very thoughtful about any next steps associated with that data.

This is a get-to-know-you-better moment for us. We will better understand our external managers as a result of this effort.

We certainly don't want to necessarily limit our opportunity set, which is a discussion that's been had with the RCP as well. But we also -- I think the three objectives that were touched on earlier, which is getting to know our managers better, setting the tone, and understanding the numbers, is where we're going to start. This is -- this is an early step. We have many more steps to go, and we'll be working closely with you along the way.

COMMITTEE MEMBER TAYLOR: All right. Thank you. Thank you both.

CHAIRPERSON JONES: Okay. We've exceeded our two-hour time limit, so we need to take a 10-minute break. And so we'll reconvene in 10 minutes.

(Off record: 11:12 a.m.)

(Thereupon a recess was taken.)

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

CHAIRPERSON JONES: I'd like to reconvene the Investment Committee meeting.

We are reconvening the Investment Committee meeting.

Okay. I think that all the questions of Committee members have been asked. And we do have a request to speak on this item.

But before I ask the speaker to come up, I just want to also congratulate you guys on a wonderful job you're doing in the Emerging Manager Program. I do know, because I'm out there with the AAAIM, the Asian-American Association; NAA, the African-American Association; and AA, the National Hispanic Association. And they all are giving me good feedback about what a wonderful job you guys are doing. And they always invite me to their conferences, and many of the emerging managers are a part of those groups. So just keep up the good work.

The only other thing that I have is I want to remind everyone of -- when is the date again of our diversity conference? I see Carrie standing to answer that.

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: June 10th and 11.

CHAIRPERSON JONES: June 10th and 11 for that. Okay.

Okay. Thank you very much.

Okay. So we do have a request to speak on this.

Michael Ring, SEIU.

MR. RING: Chairman Jones, members of the Committee. Happy Holiday. Michael Ring with the Service Employees International Union.

As I've had the opportunity to share with you many times before, SEIU, our members and leaders, are full supporters of CalPERS' leadership in this area of supporting emerging and transition managers. We feel this leadership as expressed in this area is critical given that all the data continues to point to diversity inclusion being central to any organization; but especially an organization as large and diverse and with as many different inputs as CalPERS finding the best talent, which obviously if we're not looking in a full pool of the - what is it - 8 billion people on the planet now. We need to find all the great people who can help us that we can.

And then, secondly, we've really got to -- I mean the other piece that I don't think has come up too much today is the need for people to get out of their group-think. And you really have a hard time if you're in a group that's very homogeneous. You know, just seeing those different ways of talking that several of your staff referenced before. So I think this program really helps in that regard, and its track record has proven it.

I think -- you know, SEIU has incorporated these values in a much smaller, much more modest but similar program into our own fiduciary work over the last several years because we recognize this value and we want to walk the walk. And so, we just encourage CalPERS to continue on the path that your staff laid out here in the 2020 Plan and continue to be innovative and willing to learn as much as possible in this area to the benefit of The Fund's long-term success.

So thank you very much.

CHAIRPERSON JONES: Okay. Thank you. And we appreciate your comments and taking the time to come and address us today.

So now we will move to the next item on the agenda, Responsible Contractor Policy Program Annual Report - Item 8c.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yes. And this agenda item will be presented by Beth Richtman and Carrie Douglas-Fong.

(Thereupon an overhead presentation was Presented as follows.)

MANAGING INVESTMENT DIRECTOR RICHTMAN: Beth Richtman, Investment Office staff.

We're pleased to present to you the Responsible Contractor Program Policy Annual Report. It's for the Fiscal Year 2017-18. And for those of you unfamiliar with

CalPERS RCP Policy, as it's often called, this policy was one of the first responsible contractor policies of its kind and it's regularly referenced around the world and the United States in terms of people thinking about what investors can do related to income inequality and just being a responsible investor.

In fact, recently it was referenced in PRI's October report about why and how investors can respond to income inequality.

Carrie Douglas-Fong will be presenting once we have the slides up.

The slides aren't in there.

Well.

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: Good morning. Carrie Douglas-Fong, Investment Office team member.

It looks like we're missing our deck. And so I'm -- if you look at Attachment 1, on slide 1, we'll begin there.

I'm going to provide a short summary of the annual Responsible Contractor Program, or RCP, Annual Report.

If you look at slide 2. In about the early nineties, the Board asked staff to develop the policy, working with real estate managers, labor leaders, PCA, fiduciary counsel. The RCP Policy was born after about two years of regular meetings and discussion with all parties in regards to the most important aspects of responsible contracting and our fiduciary responsibilities as an institutional investor.

The CalPERS RCP Policy supports and encourages fair wages and benefits based on local market conditions, on CalPERS majority-owned properties, and where the tenants of the policy apply; and subject again to fiduciary principles.

It's an important risk mitigation tool for labor on our assets. And it's something we regularly monitor, and throughout the year we get phone calls from -- and e-mails from managers and from labor in regards to different things, either questions or possible issues they'd like us to explore.

If you look at slide 3. The RCP applies to domestic real estate and infrastructure assets where CalPERS holds greater than 50 percent interest and the contract amount is $100,000 or more.

Slide 3. So this year, we have 100 percent compliance. And I think we anticipated that there might be questions about that. What does 100 percent compliance mean? It's been -- the compliance has been quite high in the last few years, generally speaking 98 or 99 percent.

This year it's a hundred percent. Well, what does that mean?

Essentially what it means is that managers -- our real estate and infrastructure managers issue contracts under the policy when the policy required it, a hundred percent of the time.

And a hundred percent of the time the contractors that they worked with signed a certification saying that they were a responsible contractor and provided additional information in regards to wages and benefits. And those wages and benefits are going to ba -- or differ based on local market conditions, as the policy outlines.

I'm going to go into a little more detail in this as we get further into the deck, which unfortunately we can't see.

It's coming. It's coming. I'm going to keep going as we -- so we don't lose time.

Also important, there's no material impact on performance.

Slide 4. RCP contracts are essentially investments in our real assets. We're making improvements. We're servicing. We're constructing assets.

In preparing for the annual report, managers and delegates review all of their contracts, they look at contract summaries, they look at certifications of both contractors and general contractors. The process of putting this -- of putting this report together means that they're going through step by step and looking at everything, and that -- that they're reviewing the -- the various parts of the policy. So what they provide us is essentially a more detailed report of what you get. The Board and public receives the contracting amount for each manager. What staff receives actually goes down to the asset level and the contract level.

So one of the things we wanted to stress is that in preparing the report, the manager is going through a process of making sure that both they, their delegates, and subcontractors have been following the policy appropriately.

And then they too have to sign a certification that to the best of their knowledge everyone has followed the policy as directed.

Managers and delegates are required to consider responsible wages and benefits in the contracting process.

And all applicable winning bids are going to sign certification to responsible contractor status.

If we look at slide 5. There were no complaints -- formal complaints this year. But we have had a number of issues come up, and we are finding that the number of issues outside of the policy -- thank you very much. We can now see the slides.

The number of issues which are outside of the policy -- and this is primarily contracts that are a hundred thousand dollars or assets that CalPERS does not have an ownership interest in. In those cases, we're finding that we don't always have sufficient time to engage when it's outside of the policy.

So when it's inside of the policy we'll spend quite a bit of time engaging with managers and engaging with concerned labor stakeholders. But if it's outside of a policy, we don't have the bandwidth to spend lots of time looking into something that essentially we have no control over.

In closing, I want to quote from one of the managers on page 12 of the appendix. When they say the policy provides governance and guidance in selection of contractors, the RCP Policy essentially sets -- it sets both a leadership tone within institutional investors, it's frequently -- we frequently get phone calls from other institutional investors asking us to review how we both wrote the policy and also how we implement it. So we're a leader -- considered a leader in regards to Responsible Contractor Program Policy.

And it also helps set a standard in regards to responsible contracting policies within the marketplaces where we invest.

And with that, are there any questions?

CHAIRPERSON JONES: Yes, we do.

Thank you, Carrie.

Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Yes, thank you, Chair.

You'll recall last year the Treasurer's Office brought to both this Board and to the staff the idea that we could extend the provisions of RCP to a broader set of contracts beyond infrastructure and real estate. And the ideas was to establish some kind of -- in the preamble of any contract where we could -- in fact, virtually all the contracts, but in particular where we could be construed to be an owner, and we're negoti -- or we're working with another party who's providing services, that we would state emphatically that we hold people to the standard of Responsible Contractor Policy. And the idea was is to -- in particular in the health area, where we're the initiator of contracts with health systems, that there would be the sense that responsible contractor policies would apply where they could be applied, and in particular, in terms of organizational neutrality, because that was the issue that drove this in the first place. So

I'm trying to get a sense from the staff as to whether or not we're doing that, we're making progress with regard to establishing that as part of our preamble, and whether there are any issues that have arisen.

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: That would be a question for Kim Malm or Doug Hoffner, and I think they're coming up.

DEPUTY EXECUTIVE OFFICER HOFFNER: Good morning. Doug Hoffner, CalPERS team member.

Mr. Juarez, as you recall, we -- I think several months after that sort of open engagement we had with your office and the State Treasurer's Office, we actually added that language, the neutrality language, to their terms and conditions of our contracts throughout the organization. So we have embedded that. I believe it's section 35 of the Ts and Cs within our contracts. I don't have that language right in front of me, but I could dig it up if that's necessary.

ACTING COMMITTEE MEMBER JUAREZ: And we haven't had any issues that people have brought to our attention where that was a problem?

DEPUTY EXECUTIVE OFFICER HOFFNER: To my knowledge, no. We tend to get interested challenges related to Ts and Cs on general terms. But that hasn't often been brought to my attention. I'm happy to inquire if there have been any.

ACTING COMMITTEE MEMBER JUAREZ: Yeah, and I just raise it because I don't it to be lost in sort of this discussion about the application to real estate and infrastructure. I think the broader sense that it should apply to any place where we can invoke responsible contractor policies, where we're in fact the holder of a contract, I think is an important principle for the Board and the staff to maintain, and so I just don't want it to get lost as we do the reports, that we're only talking about real estate and infrastructure.

Thank you.

CHAIRPERSON JONES: Okay. Thank you.

Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. And congratulations on 100 percent compliance.

I have a couple questions. One is the -- obviously the time that you're taking to deal with issues not covered by the policy. Is there a common theme that's running through some of those issues, aside from not qualifying -- that not meeting the qualifying criteria.

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: I think that there are stakeholders who -- they're -- they either are mistakenly thinking that an asset is CalPERS owned when it's not. And in some cases, it's a manager that we do utilize, but it's not a CalPERS asset. And there in some cases are not a lot of people for them to talk to, and because they can't get hold of either the owner of the property or the asset owner potentially does not have a Responsible Contractor Policy on a non-CalPERS asset, we tend to be utilized as a sounding board.

COMMITTEE MEMBER YEE: Okay. Just trying to figure out how to minimize some of that. Obviously your time is precious. And then -- and maybe some of that. Because I know, Carrie, you've been doing a bit of -- just on a more proactive basis some education with obviously some of the policy stakeholders.

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: We're also in the process of redoing our website. And so we point people to the website. And I think that while we were able to talk to people in the past, moving forward we're saying, you know, we're sorry but it's outside of policy, and refer them to our website and which assets and which managers they can contact for RCP contract work.

COMMITTEE MEMBER YEE: Okay. Good.

I just wanted to point out something proactively. And I appreciate Mr. Juarez raising an issue that had been before us previously. You know, and there are a number of public agencies especially now that are involved in the RFP process that are trying to deal with some of these issues on a more kind of front-end basis, particularly as it relates to labor issues. And I just wanted to bring to attention, and I think it might be worth if this becomes something more common and practiced, to maybe inventory some of the things that various contracting agencies are doing, and that is -- and I'll just -- this was public, that at the State Lands Commission recently we have an RFP and recognizing that a piece of Public Trust Lands might be used for hotel purposes, that we were able to put into the RFP provisions for a labor piece agreement to be essentially a condition of the RFP. So that should there be any work stoppage, you know, down the line, that it's not going to end up costing everybody. But that issue was addressed upfront.

So I think more and more agencies are looking at that, because real estate especially the time value of money is really I think critical when those things do happen. Labor issues do occur. But there's a recognition upfront that if those do occur, that we try to at least have some kind of an agreement going into the project before and not having it cost any of the parties and certainly the public.

So just -- I'm just putting that forth because I think people are sensitive about now trying to get some of these issues resolved upfront rather than after the fact.

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: Okay.

COMMITTEE MEMBER YEE: Thank you.

CHAIRPERSON JONES: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chair.

So Ms. Richtman, Ms. Douglas-Fong, thank you very much for the report.

As usual, I'm very happy with what I'm hearing here. I actually am very appreciative also of, Beth, you bringing up the fact that the policy helps the why and the how of how we respond to income inequality, because these provide good middle-class income. These are the jobs that provide good middle-class income, and that's why it's so important in our infrastructure that we're -- and our real estate that we are enforcing the RCP contracts.

