MEETING

STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
FINANCE & ADMINISTRATION COMMITTEE

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

THURSDAY, FEBRUARY 21, 2019
9:00 A.M.

MICHELLE MARIE WILSON, CSR, RPR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 14303
APPEARANCES

COMMITTEE MEMBERS:
Ms. Theresa Taylor, Chairperson
Mr. David Miller, Vice Chairperson
Mr. Henry Jones
Ms. Margaret Brown
Ms. Fiona Ma
Mr. Jason Perez
Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:
Mr. Rob Feckner
Mr. Ramon Rubalcava
Ms. Adria Jenkins-Jones
Mr. Bill Slaton

STAFF:
Ms. Marcie Frost, Chief Executive Officer
Mr. Michael Cohen, Chief Financial Officer
Mr. Brad Pacheco, Deputy Executive Officer,
Ms. Fritzie Archuleta, Senior Pension Actuary
Mr. Dan Bienvenue, Interim Chief, Operating Investment Officer
Ms. Tina Campbell, Chief, Human Resources Division
A P P E A R A N C E S C O N T I N U E D

Ms. Val Davidson, Committee Secretary

Mr. Kelly Fox, Chief, Stakeholder Relations

Ms. Flora Hu, Senior Life Actuary

Ms. Kimberly Malm, Chief, Operations Support Services Division

Mr. Simiso Nzima, Investment Director
## INDEX

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Call to Order and Roll Call</td>
<td>6</td>
</tr>
<tr>
<td>2. Election of the Finance and Administration Committee Chair and Vice-Chair</td>
<td>7</td>
</tr>
<tr>
<td>3. Approval of the February 21, 2019 Finance and Administration Committee Timed Agenda</td>
<td>9</td>
</tr>
<tr>
<td>4. Executive Report Michael Cohen</td>
<td>9</td>
</tr>
<tr>
<td>5. <strong>Action Consent Items</strong> Michael Cohen</td>
<td>10</td>
</tr>
<tr>
<td>a. Approval of the December 18, 2018 Finance and Administration Committee Meeting Minutes</td>
<td></td>
</tr>
<tr>
<td>b. Judges' Retirement System Actuarial Valuation Report and Employer and Employee Contribution Rates</td>
<td></td>
</tr>
<tr>
<td>c. Judges' Retirement System II Actuarial Valuation Report and Employer and Employee Contribution Rates</td>
<td></td>
</tr>
<tr>
<td>d. Legislators' Retirement System Actuarial Valuation Report and Employer and Employee Contribution Rates</td>
<td></td>
</tr>
<tr>
<td>e. Review of Finance and Administration Committee Delegation</td>
<td></td>
</tr>
<tr>
<td>6. <strong>Information Consent Items</strong> Michael Cohen</td>
<td>10</td>
</tr>
<tr>
<td>a. Annual Calendar Review</td>
<td></td>
</tr>
<tr>
<td>b. Draft Agenda for the April 16, 2019 Finance and Administration Committee Meeting</td>
<td></td>
</tr>
<tr>
<td>c. Treasury Analysis and Liquidity Status Report</td>
<td></td>
</tr>
</tbody>
</table>
### 7. Action Agenda Items Program Management

- a. 2019 CalPERS Board of Administration Retired Member Election Notice of Election Kim Malm

### 8. Information Agenda Items - Diversity

- a. Annual Diversity Report Brad Pacheco, Kelly Fox

### 9. Information Agenda Items - Actuarial

- a. Long-Term Care Valuation Report Fritzie Archuleta, Flora Xiaoge Hu

### 10. Information Agenda Items

- a. Summary of Committee Direction Michael Cohen
- b. Public Comment

Adjournment

Reporter's Certificate
CHAIRPERSON TAYLOR: All right. Good morning. I'd like to call the Finance and Administration Committee meeting to order. Everybody take their seats and if we could get all the Board members or Committee members. Give me a second to get everybody seated, and our first order of business is roll call.

COMMITTEE SECRETARY DAVIDSON: Theresa Taylor?
CHAIRPERSON TAYLOR: Here.
COMMITTEE SECRETARY DAVIDSON: Margaret Brown?
COMMITTEE MEMBER BROWN: Here.
COMMITTEE SECRETARY DAVIDSON: Henry Jones?
COMMITTEE MEMBER JONES: Here.
COMMITTEE SECRETARY DAVIDSON: Fiona Ma?
COMMITTEE MEMBER MA: Here.
COMMITTEE SECRETARY DAVIDSON: David Miller?
COMMITTEE MEMBER MILLER: Here.
COMMITTEE SECRETARY DAVIDSON: Jason Perez?
COMMITTEE MEMBER PEREZ: Here.
COMMITTEE SECRETARY DAVIDSON: Lynn Paquin for Betty Yee?
ACTING COMMITTEE MEMBER PAQUIN: Here.
CHAIRPERSON TAYLOR: Great. Thank you. So it's February, so it's our election. I'm going to throw this over to Henry to run the election.
COMMITTEE MEMBER JONES: Okay. Thank you, Ms. Taylor. So the nominations are now open for Chair of the Finance and Administration Committee.

Mr. Miller?

COMMITTEE MEMBER MILLER: My pleasure to nominate Theresa Taylor for Chair of the Finance and Administration Committee.

COMMITTEE MEMBER JONES: Okay. So nominated Ms. Taylor, the Chair of the Finance and Administration Committee.

Are there any other nominations? Are there any other nominations? Are there any other nominations? Seeing no additional nominations.

I would seek a motion to approve Mrs. Taylor as Chair by acclamation.

COMMITTEE MEMBER MILLER: So moved.

ACTING COMMITTEE MEMBER PAQUIN: Second.

COMMITTEE MEMBER JONES: Moved by Mr. -- Mr. Miller and second by Ms. Paquin.

So all those in favor say aye.

(Ayes.)

COMMITTEE MEMBER JONES: Opposed? None?

Congratulations, Ms. Taylor.

CHAIRPERSON TAYLOR: Thank you.

(Appplause.)
CHAIRPERSON TAYLOR: So I'm going to open the nominations for Vice Chair of Finance and Administration. I'm going to call on Mr. Perez.

COMMITTEE MEMBER PEREZ: Thank you. I nominate Mr. Miller.

CHAIRPERSON TAYLOR: All right. Mr. Miller, David Miller, has been nominated for Vice Chair of Finance and Administration Committee.

Are there any other nominations? Any other nominations? Any other nominations? Hearing no other nominations.

I need a motion to move that David become Vice Chair of Finance and Administration.

COMMITTEE MEMBER BROWN: By acclamation.

CHAIRPERSON TAYLOR: By acclamation.

COMMITTEE MEMBER BROWN: I move.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: All right. It's been moved by Ms. Brown, seconded by Mr. Jones. Mr. Miller is nominated by acclamation. Thank you. Yay, congratulations.

(Applause.)

CHAIRPERSON TAYLOR: Are we going to shift? All right. So give us a minute or two to shift over here.

All right. Thank you, everyone. We'll move on.
to the next order of business, which is the approval of
the February 21st, 2019 Finance and Administration
Committee timed agenda. I need a motion.

COMMITTEE MEMBER BROWN: Move approval.

CHAIRPERSON TAYLOR: Moved by Ms. Brown. I --

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: Seconded by Mr. Jones.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. The timed agenda has been approved.

Thank you.

Now we're going to move to our Executive Report.

Mr. Cohen?

