

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
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A P P E A R A N C E S

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

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1 P R O C E E D I N G S

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

8 COMMITTEE SECRETARY DAVIDSON: Theresa Taylor?

9 CHAIRPERSON TAYLOR: Here.

10 COMMITTEE SECRETARY DAVIDSON: Margaret Brown?

11 COMMITTEE MEMBER BROWN: Here.

12 COMMITTEE SECRETARY DAVIDSON: Henry Jones?

13 COMMITTEE MEMBER JONES: Here.

14 COMMITTEE SECRETARY DAVIDSON: Fiona Ma?

15 COMMITTEE MEMBER MA: Here.

16 COMMITTEE SECRETARY DAVIDSON: David Miller?

17 COMMITTEE MEMBER MILLER: Here.

18 COMMITTEE SECRETARY DAVIDSON: Jason Perez?

19 COMMITTEE MEMBER PEREZ: Here.

20 COMMITTEE SECRETARY DAVIDSON: Lynn Paquin for
21 Betty Yee?

22 ACTING COMMITTEE MEMBER PAQUIN: Here.

23 CHAIRPERSON TAYLOR: Great. Thank you. So it's
24 February, so it's our election. I'm going to throw this
25 over to Henry to run the election.

1 COMMITTEE MEMBER JONES: Okay. Thank you,
2 Ms. Taylor. So the nominations are now open for Chair of
3 the Finance and Administration Committee.

4 Mr. Miller?

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

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

11 Are there any other nominations? Are there any
12 other nominations? Are there any other nominations?
13 Seeing no additional nominations.

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

16 COMMITTEE MEMBER MILLER: So moved.

17 ACTING COMMITTEE MEMBER PAQUIN: Second.

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

20 So all those in favor say aye.

21 (Ayes.)

22 COMMITTEE MEMBER JONES: Opposed? None?

23 Congratulations, Ms. Taylor.

24 CHAIRPERSON TAYLOR: Thank you.

25 (Applause.)

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

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

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

9 Are there any other nominations? Any other
10 nominations? Any other nominations? Hearing no other
11 nominations.

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

14 COMMITTEE MEMBER BROWN: By acclamation.

15 CHAIRPERSON TAYLOR: By acclamation.

16 COMMITTEE MEMBER BROWN: I move.

17 COMMITTEE MEMBER JONES: Second.

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

22 (Applause.)

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

25 All right. Thank you, everyone. We'll move on

1 to the next order of business, which is the approval of
2 the February 21st, 2019 Finance and Administration
3 Committee timed agenda. I need a motion.

4 COMMITTEE MEMBER BROWN: Move approval.

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

6 COMMITTEE MEMBER JONES: Second.

7 CHAIRPERSON TAYLOR: Seconded by Mr. Jones.

8 All those in favor?

9 (Ayes.)

10 CHAIRPERSON TAYLOR: All those opposed?

11 All right. The timed agenda has been approved.

12 Thank you.

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

14 Mr. Cohen?

15 CHIEF FINANCIAL OFFICER COHEN: Thank you, Madam
16 Chair, Michael Cohen with CalPERS. Just one item to
17 highlight. As we've met the last couple of times, I just
18 want to give you an update on Paradise and Butte County.
19 Last week the Governor did sign AB 72, which provides a
20 property tax backfill for the next three years for Butte
21 Counties, so that should close off the financial
22 situation for the County and the City, at least for the
23 time being, but we'll continue to monitor their
24 situation; and with that, I think we're probably ready to
25 roll into the Committee business.

1 CHAIRPERSON TAYLOR: Okay. Great. So our first
2 -- next item is action consent items. I need a motion to
3 approve the action consent items.

4 COMMITTEE MEMBER JONES: Move it.

5 CHAIRPERSON TAYLOR: Moved by Mr. Jones.

6 VICE CHAIRPERSON MILLER: Second.

7 CHAIRPERSON TAYLOR: Seconded by Mr. Miller.

8 All those in favor say aye.

9 (Ayes.)

10 CHAIRPERSON TAYLOR: All those opposed?

11 All right. Action consent items pass.

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

17 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

18 MALM: Good morning, Members of the Finance and
19 Administration Committee. Congratulations, Ms. Taylor,
20 Mr. Miller. Kim Malm, CalPERS team member.

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

1 notice of election to all CalPERS retired members.

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

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

20 Our election begins in March, and we have
21 serious concerns about whether Votem will be able to meet
22 our needs and expectations for this retired member
23 election as required by the contract; therefore,
24 yesterday, we sent a termination letter to all parties in
25 the joint venture. We emailed them and we sent a hard

1 copy. We are working towards an agreement with the other
2 partner in the joint venture agreement, Integrity Voting
3 Systems, to obtain the services consistent with the terms
4 of the contract but without Votem's involvement. Due to
5 the urgency of the situation, we will be pursuing an
6 exemption from competitive bid with IVS for the 2019
7 Retiree Election. This contract will then go back out to
8 bid on the street in 2020.