But, again, I really appreciate you bringing that up, and that I read that article too in pension and investments. It's just so important, because there's so many other detrimental factors to folks with income inequality, that if we can be the best we can when it comes to fair wages. I wish we could do better across the fund. And as Mr. Juarez brought up, I think, you know, having a neutrality clause helps. I'd love to see some way we could put an RCP across The Fund. But for another day.

I think I had a question on the material impact.

You said there's no material impact, but everybody's complying a hundred percent. And their responses have been there's no material impact.

Okay.

MANAGING INVESTMENT DIRECTOR RICHTMAN: We do ask a question of the managers --

COMMITTEE MEMBER TAYLOR: Okay.

MANAGING INVESTMENT DIRECTOR RICHTMAN: -- to let us know, is there a material impact to your investments. And they reported that there was no material impact in the past fiscal year.

COMMITTEE MEMBER TAYLOR: And is that new from last year? I can't remember.

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: No, it's not. We've asked that question for a while now. And --

COMMITTEE MEMBER TAYLOR: I think I didn't remember that question.

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG:

-- we -- it's in our manager questionnaire. And for the last three years all managers have answered it, as well as a series of other questions including how much time they're spending, the amount of money they're spending. Those types of questions.

MANAGING INVESTMENT DIRECTOR RICHTMAN: And we did this year want to make a point of emphasizing that. So maybe it hadn't been as emphasized in the previous years.

COMMITTEE MEMBER TAYLOR: Okay. Maybe that's why I didn't remember it.

And then, lastly, when you were talking about it's outside of our contract and we're not -- it's too -- you know, you just don't have the resources to respond - not that that's something that necessarily we need to be responding to, and I will get into that in a minute - but do you need more resources? Does the Board --

MANAGING INVESTMENT DIRECTOR RICHTMAN: So -- and thank you for your question. And I think -- one thing I'll mention is that -- so Carrie and -- you mentioned -- actually, Ms. Taylor, you mentioned the work on income inequality and how this pertains to it. And I will say we do have a relatively small team working on human capital issues across our fund; and so Carrie and her team have, in addition to working on the RCP, are also working on how we can broadly think about income inequality as part of the research and what we could do.

But we're also looking at, you know, topics related to helping -- you know, Diego and Clint presented earlier on the external manager survey -- making sure we put the right type of questions in there related to pay equity and harassment. And so it's a very broad topic in terms of human capital. And so that's why when Carrie made the comments about how we're focused in this category, on RCP, on just the topics within that I guess pertain to the RCP Policy and not going beyond that. It's in part to make sure that as part of our human capital work that we are as focused as possible on the highest value topics, and that we're being very strategic about what we're taking on with the Board's direction as well related to human capital.

So at this point I think I -- I think we're working on sort of updating our strategy, which we'll come back with in March. And so I wouldn't at this point request additional resources for human capital. But that's a conversation we can have as we talk about strategy and what the focus of the program should be and how much we're going to be focusing on these topics.

COMMITTEE MEMBER TAYLOR: So not yet is what you're saying, kind of.

(Laughter.)

MANAGING INVESTMENT DIRECTOR RICHTMAN: Yes. I'd say -- I think right now we have just recently added a few members to the sustainable investments team. We are working on a few additional support positions that we do need that will help our resources. But I think right now is we're very much working on updating our strategy and making sure we are focused again on the highest value topics. I don't want to ask for additional resources until we've confirmed agreement on the strategy.

COMMITTEE MEMBER TAYLOR: I appreciate that because I do -- I too look forward in seeing that strategy as we move forward.

I'm also very happy that we're working -- when I first started on this Board I don't think it was even a topic of conversation to be working this hard on human capital management. So I do appreciate so much your hard work on this. And it matters to American workers, it matters to California workers. So thank you very much.

MANAGING INVESTMENT DIRECTOR RICHTMAN: Thank you.

CHAIRPERSON JONES: Okay. Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. Thank you for the presentation and all the hard work on this really important stuff. And I just have two thoughts to share.

One is, as you go forward with the strategic discussion, when it comes to these things that are not strictly policy but that do come up, I hope you'll just really consider our reputational risks in dealing with someone who's willing to sign a paper and comply on our project but maybe has a reputation in the community at large, the labor community, wherever, for not -- not reflecting the values we would like to see. I'll say it that way. And that the -- that could be something significant enough and material enough for us to, you know, make phone calls, forward correspondence, whatever - I don't know - but something to consider as we look at this strategically whether it's worth putting a little effort into, even if it doesn't strictly run afoul of our policy for the project we have them on.

There are other people we could potentially play with, and they should know that.

The second thing is - and this may come from my jaundiced regulator background - but any time I see a hundred percent compliance or near superlative compliance for quite a few years, I ask myself a few questions: Are we really measuring compliance or are we measuring someone has signed the form that they read our policy or signed the form that they clicked through the on-line training or did they actually integrate that into the way they behave.

And is the way we find that out proactive or reactive? Are we relying on other people to tell us or are we relying on people to report something to us? If we're a police department, are we waiting for complaints to come in or are we going out to see how we're doing? Those kind of things.

So I wonder when we look at that hundred percent compliance, do we validate that in any way, kind of in the workplace, on the street, in any kind of way over time, other than by exception when something comes to our attention that has gone wrong? And so again something to think about long term.

If we're at a hundred percent, how does that number help us to improve? If you can't do better than a hundred percent, well, what can we look at that we could improve that might help, you know, the real world?

ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: Thank you for your comment. I think that's important.

When the policy was first started, the percentage was much lower. And I will be honest, when I got the 100 percent, I wasn't necessarily ecstatic about it, for the reasons that you mentioned. But we do a number of things proactively to make sure our managers understand the importance of the policy.

We had a meeting with all of our managers earlier this year, where we met with them for two hours and went over every single element of the policy where we had seen concerns in the last year.

So we -- we regularly get questions from managers. I think they feel very open about telling us what they're not sure of. And stakeholders don't hesitate to reach out to us and ask questions as well.

So I think that we go through those things in these periodic meetings and then also in regular emails. Part of the annual report is that we ask this detailed number of questions that include, you know, how are you implementing the policy? Have you -- have you alerted stakeholders to new areas that you've gone in?

So we're asking these types of proactive questions in part because we've discovered over time that we need that proactive part in order to make sure that managers understand and they continue their vigilance.

And then -- you know, I will also say that -- that when we have managers who say, you know, we didn't include the policy, and this is why: There was a pipe break, we had to get a contractor in there instantly, and so we didn't utilize the policy, our response is thank you for telling us.

I think that there -- we want them to be truthful with us. I think that's paramount. And we've tried to make it very clear to managers that we would rather see a report which is 80 percent compliance, but we're going to say we want to know on each contract why you didn't comply, and we go through with it. And in the past, we have footnoted those things.

In terms of on the back-end, yes, of course, there are issues that come up. Once we understand a pattern of issues, we try to make sure that the managers are aware of that. But there are occasional instances where a manager will either have a miscommunication or whether there's a -- a labor leader that doesn't feel that they were treated respectfully. There are always going to be little things that happen. And when they do, we get on the phone and we work through those. And we learn from them. And we think our managers learn from them and so does labor.

In some cases, there may be a contract that we have to actually look at what is fair wages and benefits? That happened earlier this year. We were actually having our manager put in writing that they had compared fair wages and benefits on a particular contract to what the norm was in that area, and then we were able to communicate that to the stakeholder.

So I do think we try to -- we try to do it on both the front and the back end. Could we do better? Always. Do I expect a hundred percent next year? No. I think that -- that it's changeable. This is really in some ways an anomaly. I would expect it to go back to a different number next year.

COMMITTEE MEMBER MILLER: Okay. Thank you.

MANAGING INVESTMENT DIRECTOR RICHTMAN: One other number I'll just add just to make sure, because we going through the slides without them up there. But on page 4 you can actually see that there's been over about -- a little over 5 and a half billion dollars that have been paid out to responsible contractors since Fiscal Year 2013. And that is a number we track as well as part of this program which I think's important.

CHAIRPERSON JONES: Okay. Thank you both for the presentation.

We do have a request from the public to speak on this item.

Mr. Ring.

You will have three minutes.

MR. RING: Mr. Chairman, members of the Committee. For the record, Michael Ring with Service Employees International Union.

Similar to my comments on the previous item. SEIU has been and continues to be a strong supporter of CalPERS' Responsible Contractor Program. I can verify that Ms. Douglas-Fong works very hard with the stakeholders, because she puts up with me a lot.

(Laughter.)

MR. RING: So thank you for that, Carrie and Beth and the whole team.

I think, you know, one of the things that I would just highlight about this program, which often isn't discussed, but people -- the clear benefits on the workers' side are obvious, and obviously SEIU supports it for that reason. But as someone who has the privilege of representing SEIU members, who many of you may know are both public sector members in pension trusts and members who work in real estate providing services to buildings, I get to work with a lot of investors. And CalPERS is uniquely positioned due to the DNA that this program has embedded in CalPERS to manage risk and to bring upside profit over the long term.

I get panic calls from investors saying, "Why is there not good service at my building right now?" And I'm like, "Well, have you talked to any of the stakeholders?" They're like, "We have no process for that."

Oh, well, now you have janitors who are on strike or you have security guards who are threatening to go on strike or you have sympathy strikes. You have a lot of issues that for a building that is a multi -- often times a billion dollar asset, you're talking pennies on the dollar in the short term and that really threaten the long-term value of these buildings.

So this program really is a fiduciarily sound program. And I very much, and I think we as SEIU, very much see this as a ground-breaking area as this Human

Capital Management Program exists. And the great thing for CalPERS is you have a long track record to build off that and think of that, how does that apply in other areas in real assets but also throughout the portfolio.

So a great program, great people putting into place. And we look forward to continuing to work with you to make sure you're successful in your real estate goals with our members, both as beneficiaries and as service providers as partners along the way.

Thank you very much.

CHAIRPERSON JONES: Thank you very much for your comments.

We'll move to the next item on the agenda, Summary of Private Equity Business Model.

Mr. John Cole.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yeah, exactly as you just mentioned, John Cole will be presenting this item.

(Thereupon an overhead presentation was
Presented as follows.)

INVESTMENT DIRECTOR COLE: Good afternoon. John Cole, CalPERS team member. Thank you, Mr. Jones and members of the Committee.

This is an opportunity to provide a summary of the work that's been ongoing in the private equity business model. We hope and believe that the PowerPoint slides that have -- are under Agenda Item 8d, Attachment 1, largely stand on their own as to what we want to cover today, and that will allow us to spend -- allow more time for the question and answer period.

But a brief tour is as follows:

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INVESTMENT DIRECTOR COLE: On page 2 of 12 is the checklist and timeline that we have used together with the Investment Committee over the past few months to both mark progress and guide expectations around this project.

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INVESTMENT DIRECTOR COLE: Page 3 addresses the why of this effort.

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INVESTMENT DIRECTOR COLE: And on to page 5. That updates the specifics of our Emerging Managers Program.

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INVESTMENT DIRECTOR COLE: And then page 6 highlights the goals within Pillar 2; that is, to enhance our traditional fund capabilities.

This -- this is the particular area where we have clearly moved in our thinking as to how best to accomplish our objectives given the activities that have occurred over the past year.

This area will be a focus over the first six months of 2019.

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INVESTMENT DIRECTOR COLE: Page 7 reiterates the roles of the advisory boards within the innovation and horizon vehicles referred to as pillars 3 and 4.

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INVESTMENT DIRECTOR COLE: And page 8 lays out the comparisons of structural features across traditional commingled funds versus the innovation and horizon vehicles and also within our own real assets model.

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INVESTMENT DIRECTOR COLE: Page 9 emphasizes the philosophical differences in mindset between a shorter term private equity investing approach and long-hold assets.

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INVESTMENT DIRECTOR COLE: And page 10 records some of the key risks and mitigations that we've considered and discussed at some length together as we've gone through this process.

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INVESTMENT DIRECTOR COLE: And finally on page 11, describes the portfolio construction methodology that's being developed by CalPERS to provide better exposure and information risk aggregation to allow managing better from a Total Fund perspective and particularly as it relates to the growth assets in public and private equity.

I will return to page 12 in a bit.

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INVESTMENT DIRECTOR COLE: We've covered much of this information in various forms, including an open session in November. Both Marcie and I have attended a number of stakeholder meetings over the past month or so where we have responded to questions and gathered comments which have been very constructive in helping to prepare this update.

Allow me to highlight some key points that have emerged.

First, we approach this effort to find how best to increase our private equity scale. And we do that in order to improve our funded ratio over time by exceeding our required rate of return, combined with better managing our broad range of risks that are important to the plan.

The strategy acknowledges the base from which we start - that's pillars 1 and 2 - and seeks to supplement that activity in ways that address the following:

First, match our assets better with our long-live liabilities.

Second, allow us to work well together with our existing and important strategic traditional general partner relationships key to our future.

Third, position us as patient long-term investors, who not only think but behave consistent with that.

Fourth, create structures which give us better alignment, better long-term economics, and more influence on the types of investments best for the Total Fund in terms of geography, industry, and portfolio characteristics.

And additionally, fifth, to use CalPERS' scale to participate more directly in attractive investments, especially at a time of competitive capital and diminishing opportunities that we face today.