CHIEF FINANCIAL OFFICER COHEN: Thank you, Madam Chair, Michael Cohen with CalPERS. Just one item to highlight. As we've met the last couple of times, I just want to give you an update on Paradise and Butte County. Last week the Governor did sign AB 72, which provides a property tax backfill for the next three years for Butte Counties, so that should close off the financial situation for the County and the City, at least for the time being, but we'll continue to monitor their situation; and with that, I think we're probably ready to roll into the Committee business.
CHAIRPERSON TAYLOR: Okay. Great. So our first -- next item is action consent items. I need a motion to approve the action consent items.

COMMITTEE MEMBER JONES: Move it.

CHAIRPERSON TAYLOR: Moved by Mr. Jones.

VICE CHAIRPERSON MILLER: Second.

CHAIRPERSON TAYLOR: Seconded by Mr. Miller.

All those in favor say aye.

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Action consent items pass.

I didn't have anybody ask for anything to be pulled off the information consent items, so we will move on to Item 7A, 2019 CalPERS Board of Administration Retired Member Election, notice of election; and with that, I have Ms. Malm.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Good morning, Members of the Finance and Administration Committee. Congratulations, Ms. Taylor, Mr. Miller. Kim Malm, CalPERS team member.

In front of you is an action item for the 2019 Retired Member Notice of Election. This election is to fill one seat currently held by Mr. Jones, Henry Jones, who has submitted his intent to run for re-election. The election begins on March 25th, with the mailing of the
notice of election to all CalPERS retired members.

This agenda item is up for approval for this notice of election. To start, I wanted to address a new development that will affect the logistics of this election. For the past two years, CalPERS Board elections had been administered by a joint venture between Integrity Voting Systems and Votem, formally Everyone Counts. Votem recently bought out Everyone Counts, which was the online and phone voting, half of the joint venture.

On February 19th, two days ago, Votem notified us that they have run into short-term liquidity issues, resulting in restructuring and recapitalization of the company, which included layoffs. Again, this was two days ago after the agenda item has already been released. Votem has informed us that they're operating with a skeleton crew and that they are actively supporting their current customers but that the future of their company is uncertain.

Our election begins in March, and we have serious concerns about whether Votem will be able to meet our needs and expectations for this retired member election as required by the contract; therefore, yesterday, we sent a termination letter to all parties in the joint venture. We emailed them and we sent a hard
copy. We are working towards an agreement with the other partner in the joint venture agreement, Integrity Voting Systems, to obtain the services consistent with the terms of the contract but without Votem's involvement. Due to the urgency of the situation, we will be pursuing an exemption from competitive bid with IVS for the 2019 Retiree Election. This contract will then go back out to bid on the street in 2020.

What I present to you does not change the nomination petition process that begins in March -- that begins March 25th, and, therefore, we would like to Committee's approval to begin the election as scheduled. In your folder, you will find an Advised Notice of Election for approval; there is also copies in the back of the room. Because of the move away from Votem, the revised notice leaves the customer service phone number and the location of the tabulation to be determined.

IVS expects to provide the electronic tabulation in Sacramento, with a time of public viewing to be announced promptly following the completion of the paper ballot process. The specific location of the tabulation is still to be determined. The customer service phone number will change as well. Again, this is all very new. We'll come back to the Committee with an amended Notice of Election to specify these two items.
Now, if I can get back to the original agenda item. The retired member may be nominated in this election if they -- if their retirement is effective date is on or before the date of the Notice of Election, which is March 25th, 2019. Retired Members whose effective date of retirement on or before July 1st, 2019, are eligible to vote in this election. The Notice of Election outlines the election schedule and procedures for becoming a candidate. Potential candidates must submit a nomination petition containing at least 250 eligible signatures no later than 5:00 p.m. on May 16, 2019 to become a candidate in this election.

Candidate statement booklets and ballots will be mailed on August 30th, and the completion of the election will be September 30th, 2019. On October 1st, the paper ballot process will begin at 7720 Hardeson Road, Everett, Washington. Public viewing will be allowed. Upon completion of the paper ballot process, the time for public viewing of tabulation will be announced promptly. Again, we expect the electronic tabulation process to be held in Sacramento, California, at a location to be determined.

Each candidate must be elected -- sorry. The candidate must be elected by a majority vote. If there is no majority vote winner in the primary election, then
a runoff election will be held between the two candidates who received the highest number of votes. If a runoff election is required, ballots will be mailed on November 8th, and the voting period will end on December 9th. The term of office for the newly-elected Board Member will begin on January 16th, 2020 and end on January 15th, 2024.

This concludes my presentation, Madam Chair.
I'm happy to answer any questions.

CHAIRPERSON TAYLOR: Great. Thank you. Our first question is from Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Ms. Malm, for the update. As many people on the staff and this Board are aware, as a candidate and as a Board Member, I have serious concerns about online and phone voting. Those are two of my primary issues. I think that our experiment into that has been unsuccessful, because the idea was to increase voting and we did not get that outcome. But there are bigger issues with online and phone voting, in terms of not having a true audit tracking and just the security of the information.

More importantly, though, as we saw in the last election, when the ballots were scanned, that process actually went well this time. A year ago, two years ago it did not go well. This year the opening of the ballots
and the scanning went well, but, then again, when the
data was transferred to California, there was a two-hour
delay, and I still don't know what happened but there
was -- there was -- there was a problem, and I don't know
what that was, but I'm hopeful that we would just go back
to paper ballots and count the paper ballots. Take the
paper and count them. That is the most secure and
un-hackable way to run an election.

I did speak with our CEO late yesterday
afternoon about this, and Ms. Frost said that we couldn't
do an emergency through the Office of Administrative Law.
I actually think we should try it and do just plain paper
ballots. I don't know that IVS has any public agency
online electronic voting experience. I know they do it
in private sector, but I don't think they have any
governmental agency experience; and I think it's -- I
think it's an experiment, and I really wouldn't want to
have a failure.

I just wish we would try to do the OAL, go for
paper ballots, and just count them. Get rid of the
electronic and tabulation. You cant see what they're
counting.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF
MALM: The electronic and telephone voting was something
that we were going to be discussing with the Committee
and Board next -- in this next year. 2020 is our off
cycle, and that's where we make a lot of our, you know,
changes to the election that you guys would like to see.
So we had that teed up to discuss whether or not you
wanted to continue to pursue online, telephone, and paper
ballots, or if you wanted a different change. That is
teed up for the off year.

Our current regulations do say that we will
allow online and telephone voting in addition to paper
ballots, which means that we have to allow it. We've
pulled the emergency rule-making actions by OAL, and it
states that in order to do an emergency regulation, it
would have to avoid serious harm to the public peace,
health, safety, or general welfare. And we don't believe
that that meets that criteria.

So I -- I -- I would like to work with you guys
after this retiree election to look into the possibility
of how you want to change the election, whether it be
paper and online, paper only.

COMMITTEE MEMBER BROWN: I just have a follow
up. Just so you know, in my opinion, I think fair
elections are in the general welfare for this agency, and
I think we should at least ask OAL. Did we ask OAL about
this?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF
MALM: In the last 48 hours, no I have not.

