: Thank you very much.
14 Appreciate that, because when I'm out and among our
15 partners, they always ask that question, when is the next
16 CalPERS diversity -- because it was a highly popular
17 event, and people really did enjoy participating in that
18 event.

19 Okay. That's my questions. Seeing no further
20 questions. Any other comments, Beth or Simiso?

21 Okay. On that, we have a public -- request to
22 speak on this item from the public, Michael ring.

23 MR. RING: Chair Jones, members of the Committee,
24 long time no see. Michael Ring with Service Employees
25 International Union. On behalf of our members, thousands

1 of whom are CalPERS participants, just a couple of quick
2 points.

3 One, I think we just want to thank you for your
4 commitment -- this Committee's commitment, your staff's
5 commitment, this organization's commitment to corporate
6 governance and leadership. You all may recall that about
7 10 years ago at this time, we were all pretty nervous
8 because we were entering into the middle -- the beginning
9 of the Great Recession. And I think we all know, if we
10 look back, that one of the triggers of the great recession
11 was a tremendous failure among corporate leadership, both
12 at individual companies, at the regulatory level, and at
13 the systematic level.

14 So this work is actually, in many -- in many
15 people's view, the most critical work of this Committee
16 because it protects us from what triggered a massive loss
17 in funding for CalPERS. And what is the biggest risk to
18 paying benefits would be another systemic loss.

19 So I just -- a couple of things there. Just want
20 to thank you for your commitment to this work, to your
21 staff's innovation and leadership in this work. And then
22 specifically as you all know, SEIU is very committed to
23 the work on diversity and inclusion in this area, sees it
24 as a major place of risk for people who are not taking it
25 seriously, and not taking leadership, and a major place of

1 opportunity as the McKinsey study and others have shown
2 for people who are taking leadership.

3 So I want to thank you for your leadership in
4 that area.

5 Thank you so much.

6 CHAIRPERSON JONES: Okay. Thank you, Mr. Ring.

7 Okay. So that brings us to Summary of Committee
8 direction.

9 Mr. Eliopoulos.

10 CHIEF INVESTMENT OFFICER ELIOPOULOS: All right.
11 You're really challenging me this time on this one, so --
12 (Laughter.)

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- give me
14 assistance and help if I missed any --

15 CHAIRPERSON JONES: Okay.

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- or, you
17 know, mischaracterized it in any way -- you know, in any
18 way.

19 Let's see. First off, it was a direction that
20 was already given, but it was reemphasized on looking to
21 combine all the divestment items into, you know, one item,
22 in particular the five-year reviews.

23 CHAIRPERSON JONES: Yes.

24 CHIEF INVESTMENT OFFICER ELIOPOULOS: And we will
25 do that.

1 Number two, during the Iran/Sudan, there was
2 direction to review the vote -- review the decision by
3 staff with respect to ENGIE, and the rationale for
4 concluding that, and come back to the Committee with that
5 response.

6 Okay. During our policy reviews, the review,
7 there was a suggestion, and I think it was directed to
8 make a one-word change on the policy -- on the policy, and
9 we were going to move forward with that in the leverage
10 table.

11 CHAIRPERSON JONES: Yeah. That's good.

12 CHIEF INVESTMENT OFFICER ELIOPOULOS: Next,
13 during the Wilshire review item on the universe of other
14 funds, Mr. Jones requested Wilshire to look at the \$10
15 billion fund size as their methodology. And so direction
16 to Wilshire to follow up on that.

17 Now, getting to the proxy voting item that just
18 concluded, there are a number of requests for follow up.
19 I'll go through them. I didn't hear a specific Board
20 direction, but I saw some nodding heads.

21 CHAIRPERSON JONES: Okay.

22 CHIEF INVESTMENT OFFICER ELIOPOULOS: So let me
23 just go through --

24 CHAIRPERSON JONES: Okay.

25 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- what was

1 requested, and you can confirm for us.

