MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

MONDAY, DECEMBER 17, 2018

9:00 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

Mr. Henry Jones, Chairperson

Mr. Richard Costigan, Vice Chairperson

Ms. Margaret Brown

Mr. John Chiang, also represented by Mr. Steve Juarez

Mr. Rob Feckner

Ms. Dana Hollinger

Ms. Adria Jenkins-Jones, also represented by Mr. Ralph Cobb

Ms. Priya Mathur

Mr. David Miller

Mr. Ramon Rubalcava

Mr. Bill Slaton

Mr. Theresa Taylor

Ms. Betty Yee

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matt Jacobs, General Counsel

Mr. Eric Baggesen, Interim Chief Investment Officer

Ms. Elisabeth Bourqui, Chief Operating Investment Officer

Mr. Doug Hoffner, Deputy Executive Officer

Ms. Natalie Bickford, Committee Secretary

Mr. Diego Carrillo, Investment Manager

Mr. John Cole, Investment Director

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

STAFF:

Mr. Sarah Corr, Interim Managing Investment Director

Ms. Carrie Douglas-Fong, Associate Investment Manager

Ms. Kim Malm, Chief, Operations Support Services Division

Mr. Paul Mouchakkaa, Managing Investment Director

Mr. Beth Richtman, Managing Investment Director

Mr. Clint Stevenson, Investment Director

ALSO PRESENT:

Mr. Tim Behrens, California State Retirees

Ms. Emily Claire Goldman, Educators for Migrant Justice

Mr. Al Darby, Retired Public Employees Association

Ms. Mya Dosch, California State University, Sacramento, Faculty

Mr. Allan Emkin, Pension Consulting Alliance

Mr. Steve Foresti, Wilshire Associates

Ms. Autumn Gonzalez

Mr. Steve Hartt, Meketa Investment Group

Mr. J.J. Jelincic

Mr. Andrew Junkin, Wilshire Associates

Mr. Eli Kasargod-Staub, Climate Majority Project

Ms. Nancy Mancias, CODEPINK

Mr. Michael McKaskle

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

ALSO PRESENT:

Mr. Dennak Murphy

Mr. Michael Ring, Service Employees International Union

Mr. Larry Woodson, California State Retirees

I N D E X

I N D E X   C O N T I N U E D

P R O C E E D I N G S

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

The first order of business is roll call, please.

COMMITTEE SECRETARY BICKFORD: Henry Jones?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY BICKFORD: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY BICKFORD: Margaret Brown?

COMMITTEE MEMBER BROWN: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

John Chiang represented by Steve Juarez?

ACTING COMMITTEE MEMBER JUAREZ: Good morning.

COMMITTEE SECRETARY BICKFORD: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Good morning.

COMMITTEE SECRETARY BICKFORD: Adria Jenkins-Jones?

COMMITTEE MEMBER JENKINS-JONES: Here.

COMMITTEE SECRETARY BICKFORD: Priya Mathur?

COMMITTEE MEMBER MATHUR: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY BICKFORD: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

COMMITTEE SECRETARY BICKFORD: Bill Slaton?

COMMITTEE MEMBER SLATON: Here.

COMMITTEE SECRETARY BICKFORD: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY BICKFORD: Betty Yee?

COMMITTEE MEMBER YEE: Here.

CHAIRPERSON JONES: Okay. Thank you.

I'd like to take a moment to thank both Board President Priya Mathur and also Treasurer John Chiang for their service to CalPERS over the years, and specifically for their service on the Investment Committee. And while this is their last Investment Committee meeting, the policies that helped to shape have influenced CalPERS in meaningful ways and will continue to guide the future of The Fund.

Ms. Mathur's expertise and judgment have significantly contributed to enhancing the financial security of CalPERS members. She has championed sustainable investing, recognizing that environmental, social, and governance factors impact risk and returns.

Treasurer Chiang also has had an important impact on CalPERS. He has been a strong advocate for diversity on corporate boards and the U.S. financial markets. He has also encouraged dialogue and thoughtful debate among our committee.

Both President Mathur and Treasurer Chiang have provided significant insights on investing for the future of the State. They have also been strong advocates for the protection of our members' pension.

I thank them both for their time, thoughtfulness, commitment to CalPERS, and I wish them all the best in their future endeavors. And we will have a more formal recognition at the Board meeting on Wednesday.

So thank you both for your service.

(Applause.)

CHAIRPERSON JONES: The next item on the agenda is the Investment Committee Timed Agenda. But I have a couple comments on it before we move to a motion. And, that is, looking at Item 8d, which is Summary of Private Equity Business Model. We received a couple of comments that -- to the degree there may be some confusion that we were going to take action on this item today. This is an informational item, and it's been agendized for information only. So therefore, it's not on the agenda to be acted on today.

The other thing I would like to note is the closed session agenda item which is 4a. We would like to move that to occur after 5f. So that would be the last item on the agenda. And also we will delete the investment strategy sessions with our board independent consultants.

So with that -- those changes, I would entertain a motion, please.

COMMITTEE MEMBER BROWN: Move approval.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON JONES: Moved by Ms. Brown, seconded by Ms. Hollinger.

All those in favor say aye.

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none.

The item passes.

Thank you.

Okay. The next item is the Executive Report.

Mr. Baggesen.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yes, good morning, Chair Jones and CalPERS Board members. Eric Baggesen, Interim Chief Investment Officer. Hopefully this will be the last meeting that I have to conduct on your behalf or the organization's behalf. I'm well looking forward to Ben's arrival.

For this Chief Investment Officer comment today, I wanted to make some reference to the activity that's been happening within the financial markets. The comments that I make are probably fairly well proxied by the investment performance consent reporting under Agenda Item 5c, for anyone that cares to look at specific numbers.

That report is -- was constituted as of October 31st. The October status or the month-end status is a pretty fair reflection of where The Fund stands today. The month of November was slightly an improvement, and the month of December has basically taken back some of those improvements. So I think that October report is a fairly accurate status.

One of the things though that we've been experiencing in the marketplace is a fair amount of volatility in pricing. Friday, for example, the Dow Jones Industrial Average fell over 500 points. It started out weak this morning. It's come back a little bit. But basically at the end of our last fiscal year, in June of 2018, The Fund had generated an 8.6 percent return for that fiscal year.

Through the summer the markets increased, or at least the equity markets increased. The bond markets have actually sold off a little bit due to interest rate rises and activity by the Federal Reserve. But at the end of the summer the equity markets in the United States were up almost 9 percent. Those markets have actually retraced almost all that gain. They've gone down approximately 10 percent over the course of this fall.

All of that culminates in a portfolio status where The Fund is actually -- the total return for The Fund is in negative territory currently. That's a sobering shift, if you will, from the status at the last -- at the end of the last fiscal year. Virtually all segments of the publicly traded markets have declined. There's been no real diversification, if you will, for publicly traded assets. Cash has been the only thing that's really generated much of a positive return.

The private assets, as reflected in our reports, those assets do not price immediately in the market place. So those prices are probably reflective of sort of stale estimates as to the value of those private assets. So I'd be -- caution people a little bit when they look at our reporting to interpret too much positive outcome in relation to those private assets. We would not be surprised to see those assets start being marked down in value, maybe not into negative territory, but certainly the valuations would probably weaken as time goes along and the estimates come in.

The only real point in making these comments though, again it's just for people to understand that the markets do not move upwards -- you know, it's just as an elevator or an escalator; that good times typically get followed by bad times, which get followed by other good times. And I think that in essence what we're seeing now is markets that are distilling an array of uncertainty, both from sort of aging economic indicators -- most of the indicators that John Rothfield will be speaking about when we do our next Total Fund program in February are starting to roll over into the mature, you know, or aged category as far as economic cycle is concerned.

Around the globe, economic activity's been softening a little bit. When you couple that with the interest rate increases in the United States, that's created a bit of fear that perhaps we're heading towards the next recession. And we have absolutely no ability to predict when that may happen. But the markets, being a discounting mechanism, are already anticipating that, and that's showing up obviously in the weakness that we're seeing in the financial marketplace.

We have taken some actions in the portfolio that this Board is aware of. We're experimenting with things like the tail-hedge activity to try to diminish some of the equity downside. But I would absolutely caution people to understand that those tail-hedge positions that we're attempting to do and trying to understand the materiality of that, those things really only work when you get a pronounced decline in the marketplace. A 10 percent decline is not the kind of a decline that that tail hedge actually constitutes any real protection.

That kind of activity is basically not severe enough for those things to really trigger and perform in the way that -- such as what we would hope would happen.

So we'll basically see what the market brings us for the next six months or so of our fiscal year, you know, rolling into June of next year. All of this may turn around. The market may turn back positive again. You know, we just have absolutely no way to predict that. But we do think it's important that people understand that as we stand right now, The Fund return is negative. And if that were to flatline from now to the end of the fiscal year, that would be quite a shortfall against our assumed rate of return, with all of the impacts that that would bring with it.

So I think I would just stop at this point and see if you have any questions.

CHAIRPERSON JONES: Yes, we have one.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Jones. Thank you, Mr. Baggesen.

A sobering report. And actually some of the questions I had wanted to ask you is, over the weekend, as you may have seen, was Liz Ann Sonders, who is the chief investment strategist to Schwab. And I looked to her because Schwab is the outside on the 401-457 on savings plus. She's taken a pessimistic position of us going into recession in late 2019. When you look at Goldman Sachs, now talking about becoming defensive. You look at the inversion of the yield curve. I remember what Joe Dear taught me is it's the animal spirit to the markets. And even folks like Jim Cramer can't even figure out what's going on right now.

And yet -- and I know in February we're going to talk about this. But I think your point -- and this is actually one of the questions I was going to ask is, as we give the report on Wednesday about returns, I'd like to see the public equities broken out, because they are negative. And if I'm correct, is typically private equity trails by about 90 days in valuation. So if we've seen a 10 or 11 percent correction in the public equities, we should see a similar correction in the private equity space trailing that in how the portfolio is reported.

The only bright spot at this point right now still seems to be real estate. However, if the Feds raise rates tonight, as is expected, and the fourth time, and you're starting to see markets like Los Angeles, Seattle, Miami, Las Vegas, Fresno beginning to cool, all the signs sort of point to a recession, which is what you all talked about 18 months ago when we began taking defensive measures inside the portfolio.

I think we set up -- I'd like you to expand a little bit, is -- I used a -- you know, and Mr. Slaton told me to -- a couple weeks ago when I was stressing out, it's long term, long term. The problem is, for us it's the short term, it's the cash flow. You can't even predict from week to week mark the wild swings. I mean, I believe on Friday we were down several billion dollars. Thankfully the market recovers. Market is mixed today. You looked at the -- again -- it's a little bit of a soliloquy. Last night at 9 o'clock the futures had The Dow up 108 and then The Dow opens down 191. 300-point spread within 12 hours. And yet if you look in the news cycle, there was nothing there in that short news cycle that wasn't already factored into Sunday night.

Just a little insight. Sorry.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yeah, that's a -- your comments, Mr. Costigan, are, you know, exactly indicative of what ends up happening. I mean the marketplace is the market, and it honestly is divorced from underlying activity, you know, as far as economic activity and the economic outcomes. At least it's divorced in the short term. So there's a whole array of obviously emotions and things that drive prices up or down on a daily basis that, in essence, are completely divorced from the underlying economic activity. The economy has still been performing pretty well in the United States in particular. So, that, you know, that's one of the elements that will be considered by the Federal Reserve when they start their meeting tomorrow basically, you know, and look at making potentially a fourth interest rate increase.

But you're spot on in that regard that we have -- we have these aspects of our portfolio that do not necessarily contemporaneously price with everything else; so private equity, real estate,

Paul Mouchakkaa sent me a note from when I told folks that I was going to, you know, talk a little bit about the income in the marketplace. And Paul's note was cautionary also, saying that, in essence, they're no longer seeing that much movement on cap rates. And to the extent that interest rates increase, that will probably stop any further cap rate compression, you know, or stall that out.

So it's been an interesting time as things are -- in essence, have been priced for economic perfection. So anything short of economic perfection, then suddenly that can sway and move the prices pretty radically the other direction, potentially again far beyond what the actual economics would indicate.