COMMITTEE MEMBER BROWN: Maybe -- maybe we could do that before we decide not to go on with IVS doing the electronic and phone voting. Can you actually tell us how much experience IVS has had with electronic and phone voting with public agencies?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: IVS would need to partner, like subcontract, the IVR piece of it. They do not have the experience to do the IVR, but it would be a subcontract through the IVS contract. They have made contact with a couple of vendors that are in that arena that they've done business with before, and they've stated that they are 100 percent confident that they can do this work for us, with the expectations that are currently in the existing contract, for the same term of money and all the terms remaining the same.

COMMITTEE MEMBER BROWN: My concerns are noted for the record. Thank you.

CHAIRPERSON TAYLOR: Mr. Miller?

VICE CHAIRPERSON MILLER: Thank you for that. I'm supporting of moving forward, but I will say that, you know, with my long history of concerns over issues with CalPERS elections, you know, tempered by CalPERS responsiveness to where those represented opportunities
for improvement over the many years since I first ran in 2001. I think this is something that in the off year we should have a much more robust look at.

I know that the other options for voting to try to make it easier, more convenient, to try to improve participation, we're really, I think, well considered, well thought out. They didn't necessarily provide the kind of results that we are hoping for, but I don't know that we've really looked at that in a really analytical way, because I'm not sure that I have looked at the numbers or been presented the numbers in a way that I can say, you know, where were we trending and had we not done that would be, you know, worse situation with participation in our last few cycles.

So I would really like to get a sense of, you know, what were the impacts, and, you know, what could we do to continue finding opportunities to approve our processes. So I'm just hoping that staff will, you know, help us by providing some of that kind of analysis that we can really see, you know, how well was this received by those that did vote, and what could we do to make more of an impact in future participation.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Certainly.

CHAIRPERSON TAYLOR: So it's been my experience
from looking at the numbers that our first year there wasn't a lot of access, but this year seems to be a lot of more access into the online --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: There is certainly more participation as far as the online aspect of it but not an increased participation in the voting at all.

CHAIRPERSON TAYLOR: Right.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Right.

CHAIRPERSON TAYLOR: Right. But I think it's switching over --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: In the voting participation.

CHAIRPERSON TAYLOR: Right. I think it's switching over, and I think it's imperative that we give our members any way possible to vote. As we move forward, we can all have a robust discussion about whether we agree with that or not. These ballots that come to these peoples' homes a month ahead of time, part of the reason why there's a lack of participation is people throw those away. They don't know what it is, and they just throw them away. So I think it's really important that we offer the other options.

That's my stance. Mr. Miller is asking for some
stats, and I think it might be important to show the increase to the Board from year 1 to year 2, because we've only done it twice, and there was definitely a larger population accessing it this time, even though the voting population didn't itself go up.

So I think that's important to show, and I believe that as we move our Millennials are going to be the people running this stuff in a few years; right? They would prefer to see that. They don't want a piece of paper. They're going to throw that away. That's part of the reason we're having trouble getting the voting from paper ballots now.

So anyway, if we could get some of that information for the Board for the next discussion, that would be awesome.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Absolutely. Thank you.

CHAIRPERSON TAYLOR: And Ms. Brown?

COMMITTEE MEMBER BROWN: I guess if we're going to have a discussion on that, I think we need to bring in experts on electronic voting, online voting, because all the experts say it's not safe; it's not secure. And so while we may like online voting and it's easy for the Millennials, it is not un-hackable. We see this nationally, and CalPERS is not exempt from that, and so
vendors don't have a way to do online electronic voting, and, if you look, that's the way we're trending. We just can't do it because we like it. It needs to be safe and secure. That is number one. Thank you.

CHAIRPERSON TAYLOR: So let me ask a question. One of the concerns for electronic voting nationally is there's no paper trail. Do we have a paper trail, or no?

COMMITTEE MEMBER BROWN: No.

CHAIRPERSON TAYLOR: There's no way to provide --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: They do not provide us a trail as to who voted and how they voted. No, we do not have anything like that.

CHAIRPERSON TAYLOR: So it doesn't create a paper ballot. Can it create a paper ballot? Is there a way we can discuss that with the vendor in the future?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Create a paper ballot?

COMMITTEE MEMBER BROWN: An audit.

CHAIRPERSON TAYLOR: It's basically an audit showing -- so for example, we had machines hacked nationally. So one of the issues was let's create, rather than just voting on your computer screen, that also creates a paper trail as well. So, I mean, we can discuss that.
OPERATIONS SUPPORT SERVICES DIVISION CHIEF

MALM: I think that's something that we can discuss and potentially even have the Secretary of State perform that audit. We don't want to be a part of performing that audit.

CHAIRPERSON TAYLOR: Right. We shouldn't.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF

MALM: But potentially have Secretary of State perform the audit of the vendors --

CHAIRPERSON TAYLOR: Paper ballots -- or I'm sorry, electronic ballots. And I don't know as to Ms. Brown's request for expert testimony, it might be something we consider for everybody to --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF

MALM: When we have the off-year conversation in 2020, after this election, we will be sitting with the Board and having a conversation of what changes you want to see in regulation for your next cycle of elections.

CHAIRPERSON TAYLOR: Right.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF

MALM: And that we can absolutely look into bringing experts for online voting systems and bringing the data that Mr. Miller has just recently asked for and potentially looking into, like, an audit.

CHAIRPERSON TAYLOR: All right. Thank you very
much.

Mr. Perez?

COMMITTEE MEMBER PEREZ: Thank you. Kim, I'm sorry you have to deal with this only 48 hours after it's been dropped, but I echo Brown and Miller where we have to. This is kind of important. I can see where the Russians would want to hack us.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Russians are going to hack the CalPERS election.

COMMITTEE MEMBER PEREZ: Right. Russians are going to hack us and put whoever they want on the Board, but it needs to be safe, safe tight.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thank you.

CHAIRPERSON TAYLOR: All right. Ms. Brown?

COMMITTEE MEMBER BROWN: I wasn't thinking the Russians, I was thinking the Chinese, but okay. Seriously, though, we don't necessarily need to have the experts come in and testify. We just need to look at the research and have a report written, in my opinion. The other thing, though, is what we're talking about an audit trail is, right now when you vote by absentee ballot, you get a little number, and that number tells you vote, and you can look up to see if they got your vote; it doesn't say how you voted, but just that your vote counted.
And that's what we're talking about is an audit trail, and we don't get that. When you vote online, there is no secure audit trail that you voted and your vote counted. You can't go back and say, "My number was one --

CHAIRPERSON TAYLOR: I think you made your point, though.

COMMITTEE MEMBER BROWN: -- two, three, four, five," and the one, two, three, four, five --

CHAIRPERSON TAYLOR: But you made your point.

COMMITTEE MEMBER BROWN: -- counted. So thank you. That's what we're talking about. We don't want to know how Ms. Taylor and Ms. Brown voted, but just that it got counted. Thank you.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thank you.

CHAIRPERSON TAYLOR: All right. So I think we're done with that item, and we will move on to looks like 8A, our Annual Diversity Report. Oh, it was an action item. I apologize. It was an action item. I heard talking over here. I couldn't hear what you were saying.

So all we need is to approve the election -- approve the Notice of Election For 2019 CalPERS Board of Administration Retired Member Election. I need a motion.
VICE CHAIRPERSON MILLER: So moved.

CHAIRPERSON TAYLOR: So it's been moved by Mr. Miller. Second?

ACTING COMMITTEE MEMBER PAQUIN: (Raises hand.)

CHAIRPERSON TAYLOR: Seconded by Ms. Paquin.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: Aye. Okay.

All those opposed?