2 First -- first, with respect to the looking --
3 you know, looking back at the 2018 proxies season
4 outcomes, there was a request to follow-up on
5 specifically, you know, how many companies added a diverse
6 directors. Well, actually let me -- let me pause. I
7 think there was -- there were three requests. So let me
8 just -- so on that one, the first one was a request to --
9 on the 30 percent of companies that added a diverse
10 director to their boards splitting that -- bringing back
11 information, splitting that out in terms of those that
12 went from none to at least one, and then which ones went
13 from, you know, at least one or some to more. And so that
14 is one request.

15 Next, a request of the 438 directors at 141
16 companies, which we did not receive a constructive
17 outcome. You know, as a result of the vote, were any of
18 those directors actually ousted or not -- not elected to
19 the board. And then in addition to that, which companies
20 reengaged with us after the no vote, and the flip side of
21 that coin, which companies did not even reengage with us
22 after that. So that was one -- one series of requests for
23 feedback on that.

24 In addition, a request for feedback on how we
25 actually voted at Apple and BlackRock, with respect to

1 their boards of directors.

2 Number two, and I think actually Simiso answered
3 this was just a question of how we voted on, you know,
4 members that sit on multiple boards. So I don't think
5 there is a follow-up item --

6 CHAIRPERSON JONES: Yeah, right.

7 CHIEF INVESTMENT OFFICER ELIOPOULOS: -- on that
8 one. You know, we voted according to our principles.

9 But there was a request. As an example, the MGE
10 Energy vote of -- where we were only able to garner 10
11 percent of the vote, there's a question out of how many
12 votes of the universe cast, and we can bring that back as
13 an example.

14 CHAIRPERSON JONES: Okay.

15 CHIEF INVESTMENT OFFICER ELIOPOULOS: Next, there
16 was a request for an update on the -- from the -- on
17 the -- on our engagement or our work on third-party proxy
18 access -- proxy services, and particularly the SEC's
19 review of that topic of their independence and conflicts.

20 Last, with respect to the EEO-1 reporting, a
21 request for the federal -- in the federal law, if there's
22 objectives that are stated in addition to the reporting
23 requirement.

24 CHAIRPERSON JONES: Okay.

25 CHIEF INVESTMENT OFFICER ELIOPOULOS: And the

1 last from that is -- the last request is a report back on
2 our 3D database and how many successful candidates from
3 the 3D database were added. And we have the answer. The
4 answer is 19.

5 CHAIRPERSON JONES: Out of 400?

6 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes.

7 CHAIRPERSON JONES: So still -- yeah, still --

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: Nineteen
9 are from the 3D database that were added to the Board.

10 CHAIRPERSON JONES: Right. Okay. And is 400 the
11 current number of that database, total numbers?

12 CHIEF INVESTMENT OFFICER ELIOPOULOS: I thought
13 it was higher than that.

14 CHAIRPERSON JONES: You could -- you could follow
15 up later.

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: I think it
17 was higher than that.

18 CHAIRPERSON JONES: That's okay.

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: We'll
20 follow up with -- why don't we just follow up with this
21 item.

22 CHAIRPERSON JONES: Okay. Okay.

23 CHIEF INVESTMENT OFFICER ELIOPOULOS: How many
24 were voted and how many do we have in our database today?

25 CHAIRPERSON JONES: Yeah. Okay. Thank you.

1 Thank you. Okay.

2 CHIEF OPERATING INVESTMENT OFFICER BOURQUI: I
3 have an additional one.

4 CHIEF INVESTMENT OFFICER ELIOPOULOS: Okay.

5 CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Just
6 an additional one on the -- on thinking about how
7 long-term strategies in companies, and how it links
8 together with the CEO tenor, and to have some statistics
9 and to kind of think about that for our different
10 programs.

11 CHAIRPERSON JONES: Okay. Great job.

12 (Laughter.)

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: Thank you.

14 CHAIRPERSON JONES: You had some I didn't have.

15 CHIEF INVESTMENT OFFICER ELIOPOULOS: And we'll
16 try and make it very specific for the minutes that you'll
17 see on Wednesday.