There isn't an instantaneous lockstep between the valuation of the private assets and what happens in the publicly traded markets. So it's not clear to me that we would see the degree of drawdown, for example, in the private equity values to, you know, precisely mirror what's happened in the publicly traded markets. That will -- we'll have to see how that data comes in.

I would actually personally expect that we would see a little bit less draw -- you know, markdown on the private assets than we would see in the publicly traded assets. Those values tend to be a little stickier. And we generally do not experience the kind of volatility in the valuation of the private assets that we do in the publicly traded parts of the marketplace.

So all in all, you know, we have -- we have what we have. And what is important for everyone to recognize though is that the CalPERS portfolio, being as large as it is, there's absolutely no way to trade sort of in concert with or in advance of the news cycle. You know, that activity would in our judgment be completely unproductive and ultimately end up just costing tremendous amounts of money, simply because we cannot execute position changes in the size that would be required to actually make a difference without affecting the marketplace itself.

So if you think, for example, a 500-point decline is bad, if we got in there and tried to sell, you know, 10 or 20 billion dollars of equity exposure, you could turn that 500-point decline into a thousand points, you know, very easily because you literally do not have deep markets and you do not have the kind of just emotional diversification that is required to basically have multiple sides of the trade. We believe that we've entered a world where the market emotional state tends to be highly correlated and therefore you should expect increased volatility when there is an emotional shift basically. People become rabidly bullish, the market will skyrocket; they become bear-ish, the market will tank, simply because there's almost no -- there's no gap in the news cycle, there's no time diversification in that any longer.

So the whole world becomes herded almost into the same place emotionally, which can be very divorced from the actual economics. Because again, the economy has been pretty good in the United States in particular. And even around the globe, the economy has not been a complete disaster by any stretch of the imagination. So we'll see if the fundamentals bring the market back up or, you know, we'll again see what happens.

VICE CHAIRPERSON COSTIGAN: All right. Thank you.

Thank you, Mr. Jones.

CHAIRPERSON JONES: Your welcome.

Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah. I just wanted to reiterate because I know a lot of times historically we've looked at ourselves as a long-term investor. And I'm always saying this, with our asymmetrical risk and mature -- and our population maturing, we have to really focus on the next 10 years. I'm just as concerned with low or flat returns, because you can see our pension contributions being ratcheted up, even assuming the 7 percent discount rate, about 20 percent over the next five years. And we have to remember in California we've had these fires. So a lot of the revenue from our property tax base might not be there. And just a really -- this is a very important time to work with our stakeholders on really working to protect that downside risk or even flatter low returns in the market.

So I don't want us to feel we can be complacent by thinking we're a long-term investor. We -- we can't.

CHAIRPERSON JONES: Okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you.

I think Ms. Hollinger kind of said what I was going to say. But I also do want to ask a couple of questions. You had talked about it's an emotional kind of market right now. But I -- and I might have missed because I had to run out real quick. But did you talk about the fundamentals? Because if the fundamentals are good, this -- my understanding is that we generally won't do a big 2008 or something like that.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: That's an interesting question, Ms. Taylor. The information that we see from, you know, the various market prognosticators and, you know, the economic forecasters and all that have not identified specific excess in the marketplace, for example, you know --

COMMITTEE MEMBER TAYLOR: No bubbles.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: So -- you know, but that's what they've identified. It's hard to know, for example, if there's some hidden excess.

COMMITTEE MEMBER TAYLOR: Right.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: And obviously everyone including the regulators and whatnot, the SEC and the Federal Reserve and whatnot, they're all looking for signs of excess that could then trigger, you know, the next adjustment -- you know, painful adjustment, for example, that happened obviously with the blowup of the subprime mortgage marketplace.

So I think that -- you know, the one place where I think people are a little bit cautious is probably potentially in relation to like student debt, which is pretty well skyrocketed. But that does not constitute in and of itself probably a large enough footprint to cause the kind of activity that you saw in the 2008 time period.

So, anyway, our anticipation is that we're not -- you know, we're not -- we're not trying to forecast, you know, another financial crisis at this point in time.

But instead, you know, we're looking at potentially just weakness as market participants start to eventually discount or discount the eventual, you know, diminishment of economic activity, and so to the next retrenchment that then provides the platform for growth to take place from that point forward.

Again, these things just don't happen in a linear fashion moving in one direction.

You know, you have -- it moves up, then it stabilizes, may slide backwards a little bit, then it tends to move up again. But it's sort of that -- that process just needs to happen, and that's what we're anticipating, you know, potentially.

COMMITTEE MEMBER TAYLOR: And we have -- and I get that. We have done a lot to mitigate this, with our actions we've taken over the last 18 months, our asset allocations and amortization.

And then you talked about the tail hedge. But you're saying that doesn't matter so much for these incremental drops. So when -- when does that kick in? Only if it were a big drop?

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yeah, I mean things like tail hedging basically are designed to potentially improve the situation if you really saw again a pronounced drop. And we would think of a pronounced drop as being 20 or 25 percent decline in a relatively short-term time period. For example, if you just had a market that ground down and down and down for four or five years in a row, even though I don't think we've ever really seen too much of that kind of behavior, but if you did have it, even in that kind of a marketplace, the tail hedge may not give us the sort of result that we would like, because it typically has to be coupled also with a large shift in the volatility profile. Because all of these positions are actually ultimately put in place predominantly with options. And options have a whole array of characteristics, but they move -- it's movement in prices but it's also movement in volatility, which then affects the pricing of options.

COMMITTEE MEMBER TAYLOR: So...

And I appreciate that. I -- and I just -- I agree with Ms. Hollinger in that we do have to work with our stakeholders. I think we've hit a point where whether or not something occurs, we're -- with our stakeholders we're in a position that, you know, we have to work hand in hand with them to mitigate the downside risk. So that we're not putting any more pressure on our stakeholders. As well as - I think Richard and I had discussed this as well earlier - which is the fires have taken a lot of our tax base in some of these areas, and I think that's going to have a huge impact moving forward, even more so as these fires continue to go forward in California.

So I think it's -- it's very important that we understand what you're talking about, but it's also very important that we understand that we need to be working hand in hand with our stakeholders to figure out a way.

I feel like we're a long-term investor. And these will -- but it seems like we're on a negative turn more than we are on a positive turn. So I -- I think that's why. But being a long-term investor isn't being as advantageous as it used to be.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yes. No, I think we all agree with your comments.

CHAIRPERSON JONES: Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah, one of the things I kind of worry about and kind of was brought to mind a little bit more in hearing Ms. Hollinger's questions, but in terms of our kind of picture of our appetite for risk, kind of large, it seems to me that with the kind of unprecedented volatility we've been experiencing and are likely to experience, it seems like it's a little bit of a new world here. And regardless of our appetite for risk, it kind of imposes, it kind of forces us to have to swallow a little more risk than we might like, because kind of that amplitude effect of that more and more variation even as a long-term investor, it can kind of swamp where things are going in the long term just because you can't tease it out of all that wild variation.

And so I think for me, just having the kind of more detailed reporting, having more of the information as was asked for at the next meeting, and I think even though we're long-term investors, in this kind of environment I think we're going to have to, you know, probably look at things more carefully, more closely to try to be able to discern, you know, what's common variation and what's actually something that's fundamentally moving, because it's going to be a lot harder to tease that out. And I'm sure the whole financial world's trying to figure that out right now. But that -- that does concern me.

CHAIRPERSON JONES: Okay. Thank you for those comments.

And that concludes your report, Mr. Baggesen, on this item?

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Perfect.

Thank you.

CHAIRPERSON JONES: Okay. The next item is the action consent item, Approval of the November 13, 2018, Investment Committee Meeting Open Minutes.

COMMITTEE MEMBER TAYLOR: Move approval.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON JONES: Second by Ms. Mathur.

All those in favor say aye.

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none.

The item passes.

The next item on the agenda is information consent items. I have received no requests to take anything from the consent items.

So we will move to item 6a, Revision of Real Assets Program Policy (Infrastructure).

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Excellent. I think I'm going to be joined by Paul Mouchakkaa and Kit Crocker.

If you recall, basically this is an action agenda item that is related to the description that Paul Mouchakkaa provided last month on the need for an adjustment to the infrastructure range around developed market investing.

So I'll just turn it over to Paul.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Good morning. Paul Mouchakkaa, CalPERS staff.

We are here bringing before the Board a proposed change to the geographic policy limits within the Infrastructure program. The current portfolio within Infrastructure is approximately $4 and a half billion, and 55 percent of that is in the United States, with about 45 percent of that portfolio outside of the United States.

The proposed change that we are putting before the Board this morning would be to change the limits from 0 to 50 percent developed market non-U.S. to go to 0 to 60 percent developed markets non-U.S., thereby changing the mirror image of that policy limit of 50 to 100 percent United States to 40 to 100 percent United States.

However, it's important to note that the asset class level, being Real Assets, geographic policy limits would stay exactly as they are intact, which is 70 to 100 percent United States and 0 to 30 percent developed markets non-U.S.

The rationale in terms of why we are bringing this forward, quite simply it has a lot to do with the makeup of the transaction markets within infrastructure. There's a significant portion of U.S. deals that come in the power and energy space. And in order for us to achieve better diversification, we believe this is a measured and thoughtful approach to allow us to have a broader exposure across different sectors in the infrastructure landscape.

The second is that it gives us more flexibility to scale the infrastructure portfolio so that we're not boxed in focusing only on one geography which has only bled out other opportunities outside of power not with a significant amount of volume.

With that, I will stop and be happy to take any questions from the Board.

CHAIRPERSON JONES: Okay. Thank you. We have one question.

Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Not a question. More a statement.

One, I think this is a sensible and prudent response to the structure of the markets. We were hoping that with this current Administration's focus on infrastructure, we would see more deal flow here in the U.S. in the space that we would find attractive and that would hope to respire portfolio. But we've not seen that.

And so to me, you know, this doesn't materially increase the risk in the infrastructure portfolio. It doesn't have an impact on the Real Assets Program as a whole, and so I think it's a prudent response, and so I would move that we approve the staff recommendation.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON JONES: Okay. It was moved by Ms. Mathur and seconded by Ms. Taylor.

But before we vote on this, we do have a request to speak on this item. Mr. Michael McKaskle from -- come over here to my left, Mike. And you will have three minutes to speak. And there's a clock here to -- there's a clock here to advise you of your time.

MR. McKASKLE: It takes two minutes. I timed it at home.

CHAIRPERSON JONES: Okay.

MR. McKASKLE: Hello. My name is Michael McKaskle. I have served as a chair of a member agency for six of the last eight years, and recently as the -- I'm the past chair of a joint powers authority. In that capacity I initiated a program administered by our local community choice aggregator funding and managing the installation of solar panels on public facilities.

Instead of or in addition to increasing the amount of international assets under management, please consider creating a similar program where a financing existing community choice aggregators who create them as part of the infrastructure component of your Real Assets Program.

The economics of solar power are such that when the same amount as the current power bill is paid towards a loan at a reasonable rate of interest, solar electric installations on public facilities are paid back in about half of the expected life of the system.

The organizational infrastructure and human capital for such a plan already exists in our State CCAs. It would be a low risk investment and would mitigate against significant investment loss, which is -- funds sustainable objective 2. And the returns would not -- while the returns would not be quite as high as the private equity returns touted in the Board packet, I think I could create a differently timed assessment period for them which would be easily surpassed.

Also it seems that the private equity part of our portfolio is looking to place more funds in other places, so I think it would diversify that.

It would support CalPERS investment beliefs by generating steady cash flow, having a long time horizon, and reflecting wider stakeholder views consistent with fiduciary duties, such as the ESG, Environmental Social

Governance, and SB 964, while helping to mitigate potential future contribution increases for any member agencies who participate by reducing the long-term power bills and hedging against inflation in electricity prices.

I will send this information to your Investment staff. And please consider diversifying by funding solar panel installation on member agencies or on any public facilities in California. And I think your return will be adequate and it will be safe and provide cash in a steady cash flow.

Thank you.