And, sixth, to provide to portfolio companies access to CalPERS' best practices and credibility around issues of sustainability to help in the creation of long-term value.

Each of these are critical we think to extending that scale and positioning us well for the business as it changes in the future.

Pillars 3 and 4, the innovation and horizon vehicles, are based upon consideration about how private equity may, and we think likely, evolve over the next decade and beyond. We've incorporated the experiences of many large institutions with similar issues. We've borrowed from 20 years of experience in our real assets area around structure and elements of a specialized captive relationship with an outside partner.

All of which bring us to this point: It is our considered judgment that this model can work well for CalPERS, and represents a forward-looking path to address many of the objectives that we feel critical for us.

There are challenges. Most importantly, in order to work, we must engage the right partners in a suitable structure with maximum alignment.

At this time, I'd like to highlight some of the questions that have surfaced over the course of the last 18 months.

First, taken in its totality, we view this model and these pillars as evolutionary. Again, I note that we intend to continue all that we're doing now in private equity, those referenced by pillar 1 and 2, at a similar scale, and incrementally improve our access to co-investments, secondary transactions, and separately managed accounts, all important opportunities to extend our presence.

We have used the term "direct investing" for pillars 3 and 4. That often means that it is done in-house. For us, what it means is that we will have an exclusive relationship. We will be the only investor and therefore define specifically the entire investment agreement, with an outside team of investment managers acting solely on our behalf.

So, direct in the sense of being dedicated and captive to CalPERS, and direct and very parallel to the way we thought about it in that long-term experience in Real Assets.

Another clarification. We now expect that these two entities will be structured as limited liability corporations, LLCs; instead of partnerships, with a general partner and we as the limited partner.

This is primarily a legal distinction that affords CalPERS some additional protections.

But I'll ask your indulgence. And we have in the past and I will likely in the future slip into referring to GP and LP relationships. And please know that it's the difference between the important relationship that exists and the technical legal structure. But they -- think of an LLC or GP/LP structure as substitutes if you would.

There have been questions about having an advisory board for each entity. Their role is noted and I passed over quickly on page 7 of 12. And as you can see, they will be advising on elements of importance to us and provide independent counsel to the management team in support of fulfilling CalPERS' mandate. And our senior staff will also have regular communication and opportunity to interact with that advisory board.

On the issue of conflicts, we're very focused. It's critical to get right. No one in the two entities, advisory board and management team, will have been at CalPERS, current or prior, either employee or member of the Board, and there will be careful consideration to avoid other relationships that could cause concern about conflicts.

Reporting will be fully as complete as all of our other such relationships complying with AB 2833, with our ILPA templates, and all the other standard information that's provided across our private eq -- private equity platform.

There will be no hidden fees charged to the portfolio companies for the benefit of the management team; and full transparency to the staff to ensure that that is true.

It's important to note that we must protect what is private information from being publicly disclosed. That's critical to being competitive. So information related to the details of financial data will not be disclosed in a way that exposes it broadly to the public.

Other questions have been about rushing to a conclusion. We've taken 18 months, and discussions have occurred broadly outside CalPERS, well within the staff and the Investment Committee, nearly every single month in an Investment Committee, often closed session, to describe both our activities and our thinking.

Our thinking around pillars 3 and 4 is substantially the same as it has been for quite some time. We have had numerous conversations with our new CIO Ben Meng about what we're doing and why and how; and he is fully supportive of the direction.

The potential cost of delay include a lag in the time that's necessary to actually set up these entities. In the meantime, we're faced with market unpredictability. And we'll note that in order to take advantage of dislocations or those chances that the market gives on an unscheduled basis, that we would need to be in place should that occur, or risk the loss of what is an unusual and infrequent occurrence.

And, three, the talent that is right for this is limited. It comes from -- it's a very small universe of what makes up the broader private equity world. And we've touched on that in November, especially the difference between having long-lived entities that have a disproportionate interest in growing companies as opposed to creating short-term value.

And therefore, that small universe of people, one, is very difficult to find and takes a lot of work; but, two, it by definition ends up being a -- providing a short window for execution. It's not the kind of thing that can be done the way -- doing business with an external manager who is in business would occur, at least in terms of the timeline.

The kind of talent we need always has options. But we have a lot of attractive dimensions of what we're doing. And if we can demonstrate the commitment and the follow-through to actually provide what we've been discussing over the course of the last year, I think that we will -- we will and we have been introduced to people who can help us together make a difference.

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INVESTMENT DIRECTOR COLE: Finally, before I turn to your questions and comments, I'd like to turn to page 12 of 12. That's the last page of the slide deck where we have noted the next steps.

In order to go to the next step, action is required by the Investment Committee and specifically related to executing pillars 3 and 4, the innovation and horizon entities.

The action would be the Investment Committee to decide whether it would grant or provide delegated authority to staff to allow multi-year commitment to capital to the two entities above the delegation limitations currently in our policy.

What we've committed is, in advance of such action item, the IC will receive a report from an outside agent assessing the overarching respective strategies and looking at them in the context of what's going on in the private equity world around the globe, as well as thinking about how our approach to this stands up in terms of their likelihood of execution.

Second, we are -- we will provide a prudent-person opinion from a third-party fiduciary.

Third, the Board consultant will, as typical, have an opinion that will be shared with the Board.

And then, fourth, we will share in greater detail the details of terms and conditions specifically around governance, rights, and fees.

So with that, I'll pause and ask for comment -- questions.

CHAIRPERSON JONES: Yes, we do have a -- thank you for the report.

Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Yes, thank you, Mr. Chair.

I have a number of questions, but I'll preface it by saying that I was -- it caught the attention of those in the Treasurer's Office the article that was posted by a former member of this Board, J.J. Jelincic, raising a number of issues which I assume the staff has had a chance to review, because most of my questions will be embedded somewhat in -- or taken from, I should say, the points that Mr. Jelincic made in his article related to a number of areas. So bear with me. Some of them may be redundant of previous questions that have been posed to you. But this will be my last chance and the Treasurer's last chance, not that we won't try to share with the incoming Treasurer our thoughts, but clearly she'll have her own decisions to make relative to approving this or not.

First of all, it starts with cost. The suggestion is being made by Mr. Jelincic, and probably others, that there's -- it hasn't been made very clear where the cost savings are. Where are they embedded? Where do we know for certain by going to this new structure - and I'm talking about 3 and 4, not about 1 and 2 - that in fact there are cost savings? Where can we find those cost savings?

INVESTMENT DIRECTOR COLE: Yes, thank you.

So to the question of cost savings. There are two dimensions. Dimension number 1 is related to what is referred to in the private equity world as management fee. And that is the cost that originally in private equity firms was the amount that was provided by limited partners to general partners to allow them to do their business.

ACTING COMMITTEE MEMBER JUAREZ: 2 and 20? It that --

INVESTMENT DIRECTOR COLE: 2 and 20.

So in the traditional world, 2 percent of the value of the assets went to the general partner and they use that to manage the business.

In our construct, in our belief, we will be -- go back to the original purpose and provide the cost and expenses necessary to run the business on an agreed-upon operating budget. So that operating budget would be made up of compensation, that's comp -- this is salary-type compensation, or base compensation -- and then as well as those costs associated with running the business - rent, travel, engagement of outside people to help in deal making. And that that number will be in place of a management fee.

What that leads to is that in an early environment, or an early term of setting up the entity, when assets are relatively small, let's say a billion or $2 billion, relatively small in CalPERS sense, that the percentage of that amount will be high. And that as that matures over the course of a few years, then it -- that and that becomes a much lower percentage. So that by the time we get to, say, $5 billion, that the equivalent of that percentage to the 2 and 20 world is pretty close.

By the time you get to $10 billion, it's about half -- half of what we would be paying otherwise. And all of that is going to be subject to exactly how the calculation.

But key point is that it's constructed with the agreement that CalPERS would enjoy the economies of scale; that as the assets grow, the amount that's necessary to actually operate the business does not grow proportionately and that that benefit accrues to us.

ACTING COMMITTEE MEMBER JUAREZ: Okay. Let me just stay on that for a second.

So within this agreed-upon operating budget, I'm assuming -- because you reference it as though it's the equivalent of 2 and 20, which to my understanding always includes the profit from which the investment -- the GP basically takes a big chunk. Okay?

INVESTMENT DIRECTOR COLE: So I'm only addressing the 2 of the 2 and 20 first.

ACTING COMMITTEE MEMBER JUAREZ: And so where does the carry equivalent come from for the GP to realize at least some sense of the same profit they would have gotten if they were under a traditional arrangements?

INVESTMENT DIRECTOR COLE: Yeah. So, first of all, importantly, that in the 20 side of 2 and 20, that we expect -- not expect -- we will insist, we will demand that the costs that are necessary to operate the business that I just described would need to be fully offset or effectively reimbursed before the first dollar of incentive is paid. So whatever that number might be, that all of it is -- is -- comes back to CalPERS before the calculation of the incentive, the carry, kicks in. That's one.

Two, is that what we -- there are some very important concepts that we're embedding in looking at carry. Most important of all in my estimation is the concept of pooling or netting. What those terms mean is that when you have -- are doing deals in a fund, in a commingled fund environment, let's say you do -- have five transactions, two of those transactions work out really well, one of them's okay and -- or maybe two are okay and one doesn't work out very well. Often, and I'll say most of the time, that the way the incentives are structured, there is a -- it is paid for the benefit -- on the benefit of those things that had done very well and there's no penalty in the event that it doesn't.

The idea of pooling or netting is to say that we look in aggregate. We think of it as an entire portfolio. And therefore, those things that underperformed on the one side of the portfolio are fully a part of calculating the overall success and netted against those things on the other side is the key concept and one that's not --

ACTING COMMITTEE MEMBER JUAREZ: And would you argue that differs from the current carry provisions that we experience?

INVESTMENT DIRECTOR COLE: Yes.

ACTING COMMITTEE MEMBER JUAREZ: Yeah. Where everything is positive. I mean, where we're always giving managers money regardless of their performance to some degree.

INVESTMENT DIRECTOR COLE: There are lots -- I don't want to go so far out to describe it that way, but there's a definite GP advantage to the calculation like this. So --

ACTING COMMITTEE MEMBER JUAREZ: That you think is diminished under this new model?

INVESTMENT DIRECTOR COLE: It is diminished under this structure.

And the second, which is I think also equally important, is that in creating a structure where we look at the environment and agree that what we want to do is reward on the basis of a belief that if CalPERS does well, that the general partner should do well; if CalPERS does not do well, then the general partner should also suffer in some way, should -- there should be attached to that.

Now, we have to negotiate people are actually going to do this, but we are confident that finding the win-win scenarios where today we would look at our performance over a period of time and say, not so happy, and -- but in the mean time we've generated lots of positive carry, incentive to the manager.

So over time -- and by the way, we would expect that the amount of carry, the 20 percent, by itself will be a lower number as well. So you take those three in total and we have the opportunity to get better alignment and have a partnership that truly is about both sides having mutual benefit.

INVESTMENT DIRECTOR COLE: Okay. Turning to returns. I think the suggestion is made that we're not fully weighing risk-adjusted returns, that by feeling the need to in these particular funds to go out as far as we can and generate a sufficient return, we may have to take additional risk, and that maybe the model hasn't nearly accounted for what that risk would be in order to generate the return.

INVESTMENT DIRECTOR COLE: Yeah.

INVESTMENT DIRECTOR COLE: So I want to get your response to that.

INVESTMENT DIRECTOR COLE: Thank you.

Risk-adjusted returns is a term often used and poorly defined in its essence. And generally as people who are actually trying to put numbers to it think about it, they take the return of an asset, adjust it for the volatility of that asset, and then say that that is the risk-adjusted return.

In our case -- and there's an important distinction in private equity. Volatility is very elusive, because we have to make appraisals. We don't know what our assets are worth along the way. We make a best guess about it. But as a result, we talk -- Eric talked earlier about the market drawdown environment, that over the last 25 or even 30 years the -- when there's a drawdown - this is when -- a bear market, when the market goes down 25 percent, public markets - each and every time private equity has gone down materially less; not necessarily because in economic terms that was true, but instead because of the practical reality that there's a lag -- a lag in acknowledging that something is going down and a lag in acknowledging that it goes up.

So for us, the idea of risk and risk-adjusted returns has a lot more to do with solving our goal, our objective. And let me give you an example of that. Also I think there's been a reference to the fact that we would be content at taking lower returns as a result of thinking about it on a risk-adjusted basis.

But I'll give you the practical investment perspective. In order for us to increase the amount that we would like to have in private equity, that we've talked about in going from roughly $6 billion in committed capital a year to double that, $12 billion, in order to do that over time, it is a challenge in an environment where there is a good reason to have vintage-year diversification - meaning not trying to time the market and staying in the market consistently - and at the same time knowing that the opportunities ebb and flow along the way. So on this count, the way we think about it is that instead of looking to private equity to maximize its return, if you're looking at all the funds that are investing in private equity and arraying them 1 to 100 percentile, saying we want to be at the top of that, important distinction is if we have the choice of being at the top of that and being able to deploy $500 million in assets, or being somewhere down or different than the top and deploy $10 billion in assets, that's a real risk that we want to take into account.