COMMITTEE MEMBER BROWN: No.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER BROWN: Mr. Jones is abstained.

CHAIRPERSON TAYLOR: Go ahead, Mr. Jones.

COMMITTEE MEMBER JONES: Okay. Thank you.

Yeah, because this election is the seat that I serve in, I will abstain from voting on this item.

CHAIRPERSON TAYLOR: Okay. We have Ms. Brown a no, Mr. Jones abstained, the motion carries. Thank you.

And now we can move on. Our Annual Diversity Reports.

(Thereupon an overhead presentation was presented as follows.)

DEPUTY EXECUTIVE OFFICER PACHECO: Good morning, Madam Chair and Members of the Committee. Brad Pacheco, CalPERS team. We're pleased to be here this morning to
present our Annual Report on our Enterprise, Diversity, and Inclusion efforts during the last fiscal year. I'm joined by my colleagues, Kelly Fox, who's our Chief of Stakeholder Relations, Kim Malm, Chief of Operations and Support Services, and Simiso Nzima, Investment Director of Corporate Governance.

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DEPUTY EXECUTIVE OFFICER PACHECO: The report before you highlights our ongoing work to advance D&I initiatives with our employees, our business partners, and the companies that we invest in around the world. And our focus over the last year has been on increasing engagement of leaders and team members, expanding our training within our enterprise, and integrating best practices across the organization.

So now I'd like to turn to Kelly to continue our presentation.

STAKEHOLDER RELATIONS CHIEF FOX: All right.

Thank you, Brad.

(Switches on microphone.)

STAKEHOLDER RELATIONS CHIEF FOX: Okay. Thank you, Brad. Madam Chair, thank you and congratulations you and Mr. Miller on your election.

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STAKEHOLDER RELATIONS CHIEF FOX: Our D&I
strategy has three focus areas, and those focus areas --
you've got the material in your packets that you've had.
It includes our talking points, as well as the
information here on the slides, and the actual report
that will be -- that has been submitted and is online
now.

So given that our number one, talent management,
is our first focus area, as you can see there. Our
efforts to track, develop, and advance highly qualified
members education; expand and strengthen our D&I
education to increase inclusion and engagement across the
enterprise, as well as communication, leveraging our
communication channels to present a consistent message,
increase our team member involvement, and showcase
CalPERS as a destination employer.

--o0o--

STAKEHOLDER RELATIONS CHIEF FOX: So measuring
our success. In 2016, we established a new workforce D&I
strategic measure through the Employee Engagement Survey.
We did experience a 1.7 percent increase over the 1.6
annual goal. As you can see from our target, we're
trying an increase of 8 percent over a five-year period.
So the simple math is try and increase that by
1.6 percent per year, and we did exceed that last year
with a 1.7. And we also gained insight of our workforce
to pivot our efforts to be more impactful.

--o0o--

STAKEHOLDER RELATIONS CHIEF FOX: So some of our D&I accomplishments over the last year. In 2017-'18, our team began implementation of our enterprise D&I strategy to increase collaboration, communication, and engagement across the enterprise. We're on target to raise the engagement by the 8 percent by 2022, and our team also conducted workshops and presentations to over 40 CalPERS teams, including our Senior Leadership Council, and, as a result, the Senior Leadership engagement increased with employee resource group efforts.

And so at this point we'll turn it over to Simiso, who's going to give some information on slides six and seven related to corporate boards.

--o0o--

INVESTMENT DIRECTOR NZIMA: Thank you, Kelly. Good morning, Members of the Committee. My name is Simiso Nzima. I'm Investment Director, Global Equity. So in terms of our work around Corporate Board diversity, the accomplishments that we had, we got 30 percent of the companies that we engaged, starting at the beginning of fiscal 2017, to actually add an element of diversity that they didn't have at the beginning of the, you know, July 2017. I'll be back in March, at the March Investment
Committee meeting to actually give more updated numbers because these numbers are always changing as we move along.

The second point there, 3D, which was cofounded by CalSTRS and CalPERS. We have had 25 directors from 3D actually appointed to Corporate Boards. So that's something which we actually, you know, track on an ongoing basis and we discuss with Equilar and try and get as many candidates, potentially director candidates, on there for companies to go and look at.

Moving on to Slide 7.

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INVESTMENT DIRECTOR NZIMA: So what we also do really is on the idea of advocacy where we petition together with our investors, in terms of disclosures, you know, petitioning the securities and exchange commission to get companies to disclose this information. Because one of the challenges when it comes to Corporate Board diversity is that the disclosures are not there, and really you have to scrub the data, look at pictures, last names, to really tell, you know, how diverse a particular board is.

So we continue to work with other investors and others, in terms of petitioning directly to us, to make this something which companies can disclose. That
concludes my presentation on this.

CHAIRPERSON TAYLOR: Okay.

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OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: So the next slide is in regards to the supplier participation, and we have continued our commitment, CalPERS commitment, to the 3 percent of all contracts to the Disabled Veterans Business Enterprises, and 25 percent to small and micro businesses. I'm actually pleased to report that we did better than that this year. We achieved a 3.09 percent DVBE participation level, which is an increase of .30 over last year, and 25.04 percent small business participation, which is an increase of 5.86 percent over last year.

We're able to achieve this by utilizing our small business DVBE advocate and participating in bidder conferences, net working with DVBE's internal department training, and DVBE compliance monitoring.

At this point, I'll turn it over to Tina.

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HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good morning, Tina Campbell CalPERS team. I will be covering three areas of the D&I. First, I want to talk about our outreach efforts, and CalPERS Career Services Unit, which is a unit within human resources, attended 23 outreach
events in 2017. Eight of our outreach events this year were focused specifically on the veteran community. That was one of the areas that we had selected to do a better job of reaching out to was our veteran community. And we also attended venues with a focus on investment, accounting, and IT classifications, as well as hosting tables at seven colleges, plus a few business specific events, such as the accounting and investments.

CalPERS attended the Annual Diversity Employment Day Career Fair in Sacramento, to ensure we're introducing potential diverse candidates to CalPERS employment opportunities. HR will continue to evaluate our outreach efforts to determine if we are focused on the right outreach events, to ensure we are continuing to recruit a diverse workforce.

Special note, CalPERS participated in government operations SEIU Local 1000 IT Apprenticeship Program in fiscal year '17-'18 and again this year. This program helps team members and generalist classifications move into the IT career field by providing them on-the-job training, as well as college courses that are paid for by a grant.

CalPERS also partnered with Mayor Darrell Steinberg for Thousand Strong. Thousand Strong is a city-wide approach to workforce development that begins
with our youth. This initiative seeks to reward our youth with various incentives to show them we value the work they do while helping them prepare for the future. All Thousand Strong students complete 40 hours of 21st Century workplace skills training, to prepare them for the workplace; and all students were supported by professionals that served as mentors to ensure that tools have the tools and wrap around support they need to be successful on the job.

And I would like to take this opportunity to thank the Investment Office. They accepted five of these participants in Fiscal Year '17-'18, three of those have stayed on with the Investment Office to continue to support them. So we're really proud of them and our Investment Team for taking that on.