CHAIRPERSON JONES: Okay. Thank you for your comments.

The motion is on the floor and a second.

All those in favor say aye.

(Ayes.)

CHAIRPERSON JONES: Opposed?

The item passes. Thank you.

The next item on the agenda is 7a, Board Investment Consultant Request for Proposal.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Okay. Good morning. Elisabeth Bourqui, our Chief Operating Investment Officer, is going to start this item. And we'll see where we go from there.

CHAIRPERSON JONES: And this is an informational item.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yeah. We're also being joined by Kim Malm in case there's technical questions around the operation of the RFP. And Matt Flynn would normally also be joining us, but Matt unfortunately has been taken ill this morning.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:

Thank you. Good morning. Elisabeth Bourqui, CalPERS Chief Operating Investment Officer. So I'm joined today by Kim -- Kim Malm from OSSE. And Matt Flynn -- Matt Flynn is excused today.

But so I just would like to point out that we have worked together as a team on this.

Action -- Item 7a is an action item. We are requesting approval to release a Request for Proposal for Board Investment Consulting Services. These services cover all Total Fund assets, public and private.

The outcome of this competitive solicitation process will be four individual consulting contracts. One is the General Board; 2, Private Equity; 3, Real Estate; and, 4, Infrastructure Consulting.

In addition, we will need two Investment Committee members to provide guidance and oversight of the RFP process. They will join the CalPERS team members working on the proposal of evaluation process. We seek direction from the Committee Chair to name those members.

As you can see on Attachment 1, our proposed schedule has the RFP released in January 2019; proposal evaluations planned for March-April; finalists selected in May; and interviews with the full Investment Committee in June; and the formal contract negotiation taking place from the period from July to February 2020.

Our plan contract would -- start date would be July 1st, 2020, for all four contracts.

The materials before you this morning contain our proposed RFP schedule, draft services for each of the four consulting verticals, and the proposed scoring sheets.

I would like to take a moment to highlight just a few elements of our proposed RFP structure.

First, given that we are in a state of transition with the new Chief Investment Officer joining us next month, ongoing governance work with the Board and executive office, and continued work with an INVO to formalize our Total Fund management approach, we are suggesting the term of this consulting contract to be three years, with the option for the committee to extend them for two additional years.

The intent is to provide optionality to the organization if there are strategic changes resulting from any of these in-flight efforts that would change the Board investment consulting roles and responsibilities.

Secondly, the draft services are materially the same as those we have today. Again, the intent is to keep the services status quo until all transition activities conclude.

There is actually one omission related to the Draft General Board Consultant Services in Attachment 2. The Total Fund Policy requires the General Board Consultant to monitor and report on the impact of divestment. Therefore, we plan to include a separate divestment service category in the General Board's Consulting Contract to express a call-out this body of work. We'll make the decision prior to releasing the RFP.

At this point, I will pause and see if the Committee has any questions.

Thank you.

CHAIRPERSON JONES: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you for the report. Very extensive. I was going through each and every one of them.

I wondered if we had -- and I didn't see it anywhere -- if there's a mention of for the applicants in our RFPs for a strategic advice on our ESG strategies. It's not in any of these. So I thought that was a missing piece.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:

Actually, we have discussed that. Let me check and revert back to you and to make sure that this part will be incorporated. We have discussed that. It should. I will have to kind of check that.

COMMITTEE MEMBER TAYLOR: Okay. And then is it my understan -- and thank you very much. I appreciate that, because I didn't see it in any of the RFPs.

And is it my understanding that -- I saw it somewhere, now I can't find it of course -- that the Board will also be helping review the initial RFPs as well as doing the interviews, et cetera? Was -- I know I saw that in here.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

I think I know where my microphone is by now.

As in all of the Board retained authority RFPs, you'll provide guidance and oversight in the technical -- or the technical review of the RFP, the proposals, two of you will.

COMMITTEE MEMBER TAYLOR: Okay. Great. I just -- I know I saw it, but then I wasn't seeing it, and I wanted to make sure.

Thank you.

CHAIRPERSON JONES: Yeah.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
I believe it's under the analysis -- or, no, under...

COMMITTEE MEMBER TAYLOR: Maybe it's Attachment 3.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
No. Under the analysis section, Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Okay.

CHAIRPERSON JONES: Yeah. Ms. Taylor, several years ago we made that change to include committee members because those contractors reported directly to the Committee. So we thought it would be best to be informed by the committee members through that process, so we started that a few years ago. Okay?

Okay. Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Yes. Thank you, Mr. Chairman. Got a series of questions.

I want to better understand how this process, the proposal that you're putting before the Board, reduces both cost and complexity. That seems to be one of the merits behind doing one RFP with four separate contracts. So if you could start by elaborating just a bit on that.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:
Sure. Maybe you can -- I can start and then maybe Kim can join me into that.

So the idea was to do the four all together, so it means kind of bringing back two of them and kind of extending two of the other ones. So making that all together as a team would reduce that effort. I think it's as simple as that.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
I'd also state that when we put RFPs on the street, Mr. Juarez, there's a number of standard forms that have to be returned by the vendor. And they would be then returning them four times with multiple copies of each of these forms. And so it makes it easier for our team in the receipt of those proposals, it makes it easier for our bidding partners to turn in a proposal, it makes it easier for the evaluation team when they have one proposal in front of them that identifies four different scopes of services. So it just reduces the paper and the time and the energy for I think everybody.

ACTING COMMITTEE MEMBER JUAREZ: Okay. Thank you.

Are we subject to DGS review of our contracts and RFPs.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
The Board retains authority for all of our contracts and RFPs. So --

ACTING COMMITTEE MEMBER JUAREZ: Okay. So we don't have to go out to them. Because a lot of times they have issues with the attempt to do something like this. I've known from personal experience in the Treasurer's Office, they like the standard one contract, one RFP. And so as long as we don't have to worry about that particular oversight, I think that's --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

We have resolutions from the Board that allows us to do our contracting and procurement. And we have tried this model one other time with the legislative affairs RFP.

ACTING COMMITTEE MEMBER JUAREZ: Okay. We've discussed at the Board level I believe having one general consultant for all the asset classes. I want to know what, if any, the plans the staff may have with regard to pursuing a review of that possibility in the future, maybe during the time that these contracts are in place. So if you could respond to that, would be great.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes. So the idea here in that proposal that we bring today is to kind of bring the status quo on the way we're doing and in order to provide continuity in all the services that you receive on the Board and that we also receive at the CalPERS staff on that.

The idea was to permit during a certain period of transition to the Chief Investment Off -- to the new Chief Investment Officer plus all the work you are doing on kind of Board governance to kind of have enough time to be able to revise the sort of roles and responsibilities of the Board consultants.

And the idea of that proposal was to kind of permit this continuity while you can think about that more general question whether on -- how many you want in terms of Board consultants and if you want to have more emphasis on the general one or on separate ones and to have enough time for you to have the possibility to have those discussions.

ACTING COMMITTEE MEMBER JUAREZ: So is it your thought then to return to this Board at the point at the end -- as these come to a close, say after we've issued them, that maybe by that time before this Board would be an idea of having one general consultant?

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes, sir. We are launching -- we plan to launch those RFP according to your approval as of January this year, and this will take a certain time. And then these contracts will be there for three years, and extendable over another two years; and all during that period you can always -- the Board can decide to actually get sort of a new concept for it and then change those contracts accordingly.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
And I'll remind you that you do have language in all of your contracts that -- to terminate at CalPERS' option. Doesn't have to be at fault.

ACTING COMMITTEE MEMBER JUAREZ: There has to be no cause, just we can do it -- if we --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
Just, yeah, no cause. You can --

ACTING COMMITTEE MEMBER JUAREZ: -- have a better idea, we can proceed with that idea.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
Yes, you can do it at CalPERS' option. And so if the Board does come up with a different direction, we can either retain the general consultant RFP and grow that out, or we can -- we can go -- we can terminate and go back out for one.

ACTING COMMITTEE MEMBER JUAREZ: Okay. And in your analysis you very thoughtfully laid out both the benefits and the risk. I didn't see how we would mitigate the risks that are identified. There are three here bullet-pointed in the analysis. And maybe we can just have a brief discussion of how the staff intends to mitigate the risks that have been identified.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:
Okay. So I see three risks, right? So you are

referring on the page 3 of 3 of the Agenda Item 7a, right?

ACTING COMMITTEE MEMBER JUAREZ: That's correct.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: So the first one: "The proposed RFP structure may not generate sufficient competition for each service category." I mean it's true that we are looking for -- for four different consulting services on boards, on private equity, on real estate, and infrastructure.

We are actually opening this RFP to the market. And we hope we'll have enough and sufficient competition for each services, but those services are quite already very specialized, right. So it's in that sense that we'll be -- we'll do our best to kind of find -- to kind of open up the RFP as much as we can on the market and at the same time be able to look at the best services for each of these very specific categories.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

And if I may add. We have found that -- in the independent auditor RFP, we advertise that in the Wall Street Journal and we've received a number of inquiries. And so we would probably -- I would think that we would do the same thing here.

ACTING COMMITTEE MEMBER JUAREZ: Let me ask a related question. So if in fact, let's say, three of the four RFPs generate sufficient level of interest amongst potential applicants but the fourth doesn't. Do we have the flexibility to pull that back and to reissue and to, you know, scour the market to make sure that we get enough competition in all areas of all asset classes?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Certainly.

ACTING COMMITTEE MEMBER JUAREZ: Does it -- will the contracting process allow us to do that?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: We can do anything within the RFP as long as we stipulate that clearly, and that's what we would do.

I believe that we would probably get some decent -- a number of proposals. But they can also bid on more than one, just not on gen pen and the remainder. So if you had a vendor that wanted to do more than infrastructure, wanted to do a different one, they could bid on two of those. They just can't hold gen pen and --

ACTING COMMITTEE MEMBER JUAREZ: And, Kim, what do you consider decent in terms of where we --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: I'd like to see at least like three. Right.

ACTING COMMITTEE MEMBER JUAREZ: Three per asset class?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: That would be my goal.

ACTING COMMITTEE MEMBER JUAREZ: Okay. All right.

Maybe go to the second --

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes. The second point is: "The proposed roles and services may not fully address future investment consulting business needs."

So the way we intend to mitigate that is to kind of go for this period of transition and also understand and listen to the boards about your needs based on the sort of board governance review, and see whether these roles and services will be still adapted in the future to what we have done in this RFP. So our way -- so our way to mitigate that is -- is as -- what you said is to propose a certain continuity of service now, and to kind of extend those -- I mean do these contracts for three years and have the possibility to extend it for two years. And those -- as Kim Malm just said, these contracts can be stopped at any time depending on the Board's decisions.

So that's our way to kind of address this future eventual needs that the Board would have.

ACTING COMMITTEE MEMBER JUAREZ: Okay. And the last one.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: The one is: "CalPERS team members may not be able to negotiate favorable terms, resulting in increased costs."

So this is maybe Board related to the fact that there is a certain number associated in what we're doing so there are four consultants, right; and a general one and the one for private equity, real estate, and infrastructure. By doing this, we kind of continue the status quo. And in order again to kind of bring the continuing services, but we're not changing completely the structure, that would permit to revise fundamentally the sort of cost structure associated to the overall consulting services that the Board may need.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: And I would just add that that's always a risk, Mr. Juarez. And so our legal team works really hard in the negotiations of these contracts. The Board during their interview process typically has conversations with the consultant firms regarding their fees. And their you guys are usually a really big help in assisting us negotiating the fees down.

ACTING COMMITTEE MEMBER JUAREZ: Okay. Thank you.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: And we can cancel if you find that the fees are not reasonable, as you've done in the past.

ACTING COMMITTEE MEMBER JUAREZ: Thank you.

CHAIRPERSON JONES: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you very much.

Just for clarification purposes, the contract term that you're proposing is three years with two one-year extensions, correct?

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes.

COMMITTEE MEMBER MATHUR: So it's a three plus one, one.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes, yes.