Now as it relates to the investments themselves, if we find, as we hope, the kind of Tanners of the world, long-term value-creating companies that have endurable business models, then we're able to hold them for 20 years, one big risk advantage emerges: Over the course of that time, we will know intimately that company; and as a result, we will have a much better measure of the things that are helpful to help it grow, but also where its weaknesses are.

I'm going to contrast that in the five-year investment world that typically private equity traditional funds operate. In order to make that work, every five years, essentially, or 10 years if you take the life of the fund, we've got to start all over again with companies that we don't know a lot about, that we are starting freshly in doing due diligence and thinking about their future. So the combination of a fund that allows us to have more in-depth knowledge, a fund that has longer holds - which tends to carry with it the opportunity to generate more capital and provide us dividends along the way - all of those are factors that in our estimation are risk positive, risk to our benefit.

So in the end, the numbers themselves, of saying are we at the top percentile versus are we getting attractive returns well above our public equity alternatives, that's the bottom line.

ACTING COMMITTEE MEMBER JUAREZ: And will that influence the benchmarks that you would likely set for those investments because of --

INVESTMENT DIRECTOR COLE: I think we'll have to think about our benchmarks so as to not incent behavior that isn't achieving our objectives. So I -- right now the benchmark is -- and think about it this way -- the benchmark is public equity plus 150 basis points. If I'm a private equity investor, I have no way to actually manage money in -- and to -- to that goal. I don't have any levers available to me to actually do it. So after the fact I either did or I didn't. And a good benchmark is one that can actually define the type of investment that we expect and also measure how well we executed on it.

So I think that's a future -- an issue we do have to take seriously.

ACTING COMMITTEE MEMBER JUAREZ: Okay. Part of the driving force at least that staff has indicated over the last year and a half has been the fact that we've had difficulty getting in the amount of private equity funds, especially the good private equity funds that we would like to be in. And therefore, using this as a vehicle, we see ourselves as being able to drive that a little bit more independently of the general market, I assume.

But the issue that was raised was, well, maybe that's not necessarily a bad thing.

Are we running the risk of putting money toward limited opportunities and therefore ending up in more poorly funded PEs than we would care to admit to? Or do you see that the universe is such that there'll be enough out there of quality investments that this entity can make? I sort of know the answer, but I want to hear you say it.

INVESTMENT DIRECTOR COLE: When we make -- what our relationship is, even with a traditional commingled fund general partner, we do -- when we put -- agree to put money in, we're not investing; we're committing. And that commitment period can last over a number of years. And that mitigates a little bit I think of where you're driving in that observation.

We want to -- we will have a structure, not we will want. We will have a structure that does not incent pushing the money out, and in fact incents the fact that we're building platforms of companies that we can grow from, you know, and help grow to fulfill the needs of the total portfolio.

So --

ACTING COMMITTEE MEMBER JUAREZ: That's fine.

The last area that I want to just explore a bit -

and it's probably the one of the greatest concern at least within the Treasurer's domain - has to do with governance and trustee control and the fact that we're creating two new entities that -- and I'll just go one at a time and ask the question: If in fact it appears that this new -- these new entities won't be subject to having to file, say, Form 700s in order to determine any conflicts; is that correct?

INVESTMENT DIRECTOR COLE: That's correct.

ACTING COMMITTEE MEMBER JUAREZ: That they would not have to be subject to Bagley-Keene?

INVESTMENT DIRECTOR COLE: That's correct.

ACTING COMMITTEE MEMBER JUAREZ: That they would not be subject to the PRA?

INVESTMENT DIRECTOR COLE: That's correct.

ACTING COMMITTEE MEMBER JUAREZ: And that you mentioned about compliance with 2833, which obviously the Treasurer had a role in and an extreme interest in. My concern is that the level of detail that we are expecting pursuant to that law, would it apply in scope to this entity and its investments?

INVESTMENT DIRECTOR COLE: Given my understanding of law, the answer is absolutely it would. I mean, so I can -- I can say that without knowing the details of that.

But here's the key point. Every -- every bit of transparency and reporting that we do on any private asset that we have will be done here. And because of the level of contact that we gain by being the sole investor with a sole management team, that gives us -- gives us a great deal of not only access, but also understanding in influence, if you will, about how the investments are done, create great opportunity for the protection of the fund for the differences that it will -- it needs to be independent, it needs to have the capability to make investment decisions.

Here's the yang of that.

We define the box. We define the strategy. So those investment decisions, unlike in the traditional world when we sign up for Blackstone 15, are well defined and constrained.

ACTING COMMITTEE MEMBER JUAREZ: Can I just ask -- and this is my last question.

Can we define the box so acutely that we avoid any issues related to -- it could be ESG, it could be the RCP. And so, that's -- it's a two-part question. Can we define it so acutely that that's the case?

And if not, how do you see resolution when this Board has an issue with a particular investment or approach that the GP is taking that we wholly disagree with? How is that going to be dealt with?

INVESTMENT DIRECTOR COLE: Yes. Beth Richtman presented materials that were a flavor of the amount of depth in which we've approached this subject. One is the -- and the use of case studies, which we have brought forth, are examples of how critical this is to us.

And the idea of defining the strategy clearly allows us a couple of levels. First level is that with ongoing responsibility and accountabil -- or communication, is the right word, among the CIO, the COIO, the head of sustainability as well as the head of private equity, that all of the investments that are going to occur are going to occur as a result of consultation.

ACTING COMMITTEE MEMBER JUAREZ: And the Board's involved as well, correct?

INVESTMENT DIRECTOR COLE: And the Board will only be involved in the reporting of those after the fact. But the role of staff at that point is to make sure that all of those things that we collectively as an organization are adhered to.

Just like we could in a traditional fund, if there was a concern on the part of the Investment Committee about an issue, we could go -- we would go and confidentially engage, as we always do, and make sure that everyone was understood and comfortable with where we were. But the first line of defense is a very clear definition up front, followed by ongoing communication that should prevent most of the potential conflicts. But then, third, the same kind of opportunity to engage directly if necessary.

ACTING COMMITTEE MEMBER JUAREZ: I just want to thank you for the directness of your answers. I appreciate that.

So with that, I'll turn it back to you.

CHAIRPERSON JONES: Okay. Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes, thank you. Thank you, John, for a complete report and being grilled by us, for I had a bunch of questions as well.

So one of my questions is, when Mr. Juarez brought up the budget -- and the way we're doing this, instead of 2 and 20, we're doing it on an operating budget. How long do we see us being up and running with an op -- with the budget, et cetera, and buying deals; like the shortest time frame to the longest time frame, how long would that be?

INVESTMENT DIRECTOR COLE: From the time we would begin --

COMMITTEE MEMBER TAYLOR: Get authorization and --

INVESTMENT DIRECTOR COLE: And until the time we did a deal, for example; is that what --

COMMITTEE MEMBER TAYLOR: Right, for example.

INVESTMENT DIRECTOR COLE: Very hard to predict. But I'll say -- I'll frame it this way. The potential partners we are considering have both thought a lot about -- have their own pipeline and due dil -- and their own level of due diligence going on in the marketplace, so it's not starting from a standing start.

As to whether or not we're going to find within the first few deals that are intimately analyzed a good one for us, that's -- that's the big -- that's the $1,000,000 question ultimately, is whether we see something that really is important to us.

And we want to get out of the box well.

I'm not dodging your question. I'm going to say that something between six and 18 months is quite possible in thinking about it. If you were to say tell me something -- tell me some -- what you believe is possible, that's what I would believe.

COMMITTEE MEMBER TAYLOR: And I appreciate that. Because I understand it would be hard to predict, especially if we don't find something right away. I understand that.

Because we're doing this -- doing this on an operating budget, it is my understanding - rather than the two 2 and 20 - that it will also take a little longer for us to realize a rate -- a rate of return. That in the meantime -- in the beginning, in the first maybe couple of years, 18 months at the out -- you know, like you said, at the outset, we're looking at spending money to make the money to begin with. Is that correct?

INVESTMENT DIRECTOR COLE: As is true in all private equity investment, yeah. No different. But, yes, that's true.

COMMITTEE MEMBER TAYLOR: And then the rate of return we're looking at -- because we're not exiting these deals in the traditional way to gain our money and we're staying as long-term investors, what do you predict our rate of return is? Is it lower, is it -- than our traditional private equity, is it as much, is it higher?

INVESTMENT DIRECTOR COLE: Here's my prediction. In a world where inflation is 1 percent or lower, that the likelihood of returns around 20 percent, which is what most private equity firms attempt to underwrite to, they're trying to get in the high teens, somewhere between 16 and 19 if they were pinned down, in a world like that it -- it will very likely be difficult to enjoy the same kinds of returns in the past. Now, some have postulated that those returns have gone down over the last five or 10 years as a result of too much capital chasing too few deals.

I would observe that what's gone on in the capital markets is a far bigger impact. The fact that interest rates and -- as a result of inflation have been on this strong downtrend is a big contributing factor. On the one hand it allowed private investors to borrow money cheaply. On the other hand, it did not fund the kind of growth that a normal inflation environment would help with.

So those are all -- I think that our goal of strong excess return over public markets is the goal. And so if public markets are going to be giving us 5 percent or 8 percent, somewhere in that range, then we need to get in the teens, and that that will sometimes be a little higher and sometimes a little lower. But that's -- I think to try to manage to an absolute number is difficult, if not impossible, to do.

COMMITTEE MEMBER TAYLOR: Sure. I think the point I was getting at is that -- traditional private equity gets, like you said, in the teens as returns. And because we're not exiting the programs like we normally would, like Sarah would when she's doing her programs, are -- are you seeing the same kind of return for this long-term investment or are you seeing a more stabilized lower return for this long-term investment?

INVESTMENT DIRECTOR COLE: I think it will be very difficult for a 20-year hold of a company to return 20 percent a year. Very difficult. But if you said to me, does that countermand what we're trying to accomplish in our Private Equity Program, and if in fact over the 20 years, as a result of receiving dividends along the way, a good part of our return, that we were able to get in the mid teens, I'd say that's --

COMMITTEE MEMBER TAYLOR: Low to mid teens.

INVESTMENT DIRECTOR COLE: Yeah. I'd say that would -- we should do that all day. We should do everything we can to have returns that are greater than 7 percent.

COMMITTEE MEMBER TAYLOR: Gotcha. Okay. Great. And so that's the question I was driving to -- or the answer I was driving to.

And then, finally, I'm a little concerned -- and I know we're not doing it today. But I'm a little concerned that once we authorize you guys to move forward with the funds, do we have an intervention point? Like can the Board have an intervention point, or are we just --

INVESTMENT DIRECTOR COLE: The short answer is yes, but I can't go anymore detail than that in an open --

COMMITTEE MEMBER TAYLOR: Okay. Then I can ask more in closed session?

INVESTMENT DIRECTOR COLE: Yeah, yeah.

COMMITTEE MEMBER TAYLOR: All right. Thank you.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Could I make a comment in relation to Ms. Taylor's last question.

Ms. Taylor, the Board always has an intervention point. I mean literally, that is the -- every time we have this meeting, there's an intervention point. If we're running this organization in a way that you as a board disagree with, then I'm going to trust that you're going to intervene in that process. You're not going to just basically let us run down a path that you disagree with the structure and the outcomes that are happening from our activities.

So, let me be clear. I believe every one of these Board meetings is an intervention point, you know.

COMMITTEE MEMBER TAYLOR: I agree with you. Thank you.

CHAIRPERSON JONES: Okay. Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I wanted to comment on something -- or ask something that I think I saw for the first time on slide 10, and that's the discussion on return dilution.

And I understand the concept where -- the belief that the longer the holding period, it may result in returns lower than those in the short-hold private equity, especially in the early years.

And I guess I was struck by this, because on the discussion to date - and I may have wrongfully maintained this - but that the need for this model was to ensure that we could invest in private equity at the scale, as the Total Fund continues to grow, and the idea of these models is that we didn't think we could accomplish it with the structures that we had today and -- but I think this is the first time that I've really seen anything that suggests that returns may be lower than the traditional PE investments. And I just wanted to kind of delve into that a little bit and -- and particularly the mitigation strategies. And I wasn't -- I mean, revising the benchmark or resetting the benchmark is a mitigation strategy. But I guess, what does that mean?

It seems a little artificial to me in terms of the mitigation strategy, but I understand the concept and -- but also it put into question for me kind of where I started with all this and like -- it's like, why the model? I mean, this is kind of -- what we're trying to accomplish is to kind of get into spaces where we aren't able to do currently. And yet now, you know, hearing that we might have returns that are lower than the traditional

PE investment.

So can you help me kind of unpack that?

INVESTMENT DIRECTOR COLE: Sure. Yeah. Thank you.

I think that's a really important question, because it goes to breaking down the components of our PE exposures. Now, bear in mind that we're going to still be investing 5 or $6 billion in the traditional market, and those returns will be, let's say, 15 percent. And we're going to be investing more than we have been in co-investments. And co-investments are probably going to have returns that are slightly less but in the ballpark of that. I'd say in aggregate that's my opinion.