CalPERS also supported hiring through the State's Limited Examination and Appointment Program, also known as LEAP. The LEAP program is designed to help persons with disabilities get jobs in the California State Civil Service. LEAP is an alternative to the traditional testing process, allowing applicants to demonstrate knowledge, skills, and abilities through on-the-job testing. In 2017, CalPERS hired seven LEAP candidates, and so far this fiscal year CalPERS has hired three LEAP candidates.
Lastly, CalPERS has enhanced our social media presence by advertising our job openings on LinkedIn, the Robert Toigo Foundation, Twitter, and Facebook. We have seen a lot of success with our expanded partnership with LinkedIn in particular, with candidates that are able to actively recruit based on current and past employment history, certifications, and knowledge.

This concludes my portion of the presentation. I'm happy to answer any questions you may have on that piece.

CHAIRPERSON TAYLOR: All right. I do have questions. So I'm going to start with Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. I have a few questions. Maybe I'll put them all out and then the appropriate person can respond. The first one is Slide 7, regarding Security and Exchange Commission Petitions. I'd like to know what kind of success have we had in terms of getting positive responses from the SEC, and, if we have not been getting positive responses, what can this Board due to enhance those positive responses?

The next question is on Page -- Page 8. The 3 percent and 25 percent commitments, are those CalPERS commitments, or is that -- are they State designated commitments?
OPERATIONS SUPPORT SERVICES DIVISION CHIEF
MALM: Those are State designated commitments.

COMMITTEE MEMBER JONES: Okay. Thank you. The next Page. On 9, the Toigo Foundation. Some time ago, years ago now that I think about it, we used to have the Toigo Fellow Day here at CalPERS, where these bright, engaging students from the universities, Women and Minorities would come in and spend a day in our Investment Office, and, hopefully, many times, they were impressed; and when they graduated, then they would come and work for CalPERS. So where is that program, is the question, and why hasn't it continued? So that -- those are questions I have so far.

INVESTMENT DIRECTOR NZIMA: Thank you for the questions. So in terms of the SEC Petition, as of today, really, the companies are not required to, you know, disclose, you know, the diversity in, you know, terms of what would be information that is useful to investors. So if you measure success in terms of the final outcome, I would say that has not really been successful.

But to add to that, you know, yesterday I was actually talking to a number of other funds where we're trying to see what can we do, especially given some of the activities with the legislature with, you know, a representative mixed bill on Corporate Board diversity,
and stuff like that, to say, what are the things that we can do in terms of pushing and helping and showing that investors are concerned and want this information disclosed by companies.

So that is something when I come back in March Investment Committee I can given an update in terms of where we are and other things that we are doing in that space.

DEPUTY EXECUTIVE OFFICER PACHECO: Mr. Jones, regarding the Toigo Foundation, I'm very familiar with the program and the students that have come here in past years, and I think in the transition of our Chief Investment Officer -- let us talk to the Ben in the investment office and see where that contact is, and we can get back to you on that.

COMMITTEE MEMBER JONES: Yeah. But thank you very much --

DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

COMMITTEE MEMBER JONES: -- because as you know, I'm on the Board of Toigo, and we get these students present to us about their goals and aspirations, and it's the brightest and young people coming before, and they're looking for opportunities to get into the financial industry.

DEPUTY EXECUTIVE OFFICER PACHECO: Yeah.
Absolutely. We'll talk to our Investment Office and follow up.

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STAKEHOLDER RELATIONS CHIEF FOX: All right. Madam Chair, we've got just a couple slides --

CHAIRPERSON TAYLOR: Sure.

STAKEHOLDER RELATIONS CHIEF FOX: -- just the demographic information that's of note here, and it's -- the information's there in your documents. I think it just goes without saying. The numbers are what they are, and they tell us where we are and where we've been and gives us an idea of where we want to be as an organization, as an enterprise.

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STAKEHOLDER RELATIONS CHIEF FOX: The one here on Slide 11 is a document that was put together, at least a graph that was put together, at the request of the Board from a year ago, and it was ethnicity by specific programs. So what you see there are all the branches of CalPERS, of the enterprise, and then the demographic information underneath.

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STAKEHOLDER RELATIONS CHIEF FOX: And then same information, 12 is our Senior Leaders.

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STAKEHOLDER RELATIONS CHIEF FOX: Our Team Leaders, which are manager one and two's.

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STAKEHOLDER RELATIONS CHIEF FOX: And then our Team Members.

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STAKEHOLDER RELATIONS CHIEF FOX: And then our Gender Demographics on Slide 15.

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STAKEHOLDER RELATIONS CHIEF FOX: And then gender by those same branches of the enterprise.

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STAKEHOLDER RELATIONS CHIEF FOX: And then the last slide there is our -- not the last slide, but the last demographic slide. Here is our Generational Demographics at CalPERS.

CHAIRPERSON TAYLOR: Okay.

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STAKEHOLDER RELATIONS CHIEF FOX: So our next steps here for our Diversity and Inclusion strategy. We are on track to meet that goal. Again, we hope to implement our best practices for hiring and capturing self-identifying data, develop our enterprise steering committees for our D&I initiatives, and then collaborate with CalSTRS to develop the content and host the next --
in which we are in the process of hosting the next
CalPERS and CalSTRS Diversity Forum, June 10th and 11th.
I believe it's at the Sheraton Hotel here in Sacramento.

Before I finish, I would like to recognize our
Diversity Outreach Program team members that are in the
audience here. If they would please stand up.

(Applause.)

STAKEHOLDER RELATIONS CHIEF FOX: Do we have any
of our Employee Resource groups? Okay. They're probably
watching, but we have a number of folks that are elected
to leadership positions in our Employee Resource groups,
with our Diversity Inclusion group and our Disability
Advisory Committee, I'd like to thank them for their work
as well.

So we are open to any additional questions you
might have for our panel.

CHAIRPERSON TAYLOR: I do have a couple of
questions by Board members. I just wanted to thank you
all very much for the presentation. I also want to
commend you for the work you're doing at Corporate
Boards, the work you're doing within our own
organization, incorporating Mr. Mayor Steinberg One
Thousand Strong or whatever it is. Makes me think of
something else. But, anyway -- so I'm just very pleased
to see this.
One thing for some of our new Board members.
Simiso, I was wondering if we could kind of explain right now, and maybe provide some white papers or something at a later date on the Board books, why diversity is so important in the Financial Industry.

INVESTMENT DIRECTOR NZIMA: Yeah. I think we can provide additional research in terms of why we think Board diversity is important, but I think just briefly to say that really there's empirical evidence that shows that when we have a diverse group of people, they tend to, you know, make much better decisions; they tend to, you know, add to the investment outcomes, as opposed to having just, you know, one, you know, homogenized group of people.

And, again, the definition of diversity, you know, it's really broad. You're talking gender, ethnicity, background, experience, geography, tenure, age. So it's not --

CHAIRPERSON TAYLOR: Education.

INVESTMENT DIRECTOR NZIMA: -- it's really a broad definition of what diversity entails, and I really didn't pick out or say it's just out there to show that there is an investment and business cares for that, and we'll provide that information through the --

CHAIRPERSON TAYLOR: I'd appreciate it. Thank
you very much, because we have some new Board members and I think it would be good information to have. Mr. Fox, I just have one question because it cracked me up that I saw this. BSU, I don't know who that is, but they have all females.

COMMITTEE MEMBER BROWN: Board Services Unit.

CHAIRPERSON TAYLOR: Board Services Unit. Okay.

(Laughter.)

STAKEHOLDER RELATIONS CHIEF FOX: It was not intentional to have that pop quiz there with all those acronyms.

CHAIRPERSON TAYLOR: That's what I was trying to figure out. I was like, "What is that?"

All right. Ms. Brown?