COMMITTEE MEMBER MATHUR: I had a couple questions, maybe comments, observations. One is around sort of how proactive the -- we want our investment consultants to be. So right now there's a lot of language in here that says as requested by the Committee, as requested by the Board. But I think we also rely on our consultants to on their own volition sort of raise things that we need to be paying attention to that perhaps we are not. And I know obviously the investment team does that as well. But there might be something that one of our consultants thinks that should be brought to our attention. And I guess I would like to see something like that incorporated into this RFP. And I didn't see it. Maybe I missed it, but I didn't see it.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:

Thank you very much for that comment. It's a very, very good comment, and I will make sure to incorporate it into the RFP.

COMMITTEE MEMBER MATHUR: Great. Thank you.

CHAIRPERSON JONES: So directed.

COMMITTEE MEMBER MATHUR: Thank you.

I also saw in here some -- a reference to training. And I don't think we've actually used -- I'm looking at page 5 of 13 or 117 in the iPad, under the Private Asset Scope of Service. It talks -- under General Services; number 3, investment training.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes.

COMMITTEE MEMBER MATHUR: I don't re -- I mean, I guess we've had some workshops at -- is that what we're thinking about when we're talking about training, workshops that are at our Board retreat -- offsites -- thank you, I was drawing a blank on the word -- offsites, is that the kind of thing that falls under training here?

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes, absolutely.

COMMITTEE MEMBER MATHUR: Okay.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes.

COMMITTEE MEMBER MATHUR: And do we anticipate a certain level or schedule of training that we might want our consultants to participate in or assist with over the coming years or is this really just a catch-all in case something comes up that we want to consider?

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yeah, I mean that's an interesting comment, Ms. Mathur. I don't think that we would propose any kind of a schedule attached to this actual RFP in that. But I think that basically if that's what the Board would like to have happen, that we could certainly work out that schedule. And I think one of the intents that we have with the direction that I've, you know, been indicated from our CEO, Marcie, is basically to use our off-site activities in large measure to help, you know, provide Board education on a number of different topics. So I think this would potentially fit squarely in that area.

COMMITTEE MEMBER MATHUR: Well, I do think given that, you know, this is a board in transition and there will be some new Board members and some who may be haven't served so long, it would be useful to take advantage of that, so sort of ensure that everyone is on a level playing field in terms of their understanding knowledge of the market.

So thank you.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:

Yeah. Thank you very much for that, and it's well noted.

CHAIRPERSON JONES: Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Mr. Chair.

Has our new CIO reviewed and commented on the scope of work in these contracts?

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: We've indicated to Ben basically that we're moving forward with this RFP. And let me also just add a little bit more context. This topic came up at the August Board meeting, and it created a fair amount of discussion. At that time there was a request for an RFP. In essence, we were going to RFP all four of these things sequentially; and that was going to involve a two-year time period, the potential need to actually extend contracts because we had a number of these that are going to expire in 2020. So all of those tensions came to the forefront, as well as a discussion about exactly what is the role of these consultants for you as a board.

And I would suggest that our recollection of that discussion is that there's not a unanimous point of view about what the consultants do and how many of them you need.

So basically what we have here, Ms. Brown, is the maintenance of the existing statement of work for the consultants. Ben is aware of that, and Ben -- he understands the issue. So this RFP is designed not to necessarily create the optimal structure of your consultants in the work that they do and how they do it, but it's rather to provide continuity while we work through the definition of how you would like that to operate. And it also provides an opportunity for Ben to come in and understand you as a board in the organization and potentially have his own opinions about how to move that.

But that is the element of this that Elisabeth and Kim have pointed to where a contract can actually be terminated if we decide to go a different direction.

COMMITTEE MEMBER BROWN: And my concern is we're going to release this in -- on January 15th. He'll probably be part of our team by then. And even a 30-day delay for him to provide his comments on the RFP might be helpful, because what we really don't want to do is terminate a contract and start all over again, where a very short delay could in fact provide the input from the new CIO. That's my only recommendation. I don't know if anybody else here supports that.

Thank you.

CHAIRPERSON JONES: Okay. Is there any support for that thought from other Committee members?

Okay. Seeing none.

Okay. Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I wanted to echo a couple points, and that was I did think the -- just not having any mention of the ESG strategy was a little glaring to me as well. So -- given how much that's going to continue to be a focus of our work, and hopefully of the consultant as well.

I think when I read this, it really -- and there aren't a lot of opportunities where we actually have an opportunity to talk about our expectations of the consultant. And I think the tenor of how this is written -- and I would agree that I think we want to provide some sort of continuity while we continue to work through the issues of how many and some of the other things that we began to talk about last August.

But there's -- I guess I would like to kind of have more of a proactive tone in terms of at least setting that expectation, that we would like the consultant to be as proactive as possible, not necessarily wait to respond; or to have us request if they are seeing things. I mean, they are our independent consultants. I would like them to come forward.

And then I don't know if -- with other RFPs that other State agencies do, whether we have a practice of meeting with potential bidders kind of as a community just to talk about expectations.

Is there any kind of engagement with them before they actually -- you know, either during the process, before the process is completed, where you have face-to-face interactions with them?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Prior to the release of an RFP, you are absolutely permitted to speak to any of the companies that you believe can do this type of work and encourage them to propose -- send in a proposal. Once the RFP is released, you're in a no-contact policy; and so you cannot discuss it until they come in front of you for interviews.

So you absolutely can have these conversations prior to, just not once the RFP is released until they're in front of you for an interview.

COMMITTEE MEMBER YEE: Okay. And do we do that kind of firm by firm or is there an opportunity to bring them all in on a day to actually have some engagement with us about expectations?

CHIEF EXECUTIVE OFFICER FROST: We could, as a part of the RFP process, include a bidder's conference, which I think is what you're talking about --

COMMITTEE MEMBER YEE: Yeah, we've had that practice.

CHIEF EXECUTIVE OFFICER FROST: -- having you come lay out expectations and right before the final bids will come in.

COMMITTEE MEMBER YEE: Okay. All right. Just something I would want the Committee to entertain if that's -- I think it might be advantageous just to at least set some expectations.

And then I wanted to just kind of get clear about -- and I understand the need to state that the general board consultant would be precluded from serving us the -- obviously the private asset consultant. So is the idea here that we're just consolidating the process but we still would be seeing individual RFPs?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Individual awards.

COMMITTEE MEMBER YEE: Right. Yes, individual awards. And individual proposals, I suppose. I mean, there could be a firm that could bid on both.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yes.

COMMITTEE MEMBER YEE: Okay.

All right. Thank you.

CHAIRPERSON JONES: Yeah, I think that's a great idea on the bidders' conference. I've been part of those in the past, and they do provide a great deal of insight in terms of exchange of information. So, yes, include that.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Jones. Just a couple points.

Was Ms. Brown's point to have Mr. Meng involved in this?

COMMITTEE MEMBER BROWN: Yes.

VICE CHAIRPERSON COSTIGAN: Okay. So, I mean, I would support that the incoming CIO would have some involvement in this. But the way at least I read the timeline is that won't start until January, so Mr. Ming would have some import in -- input; is that correct or not correct?

CHIEF EXECUTIVE OFFICER FROST: Correct.

VICE CHAIRPERSON COSTIGAN: All right. So I think that would at least alleve.[SIC] Ms. Brown's concerns given the timeline. Which actually raises a couple other questions that I had raised -- I've raised before.

So, first of all, we don't have the contract itself. So if there's a change in personnel, substantial personnel, what's the notification requirement?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: If they are key personnel --

VICE CHAIRPERSON COSTIGAN: Or key personnel.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

-- they are to notify us immediately. We're actually in the middle of a contract amendment right now for key personnel changes. So they notify us immediately.

VICE CHAIRPERSON COSTIGAN: Okay. And I think it was both Ms. Mathur and Ms. Yee that raised a couple concerns just on notification and involvement. I would encourage you -- you may not have read it, those that -- to go back and read this Steptoe report, which was on of the first things I read when we came here -- when I came here.

I still to this day don't understand how our consultants didn't tell us - goes back to the point Ms. Yee raised - didn't tell us what was going on. Maybe they did, maybe they didn't. But I still to this day don't believe that the accountability has existed prior to many of us serving on this Board with the consultants. So I think it's extremely important for us to determine between the micromanagement by the consultants of the investment staff, and the consultants playing their obligation -- or recognizing their obligation to the Board as our consultant, to tell us when something is wrong. And I'm not sure what that area is, but I think Ms. Yee -- or Controller Yee is correct to raise this. That becomes paramount, because we had a consultant who's still with us, who's had a key change in personnel. And I've never had the years I've been here an answer that I have found favorable as to what happened.

So I just certainly hope but think -- Mr. Baggesen, we had raised this the other day -- that this is something we try to work out. I'm not sure how you work that out, but that's a key if they're going to be our consultants.

And then on the conflicts disclosure, can you tell me how those provisions work. Are they required to notify us in advance if there's a conflict? And this is other clients. This is not conflict inside of CalPERS. So they go represent CalSTRS. Do they have to have our permission to do that?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: They sign a document at contract award that states that they do not have any conflicts and that they don't have any potential. If they end up finding that they may, they're required to report that to us immediately. And that runs through our compliance and risk process.

VICE CHAIRPERSON COSTIGAN: So who determines that there's a conflict? So if they go represent CalSTRS, for example, who makes that determination if CalSTRS is a conflict or not? What if I want it to be a conflict, that I don't want to share our beautiful insights with Jack

Ehnes? Who makes that determination?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: The Compliance Office.

VICE CHAIRPERSON COSTIGAN: But that's -- is that a legal, is that an ethical, or is that contractual conflict? Which is it?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: I think it could probably be any of those three, sir.

VICE CHAIRPERSON COSTIGAN: Okay. But -- and I apologize to ask these questions. These are just some --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Random person answering.

VICE CHAIRPERSON COSTIGAN: That's right. Actually, you're far from random.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: Just kidding.

My understanding is one of the consultants currently has a contract with CalSTRS. Is that correct?

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes, there is one.

VICE CHAIRPERSON COSTIGAN: Elisabeth, is that -- what was that?

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: There is one I think that --

VICE CHAIRPERSON COSTIGAN: Okay. So they have a contract with CalSTRS.

Did they get our permission? Was it a conflict?

So if it's legal, ethical, and contractual, how is it approved?

CHIEF OPERATING INVESTMENT OFFICER BOURQUI:

Okay. So I would need to check that and to kind of see how it goes. So I suggest that additive -- together as a team, do a bit of homework on that, yeah.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Why don't I take a stab at this, Mr. Costigan.

One, I don't think our current arrangements with these consultants require us to give our permission basically anytime they're going to work with another client. They are still basically bound though to this organization to take information that is confidential and keep it confidential. If they somehow breached that trust that we place in them, then that would have to be an issue that obviously is dealt with at the time that that should happen. But we do not have the ability and I don't think we would want the ability to potentially constrain them from trying to do business with other organizations. Because we actually benefit to some extent from their perspective about understanding how many organizations approach the same kind of problems that this organization is facing. So we actually get a benefit from that.

So there's obviously a fine line there between, you know, what is confidential to CalPERS and what is confidential to CalSTRS. The closest consultant that we have in common with CalSTRS, I have never had a discussion with them, I have never seen an instance of that organization divulging anything that would be perceived to be confidential to CalSTRS to us, and I'm basically trusting that they are doing the same on behalf of this organization.

So I think that, you know, we would just -- we would have to deal with the situation should it arise. But I have not seen that situation where we've had a consultant serving multiple organizations. And all of these consultants basically serve multiple organizations, you know.

VICE CHAIRPERSON COSTIGAN: This goes back to the question I was asking. And I'm not casting criticism on the outside consultant. I'm just asking, under the terms of our contract, is there a legal, ethical, or contractual disclosure in conflict? I don't have the terms of the contract in front of me. And similar to what Mr. Juarez raised about with DGS -- oh, it's now the Treasurer.

Good to see you, sir.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: -- Mr. Juarez raised on DGS, what does our terms say on that?

You can get back --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yeah, I'm happy to go pull it and bring you the exact language. But it's -- as Eric stated, they do do work with others, but they are fiduciarily responsible and they cannot work in conflict. And that was your question, was in conflict - okay - not just working for other organizations.