The innovation vehicle in late stage venture carries with it more volatility and more risk and, therefore, the expectation for more returns.

So relative to the rest of what we're doing, innovation's returns are going to be - they better be and we expect them to be - north of what our baseline is providing.

The horizon fund on the other hand with the long-term hold and, as I said, the situation where companies are going to be dependent upon the growth of the economy to a large extent in their creation of value, and because we would love to have the certainty -- or the risk mitigation of having companies that generate a lot of cash and therefore would get our return in dividends as well over time, are I think realistically going to have returns that are probably less than the 15 percent that I'm using for the traditional short-term let's-maximize-return model.

You take those in aggregate, and I think that's the -- that's the important part of this strategy, is that we're trying to deploy at a rate that few organizations anywhere have to worry about, and do it consistently, and in order to do that we have to have a mix that together helps us participate in the places where we're best suited.

Reminder again that the pillars 3 and 4, innovation and horizon, are importantly not competing directly with the $6 billion in traditional pillars 1 and 2. So we have to find both those places that are different, those places that allow us to maintain our strategic relationships, and then together allow us again to go back to the return expectation, which is a lot more than 7 percent, an excess over public markets, and as a result there's going to be a mixture of the types of returns. I think that's the way I would describe it.

Does that make sense?

COMMITTEE MEMBER YEE: It makes sense. I guess I was surprised to see it kind of at this juncture in terms of just the -- I mean just kind of right before us that this could result in, you know, less -- in returns that are less than the traditional.

INVESTMENT DIRECTOR COLE: And the observation there is not in the aggregate is the real key point. Not in the aggregate. It's at scale.

COMMITTEE MEMBER YEE: Okay. Got it. Thank you.

CHAIRPERSON JONES: Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

Mr. Cole, you know that this Board has a fiduciary responsibility to 1.9 million members and thousands of employers. And so with that in mind, I wanted to let you know that I have a lot of concerns that we are putting this program together, I think, in part to avoid transparency, Bagley-Keene, the 700s, and the Public Records Act request.

And so what I'm wondering is since CalPERS is drafting the agreements we could, in fact, make them -- at least due to a Public Records Act we request, we could, in fact, require that of our partners in these companies could we not, since we're drafting that agreement?

Oh, good. Mr. Jacobs, we'll have him come up and answer.

INVESTMENT DIRECTOR COLE: That's a legal question.

COMMITTEE MEMBER BROWN: Yeah.

INVESTMENT DIRECTOR COLE: I don't want to get out of my lane.

GENERAL COUNSEL JACOBS: Well, at a high level, I suppose we could. I think that would defeat the entire purpose of the endeavor that the Investment Office is undertaking, which is that these are private investments, and they're private for a reason, which is that the -- the financial information needs to be private. And the people running them have these types of preferences.

But the short answer would be, I suppose -- I suppose you could. I'd have to think further about it though.

COMMITTEE MEMBER BROWN: Great. And I'd like us to try to negotiate that, because that's not just my concern, it's a number of Board members' concerns about the lack of transparency and for our stakeholders. So it's not that we couldn't, but it might be a negotiation problem. And I just wanted to see if we couldn't at least try to do that when we pick these new partners and negotiate with them that we try and get some transparency into that -- into that process.

INVESTMENT DIRECTOR COLE: If I could just note, the risk, when -- among the risks that we face is that we create a structure that is doomed to fail. That it cannot -- it cannot actually operate in the private market. There are -- and I think, Matt, put it succinctly, private investing means private. And an attempt to take private investing and make it public is -- runs the risk of undercutting its very purpose, and therefore, not allowing it to -- taking the oxygen away from its ability to compete.

COMMITTEE MEMBER BROWN: So would we be getting at least the same amount of information we get currently through our current private equities, like fees and things.

INVESTMENT DIRECTOR COLE: All of it. All of it.

COMMITTEE MEMBER BROWN: Okay. I have a couple more questions. So, Mr. Cole, you know, we've gone from CalPERS being the only investor to maybe we'll have other investors we'll allow it, and now you're saying we're the only investor. So I want to know which is it?

INVESTMENT DIRECTOR COLE: What we've done is to enter into this with a belief that we must be the sole investor in order to set this up. And to make sewer that it meets our needs first and foremost.

In the process of going through that work, we asked ourselves the question, is -- do -- should we be saying that forever?

And among the things we thought about is that if you're able to compete in scale globally, that -- and you're really dealing with having a lot of capital, which is our challenge in this respect, if you have a good amount, and you can make it more, that might allow you an access that you wouldn't otherwise have. So the question is if you've got a lot of capital and then you have more capital, does that provide avenues of potential investment that are attractive.

So with that thought in mind, and thinking ahead, not fr now, but for the future and providing the optionality solely, where we as an organization may decide that the terms are set by us, everything is set up in concert with our goals and objectives, but we may believe that there is an attractive partner or two. And that's kind of the only way we've thought about it. A large institution that says I'm willing to sign your deal. I'm willing to sign up for that.

What would go along with that is that there would be, for example, sharing of expenses associated with the operating budget. So there would be alleviation -- economic alleviation there, and there may be help in actually sourcing transactions, especially if they were outside the United States, for example.

So all we're wanting to do, and all we've thought about to date, is just keeping the option open and allowing it to be at our sole discretion. It can't be done without us acting in concert.

COMMITTEE MEMBER BROWN: And by us, you mean the Board or do could you mean staff, because we're delegating authority right now.

INVESTMENT DIRECTOR COLE: I assure you that that would be a Board decision, or at least we would do it together, let me put it that way.

COMMITTEE MEMBER BROWN: Great. You know, when we talk about the operating budget that they're going to do instead of giving them 2 percent -- 2 and 20, we're going to do an operating budget. And you talk about it's going to take us till we get to about $10 billion in order to see that 2 percent come down to potentially 1 percent.

INVESTMENT DIRECTOR COLE: Actually, it will be about five or less that it's below.

COMMITTEE MEMBER BROWN: A half a percent?

INVESTMENT DIRECTOR COLE: Well, by the time you get to 10 it's going to be closer to a half percent. But it doesn't -- you don't have to wait till 10 to get there.

COMMITTEE MEMBER BROWN: Right. But how long do you think it's going to take us to get -- what are you projecting? I assume you've got this all -- you've got a business plan. It's all cash flowed out. What -- how long do you think it's going to take us to get $10 billion invested in PE?

INVESTMENT DIRECTOR COLE: In the two entities -- in these two entities?

COMMITTEE MEMBER BROWN: Um-hmm.

INVESTMENT DIRECTOR COLE: We're projecting we should be able to do that easily in inside five years.

COMMITTEE MEMBER BROWN: Thank you.

And so this operating budget is -- it's going to the advisory board, whoever they are, are going to make recommendations. And let's say they say the operating budget is a million dollars. I'm just using that number, because I'm not going to talk about anything we've talked about before. But let's just say it's a million dollars. They all agree it's a million dollars. And then come back and say, oh, wait. We can't do it for a million. We needed five million. Is that -- how is that -- how would that work with CalPERS?

INVESTMENT DIRECTOR COLE: We will have provisions to deal with anything that would require a waiver or an adjustment for unforeseen circumstances.

COMMITTEE MEMBER BROWN: Okay. And --

INVESTMENT DIRECTOR COLE: But, by the way, the role of advisor board in this respect is to look at the competitive environment and the budget that's being proposed and make a judgment as to whether it is reasonable, because --

COMMITTEE MEMBER BROWN: Except that it's an advisory board. So it -- in my opinion, it's a joke, because they actually have no authority. All they're doing is advising. And so that's how this works. So if they actually have control, it's one thing, but they're just giving their advice, not consent. And that's a -- that's a big difference.

But I just wanted to be sure -- so this operating budget, will the Board get to see it and will we be able to share that with the public?

INVESTMENT DIRECTOR COLE: No.

COMMITTEE MEMBER BROWN: Okay. And will we be leasing them or buying them a jet, do you think?

INVESTMENT DIRECTOR COLE: No.

COMMITTEE MEMBER BROWN: Just, you know, want to -- want to get some of these things that I've heard from constituents off the table.

With respect to -- will we be paying placement agent fees?

INVESTMENT DIRECTOR COLE: No.

COMMITTEE MEMBER BROWN: Not at all.

What about fees from the portfolio companies?

INVESTMENT DIRECTOR COLE: No. Up front one of the important conversations that we've had, and we've taken months to get to know the potential partners, is very philosophical and cultural in nature. That is what kind of organization would -- would you foresee that you would -- what kinds of people would you hire? How would they engage? How do you feel about the types of things that we will embed in our strategy, which will includes CalPERS Beliefs, CalPERS values, our Principles of Corporate Governance. How do you feel about that? How do you look at sustainability issues as it relates to creating long-term value and incorporating that in your due diligence?

Among all of those, that's all part and parcel of the -- of knowing the management team.

COMMITTEE MEMBER BROWN: Great. I'd like to make a recommendation that as part of us drafting that agreement, that we -- CalPERS also gets to see the portfolio company financials as well, because that's where a lot of the shenanigans is played in fees. And what we -- you can't really -- we can't tell, unless we can see the financials of the portfolio companies. And I understand that's all going to be non-transparent to the public. But CalPERS should absolutely make that a requirement that we get to see those as well.

INVESTMENT DIRECTOR COLE: We agree and we will.

And the point of -- to finish my thought. I left a dangling edge there. Finish my thought that the idea of portfolio fees we've discussed up front, and said it's a non-starter. We do not want to pay -- have portfolio fees of all the different sorts that have been noted and quoted around. They would not occur.

Now, I'll make a distinction. Let's take an example of a company that in the horizon fund that we own. And what we're trying to do is to provide -- or what our investor is trying to do is provide those -- the expertise that would allow them to anticipate and manage through disruption. Maybe it's technology disruption in their business model.

And as a result, they may engage an executive or a consulting arrangement that will come in and work with the company in order to help them deal with their strategy and make operating decisions.

What we've been very clear about is that that's a good thing. We want there to be an operating overlay that we think helps the growth of the company.

What is not acceptable is that there's a profit margin put on top of that, and it accrues to the benefit of the GP or the LLC.

COMMITTEE MEMBER BROWN: Well, and if you're getting the financials, you'll be able to see those costs and actually ask for invoices. You know, there was a big SEC problem - I don't know how many years ago it was - with kickbacks or basically with legal fees, right? They paying a legal fee and then they got a percentage back and they weren't giving it back to the LPs. And so -- but if you'ring looking at the financials, not just at the fees, but all the records of the financials, you'll be able to see that.

Because if we try and identify these fees are not acceptable, well, then they'll just start renaming the fees. Now, I know these are companies that are aligned with us and they're going to be wonderful and angels, but it's also private equity. So I want us to be eyes wide open on this.

INVESTMENT DIRECTOR COLE: One, I agree, and two, we will.

COMMITTEE MEMBER BROWN: Great. And then a couple more things on these new mitigation risks. I do agree with Controller Yee when she talked about the first time seeing dilution. It's the first time we heard about it. And that's -- and that's a problem for me, because again, you know, the -- a basic investment theory is the longer your -- the more -- the more your money is illiquid, the higher you should get on your return. And I know this is a little different with horizon, but -- so the less liquidity, the higher return. That's how it should be. And that's how the PE model has substantially been, but now we're talking about with horizon holding it for 20 years, so now the return is going to be lower than PE is what we're saying. And I just -- that's the first time we heard that. And I want to talk more about this maybe in closed session.

With regard to the concentrated risks, which is the first tab here on page 10, you say the way we're going to mitigate that, because we're going to be investing with maybe two companies, and maybe some big funds, assess and manage risk in context of the total fund. Is that currently how we diversify our PE portfolio?

INVESTMENT DIRECTOR COLE: Well, first of all, to your first point, we're not investing with two funds or two companies. There's nothing --

COMMITTEE MEMBER BROWN: I mean, two -- I mean horizon and innovation, two companies. Be clear.

INVESTMENT DIRECTOR COLE: Okay. All right. Thank you.

The -- we have, over the past year, and we've had this discussion in a couple context with the Investment Committee, we have looked at our capability and our focus on managing our growth assets in total, meaning public and private exposures. We have been going through the exercise. We have a team that's engaged in analyzing in some detail exactly how we'll do that over the intermediate and long term.

What that means is that when we look at exposures, say by geography or by industry, or by portfolio characteristics, rather than insisting that private equity looks something like public equity, because that's what its benchmark is, this effort allows us to think about equity in its totality, and then take into account that there are places where private equity is better suited to add alpha, value-added, and there are places where it's less suited to do.

And it allows us to make more investments within private equity and the places where we think we're going to get paid for those risks, those bets, and, at the same time, to acknowledge that in public equity, we can take care of the important need for diversification at the total fund level. That's what that means.

COMMITTEE MEMBER BROWN: Great. Well, I'll be asking our Board consultant to help us with that theory, because normally we diversify within private equity or public equities. I didn't know that we combined them, and maybe that's something new.