COMMITTEE MEMBER BROWN: Well, thank you, Madam Chair, because that is my first comment. We need to have -- we need to try to remove the acronyms, INVO, ECOM. I've been a year. HPBB, I'm sure it's something, health plan, something. Okay. Just -- let's just put a footnote. You got a lot of room down there next to the CalPERS logo. It would be very helpful, not just new Board members, how about the public who wants to know. That would be very helpful. Just like, Board Services Unit, that's the only one I know and INVO.

CHAIRPERSON TAYLOR: See, I didn't -- I didn't
even think of it.

COMMITTEE MEMBER BROWN: See, there you go -- or it's Boise State.

(Laughter.)

COMMITTEE MEMBER BROWN: I want to go back to something that Simiso said, and can you pronounce your last name for me? It's Mr.?

INVESTMENT DIRECTOR NZIMA: Nzima.

COMMITTEE MEMBER BROWN: Nzima. Okay. Because everyone just calls you Simiso --

INVESTMENT DIRECTOR NZIMA: Simiso. That's okay.

COMMITTEE MEMBER BROWN: Okay. You -- so you talked about, you know, Corporate Boards and trying to track the gender and diversity, and you said you're looking at pictures and last names. So was that you? Is that your staff? Because my last name is Brown. I don't think you'd know what ethnicity I am maybe by looking at my picture or last name, but it's Hispanic. So I'm just curious how -- how that works for you guys.

INVESTMENT DIRECTOR NZIMA: So it's not my staff actually doing that. So when we started looking at this in July 2017, we went out to third party data providers and asked them to, you know, looking at roughly 3,000 and say, "Can you provide and tell us, you know, in
terms of diversity of the Boards?" And when we looked at
the data that they actually had, maybe it was only about
60 to 70 percent, which was the same in terms of
identifying whether someone, you know, particular
ethnicity or gender and so forth.

And so we are to go back and say, "What about
this, you know, other 30 percent where you guys are
saying different things?" And they come back and say,
"Well, you know, it's not -- because this data is not
disclosed, we actually have to go through and, you know,
look at last names and try to guess some of it and so
forth." So that's part of the problem. That if
cOMPANIES are not disclosing this, you know, and then the
people, the providers, the data providers, have to try
and go through and use certain, you know, use different
methods to try and come up with actual data.

So that's the challenge, and that's why we're
trying and working hard to petition, you know, the SEC to
make these in terms of, you know, not just race, not just
gender, not just ethnicity, but really to have the
skills, metrics which really shows the diversity of the
Board in its, you know, entirety.

So that's the challenge there, but it's
something which is out there. And I think it's getting
better now, you know, because a lot of investors are
demanding and asking companies to do these. So there are some companies which are self-reporting and doing that, but still it's nowhere near where you can just use one data set and be comfortable that it's identifying correctly.

COMMITTEE MEMBER BROWN: And so for our own staff when we hire, you have the option of disclosing or not disclosing. So I do see you have unknown here in terms of diversity; is that correct? So we're not making any assumptions about staff if they choose not to disclose?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Dan Bienvenue, MID of Global Equity. Yes, that's correct. And really what Simiso is speaking to and even the SEC petition, the challenge here is there's a tension between getting data and then privacy issues; right? So it's much more simpler, much less tension around a topic like -- like gender. When you get to ethnicity, when you get to gender identity, when you get to sexual orientation, other things like that, there are real privacy issues here that are just -- and we certainly -- that's one of the SEC's concerns is making sure that we honor people's right to privacy, while also getting investors the data they need to the extent possible.
COMMITTEE MEMBER BROWN: And we heard, I don't know, two months ago about that having -- maybe gender is not an issue, but certainly maybe even ethnicity could be an issue in other countries if you're on a Board and thinks like that. So I want to be -- why we would like to have the data, I want to be sensitive that we're not putting anybody in jeopardy. Thank you.

CHAIRPERSON TAYLOR: Thank you. Ms. Paquin?

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam Chair. So I have a question for Ms. Campbell. So I appreciate the information and the outreach to different sites and using different job recruitment tools. So have you been tracking or noticing an increase in diverse candidates who are applying through those sites?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes. So we are actually working on trying to get more automation. We -- generally the way folks find out about our jobs is through Cal Careers, which is Cal HR's website, and so we don't know if our outreach events are effective. What we do is send out surveys to them, we did 91. Of those that we did outreach and sent surveys to, came back and told us Cal Careers was the place that they learned about the job.

Whether or not we're getting diverse candidates
for job applicants, we're not allowed to ask ethnicity or
gender questions but on exams we are. So there's really
nothing in place that tell us that. What we rely on are
numbers that Mr. Fox showed and provided. What we're
trying to do, though, is be more cognisant of the makeup
of the workforce where we might find more diverse
candidates; and this year we did focus on, not just
candidates with disabilities, but also veteran candidates
because they also bring some different diverse ways of
thinking and just the way that they work, and we wanted
to incorporate more of that also into CalPERS.

But to -- the short answer is we don't have any
way to actually track that other than once they're hired
and they self-identify. What -- if we're talking just
mostly ethnicity, we're able to gather that information.
And, again, it's what they self-identify and that's
pretty limited.

We actually do find that the Cal HR did a
survey, I think it's been about a year and a half now,
where they asked all of us, all State Employees, to
identify, and I think that is a lot better data than the
way that we do it now. So that is really the way that we
find out if we're -- whether the outreach events -- we do
survey those attendees, but we don't know whether or not
they're actually joining CalPERS, and, when they do, what
we are learning is most of them are finding out about our jobs through the Cal Careers website, so.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Great. Thank you. I had one other question on the 3D Database. I was curious how much involvement CalPERS still has with Equilar and further developing that database and looking at the results?

CHAIRPERSON TAYLOR: I think that's what that turned in to.

INVESTMENT DIRECTOR NZIMA: We still have -- we actually retain a consultant, who actually helps with some of the outreach; and we're in constant communication with Equilar and just trying to understand, not only, you know, trying to understand the composition of the candidates there in terms of the diversity and so forth. So that's something, which, although we are not on a day-to-day basis, but we always keep an eye on and, you know, either directly or through the consultant that we retain, I think, in terms of maintaining that and looking at it.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. And would you say that's regular reports that you get from Equilar, or is it just ad hoc basis?

INVESTMENT DIRECTOR NZIMA: I think mostly it's from Equilar directly to us on an ad hoc basis and, you
know, but from the consultant, we get a report every three months. I may have to verify that, but I think it's every three months, in terms of looking at where we are, what the activities, and what the outreach has been happening on that.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank you.

CHAIRPERSON TAYLOR: All right. Thank you. Mr. Perez?

COMMITTEE MEMBER PEREZ: Thank you. Silly question. For perspective, I'm -- my grandparents are from Mexico. Doing the 23andMe says I'm mostly indigenous, I guess that's the correct term. Throughout my career, I haven't been held back or pushed forward because of how I identify with anything. My question is, then, does this hinder the people who are trying to engage in Boards and their employees, including our own enterprise, does that hurt us when we're just trying to hire the best person for the job?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: I can take that one. I believe the answer is, no, and the reason for that is we do hire the best person for the job, and we actually can't take into consideration other things other than the merits that they bring to -- their qualifications and what they bring to the job. So I
don't believe that based on gender or race or anything else that we're not getting the best candidate for the job.