So I can provide you with the conflict language.

VICE CHAIRPERSON COSTIGAN: Thank you, Ms. Malm. Appreciate it.

CHAIRPERSON JONES: Okay. Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

On the -- just a couple of quick questions. On the timing of the contracts, you have the negotiation going through February of 2020. So I was unclear here, on the four consulting roles that the effective contract date for these new three-year contracts which might be up -- would be four contracts, it might be four or fewer consultants depending on how the bidding comes out.

Would be -- start when? Would that be July 1 of 2020?

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yeah, I think it's -- the anticipation is July 1 of 2020.

COMMITTEE MEMBER SLATON: For all four.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: For all four. We have -- currently we have three consultants whose contracts expire June 30th of 2020.

So, again, the context of this agenda item is to provide continuity of consultant coverage while we work out many of the issues that have been raised, you know, by a number of you as Board members.

COMMITTEE MEMBER SLATON: So does that mean that the contract -- the one contract that doesn't expire until March of 2022 would be terminated early in favor of the new contract?

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN:

That's correct.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Yes, correct, correct.

COMMITTEE MEMBER SLATON: Okay. I just wanted to make sure I understood that.

The other question deals with the procurement process. And I know that we're doing the 300/700 point system. I want to make sure that the plan is that when we get to the interviews in the 700 points, because we -- at one time years past we ended up with a little bit of a confusing process about that. I think the last time we did it it worked pretty well, where any member of the committee can then make a motion regarding assigning number of points.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

That's correct.

COMMITTEE MEMBER SLATON: Is that -- and that -- we're still going to follow that process?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

That's correct. So someone would motion -- a Board member would motion at the score, and there would be discussion on that motion, and you got -- and then you would consensus score with a total --

COMMITTEE MEMBER SLATON: Yeah. So either the Motion goes up or down --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yes.

COMMITTEE MEMBER SLATON: -- for a vote or a substitute motion?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yes.

COMMITTEE MEMBER SLATON: Okay. Great. Thank you very much. That process works. Appreciate it.

CHAIRPERSON JONES: Okay. No additional questions.

So the motion is -- this is an action item.

COMMITTEE MEMBER TAYLOR: So moved.

CHAIRPERSON JONES: Moved by Ms. Taylor.

COMMITTEE MEMBER SLATON: Second.

CHAIRPERSON JONES: Seconded by Mr. Slaton.

All those in favor say aye.

(Ayes.)

CHAIRPERSON JONES: Opposed?

The item passes. Thank you very much.

CHIEF OPERATING INVESTMENT OFFICER BOURQUI: Thank you very much.

Thank you, Kim.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Uh-huh.

CHAIRPERSON JONES: Now we will move to item 8a, Consultant's Review of CalPERS' Divestments.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yes. Good morning again. Eric Baggesen.

Item 8a will be covered by Steve Foresti from Wilshire Associates.

It's important just to understand the context of this agenda item. Basically Steve and Wilshire Associates have been charged with doing the calculation of the economic impact of the various divestment actions that CalPERS has undertaken.

This calculation has been required since 2017 when some of the Board policy was modified to provide this on an annual basis. So Steve is the agent from Wilshire Associates that is -- and he and his team have done the calculation and present the in -- and will present the information to you as a board at CalPERS.

Steve, take it away.

MR. FORESTI: Thanks, Eric.

Good morning.

So as Eric said, this is an analysis that's prescribed within your policy to take a look at the active divestment programs on an annual basis. And I'll make comments on the letter that we wrote that I believe's on page 130 of your materials.

We focus on the active programs, of which there are six. I'll comment on a couple of changes from previous reports that we put together. All the numbers that we've included in our summary of the comprehensive analysis that kind of goes underneath that is through your latest fiscal year, so through June of this year, 2018.

A couple of changes, first off. So we've included in this year's analysis the impact from the thermal coal divestment, which went live in the summer of 2017. So in our previous analysis through June of '17 there was no impact, so this will be the first year that we show those numbers.

And we've also broken out -- in the past we've reported Sudan and Iran as a single line item, a single program. Those are now separated, and you'll see specifically numbers there.

So basically the process is to go through quarterly data that we receive from your index suppliers, look at the returns of a fully inclusive global equity index, and then compare returns of that index to indexes that filter out the divested names across the various programs, look at the impact on a quarterly basis, and then build those up through time.

So a couple of comments there. And I'm going to -- most of what I talk about today will be focused just on the active programs, because in fact that's the point of your annual policy is to keep an eye on the financial impact of the current active programs.

We do include in our analysis the impact of previous programs. And the only comment I want to make there is, even programs that are terminated, in dollar amounts are going to grow through time as the portfolio grows. And the simple way to think about that, just mathematically, if a program is closed and at the time had a 1 percent impact on the fund, so, let's say, the fund is $100 and the impact brought the fund to $99, the fund doubles in size. The impact -- the dollar impact of that investment appears to have doubled in size. It goes from a dollar to two dollars. If the fund has now gone from 100 to 200 dollars, the impacted portion went from 99 effectively to 198 dollars. So in dollar amounts that drag on the portfolio went from one dollar to two dollars. It doubled.

But in terms of the percent impact, there's no impact. It remains 1 percent of the impact. And that's I think an important component to and reason why we include not just the raw dollar amounts but the percent impact.

So as you see divestment programs that have closed in the past, you'd very much expect those impact dollar amounts to grow through time, but you would not expect to see the percent impact on the Total Fund change through time.

So with that, just to summarize I guess one last comment just on the approach. Another part of your policy is to reaffirm, reassess, review the various programs on a five-year basis. You went through this for the tobacco program in December a couple of years ago, so December of 2016. And that assessment is essentially an opportunity to either reaffirm the divestment program or reinvest.

With the exception of tobacco, which again was reaffirmed a couple of years ago, all the other numbers for the current active programs are from their inception.

So the numbers we show, page 2 of our memo, would be -- again with the exception of tobacco, would be the full impact of these active programs from their inception of that divestment activity. Tobacco being the exception, the numbers we show there is from the last reaffirmation.

So in summary, the numbers for this period of time, again inception to date but for tobacco, which is two years, is a positive impact on the fund of 1.5 billion. And that spreads across the various programs and it's laid out. But the larger contributors to that would be the larger programs in terms of their dollar amount divested, which would be your tobacco, EM Principles. Again, we broke out Sudan and Iran. Those are positive contributors since their inception of 200 million for Sudan and 139 million for Iran.

Be happy to take any questions. There's a lot -- you know, the methodology that goes underneath these numbers is pretty extensive. So hopefully the way I've laid it out makes it clear in terms of what we're trying to capture through the analysis, but I'd be happy to take any questions you may have.

CHAIRPERSON JONES: Yeah, we have a few. And I have one.

The inactive emerging market countries and South Africa, those -- the active date ended 2008 for emerging countries and 1994 for South Africa. So this means that we're now investing back into these two categories.

But this number that I'm looking at here will continue to grow even though -- because it's compounding from when it occurred the last time. So it's going to get bigger regardless of whether or not we're back in investing in this country; is that correct.

MR. FORESTI: That's exactly right, Mr. Jones. And that was the comment I was trying to make about the -- you know, the 99 versus the hundred dollar.

So if you closed every program as of, you know, this past June, so the numbers you see for both the active and the inactive if everything were closed, that that figure of 8 and a half or so billion dollars if the fund were to double, that would effectively go to $17 billion. But the percent impact on the fund would not change.

So you're exactly right. Those dollar amounts even for closed programs will continue to change as -- they're going to grow in dollar amounts with the growth in the fund. They're not going to change though based on their percent impact on the net worth of the fund.

CHAIRPERSON JONES: Okay.

Okay. Ms. Mathur.

Thank you.

MR. FORESTI: Sure.

COMMITTEE MEMBER MATHUR: Thank you.

In looking at this report, which is a very short -- very brief report, it would be useful I think to not just look from inception to present but also from the last report, period. Because obviously we make decisions over time. We reaffirmed the decision regarding tobacco, what was it, two years ago now I think. And, you know, sort of what is -- the past decisions, while we continue to certainly see the impacts today, you know, it's -- it seems to me a little bit -- it skews the results in a way -- in a sense. I mean obviously that is the result. But what it does is it implies that -- that -- we might have been early, for example, of the tobacco decision. Maybe we -- maybe the Board -- and I don't think anybody who sits on the Board today was there at the time that the initial decision was made.

Or maybe Rob was.

But nonetheless, when that initial decision was made, perhaps it was an early decision -- it was too early for the market. But now, perhaps we're seeing it actually bear fruit for us as an investment decision. So I guess it would be helpful to see chunks of time as opposed to just the full span of the time.

MR. FORESTI: Yeah, that's a good observation. And, you may recall when we put the figures together, December of '16, for your discussion on tobacco, we did -- we did supply a lot more information in terms of, well, what's the dollar size of the divestment, what's the expected tracking error. And we also showed historically on an annual basis - and I think this is what you're alluding to - what the annual impacts are, so you get a sense not just of this number through time but its annual volatility, how it contributes, number of years positive, number of years negative.

COMMITTEE MEMBER MATHUR: Exactly.

MR. FORESTI: We could certainly do that in the annual figures. We tried to be very mindful and stay focused on what's driven by policy for the annual report. It's not a problem at all to, you know, maybe what we do since the prior reaffirmation show the annual impacts, we can certainly do that.

And when you do these five-year reviews, that would certainly be an opportunity where we would supply more comprehensive information to feed the discussion you would have.

But your point's taken, and we'll -- maybe the place to do it is is by extending the information we provide in the appendix of the letter.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

The other thing that I would note is that, you know, we haven't tried to -- I believe we've asked this question but it hasn't really been addressed, is could there be a proxy that -- for any one of these items that we've divested from that might mitigate the impacts if they are negative -- if they could be negative, might better sort of -- might reduce the tracking error to the broader universe -- between our benchmark and the broader universe. And I guess I would just ask that question whether you have spent any time thinking about that or researching it. I'm sure other investors are thinking about the same question because there are quite a large number of investors who've divested from specifically tobacco. And I would just ask -- yeah, I guess that's my question.

MR. FORESTI: Yeah. There's no doubt you could -- and we've done the work historically in terms of -- through the lens of Wilshire's risk models have looked at the question that you're asking and said, you've got a benchmark without divestment, you have a list of names that are restricted. To the extent that you can reconstitute -- of the names that you're allowed to own, essentially optimize those to lower the tracking error or the risk against the broader portfolio. And in that exercise, you would bring in -- for example, you know, if you're underweight to tobacco, you would tend to now overweight industries and sectors that might have a higher correlation to tobacco, and that would offset some of the industry or sector-specific risk.

In that analysis there's certainly some improvements. But it's very difficult when you systematically -- because there's a unifying factor in these divestments, right. They're not, you know, a hundred random securities, and therefore getting something that mimics their behavior. If you have a particular industry that just gets -- you know, explodes positively because something happening specific to that sector, vice versa falls off, whatever proxy asset you had that a risk model may think could offset that. In fact, there's a lot of basis risk for that and in reality it probably doesn't offset it.

But we've done the -- the real question in my mind comes down to theoretically how low you can get that tracking error and what's the actual cost of implementation. And that's probably a question for Dan and others on the Global Equity team in terms of what does that suggest in terms of implementation of that portfolio the means by which to get exposure to that portfolio. But there are ways to try to mitigate that risk.

COMMITTEE MEMBER MATHUR: And would you restrict any consideration of proxy to the Public Equity space or would you consider Private Equity, for example?

MR. FORESTI: You could certainly attempt to do it across public and private. My personal view on trying to deal with this sort of risk you're describing in the private market is really dubious. So I think you'd probably want to just stay focused on the public markets. All the issues I mentioned about tracking error just get compounded almost to the Nth degree when you start talking about private market investments.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

CHAIRPERSON JONES: Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

Just following along the lines of Ms. Mathur. I -- you know, just looking at the divestment values on a five-year rolling basis, it produces a dramatically improved analysis for tobacco. And I'm thinking about the discussion we had when this committee was considering I guess reinvestment. And I don't know if this is possible, but, you know, as we're trying to make the economic case for either, whether to reinvest or not, is there a way that we can pick up the potential benefits to the fund from the reinvestment of the divested funds? And I understand -- you know, you've talked about the positive impact on the fund as relates to these program in and of itself, but I mean it's -- I think -- I think there's kind of a public conversation that we had here because obviously there's a lot of pressure to divest from any number of things. But is there a way to actually talk about what benefit has been derived from the reinvestment and redirection of the divested funds themselves?