And then my last -- my last issue is on the next bullet, which is picking top-tier partment -- top-tier partners and looking at careful selection. I think we do need to look at careful selection. And I have some concerns about who we've seen so far, and we'll talk about that in closed session.

Thank you.

CHAIRPERSON JONES: Thank you.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

Thank you, Mr. Cole, for all this -- the continuing work on this. This is -- this is not happening overnight. And you've been working very -- you and your team have been working very hard on this. And obviously we continue to have questions. This is a major decision that we're going to ultimately face and have to make.

Just about three things I want to address. One, Ms. Brown made an editorial comment regarding advisory boards. I disagree with that editorial comment. I think hopefully we're going to have advisory boards that are impeccable -- have impeccable reputations, long experience in this industry, and hopefully are focused on essentially giving back to California. And if we -- if we -- if the right people are in that advisory board, their reputations are going to be on the line in terms of making sure this is successful.

So I -- their advice and counsel to the people who are running this operation, hopefully, and I trust and expect, it will be valuable, and therefore listened to. So that's on that point.

The second one is this issue of control. And, you know, my view is in the current marketplace in private equity, we have very little control. And I think the difference here is that we get to design the model. So therefore, the level of control we have or influence, I should say, in how things run I think is significantly changed from the traditional marketplace. That -- would you -- would that be a fair assumption?

INVESTMENT DIRECTOR COLE: That's a good description.

COMMITTEE MEMBER SLATON: Okay. So we are designing the compensation structure. We're designing the terms and conditions. Now, that's not -- we're not going to discuss that here in this meeting. But ultimately, you mentioned in one of the slides, the latter slides, that you had that we were going to talk about governance, fees, and I assume terms and conditions. So this Board is going to have that information before making a final decision, correct?

INVESTMENT DIRECTOR COLE: Yeah. It will be in great detail as opposed to an agreement itself, but, yes.

COMMITTEE MEMBER SLATON: Okay. Two more quick points.

INVESTMENT DIRECTOR COLE: Yeah.

COMMITTEE MEMBER SLATON: Mr. Juarez, mentioned about staffing. This is in relationship to the article that was posted about our staff, and that our staff has, at least when I read the article, has experience -- you know, we have a -- on the fixed income side, we have a very, very talented staff. My observation is they are extremely talented at analyzing companies for the purpose of determining whether to invest in their debt. And that's a skill set that's out there.

I don't know, and I don't believe, that we have the in-house talent today to analyze companies to purchase and to run. Because in private equity, you're an active participant in the governance of that company, am I correct?

INVESTMENT DIRECTOR COLE: Yes.

COMMITTEE MEMBER SLATON: Okay.

INVESTMENT DIRECTOR COLE: And just to pick up on the point, there are several critical skills for the success in the private equity market, especially as we're describing it. The analysis is actually the easy thing up front, because those skills are quite broadly held. But when it comes time to actually structure a transaction, that's a critical skill by itself.

To think about the strategy associated with a firm out five or ten years is a skill of itself. The operating expertise associated with actually putting the ingredients in place year by year and making assessments of the progress is a skill by itself.

And then that point where we reach an under -- a decision or at least a recognition of when the risks outweigh the returns, and when it needs to be sold, especially in an environment where you'red forced to, is a skill by itself. So you take each of those, and I'm leaving out one big one by the way, and that's sourcing. The ability to go and find both companies and partners that are critical to large investments is not only a skill, but one of those things that requires many, many years of experience and credibility by itself.

You take those in aggregate and there -- and you need -- it takes a village. You need a number of people with deep experience and skill in order to accomplish that. And that's the top tier.

COMMITTEE MEMBER SLATON: Okay. One last item I'd like you to comment on, and that is this issue of long term, particularly on horizon, where, yes, typically a long hold should get a better return. But if a long hold comes with dividends, then that changes the formula that you're looking at. From what I see, in looking at the long-term hold, it's a different investment universe.

So I think one example is you may have -- there may be out there family-owned firms that are ready to make a transition. And the last thing they want to do is to sell to a traditional private equity owner, who is then going to turn things potentially upside down over a five- or seven-year period and then exit.

Is that -- am I stating that correctly?

INVESTMENT DIRECTOR COLE: Absolutely. Very true.

COMMITTEE MEMBER SLATON: Okay. So that's a different -- that opens up a different marketplace than the marketplace that would be available to us in the traditional PE model.

INVESTMENT DIRECTOR COLE: Yeah, that's a great example. One other example of that sort is that there are many companies in the traditional private equity world that have -- there was a -- where the general partner entered with the idea that it was a broken business and they could go in and fix it. And the result was if they were successful at that, they reached the end of the period, but they reached the end of the period and they have to sell.

Among our listening tour, when we were talking to potential partners, we heard more than a couple of times, large general partners of -- or commingled fund GPs who said we would love to own these companies, but we can't.

And so another possibility is that we would be the -- we would buy companies that had to be exited in the traditional world, good companies, and now are well positioned. And we would seek the kind of alignment that's critical, which is that we wouldn't buy it -- we wouldn't try to discern whether we're the sucker across the table in negotiating the deal. Instead, we would structure a deal where we would jointly carry part of the risk. That they would put their own capital at risk alongside ours for some period of time in a business that we thought was well positioned for the long term. That's a whole different source of potential.

COMMITTEE MEMBER SLATON: Okay. One last thing I'd like you to comment on is, as you did all this survey work and talking to people in the industry and sharing information, how important is it in this structure in terms of attracting the right people to work on this on our behalf, is the fact that money does not have to be raised? In other words, we're committing dollars to this, so you don't have to go out and fund raise.

INVESTMENT DIRECTOR COLE: There are two sides of that question. Number one is in large GP organizations, they have separate people who worry about raising money and worry about talking with the LPs for the most part. And so at one level, there's -- that's taken care of in the traditional world to a large degree. So it's not like that alone is something that someone would say, get that off my plate and I'd be really, really happy, and that would be the reason they would be drawn to us.

COMMITTEE MEMBER SLATON: But it does add cost. It does add cost.

INVESTMENT DIRECTOR COLE: It does add cost.

What's truly attractive to the types of people that we want is the fact that -- that this is investment-centric focused, and has kind of a single mission in mind. Both the desire to commit, this is a long-term and well-focused objective, that it's really important that it's about the investment itself as opposed to all the other things that happen around it, and that you create a kind of relationship where everybody can win. And that there's a true partnership. And I think that's truly lacking in the traditional world. So where you might think that it was fund -- or fundraising that was, I think it's even more the latter of the comment.

COMMITTEE MEMBER SLATON: Thank you very much.

CHAIRPERSON JONES: Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. Thank you very much. I'll try not to, you know, backtrack over ground.

Everyone's questions have been very insightful. And I really appreciate you and your team in terms of just being very forthcoming and responsive to helping us get through this, and patient, even when some of our questions are not as genteel as they might be otherwise.

But as someone who came in to this pretty much supportive even before I was on the Board of the idea of we have got to evolve with the markets, with our approaches. And as the markets evolve and our approaches evolve, we need to be in the public equity and the private equity space. And we need to be, in my view, more in the private equity space as we go forward, but I really didn't see a path forward on that, until we started having this dialogue and these models.

And, you know, I had reservations that we're, you know, two or three levels down. And as we've gone on and gotten questions answered, developed these further, made some changes in direction here and there, honed them in, I have to say my -- the areas that I still have concern are still important to me.

But I'll tell you, I think going forward, at this point, the two areas that I am hoping and frankly confident that we'll see the level of detail that will help me with my comfort is in the area of concentration risk. Like others, I don't really understand how we approach that in the context of the total fund without also having some mechanism to approach that, both in the context of private equity and a growing private equity portion strategically, both in terms of diversification of size and types of deals across our pillars, but also then how that relates back to how we're looking at public equity as well, real estate, everything else. How -- that seems very daunting, and so I'll really look forward to more detail on that as we go forward.

And then the other area that I'll -- I'm looking forward to more detail and will have questions if I don't understand it or see it is -- and it relates to the risks related to performance and return dilution. I understand the way all that works, but in terms of, you know, more specifics, how will we do valuation? How will we have terms that balance? Oh, do we kick-back dividends or do we sink them back into the firm? Management may have one view. Our advisors may have another view. How that jibes with our view and our needs as a system, I'll really be interested to see and hear what staff thinks in terms of how we address when we get to the nitty gritty of terms and conditions at some point.

INVESTMENT DIRECTOR COLE: I look forward to that conversation.

COMMITTEE MEMBER MILLER: Thank you.

INVESTMENT DIRECTOR COLE: We can touch some. And thank you for your comments. It gives me an opportunity to note that although I've been the one sitting in front of the microphone much of this time, that there are 16 people involved in the analysis of what is going on now if the background. And that they're -- and it goes across the organization inside and outside the Investment Office, including our Legal team, including Compliance, and areas in private as well as public investing. So this truly, in order to all come together, needs to be an enterprise project.

But thanks for allowing me to mention that.

CHAIRPERSON JONES: Well, I think it's appropriate that we take a lunch break at this time. So would the team come back right after lunch. We'll reconvene at 2:05, and then -- because we have a number of requests from the public to speak on this item. So we'll reconvene then.

(Off record: 1:20 p.m.)

(Thereupon a lunch break was taken.)

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

(On record: 2:07 p.m.)

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

So we concluded with the questions by the Committee members. And so I see no further questions at this time from Committee members. So what we will do now is we have several requests from the public to speak on this item, so we'll start that process now. I'll ask Al Darby, Larry Woodson, J.J. Jelincic, Tim Behrens, and Al Rojas to begin to get ready to come to the my left here And if -- each of you will have three minutes for your comments. And as you know, most of you know this, that th clock is here to help guide your time. And so if you would also indicate your organization.

So with that.

MR. DARBY: Mr. Chair, Board members, Al Darby, President RPEA. While this is not an action item today, our observations discuss the overall plan itself.

RPEA is concerned that there are so many unanswered questions and pitfalls around this proposal that until a clear rationale for all of its elements are clearly stated, adoption of this plan should not occur.

There is a less complex way to do this. The Ontario Teach -- Ontario Teachers Pension Fund model, a system that keeps all PE pillars in-house, in our view, that would be a better approach that -- in that it would involve two near autonomous enemy -- entities, even though they may be LLCs now, that could evolve into separate bodies that are at odds with this Board.

In that case, there would be serious investment policy differences that could be insoluble and require CalPERS curtailment, a PR embarrassment at least, and a legal investment -- and investment debacle at worst.

With in-house control, the horizon and innovation pillars could be more readily and simply managed than under semi-autonomous control by these nearly independent generally partner entities -- excuse me, LLC entities, and full transparency is retained by the CalPERS Board.

Keeping the CalPERS direct plan in-house makes good sense, because as the plan is stated it doesn't align with conventional or traditional PE -- private equity. The buy-and-hold pillar, venture capital pillar do not fit into the traditional PE mold. You know, buy companies, suck out the assets, leverage them up to here, get your money back right away, cut costs, bankrupt them, managed bankrupt seats, if necessary, and so forth, all the devices that would normally be used in private are not present in the concept of the horizon or the other pillar.

All of these things would combine to perhaps not make it profitable enough to pay the PE experts that you want to hire from this -- this current mold, where you generate all this profit. So putting all of these pillars into a separate -- separate PE companies just doesn't seem to make sense.

The other point is that the two billion initially committed to this is -- probably needs to be closer to five billion, which is a comment from spokespeople in CalPERS in other forums.

Finally, we believe that we should simply wait and let the CIO deliver his own opinion about this -- the new CIO, deliver his opinion about this new concept.

Thank you.

CHAIRPERSON JONES: Thank you, Mr. Darby.

MR. BEHRENS: Chairman Jones and members of the Committee, and members of the Board, Tim Behrens, California State Retirees.

So what I've learned in the last two months about private equity is I don't know a damn thing about private equity. Because every time we have these conversations, new questions come up with different answers. So I walk out of the room after - we've been here since 8:30 - with more questions than I had when I walked into the room.

So let me ask again in regards to the current CalPERS Board PE consultants, we have concerns about the level of involvement, if any, of these consultants from the inception of the PE restructuring discussions to the present day.

We recognize CalPERS has been investing in private equity for some time now, and understand the performance has been positive. What are the existing private equity returns to date?

And then, while we had our break, I thought, well, if we're already invested in private equity, why don't we just use what we got and put more money into that?

Why is this new plan so much better than the old private equity plan, which is making good money? Just a question.

After the RCP conversation, I thought, okay, is it possible for us, CalPERS Board, to use the RPEA policy and weave that into the agreement with these private equity firms? I don't know. I understand it's all confidential, and they can't tell you anything.

So again, we applaud CalPERS' goals in undertaking the private equity restructuring. However, we think there remains many unanswered questions, some very basic, about the implementation strategy. We urge the Board to insist on receiving full and complete answers before proceeding to a final determination.

Thank you. Happy Holidays. Happy New Year.

CHAIRPERSON JONES: Thank you.

Happy Holidays.

MR. WOODSON: Good afternoon. Larry Woodson, California State Retirees. Chairman Jones, members of the Board, thank you for the opportunity to comments.