18 CHAIRPERSON JONES: Okay. Right. Okay. Okay.
19 Well, thank you very much.

20 Okay. So that then brings us to the last item on
21 the agenda, public comment. And I have a request to speak
22 from the public. The first person is Dr. George Diehr.
23 And each of you will -- and the next two people, Terry
24 Brennand and Christy Bouma, if you'll come forward and
25 occupy these seats here. You'll have three minutes to

1 speak. And the timer is here to gauge your comments,
2 and...

3 DR. DIEHR: Thank you, Mr. Chair and members of
4 the Board. My name is George Diehr, Emeritus Professor at
5 California State University, San Marcos. I'm a retired
6 member of CalPERS and I was former Board Member from 2003
7 to 2014.

8 My comments here concern the hiring of the now
9 CEO, Ms. Frost. The key issue I believe in that -- in her
10 hiring was her misrepresentation of her education, a myth
11 seemed to be perpetuated over some time. That she was
12 pursuing a program Evergreen State College that would lead
13 to both a Bachelor's and Master's degree. Such a program
14 apparently doesn't exist.

15 So it may have been her goal, I think, as she
16 stated. But it's difficult to call it a pursuit, since
17 she started two writing courses, but completed neither
18 one, and as she was never enrolled in a degree program.

19 Ms. Frost originated this myth many years ago and
20 repeated the claim on her application to CalPERS. The
21 claim was posted online by CalPERS, and I believe some
22 members of the Board repeated that myth to their
23 constituents.

24 Even after she was hired, nothing was done until
25 very recently to correct documents that were posted, the

1 press release that continued to state she was pursuing the
2 degree. So it seems reasonable, at least as an outsider,
3 that with not having a degree that the pursuit of such
4 a -- of a degree and Bachelor's and Master's combined,
5 was prob -- could very well have been important in the
6 decision to make her hire -- to hire her. And if it had
7 not been completely up front about what that was, a
8 different decision might have been made.

9 Criticism has been labeled at the original source
10 of information about her -- about the misrepresentations
11 the Naked Capitalism blog, which is characterized as fake
12 news. And I certainly agree that a lot of things there
13 are, if not fake, they're certainly exaggerated. But a
14 lot of the key issues were substantiated by Bloomberg and
15 others. And on Sunday Michael Hiltzik, Pulitzer Prize
16 winning L.A. Times journalist posted an article, Pension
17 Fund CEO's Murky Hiring. One of my colleagues put it,
18 ignore Hiltzik at your risk.

19 I believe that this address -- this issue needs
20 to be addressed. It can't be just ignored. And I believe
21 that a -- it's essential that a thorough investigation be
22 conducted, and I believe best conducted by an independent
23 external organization, and not by the Board, which is so
24 heavily invested in this.

25 That investigation do a couple of other things.

1 It should determine why a Bachelor's degree was not
2 required, which is very common for most CEO searches for
3 pension funds. And also, given the problem with the
4 further -- the earlier search for the CFO, there needs to
5 be a study of how to improve the process, so the --

6 CHAIRPERSON JONES: Thank you for your comments.
7 Mr. Brennand.

8 MR. BRENNAND: Good afternoon now, I guess. Mr.
9 Chairman, members Terry Brennand on behalf of SEIU
10 California.

11 We have a different, if not opposite, take on the
12 hiring of Ms. Frost. And I'm a little disturbed that a
13 former union member would come up here and suggest that a
14 blog is sufficient to initiate an investigation outside
15 the proper rights of any employee to due process. We feel
16 like this is rightfully something that should be handled
17 by the Performance and Compensation Committee, which is
18 formed to look at these sorts of personnel matters.

19 The fact that it's been dredged out into the
20 public, not corroborated but repeated by other news
21 sources, we find very disturbing. And I mean, no offense
22 to my, you know, dreadlock wearing friends at Evergreen
23 College, but I can't imagine anything that would prepare
24 you to be the CEO of CalPERS more than the experience of
25 the CEO you've hired and the work record she's had since

1 she's been here.

2 Thank you very much for your time.

3 CHAIRPERSON JONES: Ms. Bouma.

4 MS. BOUMA: Mr. Chair, members of the Committee,
5 Christy Bouma here on behalf of the California
6 Professional Firefighters. I actually would just like to
7 embrace the sentiments of my colleague, Mr. Brennand, who
8 just spoke on the merits and just suggest that again
9 experience does matter. And I have watched this Board,
10 and this body, and this system tack at a degree we've not
11 seen out of such an organization in recent years.