MR. FORESTI: Are you -- just to be clear, are you talking about from an investment perspective or from an impact perspect -- I mean our analysis is purely just on what the impacts are. And it actually directly does pick up what you're speaking. So --

COMMITTEE MEMBER YEE: Yeah, I think it does. But it's -- I mean I just found that when we had the decision about whether to reinvest before us, I felt like there was this gap of information about what happened to those dollars. I mean, where do we put them and what was the benefit? Can we point to the benefit to the fund of the reinvested dollars as we divested from any number of these programs?

MR. FORESTI: Yeah, so I -- we may need to think about other ways to highlight that. But it is all baked into the numbers. So the process just simply -- whatever's divested from one place in a prorated way invests in everything else.

You know, if we could -- potentially do an attribution by sector to show what actually drove that under or overperformance, I'm not sure in terms of the decision on the specific divestment how helpful that would be. But I guess, rest assured, what's baked in the numbers is -- it captures where the assets went.

COMMITTEE MEMBER YEE: Yeah, and I believe that. I think just a display of that might be helpful, because the dollars went somewhere. Right? And -- but when we talk about it as if it didn't and then we're only talking about the side of, you know, kind of what we've lost and kind of -- and the gap that was left in the fund as a result of divestment. And I'm just taking it to kind of in preparation for the next time we're approaching, you know, kind of another -- you know, a reinvestment question before us.

MR. FORESTI: We would -- I was just going to make the comment that we would need quite a bit of additional underlying detail and information beyond what we get at the moment from your index vendor. So it would very much become a holdings-based analysis which is -- it really increases the complexity and scope of the process quite a bit.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yeah. Maybe I could take a stab at that also, Ms. Yee.

What -- any money that basically comes into the fund, for example, whether it comes in as a contribution or a proceed from a transaction, basically goes into a pool of capital and then it just gets parceled out into the various parts of the portfolio.

So we don't have an inventory process that traces dollar number one all the way through different assets.

COMMITTEE MEMBER YEE: Sure.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN:

Right? The ability to try to track that kind of information given that we do tens of thousands of transactions, some cases on a monthly basis, is -- that would be almost virtually impossible to try to say, in other words, the dollar that was raised by selling Company A then translated into a purchase of Company B. Instead, those dollars just flow through the checking account basically of the organization.

So I think the methodology that Wilshire uses is basically assumes that any money that comes into the fund basically get's invested pro rata, as Steve said, across all the different assets of the fund. And that's what their analysis calculates.

I don't know that it's possible to basically trace a specific investment out of the more than 50,000 investments that constitute this fund and say that that was a result of a dollar raised by, you know, the sale of a tobacco security, for example.

COMMITTEE MEMBER YEE: Right, right.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: It's just not accounted for in that framework.

COMMITTEE MEMBER YEE: Yeah, and I'm not asking for that level of detail. I do think that maybe an attribution across all asset classes -- I mean the dollars went somewhere. And it just seems to me we always have kind of like the one-sided conversation when we talk about divestment oh reinvestment. And so to kind of have the full picture about what happened to those funds, and then obviously the benefit would be whatever took place with the fund itself -- the Total Fund.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Yeah. Again, you know, I understand - I think I do anyway - the point that you're making. But, again, just recognize, for example, we're paying out over -- about $2 billion a month in retirement benefits. So the dollars that flow through the organization, in other words you might sell a tobacco surety, those dollars may then flow through and constitute a payment of a retirement benefit to somebody, and then a contribution comes in basically from an employer or from us as employees, and those dollars might get parceled out into a real estate transaction.

COMMITTEE MEMBER YEE: Right, right.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN:

There's just -- there's no way to line up all of those specific cash flows, you know, the ability to trace, as I say, a specific value through the organization. Dollars are fungible into dollars basically. So it's accounted for as one giant pool. So it becomes -- you know, it's very difficult to trace one investment action as to the opposite investment action that happens on that. It just doesn't get accounted for that way.

COMMITTEE MEMBER YEE: No, I understand. Okay.

I just -- just some treatment of the -- the potential to benefits derived, however we might want to capture that I think would be helpful to the discussion.

CHAIRPERSON JONES: Okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you.

So I appreciate the report here, and I think -- I think I was going to, you know, kind of back up what Ms. Yee was saying, because I think we've asked kind of for this before. And not necessarily -- what you're telling me I think is that you guys aren't figuring in the amount of money we are making with the reinvested funds in this report. So that's -- so the money that's pulled out -- I want to make sure I understand. The money that's been pulled out of tobacco and reinvested, you've taken into account the money that has been made on those reinvested funds; is that correct.

MR. FORESTI: Absolutely, yes.

COMMITTEE MEMBER TAYLOR: Okay. And I guess -- and I know we've asked for it before. It would just seem to me that it would -- and I understand it's difficult because it's a -- it's a -- I'm sorry.

It's in our public equities so we just invested over the fund. So I would love to be able to find out what the difference is, you know: Okay, you lost this much in tobacco but you still made this much.

And then I had a question on page 2 of 3. It appears since our last affirmation -- does that show us doing better? Is that our current experience on that, with tobacco in general?

MR. FORESTI: Better than -- yeah, it was a positive contributor to -- the impact on the fund was positive in the six quarters through June of 2018, to the tune of $490 million.

COMMITTEE MEMBER TAYLOR: So for those of us who are laypeople, what does a positive contributor mean?

MR. FORESTI: The portfolio that divested from tobacco outperformed the portfolio with no divestments.

COMMITTEE MEMBER TAYLOR: Okay. So right now, in the last 18 months, it outperformed. Okay.

MR. FORESTI: Yes.

COMMITTEE MEMBER TAYLOR: Okay. So we might, as

Ms. Mathur said, I believe, be seeing a turnaround, that we may have divested a little too early to see the turnaround but now we're seeing a positive turnaround on that; and that's a possibility that that could get better for us; is that correct?

Do I see Mr. Baggesen nodding for me?

MR. FORESTI: Yes.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: And, no, exactly. Basically these positive numbers constitute making a gain. So literally as you look down this list, you see tobacco at $490 million, the Emerging Markets Principles made $592 million. So these were all positive numbers with the exception of the tiny number on the firearms. And, again, these numbers relate to the dates that are in Steve's last column in the table of information. That's when those numbers are calculated from. I think Ms. Mathur asked the question as to whether or not that could just be an annual increment since the last report. And I think Steve's indicated that would be possible to attach that.

COMMITTEE MEMBER TAYLOR: Okay.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: But that's exactly right. In other words it's not just negative numbers that grow larger. If you have a positive number, that will also grow larger as it compounds through time. So this can work in both directions basically. There's a symmetry attached to that.

COMMITTEE MEMBER TAYLOR: All right. Thank you very much.

CHAIRPERSON JONES: But the positive number on tobacco will never catch the negative number on tobacco.

MR. FORESTI: That's not necessarily true.

CHAIRPERSON JONES: No?

MR. FORESTI: No. And any -- so the closed programs, the direction of that number will never change. Its size will change as we described. But for the active programs, take tobacco, if it continued to do what it did the last six quarters, you know, into the future, it basically turned a 4 billion dollar negative impact into a 2 and a half billion because of that one and a half billion -- I'm sorry. I'm going just off of tobacco. It reduced the size of the negative number from six quarters ago. So that number can change. And if it continues to deliver a positive impact going forward, a lot of ground to make up, but it absolutely could change that from -- directionally from a negative to a positive number.

CHAIRPERSON JONES: Okay. So where is the positive number for emerging market countries in South Africa?

MR. FORESTI: Well, those are -- so those are closed. So those are the ones that are just going to grow with the -- those dollar numbers are just going to grow with the rate of change of the Total Fund. It's the active ones that have -- each quarter have either a positive or negative contributor that adds to the compounding. So it's the active programs that could change the direction of the figures. The close programs are baked in. They're just going to basically move up and down with the rate of change of the Total Fund.

CHAIRPERSON JONES: Okay. Thank you.

MR. FORESTI: Sure.

CHAIRPERSON JONES: Okay. Any other comments on this?

Okay. We do have a request from the public to speak on this item, 8a. Mr. Tim Behrens

MR. BEHRENS: That's for your 8d. I'm sorry.

CHAIRPERSON JONES: 8 what?

MR. BEHRENS: 8d.

CHAIRPERSON JONES: D? Okay.

MR. BEHRENS: It looks like an A, but it's a D.

CHAIRPERSON JONES: Okay. Thank you.

Okay. So then we will now move on to the next item, 8b, Emerging and Transition Manager 2020 Plan Update.

(Thereupon an overhead presentation was

Presented as follows.)

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: Okay. Good morning. The presentation of the Emerging Manager Transition Plan will be presented by Clint Stevenson and Diego Carrillo from our IMEP team.

INVESTMENT DIRECTOR STEVENSON: Hi. I'm Clint Stevenson, the Investment Director in CalPERS. I'm with my colleague.

INVESTMENT MANAGER CARRILLO: Diego Carrillo. Good morning.

INVESTMENT DIRECTOR STEVENSON: And we've got a couple of other members of the Investment Manager Engagement Program behind us. They really do all the heavy lifting.

So this is our annual update on the Emerging and Transition Manager 2020 Plan. This is a Board-adopted plan. It's got six deliverables that are listed on slide 2. My colleague, Diego, is going to go into detail on those deliverables. But the takeaway is that we're on target to meet all six deliverables.

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INVESTMENT DIRECTOR STEVENSON: And as we've shown on slide 3, we've been investing in these newer, these smaller, these emerging managers for over 25 years. Got nearly $9 billion invested with them. And we've committed $2 billion since 2017.

Slide 4 shows why we do this.

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INVESTMENT DIRECTOR STEVENSON: We do it to cultivate the next generation of investment management talent.

We do it to generate risk-adjusted returns.

We do it to access unique investment opportunities.

What we're trying to do is to partner with managers who are on the precipice of greatness. We want to ride with them from greenfield to greatness. These are managers that have the raw talent. They've demonstrated that they've got the raw talent to be successful investors. They have a clear understanding of what drives returns in their markets. And they have a process that allows them to develop a different approach to the overall market.

So I've been here a year. I've spent a part of that year meeting with our emerging and transition managers. I'd like you to meet them too.

So we put together a brief video. Now, I have to apologize. The Office of Communications chided me on the quality of what I gave them to work with, but I think they've done a fantastic job. So let's roll the video.

(Thereupon a video was played.)

INVESTMENT MANAGER CARRILLO: Great.

Well, Chairman Jones, members of the Investment Committee, good morning, Happy Holidays. I'm delighted to be here. My name is Diego Carrillo. I thought before I'd jump into my portion of the presentation, I'd just give some contextual facts that I thought might be helpful.

We execute these emerging manager strategies through what we call advisor-run platforms. We select firms that have expertise in sourcing, selecting, monitoring, and mentoring emerging managers; and we have seven of them: Five in Global Equity, one in Private Equity, and one in Real Estate. Those firm names are in the back of the appendix for your reference.

Within those particular constructs we have 48 emerging managers.

I'm going to move to slide 5.

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INVESTMENT MANAGER CARRILLO: And if there are two main takeaways I'd like for you to walk away with from this slide, it's that we are putting out new money and our programs continue to evolve, creating new investment opportunities.

Specifically in Private Equity, we recently closed on a 500 million dollar mandate for our Emerging

Manager Program, bringing the equity total over the past six years to $850 million for that program.

We've extended the definition to include Third Institutional Fund Raise and broadened the parameters to include co-investment opportunities.

In Real Estate, we've recently committed $350 million, bringing that aggregated equity commitment over the same period of time to $1 billion. We've broadened the definitions -- or the parameters, I should say, of that program to include three new western U.S. markets and two new property types.