My comments further explain concerns that we have regarding timing, transparency, and some unanswered questions. When CalPERS -- CalPERS first began to introduce the CalPERS direct, which apparently it's no longer called CalPERS direct, and -- but that's succinct, so that's what I'll use -- it came in the form of promotional material and presentations, which had a lot of -- well, lacked a lot of detail.

And it first came to my attention in a SCORE meeting, meeting of retiree organizations, where representatives from various retiree groups were briefed and asked staff for mere detail. And many of the answers were along the lines of, well, that's yet to be determined, or it's evolving, or -- and this is -- you know, I mean, given that staff have been working on this for 18 months and this meeting was just a couple of months ago, we were hoping for more detail then.

And really the first opportunity -- oh, we were told also at that meeting that it would be brought to you in December for approval.

So the first opportunity stakeholders had to hear from staff directly involved was November 8th when Mr. Cole attended a stakeholders briefing and gave us more information, and responded to our questions very candidly, and we appreciated that.

We asked about the timeline, if it was still December. He gave us an emphatic no, it wasn't December. That there would be, as there was today, it would be information only. But he did caveat that with it was always possible it could be voted on in December, if the Board so chose. And that little caveat was sort of unsettling to us, because we felt like there were a lot of unanswered questions yet that we had.

So I give you that background, and I hope you understand why we raised the issue and you received the letters you did about the timing. It's reassuring to hear that it won't be till next year, but there are some continuing concerns that we have, particularly regarding transparency to members, regarding the formation, budgeting, and staffing and operation of the two general partners or those entities.

I don't quite understand why that information will be completely closed off to us, how much we're going to spend of our money. We consider it our money. I don't think it would put them at a competitive disadvantage. I don't understand that. I can talk to John more about that. And also, potential conflict of interest, particularly with contractors with these two entities.

So, in conclusion, we hope that you will slow down a little, inform us of the latest schedule, and have continued dialogue with stakeholders along the way regarding this, what seems to us, to be very unorthodox instrument or investment model.

Thank you for your time.

CHAIRPERSON JONES: Okay. Thank you.

Okay. Mr. Jelincic, and Mr. Rojas. Al Rojas.

Okay. Mr. Jelincic, you can start.

MR. JELINCIC: While I was on the Board, I consistently advocated for taking more risk. I was unsuccessful in that effort. But hindsight has shown that it would have been the right choice.

Given the change in economic regime, I would argue a different course today. Private equity is certainly one way of taking more risk. If you're going to invest in PE, I urge you to bring it in-house. It would improve the alignment of interests by eliminating the agency problem. It would be consistent with Investment Belief 5, which calls for articulated goals and performance measures, and clear accountability for the execution.

It would also match Investment Belief 8, costs matter and need to be effectively managed. I would also point to Investment Belief 7, CalPERS will take risk only when we have a strong believe that we will be rewarded for it, with the sub-beliefs an expectation of return premium is required to take risk, and CalPERS will use index tracking strategies where we lack the conviction of -- or demonstratable evidence that we can add value through active management.

This raised the question of whether you ought to be doing PE. I know you've been told that you quote need unquote PE for the higher returns. But note that it is higher returns, not higher risk-adjusted returns. And there's a reason for that. As your CIO told the Board last month, "But honestly, private equity is not capable of managing the risk that it engender to that kind of investments to get made there", unquote.

You can't risk adjust for unknown returns. That also means that you have no way of knowing if you're being paid and properly compensated. The academic work shows that you can get PE level returns using leverage in public market security. This allows for greater liquidity, lower fees, and better identified and managed risks.

I brought some handouts. I assume that Mr.

Jacobs allowed you to see them. You're required to act as prudent person familiar with investment activities. That clearly implies an obligation to inform yourselves. To aid that, I have provided one academic paper, three abstracts with related links on relative performance, and I've also included a fourth abstract and link to a paper that supports PE, even in the absence of higher risk-adjusted returns.

I thank you for your time.

CHAIRPERSON JONES: Okay. Thank you, Mr. Jelincic.

Mr. -- okay. That concludes the requests to speak on that item.

So now, we will move to Summary of Committee Direction.

Mr. Baggesen.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Okay. Let us just collect our materials here for a moment. Okay. I think one area where we had some direction was in relation to the RFP for the consultants. And I think that we actually need a little bit more clarity, Mr. Jones, if at all possible.

So the notes that I took in relation to, what I believe was direction, was one for the RFP to include more language about the potential consultants being more proactive. Okay. Is that correct, sir?

CHAIRPERSON JONES: Um-hmm. That's correct.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: I know there were comments also about the inclusion of ESG related elements into this. I don't know if that was direction or not, so --

CHAIRPERSON JONES: Yes.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Okay.

Okay. We also had some discussion about a bidder's conference.

CHAIRPERSON JONES: Yes.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Okay.

And did you have any other ones, Elisabeth?

Okay. I think that covered the ones for the RFP structure.

In relation to the agenda item on divestment that Steve Foresti presented from Wilshire Associates, I had one note about including an annual calculation from report to report in that material.

CHAIRPERSON JONES: Yes. Yeah, and that's similar to what they used to provide.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Okay. And I think that that was the -- this -- did you have anything else, Elisabeth?

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes, I think there was also --

CHAIRPERSON JONES: You turned --

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:

There was a discussion about incorporating the other side of the divestment. It was, I think, Ms. Yee -- but it was more sort of a broad discussion. You wanted to have another point on --

CHAIRPERSON JONES: Your mic. Hold on.

COMMITTEE MEMBER YEE: I don't think that's something to follow up on necessarily, but just more for future discussion.

CHAIRPERSON JONES: Right.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:

Thank you.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Okay. Sir, did you have any other additional elements?

CHAIRPERSON JONES: No, I don't.

Okay. Thank you. Good job.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Okay. Very good.

CHAIRPERSON JONES: Okay. Now we have public comment. We had several people to -- that were here earlier to speak to for-profit prison divestment or detention. And so I don't know how many are still here.

So if you would raise your --

(Hands raised.)

CHAIRPERSON JONES: I know we've got -- okay. Could you -- the three of you here could you come down here and -- I know, Mr. Murphy, I'm going to get to you in just a second.

So since I don't know who stayed, so would you each introduce yourselves and also you will have three minutes each to make your comments, and -- because we do have other speakers on another subject coming after you.

So would introduce yourself.

MS. CLAIRE GOLDMAN: So that -- that was the decisions as to whether or not we were going to be allotted more time, given the fact that there were more members

CHAIRPERSON JONES: Yes, that was the decision. That was the decision.

So the clock will come on here. And it will inform you of how much time you have left in your comment.

MS. MANCIAS: Sorry. We're just collecting ourselves.

CHAIRPERSON JONES: Sure.

MS. CLAIRE GOLDMAN: Since we had more people here that were supposed to be doing this with us.

MS. MANCIAS: Hello. I'm Nancy Mancias. I'm with CODEPINK Women for Peace. And I'm here representing

CalPERS stakeholders.

We, the undersigned CalPERS members, vehemently and wholeheartedly object to CalPERS 231 million worth of investments in companies CoreCivic and GEO Group, General Dynamics and United Rentals aiding and abetting the Trump administration's abuses of migrant families, children, and asylum seekers. We urgently demand immediate and complete divestment of our retirement from -- funds from GEO Group and CoreCivic, and good faith engagement with General Dynamics and United Rentals to pressure them to immediately end their material support for the detention of children and provide access to redress for affected families.

CoreCivic and GEO Group operate the largest family detention centers in the United States, where the vast majority of detainees are seeking asylum. Plaintiff's in six federal lawsuits have alleged forced labor and other human rights abuses in CoreCivic and GEO Group facilities. According to independent medical experts, CoreCivic and GEO Group's practices have contributed to the deaths of numerous detainees, and advocacy groups continue to voice concerns over medical neglect and sexual assault at the companies' migrant detention centers.

A recent report by the Department of Homeland

Security's internal watchdog concluded that ICE detention facilities, including those operated by CoreCivic GEO Group are not subject to rigorous oversight, and therefore are not held account for substandard conditions. This conclusion is all the more alarming, given the Trump administration is now seeking to terminate standards that prevent children from being held in CoreCivic and GEO Group family detention facilities for prolonged periods of time.

More than three months after the court ordered deadline to reunite all detained migrant children, hundred of children remain detained in their facilities to -- the increased detention capacity provided by the group's facilities have provided crucial for the Trump administration's crack down on refugees and asylum seekers as the Department of Homeland Security previously indicated in June and confirmed again just last month.

This is part of a wider pattern of racism and xenophobia that has left a record number of migrant children detained in U.S. government facilities despite UN human rights experts concluding that placing immigrant children in detention facilities may, in of itself, amount to torture.

Of the 14,000 migrant children concurrently in detention --

CHAIRPERSON JONES: Thank you.

MS. MANCIAS: Thank you.

MS. CLAIRE GOLDMAN: And we do have one more CalPERS member on the way --

CHAIRPERSON JONES: Okay.

MS. CLAIRE GOLDMAN: -- who should be arriving any minute now.

But since I am very short on time, I'm going to skip ahead. My name is Emily Claire Godman. I'm the founder and director of Educators for Migrant Justice, a group responsible for CalSTRS recent divestment from for-profit prisons CoreCivic and GEO Group.

I'm presenting a petition today signed by 233 -- actually, 240 as in the last hour of the meeting, CalPERS members, as well as a support letter signed by 13 California based organizations.

I'm going to skip ahead to the part on fiduciary duty.

CalPERS has historically resisted stakeholder demands for divestment, arguing that having a voice at the table is the best way to change corporate conduct. This argument doesn't hold for companies like CoreCivic and GEO Group, whose for-profit prison model, where the company has a financial incentive to incarcerate as many people as possible, is inherently incompatible with the concept of corporate social responsibility. No amount of pressure from investors can persuade a company to abandon its business model.

CalPERS did, in fact, recognize this irreconcilable conflict when it was trying to engage with gun manufacturers, when they decided to divest in the wake of Sandy Hook Elementary School shooting. Divesting from CoreCivic and GEO Group in response to the company's conduct is consistent with CalSTRS -- CalPERS fiduciary duty, given the level of risk such investments pose to CalPERS rate of return.

According to a 2015 report from the UN Principles for Responsible Investment, to which CalPERS is a signatory, failing to consider long-term investment value drivers, which include environmental, social, and governance, or ESG, issues in investment practice is a failure of fiduciary duty. Researchers have -- researchers have found that companies with strong ESG performance make better investments, with a report from Norway's Government Pension Fund finding that conduct-based divestment produces higher returns for investors.

In June 2017, New York City pension funds divested from CoreCivic and GEO group after the Comptroller's Office found inherent legal, regulatory, and reputational risks in for-profit prison companies. They could lower demand for such investments and damage valuation as a result.

Concerns over the financial impact of ESG issues concentrated in for-profit prison companies have quote, "been warranted". Not only have CoreCivic and GEO Group's stock prices dramatically underperformed the market for the past three years, but the dramatically higher risk both companies pose, as compared to U.S. junk bonds, has led a sharp decline in the value of their bonds.

Now, as a direct result of these administration's migrant abuse policy, CoreCivic and GEO Group's share prices have skyrocketed, and this makes it the ideal time to cash out and invest those earnings in companies whose long-term profitability is not threatened by unsustainable corporate conduct.

Institutional investors across the country, including CalSTRS and the New York State Common Retirement Fund, as well as pension systems in New York City, Chicago, Cincinnati, and Philadelphia have already divested from CoreCivic and GEO Group over both companies' human rights abuses. This level of divestment makes it more difficult for these migrant abuse companies to underwrite debt, access capital, and lobby for contracts and pro-incarceration anti-immigrant policies.

As the country's largest pension fund, CalPERS has significant leverage that can and must be used to help end these atrocities.

CHAIRPERSON JONES: Okay. Thank you. Thank you for your comments.

Next speaker.

MS. CLAIRE GOLDMAN: Sorry. She's now filling in for the part that we skipped over.

CHAIRPERSON JONES: And, ma'am, would you introduce yourself, indicate your name -- yes, and also there's a clock here that will inform you of the time you have left to speak.

Okay. You have three minutes. Thank you.

MS. GONZALEZ: Thank you, Chair, and thank you, Board. My name is Autumn Gonzalez. I'm an attorney that works at the State of California, so I'm a CalPERS member as well, and I'm going to pick up on the petition where it was left off.

Of the 14,000 migrant children currently in detention, 1,300 are held at the Homestead Temporary Shelter for Unaccompanied Children in Florida, which relies on companies, including General Dynamics and United Rentals, for resources and operational support.

Staff at the Homestead facility have reportedly not undergone FBI fingerprint checks or child welfare screenings. And the facility's location on federal lands exempts it from child -- State child welfare inspections.

General Dynamics, a U.S. defense contractor, specializing in missile defense systems and combat vehicles, is currently under contract with the Department of Health and Human Services for, "cadre and infrastructure service for shelter care for unaccompanied children", at the Florida Homestead facility. United rentals, one of the world's largest rental companies is also providing equipment and infrastructure to this facility.