12 And it takes some strong leadership and
13 experience to do that sort of thing. So I would encourage
14 you to engage under your normal process, and the
15 appropriate committee to handle an HR problem as you would
16 and as my members would expect their managers to do so at
17 a fire department anywhere in California.

18 So I express strong support for this leader and
19 this Board in making an appropriate decision on how to
20 handle this issue.

21 Thank you.

22 CHAIRPERSON JONES: Okay. Thank you.

23 That completes the list that I have.

24 MR. SOARES: Chairman Jones, may I just briefly
25 respond to some points and comments?

1 CHAIRPERSON JONES: Would you come up to the mic
2 and state your name, the organization that you represent,
3 and the -- and you'll have three minutes.

4 MR. SOARES: Thank you very much, Mr. Chairman.
5 My name is David Soares. I'm a retiree. I was a
6 prosecutor in Santa Clara County for 32 years. I'm active
7 in RPEA. I'm actually on the Legislative Committee, but
8 I'm speaking as an individual today.

9 And I'm just very concerned about some of the
10 comments that I've heard. Because Mr. Hiltzik's article
11 in the Los Angeles Times about CEO Frost is based on
12 documents that were obtained pursuant to the Public
13 Records Act. And I know members of this Board thought
14 that Ms. Frost had completed substantial course work
15 toward a degree. I don't think we're talking about
16 credentials. What we're talking about is doing any work
17 at all.

18 And I'm concerned when we talk about experience
19 of the CEO. Washington State, where I actually own
20 property, my kids live, is divided into three. It's not
21 like CalPERS. Ms. Frost was \$139,000 a year head of the
22 clerical division that basically processes the checks,
23 that asks -- answers member phone calls. There's an
24 investment division, the Washington State Investment
25 Bureau that's actually headed by a very highly qualified

1 woman who's been there since 2003. And I think we're
2 really disrespecting her if we put Ms. Frost's experience,
3 in a mainly clerical job -- and she has said, she was a
4 clerk typist when she was hired. She has -- doesn't have
5 the educational background. She doesn't have the
6 investment experience.

7 And I should also add that Washington has a
8 separate State actuary who's employed by the State
9 legislature in Washington who does all the actuarial work.
10 And the most important role, and why I came here to the
11 Investment Committee, is of course investments.

12 As much as I'm concerned about contribution
13 rates, I'm also concerned about the sustainability of my
14 pension. As a recent retiree, I have a fairly long life
15 expectancy. And I want that money to be here. And if
16 this Board is so careless as to look the other way when
17 there are falsehoods that have been made about someone's
18 background to get on the Board. And I think this Board
19 was misled. I don't think this Board was out to hire
20 someone unqualified.

21 I think that you do, as fiduciaries, have to
22 conduct as prudent persons an independent investigation of
23 this state of affairs, and make a formal decision about
24 how you're going to proceed, and not just try and brush
25 this off. Because this isn't just some blogger. I've

1 seen the documents that were obtained pursuant to the
2 Public Records Act. And they're very disturbing. And I
3 think that's why the Los Angeles times and Bloomberg are
4 picking up this story. And it's my understanding that
5 others very substantial media outlets are going to be
6 reporting this.

7 Thank you very much for the opportunity to
8 address the Board.

9 CHAIRPERSON JONES: Okay. This meeting is
10 adjourned. And we will convene in closed session at 2:00
11 o'clock.

12 (Thereupon California Public Employees'
13 Retirement System, Investment Committee
14 meeting open session adjourned at 1:07 p.m.)
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1 C E R T I F I C A T E O F R E P O R T E R

2 I, JAMES F. PETERS, a Certified Shorthand
3 Reporter of the State of California, do hereby certify:

4 That I am a disinterested person herein; that the
5 foregoing California Public Employees' Retirement System,
6 Board of Administration, 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 28th day of September, 2018.

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JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063