In our Global Equity portfolio there's an ongoing program evaluation where there's investment due diligence and operation due diligence on the firms that I mentioned earlier.

But in addition to that, it's to the exposures, and to better understand the risks, the performance and to ensure that those strategies and firms are in line with the overall Global Equity portfolio in the active budget.

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INVESTMENT MANAGER CARRILLO: Moving over to slide 6. This is where we first mention our Transition Manager Program. And by way of context, in 2015, the concept of a transition manager program was adopted. The idea was to provide a path of growth for successful, early stage firms that no longer fit the parameters of our Emerging Manager Program.

And I'm pleased to report on slide 7 that since that period of time we've identified four firms. And you'll see three in Private Equity and one in Global Equity. And since we finalized this document, we've added a fifth, a group by the name of Palladium Equity Partners. You can add that to the list of transition managers.

We have ongoing manager searches in Global Equity and in Real Estate, and we anticipate those decisions to be made in 2019. But you can expect about a billion dollars to a billion and a half dollars to be committed to those strategies.

And finally on slide 8, as a reminder to the Committee -- I should say, we -- one of the key differentiators between the emerging and transition managers is that we -- these are direct mandates. There is no advisor. And so our internal teams are responsible for sourcing and selecting the transition managers.

On slide 8, just as reminder, we do define our emerging managers based on assets under management and/or length of track record. But an ancillary benefit to these programs is our exposure -- our increased exposure to diverse-owned firms. The credit -- in my opinion, the programs are working, we are meeting the objectives that were stated for these emerging manager and transition manager programs, albeit it's early. The credit should be shared though with our asset class teams, our advisors, our stakeholders, our executive team and the Investment Committee. With that said, it is important to remain proactive, creative, open minded, as we continue to think about how to best sustain these programs and while meeting CalPERS's objectives.

That ends my portion of the presentation. I'll hand it back to Clint.

INVESTMENT DIRECTOR STEVENSON: And the last slide, slide 9, just shows where we -- where do we go from here.

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INVESTMENT DIRECTOR STEVENSON: So we'll continue to implement and enhance the 2020 plan and we'll continue to report to you, the Board, on our progress.

And at the suggestion of Controller Yee, we'll also keep the Legislature abreast of what we're doing. In fact, I think they've already teed up -- Government Affairs has already teed up something.

And just as we look at where we should be taking active risk in the larger portfolio, we'll be taking a hard look at the sources of return in the Emerging and Transition Manager portfolio.

We also want to try to do a better job of engaging with the external manager community. We want to make sure that if a manager contacts CalPERS, they know they're going to get a fair hearing and not just disappear into our portal.

And, finally, next year, as the 2020 plan starts to approach its end, we'll think about the next five years. $9 billion in Emerging and Transition Manager programs, that's a good number. We want to make sure it's the right number.

Happy to take any questions.

CHAIRPERSON JONES: Okay. Thank you for your presentation.

And Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you.

Well, this has been such an important program, certainly for the investment industry, but also I think for CalPERS as -- you know, we need to be thinking about not just who are today's leaders and producers of value in the investment industry but who are going to -- who's going to produce value in the future? Because if we're not thinking about that, then we're going to miss the boat. So I think this is an essential program for CalPERS, and I appreciate your leadership and your team's efforts to help -- to develop and then implement this important plan.

I do have a question on page 8, the Ancillary Benefit: Increased diversity among EM and TM. I just want to make sure I understand what the bullets under there are saying.

Are you saying that 81 percent of diverse-owned external managers are in -- either in our emerging markets -- emerging manager or our transition manager plan? Are you saying that 81 percent of our EM and TM programs are diverse-owned managers?

INVESTMENT DIRECTOR STEVENSON: Well, Diego will give you the exact answer. But the real answer is that that's where our diversity lies. If you want to look at where our women-led firms are, you're going to look there. If you want to see where our Asian-led firms are, they're going to be here.

COMMITTEE MEMBER MATHUR: So this is where we have diversity? Otherwise without this program, we would not have a diverse portfolio of managers?

INVESTMENT MANAGER CARRILLO: The numbers would be much lower, yes.

COMMITTEE MEMBER MATHUR: And do we have targets or have we thought about -- I know we can't -- I know we have to be careful about targets. But have we thought about what the future should look like for us to get optimal performance? I mean obviously, the -- you know, the world is changing, the U.S. is changing. Is it essential that we be tapping into all of the markets, you know, and tapping the talent and knowledge and experience of all Americans and outside the U.S. as well?

So I guess my question is, what should we look like in the future? It's troubling to me that still so much of our diversity is embedded in the emerging and transition management -- manager space. I think the whole -- the market as a whole should be moving in that direction. So I guess I just pose that question to you. Maybe you don't have an answer.

INVESTMENT DIRECTOR STEVENSON: I don't have an answer. But what our hope is is that these manage -- just as we've seen our emerging managers grow into transition managers, it's -- sort of this slide, we want to see them progress into our established manager ranks. And the numbers speak for themselves. I mean, if we -- if we look at just performance of our Real Estate portfolio, we've had 16 realized investments in the Emerging Manager Program, exceeded their underwriting, 32 percent IRRs, 1.7 percent multiple. The return was 1,000 basis points higher than the Real Estate Policy Index.

If you look at Private Equity, the majority of those they're still in the capital deployment phase. But even the 2012-2014 business firms are already out of their J curve.

If you look at Global Equities, the managers that you saw on that screen, they outperformed our established managers for the one year, for the two years, for the three years, and since inception.

So now not every manager is doing well. It's been a really tough environment for active equity managers, as you know, especially if you've got a value to it, because things that are cheap just keep getting cheaper. But we think -- in fact, I think the spread is wider than it's been any time since the 2000 tech bubble.

But as things start to normalize, we think that active managers, both here and in the established program, should start to do better particularly if interest rates begin to rise, because growth stocks just don't do as well in a rising rate environment.

COMMITTEE MEMBER MATHUR: Sure. Okay.

INVESTMENT MANAGER CARRILLO: I might just add that the Investment Office will be conducting, for lack of a better word, a survey of our existing external managers, which includes -- it's about 140 managers or so; this to better understand the human capital practices at their respective shops. It will include diversity and inclusion related questions, and ask about workforce diversity and ownership. But in addition to that, you know, we're going to take it a step further to ask about the respective teams that are dedicated to our accounts, which I think is important to also pick up and understand.

COMMITTEE MEMBER MATHUR: Thank you. That's really helpful.

CHAIRPERSON JONES: Yeah, thank you.

And On the -- Mr. Stevenson, you mentioned about the returns. And of course that's one of the underlying primary reasons of having an emerging manager program is to get those excess returns. And my question goes to several years ago, there were disputes about the return numbers. Our numbers were one thing and the managers had a different number. And part of that was because of different definitions or different time frames. Has that gap been closed now? For example, I remember a couple members coming here and they did not recognize the lagging effect of a quarter in their numbers, where we did. Has all of those variances been resolved now? So if we publish a number, everybody agrees on a number?

INVESTMENT DIRECTOR STEVENSON: Yeah, I think -- I'm not aware of the situation that you describe. But I think we're on the same page. We talk to our managers and we share the numbers that we are showing. And we seem to be in agreement on that. So I don't think there's an issue here, unless there's something I'm missing.

You aware of anything?

INVESTMENT MANAGER CARRILLO: I'm not aware of any dispute issues.

CHAIRPERSON JONES: Obviously, they reconciled it.

Okay. Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes, thank you, Mr. Chair.

Mr. Stevenson, I want to thank you for the report. You guys are doing an amazing job here.

And I just thought it was interesting. Ms. Mathur talked about targets. And I know we don't do that because of Prop 209. I don't know if we've talked before about the Rooney Rule, but I suggest that that might be a way we could look at that. But it sounds to me like our Emerging Managers Program is the most diverse out of all of our other programs. So I am very happy to hear that and thank you both very much for working so hard on making that happen.

And I just -- I wanted to ask -- you talked about a survey which includes the human capital management. Could you expand on that. So you're talking about works -- works -- I'm sorry -- workforce diversity and what else?

INVESTMENT MANAGER CARRILLO: The survey questionnaire is not completed yet, so it would be -- but the -- we expect to complete that maybe over the next couple of months. But in addition to workforce diversity and ownership interest, which is consistent with what we did about five years ago, we would look to include pay-parity, pay-equity-related questions, sexual-harassment-related questions.

We are open ears at this point. If there are any suggestions to take into consideration as we develop the survey questions, we certainly will take note. It is important to state that we hope to develop a survey that we can repeat, where we can get data and strong levels of participation, that we can perhaps do some trend analysis over time. There is an art -- I should say there is a science to developing survey questions, which I don't --

COMMITTEE MEMBER TAYLOR: Yes.

INVESTMENT MANAGER CARRILLO: -- have that particular skill set. But we are engaged with a consultant to assist us with that.

INVESTMENT DIRECTOR STEVENSON: And we're also working with sustainable investments too to help us in that regard.

COMMITTEE MEMBER TAYLOR: Good. Great. I was going to suggest that.

And then -- and the question went right out of my head.

I had one other question I'm -- I knew I should have wrote it down.

But I also wanted to ask, is there anything that you need from us to continue your work that we can help you with as a board?

INVESTMENT DIRECTOR STEVENSON: Actually, yes.

(Laughter.)

COMMITTEE MEMBER TAYLOR: Glad I asked.

INVESTMENT DIRECTOR STEVENSON: No, you guys have actually been very helpful.

For example, you pointed out to us that there are managers who come to us and say, "Oh, I'm just not getting a hearing." And that's important. We needed to hear that, and we're working on it. In fact, that's one of our -- one of my workstreams, is to make sure that we have that better relationship. So information like that would be very helpful.

And to the extent that you've got any concerns or issues about any of the managers in our program, because you are all very well connected, we could benefit from hearing that.

COMMITTEE MEMBER TAYLOR: Sure. Great. I'm glad to hear that.

All right. Anything else?

CHAIRPERSON JONES: Okay. Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

And thank you for the report.

I think this is one of the areas we could be very proud of. I know CalPERS is a recognized leader when it comes to the emerging manager / transition manager programs.

I had a couple questions. One is, you mentioned I think on slide 8 about increasing site visits of emerging managers. And I was curious whether those site visits were being conducted by the two of you and your staff, or whether it's the fund-of-fund manager?

INVESTMENT DIRECTOR STEVENSON: It's being conducted by us. I mean we like to go in and meet with the managers. One of the things that -- I mean I learn a lot from them. And it's, as you say, there's really talented folks, with some great ideas and insights on the market. We just learn a lot by going in and meeting with them.

We probably -- we haven't but we probably should try to coordinate with the advisors too. For example, there's a manager that's not quite in our wheelhouse. It's international, not developed. It's private debt.

It's not something that we do currently. It's something that I think we should at least think about. We should do that doing it through our advisor because they'll have a lot -- they'll have a lot more insight into that space than we do.

COMMITTEE MEMBER YEE: Good, good.

And then on slide 9, I just wanted to get a sense of how far along you are with the performance and attribution analysis and when that might be -- the timing of that.

INVESTMENT DIRECTOR STEVENSON: We have a date that -- we've been talking with Michael's group.

You got a date on it?

INVESTMENT MANAGER CARRILLO: Yeah, we -- this is something that it's going to take a significant amount of time we have not started. I think this is a look forward.

COMMITTEE MEMBER YEE: Look forward. Okay.

INVESTMENT MANAGER CARRILLO: But we anticipate conducting that in advance of presenting any new strategic plan related to these strategies.

COMMITTEE MEMBER YEE: Good.

INVESTMENT DIRECTOR STEVENSON: And we have talked with Ben about that specific subject when we chatted with him. It's something that he thinks is important.

COMMITTEE MEMBER YEE: Yeah. Okay. Good.

And then what are your current thoughts about how to further integrate emerging managers, which is also another looking-forward topic?

INVESTMENT DIRECTOR STEVENSON: Yeah. We were -- it's -- one of them -- I'm hoping that this is -- this -- even this video I think could help, because there just -- I think it illustrates the talent that we've got. And I think it might encourage others to want to meet those managers too. So, yes. It's a work in progress, but we'll -- we're still sketching it out.