By providing the very resources the Trump administration depends on to commit such egregious human rights abuse against -- abuses against migrants, CoreCivic GEO Group, General Dynamics, and United Rentals have played a crucial role in this nightmare. To put that in legal terms, these four companies are aiding and abetting human rights abuses that qualify as crimes against humanity under international law. By continuing to vest in these comments with knowledge of their role in migrant abuse, CalPERS also becomes complicit.

Institutional investors across the country, including the California State Teachers Retirement System, CalSTRS, and the New York State Common Retirement Fund, as well as pension systems in New York City, Chicago, Cincinnati and Philadelphia have already divested from CoreCivic And GEO Group over both companies' human rights abuses. This level of divestment makes it more difficult for these migrant abuse companies to underwrite debt, access capital, and lobby for contracts and pro-incarceration anti-immigrant policies.

As the country's largest pension fund, CalPERS has significant leverage that can and must be used to help end these atrocities.

So we the undersigned CalPERS members demand that CalPERS, A, immediately and completely divest from for-profit prison companies CoreCivic and GEO Group; B, leverage good faith engagement to pressure General Dynamics and United Rentals, and their subsid -- subsidiaries to cut any and all contracts and bids with HHS or any other local or federal government agency, through which they may provide infrastructure, equipment, case management support, or IT services to process migrant detainees or any such support at detention facilities where migrant children or their families are held;

Conduct a human rights impact assessment of its first and second tier investment chain exposure to corporate activities involved in or otherwise enabling family separation, indefinite detention, or the detention of children refugees or asylum seekers, and; facilitate access to redress for those affect by General Dynamics involvement.

Thank you.

CHAIRPERSON JONES: Thank you.

MS. CLAIRE GOLDMAN: Can I make one more quick comment?

CHAIRPERSON JONES: She's up, please.

MS. DOSCH: Mr. Chairman and members of the Board, thank you very much for your service to the membership of CalPERS.

My name is Mya Dosch and I'm a CalPERS member as a role -- in my role as assistant professor here at Sacramento State University.

And I'm here to urge you to divest my retirement, and all of our retirement, from the corporations who are profiteering off of the incarceration and labor of immigrants and the most vulnerable among us. I'm particularly here, because as a member of the LGBT community here in Sacramento, I've met several transgender women here in the city that tell the horrors of one particular CoreCivic detention facility.

That -- this facility has inflicted these -- this violence against our transgender sisters who seek, and often win, asylum here in the United States. They come here fleeing transphobic violence and possible murder in

Central America. Many of these women were detained at the Cibola County Correction Center in New Mexico run by the company CoreCivic in which we invest.

These women have lived through countless horrors in their lives, yet the word Cibola stands out, and continues to be chilling or even unspeakable as the remake their lives here in California.

In May, transgender woman Roxana Hernandez died in CoreCivic Cibola from complications of HIV, pneumonia, and dehydration. She was violently ill for several days before she was finally transferred to the hospital where she died. Her HIV, like many women's at Cibola, was untreated, because it's cheaper that way.

Her pneumonia was likely made worse by the freezing cold conditions. A recent autopsy shows that Roxana also had deep in -- excuse me, I'm sorry -- had deep internal bleeding, indicative of blows, kicks, and possible strikes with a blunt object, along with lacerations on her wrist suggesting that she had been handcuffed during this beating.

The autopsy showed that the bruising pattern suggested that she did not resist, that is she was beaten while handcuffed. I do not want to invest in this. I do not want my retirement tied to those corporations who profit from the suffering of women of color and the most vulnerable among us. It is not a sound investment, either economically or morally.

Thank you.

CHAIRPERSON JONES: Thank you.

Thank you for your comments. We appreciate you taking the time today to share your views with the Investment Committee. So on behalf of the Investment Committee, I want you to know how much we appreciate your concerns.

Staff has engaged with GEO Group, CoreCivic, and General Dynamics regarding these issues, and is continuing to follow up on their developments in accordance with our Total Fund Policy. And the petitions that you mentioned that you have, give those to staff, and any other documents that you have to staff, and then we will ask staff to follow up with us later after they continue the investigation.

MS. CLAIRE GOLDMAN: And do you mind if I use the last 20 seconds of her time?

CHAIRPERSON JONES: Yes, go ahead.

MS. CLAIRE GOLDMAN: So I also wanted to note that there were around 200 people who expressed interest in attending this meeting. But due to the fact that they are State employees, and this is a meeting in the middle of the week, the middle of the day, they were unable to attend. Many reached out to me to express how upsetting that was that they were not able to participate, and come here, and share their stories and how these investments impact them.

And I even had someone reach out to me and tell me that they were not even aware that they could come and attend a Board meeting and share their thoughts.

So I think there needs to be some sort of outreach, awareness raising to let people know that this is something that they are able to do, because their participation is important.

I would also just like to note that CoreCivic and GEO Group, as the information that I provided to your Investment Committee, both have failed to comply consistently --

CHAIRPERSON JONES: Ma'am, as I mentioned --

MS. CLAIRE GOLDMAN: -- with UN Global Compact to which you again are a signatory.

CHAIRPERSON JONES: Any other doc -- any other documents, give it to staff and they will follow up.

Okay. Thank you for your attendance.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Just a follow-up comment. I will say that I feel very strongly about what you just presented to us. We have a policy. It doesn't mean we won't discuss whether or not we move forward with your suggestions. And I, for one, would be one to push that. I don't know if anybody else agrees with me. We're a Board of 13.

I will say, however, as a State employee, they have time they can take to attend these meetings. Also, this is on the website. CalPERS does advertise on the regular when their Board meetings are. They're at standard times every month, every third Monday of the month. As a Board Member and as a State employee, we have options. So to say that they couldn't attend and they were mad, they had options. So let's be clear about that. I work for the State of California.

MS. CLAIRE GOLDMAN: And I can say that the people that reached --

CHAIRPERSON JONES: Ma'am, we're not going to -- ma'am --

MS. CLAIRE GOLDMAN: -- out to me did not feel that way.

CHAIRPERSON JONES: Ma'am, we're not going to go back and forth. Okay. So. Okay. Then -- because we do have other people that have requested to speak.

Thank you for your time.

MS. CLAIRE GOLDMAN: Thank you for your time.

CHAIRPERSON JONES: Okay. The next request to speak is Mr. Dennak. And I understand -- Murphy. I'm sorry, Dennak. Yeah, Murphy.

I understand that you have a person that you would like to introduce to speak also, Mr. Staub I guess. So between the two of you, you have six minutes. So you can divide your time however you would like.

MR. MURPHY: Mr. Chairman, members of the CalPERS Board of Administration. My name is Dennak Murphy. And as many of you know, over 15 years I worked for Service Employees International Union, and with the CalPERS Board and staff to promote the retirement security of yours and our members.

It's good to see old friends, and to meet new ones, and to address you here today as a California taxpayer, among the vast majority of California taxpayers, who believe the climate crisis threatens our collective future. I am here -- and I understand you have many competing interests and demands on your time and attention. But I am here to thank you for -- thank you and the CalPERS staff for the important work that you've done on the climate crisis.

As investors, as leaders in the investment world, it is greatly appreciated and it has a great impact. And although you've received criticism from many corners for it, we urge you to continue and thank you again for that.

The recent report by the UN's Intergovernmental Panel on Climate Change, the IPCC, puts clear numbers and dates to this risk, and it is not a distant threat. In fact, it may be the greatest fiduciary threat that CalPERS faces today along with all of us.

An important contribution of the IPCC report is a clear timeline for specific actions and results, including serious global decarbonization of our global economy must begin in earnest within 12 years. Fifty percent reduction in global CO2 emissions must be achieved by 2030. By 2050, global CO2 emissions must be net zero. This requires a massive global mobilization.

If we don't, we risk an escalating cascade of global degradation, warming, and rising seas, drought, fires, storm, and more resulting in massive starvation and migration, global conflict and wars, species die off, and there are even folks who are beginning to talk seriously about global economic collapse and human extinction in the long run.

Now, tech and things like carbon sequestration will help, but they're not going to do it. Exxon is not going to solve this problem. A free market is not going to solve this problem. We need policies put in place and we need action quickly.

SB 100 in California sets 2045 for California utilities to be carbon neutral. Nationwide, utilities represent nearly 30 percent of U.S. emissions -- U.S. carbon emissions. And converting fossil fuels to 100 percent sustainable electricity presents a huge and important business opportunity for utility companies nationwide and worldwide.

And at this point, I would like to introduce a friend and colleague. Eli Kasargod-Staub who used to work with SEIU, used to run the research department for this massive union, and is now working with the Climate Majority Project the formerly 50/50 Climate Project, and he's going to talk a little bit about our particular focus and our increasing investor focus on publicly-traded utilities.

MR. KASARGOD-STAUB: Thank you so much Dennak. And thank you all for all of your work and I'm so pleased to be here with you all. We are focusing tremendously on the incredibly pivotal role that electric utilities play in the decarbonization of our entire economy. And given all of both the risks and the opportunities that the global and U.S. transition presents to investors, we need the leadership of the electric utilities more than ever today.

So in the coming months, investors will be calling on the utility companies to commit to achieving net zero carbon emissions by 2050 in line with the mandates of the IPCC report. Just 20 electric utility companies, just 20, account for -- sorry, just 20 publicly-traded electric utilities account for approximately 50 percent of all of the power sector's carbon emissions. And we do not get to the decarbonization of transportation or other sectors without decarbonizing electricity.

One of those 20, Xcel Energy, has already made this commitment publicly. And investors will be calling on the remainder to follow their lead and do the same.

Achieving net zero by 2050 will take more than just a commitment though. It will take strong governance and oversight to ensure that utilities are actually aligning their capital expenditures with that goal, including starting in the very immediate term.

So therefore, in the coming years, you'll see investor's focus expand to questions of executive compensation and alignment, transition planning, capital expenditure, with investor votes against recalcitrant directors, a key lynchpin how the -- how the effort moves forward.

So thank you again for all of CalPERS leadership on these climate issues to date. We hope that the utility sector will be an important focus for CalPERS, along with many other asset owners in the coming years, and thank you so much for your time today.

CHAIRPERSON JONES: Okay. Thank you very much.

Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, I share your belief that climate is the top -- the biggest threat, not only to us as a society, but also to our portfolio, and to the economy of -- the global economy at large. And I think that's why -- that's why CalPERS -- I don't think I'm alone in that. I think that's why CalPERS has been such a leader in the area of climate change, and particularly a leader with the Climate Action 100+ Initiative.

I'm int -- I would be interested to know, and I don't -- I see Beth is in the back of the room there, to know sort of how we are thinking --

CHAIRPERSON JONES: Ms. Mathur, we're not going to get into a presentation.

COMMITTEE MEMBER MATHUR: I'm not asking them a questions. I'm asking our team a question.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER MATHUR: I would interested to know from our team how we are thinking about the IPCC -- and it doesn't have to be right this minute, but how -- how we're thinking about the IPCC report, how that's going to impact our Climate Action 100+ agenda, as well as our ESG strategic plan? And I think that would be something that would be worth bringing back to Committee.

CHAIRPERSON JONES: Yeah, that's something that staff could provide to the Committee. Okay.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair. I want to thank both of you for raising this particular issue. I do have a little bit of experience working with utilities. I'm in my last two weeks of 16 years on the SMUD Board here in Sacramento.

And, you know, California is -- you know, hopefully, as goes California, so goes the nation. We are working to be as fast as we can possibly get to net zero on carbon. The other thing that needs to be worked on, once we get to that net zero on the power mix for utilities, then we've got to work at fuel switching for space heating, for electrification of transportation, and water heating.

So it's a huge job to do this. There are 2,000 of the utilities in the country are public power utilities. There's 200 -- roughly, 240 investor-owned utilities, but they comprise 80 percent of the generation, those 240 companies. I think one of the other things, which you did not mention, which I think needs to be addressed, because this is a government policy issue, is that we need to rethink the issue of about large hydro not being considered renewable. And I think that would go a way to -- long way to decarbonizing our energy sector.

But I want to thank you very much. And, you know, engagement is the name of the game for CalPERS, and I hope we do that.

Thank you.

CHAIRPERSON JONES: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr. Jones. I was just going to ask the Chair if -- I under -- from the previous speakers -- and thank you very much, Dennak. And I agree with you in terms of the climate change.

But in terms of the previous speakers, I was going to ask the Chair could we find out what the results of our engagement were. Not today, of course, but in the future.

CHAIRPERSON JONES: Yes. Sure. Absolutely.

COMMITTEE MEMBER TAYLOR: Thank you.

CHAIRPERSON JONES: Yeah. And I would imagine since those engagements are confidential, that will have to be in closed session.

COMMITTEE MEMBER TAYLOR: That's fine.

CHAIRPERSON JONES: Okay.

Did you get that, Eric?

Okay. Then that concludes the open agenda, so this meeting is adjourned. And we will start closed session in 15 minutes.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 2:51 p.m.)

C E R T I F I C A T E OF R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Investment Committee closed session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 20th day of December, 2018.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063