I don't know if that answers your question specifically, but just from a hiring perspective we look at your minimum qualifications, then we go through the selection process, which includes the interview and all of that; and, as I mentioned earlier, we can't actually even ask those questions either through the interview process or on the application. So I believe the answer is, no, that it doesn't.

COMMITTEE MEMBER PEREZ: So we're just looking -- excuse me. So we're just looking at reporting not so much, "Hey, we need to hire a certain amount of these people."

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Correct. We don't have a target.

CHAIRPERSON TAYLOR: We're not allowed to do that.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: We're not allowed to do that, and we don't do that.

COMMITTEE MEMBER PEREZ: And we're asking the SEC to report even if it's old white guys on a Board? We just want to know that.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: That
I'll kick to the Investment Office. I was talking about hiring State Employees for CalPERS, but I'll defer to the Investment Office. Maybe they know that.

INTERIM CHIEF OPERATING INVESTMENT OFFICER

BIENVENUE: Yes, for the SEC, it's just about data disclosure, but I will say there's a difference. The State government, California State Government, we are -- under Prop 209, we're not allowed to have any advantaging based on gender ethnicity, any of those things. Corporations can do that and some do do that; however, what our work with the SEC is really just about disclosure. We believe, to Simiso's previous point, the empirical results show that business decisions, portfolio management decisions, and otherwise are made better when diverse perspectives are brought to bear on those decisions.

So we just want to see the data and what they're -- something that we're focussing on is the diversity part, but I think the inclusion part is also very critical. But you have to both have the diverse perspectives but then also include those diverse perspectives in the decision making. And what we want to know is, how do you get those, and how is the Board overseeing their, you know, strategic policies around diversity and inclusion.
DEPUTY EXECUTIVE OFFICER PACHECO: And if I may add, Mr. Perez, to Tina's comments. I agree with her; we always hire the best candidate. I think our efforts here collectively are trying to expand the pool of candidates and provide avenues of outreach to a broader candidate pool that may represent greater diversity. So they have access to, you know, apply for jobs and also work here at CalPERS.

COMMITTEE MEMBER PEREZ: That makes much better sense. Thank you, guys and ma'am.

CHAIRPERSON TAYLOR: All right. Mr. Miller?

VICE CHAIRPERSON MILLER: Just kind of touch on, Mr. Pacheco kind of already alluded to it, this idea that, from my perspective, it's about broadening those candidate pools. It's about helping ensure, not just today, in a given specific hiring decision that we are getting the best candidates, and we know that part of the value of being able to engage across the entire community of potential job applicants, and, again, not just locally, nationally, globally, and the financial services industry, as well as my background as a scientist.

We look at it as a strategic imperative because the person who may be the person who would solve some of these huge problems as part of a team of scientists, whether it be cancer, whether it be global climate
change, might be someone who would not have those
opportunities the way the world works today.

And so in addition to just trying to improve our
current decision making, and in addition to trying to
help push the corporate world, the financial services
world, the world of medicine, the world of business, to
see the value of diversity in terms of performance and
bottom line dollars, it's also the strategic to also
encourage the youth. It's like, no, you don't have to
choose this path because the opportunities aren't
available to you. We want you to go that way. We want
to bring all kind of talent into science, into
engineering, into financial services, into Actuarial.
Whereas right now, some of those are relatively
exclusive.

And so eliminating that exclusivity and really
having opportunity for everyone, regardless of their
immediate circumstances, is a long-term goal to
optimizing, you know, performance in almost any field.
And so I think in terms of us as a strategic long-term
investor, us as a Public Pension and Health Benefit Fund
that has to have a very long view, because we're
recruiting brand new members to government service today,
and we've also got retired members who are counting on us
and that performance of our organizations, of our funds,
of our partners, of the firms we invest in, of the economy, of the State, the Nation, the world. It's all tide into maximizing human potential. And so to me this is just very encouraging, and I just really applaud the work that staff is doing and the leadership CalPERS is, you know, shown in these areas. Thank you.

CHAIRPERSON TAYLOR: Okay. I want to thank you all for your report. That was very good, and we appreciate it. We're -- we have -- oh, Henry. No one was there forever. Go ahead, Henry.

COMMITTEE MEMBER JONES: Thank you. Thank you, Madam Chair. I just think that your request to share the research data regarding Corporate Board Directors, Corporate Board of Directors would be very informing.

CHAIRPERSON TAYLOR: Uh-huh.

COMMITTEE MEMBER JONES: Because we've received that data, and, you know, we invest in over 10,000 companies all over the world. And there's a whole body of research that shows that those corporations that have diverse boards out perform those that do not; and that's very important to us because that's why we invest in companies get the better, higher returns. So I think it would be really enlightening when that information is provided.

CHAIRPERSON TAYLOR: So, yeah. That was a
request from the Chair. I appreciate it. Thank you, Mr. Jones, and thank you very much again. Anybody else? No.

Okay. We will move on to our Item 9A, our Long-Term Care Valuation Report, and that's an Actuarial Report, and they are all coming up here.

SENIOR PENSION ACTUARY ARCHULETA: Good morning, Madam Chair and Members of the Committee. Congratulations to Ms. Taylor and Mr. Miller. Today we are here -- oh, Fritzie Archuleta, CalPERS team member. Today we are here to present the Long-Term Care Actuarial Valuation Report, and with me is Flora Hu, Senior Life Actuary.

SENIOR LIFE ACTUARY HU: Good morning, Madam Chair, Members of the Committee. Flora Hu, CalPERS team member. This agenda item presents the 2018 Long-Term Care Program and Valuation Report.

The results of this valuation indicated a margin of 1.2 percent and the funded ratio of 101 percent. Several factors that impacted margin either negatively or positively after 2017. I'd like to refer you to, first, the table on Page 3 of the agenda item. Each shows a list of all factors that impacted the margin and changed the margin from 2017 which was negative 1.45 percent to a positive 1.2 percent in 2018.
First, I'd like to go through those negative factors impacted the margin. One major assumption we made for the 2018 valuation was the mortality improvement factors. We adopted the same mortality improvement assumptions as CalPERS pension and also employed those as the morbidity improvement factors. Those change had the biggest negative impact on the margin.

Another factor that had a negative impact on the margin was the investment return in fiscal year 2017-'18, which was 4 percent lower than the assumed 5.25 percent. Other negative impacts came from the updated lapse assumptions and the expense assumptions. All those negative impacts mentioned above decreased the margin more than 6 percent.

This is the second valuation report produced by using the results from the new First Principle Model. This year we made a summary of regions and refinements to the model. Those modeling changes helped actually removed some unintended conservatism from the model, and that had a biggest positive impact on the margin. In fiscal year 2017-'18, the actual premium we received was 1 percent higher than projected; and the actual claim payments were more than 5 percent lower than projected. The better than expected liability cash flow had a small positive impact on the margin.
Last year we had an actual gain from the demographics change. In addition, the updated morbidity assumption also helped increase the margin slightly. The aggregated impact of all those positive changes to the margin is more than 9 percent. The 2018 valuation margin is positive, and the funded status is more than 100 percent. With the adoption of the new First Principle Model, we have important statistics on the more granule level for analysis.

With those new information available, we can better monitor the program along with the emerging experiences from the program. That concludes my presentation, and I'm happy to take questions.

CHAIRPERSON TAYLOR: All right. Thank you. And congratulations, 101 percent, very good. Ms. Brown?