INVESTMENT MANAGER CARRILLO: I might just add that, you know, given that our focus is on the Total Fund and we're thinking about integrating ESG, we're thinking about human capital practices and policies, we're thinking about data strategies and technology strategies, we're thinking about risk analysis and performance analysis, and -- for example, within our Real Estate or Real Assets portfolio, we do sector planning, for example. So the tech industry may be of real particular interest for certain property types.

So the more we can engage with our emerging managers - these folks have unique backgrounds and talents and expertise - the more information we can begin to share with one another, and the more we can learn and perhaps find areas of mutual benefit on those particular issues.

COMMITTEE MEMBER YEE: Good. Okay. Great.

Thank you, Mr. Chairman.

CHAIRPERSON JONES: Okay. Thank you.

Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah, thank you very much.

Just a couple of things. I think one of the things that's important if we're creating some kind of questionnaire, what I'm really concerned with is when you get with women or people -- or minorities, people of color underrepresented in these firms, is how many are moving money? Because it's really easy to see people in administrative positions, it's really easy to see them in marketing, legal. But I really want to know -- I'd like to drill down, because I think that also shows a trajectory for people to move up in the firm.

My other question is this. I wanted to know on the private equity firm and Grosvenor, what percentage did we allocate were spinoffs from large firms like KKR or -- et cetera?

INVESTMENT DIRECTOR STEVENSON: What percentage of the firm that --

COMMITTEE MEMBER HOLLINGER: Managers that we allocated to were spinoffs, in other words were taking the top kind of maybe rich white guys and making them richer.

INVESTMENT DIRECTOR STEVENSON: Yeah, yeah. No, that's two great points. The second question, I'll get you the number. I don't know that number off the top of my head.

COMMITTEE MEMBER HOLLINGER: And the purpose is twofold, because when -- you know, when I seen it, it looks pretty real to me and it looks like they're majority allocating to spinoffs. And if that's the case, why do we need them. We could just do that ourselves.

And so I'd be interested.

INVESTMENT DIRECTOR STEVENSON: Yeah. No, we'll get you that number. But you make two fantastic points.

One of the things we did when we -- specifically with our private equity advisor, when we went through the selection process -- first of all, we did a survey of the field to try to find every institutional player in this space. In fact, we added nine firms that weren't even included in the 2014 solicitation. Most of them, not all, submitted through our solicitation process.

But we evaluated them not only on the standard investment things you -- we always would, investment process, the team strength, the alignment of interest, the fund terms, the governance and compliance, the ESG track record accounting.

But we also spent a lot of time on culture. We spent a lot of time trying to look at areas like the equitable environment; the access to ownership; what's the carry, how is it distributed --

COMMITTEE MEMBER HOLLINGER: Right.

INVESTMENT DIRECTOR STEVENSON: -- what are the promotional practices; what's the paternal leave policy, you know, what happens when people leave to go start a family and they come back? Do they end up in the same place or are they penalized? And how -- how does the leadership, the executive leadership embrace diversity and inclusion? So those were all very important topics. And I even managed to invite myself to a couple of women-only conferences --

COMMITTEE MEMBER HOLLINGER: They were pleased to have you there.

(Laughter.)

INVESTMENT DIRECTOR STEVENSON: -- just to ask. And I was able to ask many of the women. Some women had been at the firm for six months, some had been there for many, many years.

COMMITTEE MEMBER HOLLINGER: Right.

INVESTMENT DIRECTOR STEVENSON: "Where did you work before? What was the culture like? How does that compare to the culture where you are here?"

And I think just on those discussions, that we -- we felt pretty good about where we ended up.

COMMITTEE MEMBER HOLLINGER: Okay. Appreciate that. Thank you. And appreciate you bringing that back to me.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: I think actually Sarah Corr may be able to provide some information, Ms. Hollinger, on the topics that you asked about.

INTERIM MANAGING INVESTMENT DIRECTOR CORR: Sarah Corr, Investment Office staff.

For Grosvenor, of the 300 million that they're currently managing, about one-third of that was to spin-out managers. So a hundred million.

CHAIRPERSON JONES: Okay. Mr. Chiang.

COMMITTEE MEMBER CHIANG: I want to begin by thanking you for your report. Thank you for your passion and your energy. It is crystal clear and much appreciated.

From the beginning of my service, and obviously were constrained by State law, voter-approved law, but one of the -- and what I also like is that you're going to engage in a survey and you want questions to be -- have some sense of permanency to measure progress over a period of time. How do we measure our progress, right? Is it relative to where we've been in the past? Some of the concerns that I've heard in the past from some of the constituency groups in this space is that -- and in many these areas it's outside of these walls -- but California's less progressive than the practices in Illinois and the actions in Texas and other jurisdictions.

So as we survey, as we measure, right, how do we encompass -- is there going to be a question as amongst those that we are seeking? You know, how do we rate relative to the practices of others? And what do we need to do and who in fact needs to do that so that in fact we can make that progress?

And then I just wanted to underscore the point that Henry made. A few years ago we had significant frustration by some of the emerging managers, who were also minorities, stating they vehemently disagreed about the measurement of performance, where CalPERS was versus what their -- what they believe their numbers to be. Right? And then we went through that period of time as we went through a regrouping after, you know, some untimely issues here, some self-inflicted issues here, and some of the emerging groups expressed frustration in the transition, right, to measurement by how much you had in regards to vintage year, assets under management, how long the management team has been in place. And so, part of that is, you know, what do we do to change some of that thinking, especially amongst their older leadership, some of the former chairs of NAA or AIM who've expressed frustration with our practices.

I appreciate your energy. I think it's really important in the approach. But, you know, those are long-standing issues.

INVESTMENT DIRECTOR STEVENSON: Yeah, we just had a convening of the team from NAA here not long ago. And I've heard those same comments that -- relative to Illinois, relative to New York, what is California doing? But, you know, we -- as you know, it's a different environment. They have specific mandates to invest with diverse firms. We don't.

And so we have to take a much more deliberate approach in how we invest in firms. So it's going to take us longer to get to where they are. But we're going to get there.

COMMITTEE MEMBER CHIANG: How about any actions regards to trying to benchmark some of this or incorporate their thinking into our survey so that we can have -- so that, you know, we are not -- we're trying to identify some gaps in our actions so that we can -- we don't create missed opportunities.

INVESTMENT DIRECTOR STEVENSON: In fact, you just talked with New York.

INVESTMENT MANAGER CARRILLO: Yeah. So we -- these are all great questions and timely ones. We -- the couple of objectives that we stated that are associated with this survey is, number one, just understanding what the numbers are. Number two, is it is setting the tone in the marketplace that this matters to us, and it is consistent with our investment beliefs, that we believe that increase inclusion and diverse arrays of thoughts and backgrounds in people can lead to more effective teams.

New York State pension plans have recently surveyed all of their vendors, and they plan on doing that on an ongoing basis.

We will be utilizing the same firm that they utilized, that -- they identify themselves as a thin tech firm. They -- I think the more data that is aggregated -- we -- we share a lot of the same managers. And so, we've been talking with our peers in the marketplace, and many of our peers believe that this is a really important exercise to go through. So to the extent that over time our peers in the marketplace are asking the same questions, perhaps that can begin to change some culture in the marketplace on that front.

We do need to ask ourselves at some point in time what are we going to do with this data. And I'm not sure

I have the answer to that question yet. But we will be asking ourselves and answering that question sometime over the balance of this fiscal year.

COMMITTEE MEMBER CHIANG: I appreciate that. I think that's -- that's the start of being helpful.

CHAIRPERSON JONES: Okay. Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. Thank you.

I find this, you know, very encouraging and refreshing. And one of the things that really comes to mind, particularly hearing some of the dialogue with the last few questions, is that it seems that particularly these programs and the relationships and the engagement with the participants with the emerging managers in particular has a real potential to be a real resource for us, not just in our kind of outward facing stance with the investment communities, markets, everything, but it has the potential to really help us inform our strategic workforce planning in terms of how we look at talent flow management; how we look at recruiting, developing; what those pathways are; what those career experiences are as kind of in contrast to the model that seems to prevail which is based on big established firms where here's how you get there, here's how you stay there, here's how you become successful. I think it's going to be a very different kind of model, a much more inclusionary model, a model that really -- I wouldn't even say welcomes adversity but it -- it realizes diversity because it's more based on talent and merit than where you went to school and who your uncle is.

And so I really hope that we'll continue to build on this and really utilize the -- that knowledge that we can kind of tap into as we go forward, especially when we're looking at new models for PE, looking at, you know, a long-term approach to our own development as an organization.

CHAIRPERSON JONES: Thanks.

INVESTMENT DIRECTOR STEVENSON: Well, thank you for that.

I must say, as you were speaking, Mr. Miller, a light bulb went off, because we were having discussions internally about those very issues here in the Investment Office and that's a fantastic point. Thank you for that suggestion.

CHAIRPERSON JONES: Ms. Taylor.

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

I remembered my question.

(Laughter.)

COMMITTEE MEMBER TAYLOR: So once we make it past transition with our emerging managers and they go into our transition program, do we then keep them on? Because if we have -- these are mostly diverse -- our most diverse managers. Wouldn't it behoove us to keep them on as they grow past our Emerging Manager Program?

INVESTMENT DIRECTOR STEVENSON: Yes. Yes, we hope to grow with them. We want to stay with them. We want to -- we want to --

COMMITTEE MEMBER TAYLOR: Keep investing with --

INVESTMENT DIRECTOR STEVENSON: We want to keep invest with them and travel with them from -- to greatness.

COMMITTEE MEMBER TAYLOR: I would love that too.

So then -- also then, in kind of what Dana was talking about, when we are taking emerging managers that are actually just spinoffs of big companies, it brings to my mind the question what do we do about -- or what are we doing about women-owned and minorities in non-emerging manager programs? Maybe that's not your question. Maybe that's an Eric question.

(Laughter.)

INVESTMENT DIRECTOR STEVENSON: Although that's part of the survey that Diego referenced. That's one of the things that we'll be doing is -- we think that just by asking the questions - and we won't be the only ones asking the question of these non-emerging managers -

how -- tell me about the diversity of your workforce, tell me about your parental leave, tell us about how the carry is distributed, that they will hear from us and others, and understand that talent management -- if you're not taking advantage of the full range of talent, you are not going to be a successful firm. And so, yeah, that's an important point; and we hope that in some small way our diversity survey will push that.

COMMITTEE MEMBER TAYLOR: So -- oh, go ahead, Eric.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: No, I was just going to say in response to your question, Ms. Taylor -- I mean we can get that ourselves inside the Investment Office, and we're -- as Clint said, we're basically also looking at that across our managers. I mean I don't think of -- you know, there's very few organizations actually that I think that are consciously trying to not bring new thought to the table. I mean that's -- that's just required basically I think to be successful in this world.

But how do you do that? How do you enfranchise those thoughts to come in and actually have a footprint, you know, and change the actual decisions that you make as an organization is one of the challenges, and that's -- you know.

Before honestly I'm worried about trying to tell how to -- our external organizations how to do that, I think we actually need to learn how to do that better ourselves internally.

COMMITTEE MEMBER TAYLOR: I agree.

INTERIM CHIEF INVESTMENT OFFICER BAGGESEN: And there's a significant effort going on within the organization to try to improve our own dimensions in that space. So actually I think that's the first place to concentrate, to be truthful with you.

COMMITTEE MEMBER TAYLOR: Oh, thank you. Thank you, Mr. Baggesen. I appreciate that.

As we do that, and this survey just kind of brought to my mind -- and you said you weren't sure what you were going to do with the survey or the data once you get it. But if you're doing the survey on an annual or semiannual ba -- or biannual basis, and receiving data, is there a way we can integrate that into our process of RFPs for the emerging managers, so that it's like an RCP almost: If you're not doing this, then you don't qualify to be in our program. Most of our, you know -- and we got this from all of our other emerging managers.

That's a thought.

INVESTMENT MANAGER CARRILLO: Yeah, we need to be very thoughtful about how we curate these questions and be 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
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