COMMITTEE MEMBER BROWN: Thank you. We didn't put the tables up for the audience, and this is my first time looking at this. So I want to go back just to kind of get a little primer here. When I look at the first table in the analysis -- I'm trying to see what page this is -- where you talk about present value future benefits, you have eight things listed there.

SENIOR LIFE ACTUARY HU: Uh-huh.

COMMITTEE MEMBER BROWN: Okay. So we look at the changes from 2017 to 2018. So present value of
future benefits went down, so that's a bad thing; right?
Help me. Right? When I read across one.

SENIOR LIFE ACTUARY HU: That's a good thing.

It means it's a --

COMMITTEE MEMBER BROWN: It's a good thing.

SENIOR LIFE ACTUARY HU: Yes. It's a good thing.

COMMITTEE MEMBER BROWN: Present value of future benefits.

SENIOR LIFE ACTUARY HU: Yes. It means the future payments were going to --

COMMITTEE MEMBER BROWN: Payments. Great.

Those go down. So down is a good thing. Present value of future expenses?

SENIOR LIFE ACTUARY HU: Increased slightly.

COMMITTEE MEMBER BROWN: Okay. So that's bad.

SENIOR LIFE ACTUARY HU: Because we changed our expense assumptions.

COMMITTEE MEMBER BROWN: Great. Okay. And future premiums went down, so that's good.

SENIOR LIFE ACTUARY HU: That's -- I cannot say that's a good thing or better things --

COMMITTEE MEMBER BROWN: Okay.

SENIOR LIFE ACTUARY HU: -- because of the, you know, the attend age of our population for the program
there. You know, the average attend age is about 78. So we assume, yeah, in the future with more people terminal, the premium will be less, yes.

COMMITTEE MEMBER BROWN: Right. So really what I'm interested in is Lines 6 and 7. So can you just explain to me what the valuation margin is, because it was negative 30 -- 35 million was coming off the numbers, and, then, this year it's 28 million to the positive; is that right? Explain to me what that means, Line 6.

SENIOR LIFE ACTUARY HU: Okay. Line 6, that's the margin which is the differences between the current asset and the future liability. The future liability also could accrue liability in the private industry, is called a reserve, which is equivalent to the future benefits and expenses, less future premiums. It means which -- how much we owe in the future.

COMMITTEE MEMBER BROWN: Great. Okay. And then so I understand the margin and the funded status. Okay. So you talked -- one more question. You talked about the morbidity assumptions change. They went down, or they went up?

SENIOR LIFE ACTUARY HU: The morbidity assumption changed actually helped improve the margin a little bit this year.

COMMITTEE MEMBER BROWN: So we think more people
are going to die? Is that what that means or --

CHAIRPERSON TAYLOR: Yes.

SENIOR LIFE ACTUARY HU: Morbidity, that's mortality.

CHAIRPERSON TAYLOR: I just didn't want to say that out loud.

COMMITTEE MEMBER BROWN: Well, I'm just trying to figure out. So the morbidity assumptions helped us, which means more people were passing away. Okay. That's lovely. All right. I know that's your job.

SENIOR LIFE ACTUARY HU: They correlated to each other. Yeah, morbidity, mortality.

COMMITTEE MEMBER BROWN: All right. Yeah, we'll have more conversation maybe off line. Thank you.

CHAIRPERSON TAYLOR: Thank you. Mr. Rubalcava?

BOARD MEMBER RUBALCAVA: Thank you. Very good report. I had a question on the discount rate. I know there's -- in the Appendix A, you talk about discount, but on the assumptions, Appendix C, I like how you -- I was very impressed how you -- I never seen that where you actually lay out the steps to calculate some of your factors and rates. But let me get to the page again. I'm sorry. I thought there would be more questions before me. Sorry.

On the discount, let me see if I can find it.
This thing froze. Shoot. On the discount rate, if I can remember, it talks about the change in the method and I was wondering what the change was; and there was also something about that the rate -- I can't get it to move. It froze.

COMMITTEE MEMBER BROWN: Was it Page 29?

BOARD MEMBER RUBALCAVA: I don't know. Mine froze.

COMMITTEE MEMBER BROWN: Discount increased by .05 percent.

BOARD MEMBER RUBALCAVA: I know there was -- it said in February 2018, the new discount rate was adopted. It was because of a previous study, but then it made reference to a future asset location. So I was wondering how -- how we could predict the future that well. It was okay. But my question was more about the second paragraph. I can't find it. I'm sorry. I apologize, but it made reference to a change in methodology. So I was wondering what that change was in determining the discount rate methodology.

SENIOR LIFE ACTUARY HU: The second paragraph; right?

BOARD MEMBER RUBALCAVA: Yeah. There's something about -- I can't find it right now. Sorry. My tablet froze.
SENIOR LIFE ACTUARY HU: I think with more
detailed information we can find data from the agenda
item in February 2018. We had a specific agenda item
explaining how we divert this new discount rate. The old
one was five-and-three quarters, which updated poverty
mark to kept to assumptions, and the 2012 asset
allocation adopted by the Board, so we re-calculated the
discount rate.

BOARD MEMBER RUBALCAVA: I understand it was
re-calculated. I just want to know -- it made a
reference to a change in the method of calculation.
That's how I read it. Is that --

CHAIRPERSON TAYLOR: The methodology that you
were using.

BOARD MEMBER RUBALCAVA: -- am I reading it
wrong? Because I was here in February when we voted on
the discount change.

SENIOR PENSION ACTUARY ARCHULETA: We actually
didn't change the method of calculating the discount
rate.

BOARD MEMBER RUBALCAVA: Okay. Well, that's
what it seems to read. A new cost method or something.
I don't have the actual language in front of me, and I
remember reading it, and I was trying to --

SENIOR PENSION ACTUARY ARCHULETA: I think I can
understand how you would get there, but just to clarify we did not change the way that we.

BOARD MEMBER RUBALCAVA: Thank you, because that was --

SENIOR LIFE ACTUARY HU: Maybe next year we should make the language more clear.

BOARD MEMBER RUBALCAVA: All right. Thank you. Appreciate it. Thank you very much. Very good report.

CHAIRPERSON TAYLOR: Okay.

SENIOR LIFE ACTUARY HU: Thanks.

CHAIRPERSON TAYLOR: All right. I don't seem to have any more questions on this. This was an information item. I checked. So thank you very much for your report. Excellent report. Thank you. And I think we're moving on to summary of board direction.

CHIEF FINANCIAL OFFICER COHEN: Sure. Thank you, Chair. I've got items in both the election and the diversity in terms of follow up. On the elections, I think Kim was clear in terms of additional data, as well as expert sort of focusing on the online aspects, and we'll roll that all into the 2020 review.

On the diversity, the Toigo Foundation. We'll circle back with the Investment Office and get you a more specific answer, and, then, the white papers that we discussed in terms of the importance of diversity in the
Finance Sector. We'll provide that to the Board as well.

    CHAIRPERSON TAYLOR: Excellent. Thank you very much. And with that I open it up for public comments. We didn't have any request for public comments. I don't see anybody raising their hands, so, with that, I adjourn the Finance and Administration Committee Meeting.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 10:11 a.m.)
CERTIFICATE OF REPORTER

I, MICHELLE M. WILSON, a Certified Shorthand Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Finance and Administration Committee meeting was reported in shorthand by me, Michelle M. Wilson, a Certified Shorthand Reporter, and 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 25th day of February, 2019.

Michelle Marie Wilson, CSR, RPR
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