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

18 IVS expects to provide the electronic tabulation
19 in Sacramento, with a time of public viewing to be
20 announced promptly following the completion of the paper
21 ballot process. The specific location of the tabulation
22 is still to be determined. The customer service phone
23 number will change as well. Again, this is all very new.
24 We'll come back to the Committee with an amended Notice
25 of Election to specify these two items.

1 Now, if I can get back to the original agenda
2 item. The retired member may be nominated in this
3 election if they -- if their retirement is effective date
4 is on or before the date of the Notice of Election, which
5 is March 25th, 2019. Retired Members whose effective
6 date of retirement on or before July 1st, 2019, are
7 eligible to vote in this election. The Notice of
8 Election outlines the election schedule and procedures
9 for becoming a candidate. Potential candidates must
10 submit a nomination petition containing at least 250
11 eligible signatures no later than 5:00 p.m. on May 16,
12 2019 to become a candidate in this election.

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

23 Each candidate must be elected -- sorry. The
24 candidate must be elected by a majority vote. If there
25 is no majority vote winner in the primary election, then

1 a runoff election will be held between the two candidates
2 who received the highest number of votes. If a runoff
3 election is required, ballots will be mailed on November
4 8th, and the voting period will end on December 9th. The
5 term of office for the newly-elected Board Member will
6 begin on January 16th, 2020 and end on January 15th,
7 2024.

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

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

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

22 More importantly, though, as we saw in the last
23 election, when the ballots were scanned, that process
24 actually went well this time. A year ago, two years ago
25 it did not go well. This year the opening of the ballots

1 and the scanning went well, but, then again, when the
2 data was transferred to California, there was a two-hour
3 delay, and I still don't know what happened but there
4 was -- there was -- there was a problem, and I don't know
5 what that was, but I'm hopeful that we would just go back
6 to paper ballots and count the paper ballots. Take the
7 paper and count them. That is the most secure and
8 un-hackable way to run an election.

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

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

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

24 MALM: The electronic and telephone voting was something
25 that we were going to be discussing with the Committee

1 and Board next -- in this next year. 2020 is our off
2 cycle, and that's where we make a lot of our, you know,
3 changes to the election that you guys would like to see.
4 So we had that teed up to discuss whether or not you
5 wanted to continue to pursue online, telephone, and paper
6 ballots, or if you wanted a different change. That is
7 teed up for the off year.

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

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

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

25 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

1 MALM: In the last 48 hours, no I have not.

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

7 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

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

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

20 CHAIRPERSON TAYLOR: Mr. Miller?

21 VICE CHAIRPERSON MILLER: Thank you for that.
22 I'm supporting of moving forward, but I will say that,
23 you know, with my long history of concerns over issues
24 with CalPERS elections, you know, tempered by CalPERS
25 responsiveness to where those represented opportunities

1 for improvement over the many years since I first ran in
2 2001. I think this is something that in the off year we
3 should have a much more robust look at.

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

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

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

24 MALM: Certainly.

25 CHAIRPERSON TAYLOR: So it's been my experience

1 from looking at the numbers that our first year there
2 wasn't a lot of access, but this year seems to be a lot
3 of more access into the online --

4 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

5 MALM: There is certainly more participation as far as
6 the online aspect of it but not an increased
7 participation in the voting at all.

8 CHAIRPERSON TAYLOR: Right.

9 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

10 MALM: Right.

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

13 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

14 MALM: In the voting participation.

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

25 That's my stance. Mr. Miller is asking for some

1 stats, and I think it might be important to show the
2 increase to the Board from year 1 to year 2, because
3 we've only done it twice, and there was definitely a
4 larger population accessing it this time, even though the
5 voting population didn't itself go up.

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

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

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

18 CHAIRPERSON TAYLOR: And Ms. Brown?

19 COMMITTEE MEMBER BROWN: I guess if we're going
20 to have a discussion on that, I think we need to bring in
21 experts on electronic voting, online voting, because all
22 the experts say it's not safe; it's not secure. And so
23 while we may like online voting and it's easy for the
24 Millennials, it is not un-hackable. We see this
25 nationally, and CalPERS is not exempt from that, and so

1 vendors don't have a way to do online electronic voting,
2 and, if you look, that's the way we're trending. We just
3 can't do it because we like it. It needs to be safe and
4 secure. That is number one. Thank you.

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

8 COMMITTEE MEMBER BROWN: No.

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

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

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

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

19 COMMITTEE MEMBER BROWN: An audit.

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

1 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

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

6 CHAIRPERSON TAYLOR: Right. We shouldn't.

7 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

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

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

14 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

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

19 CHAIRPERSON TAYLOR: Right.

20 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

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

25 CHAIRPERSON TAYLOR: All right. Thank you very

1 much.

2 Mr. Perez?

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

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

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

13 OPERATIONS SUPPORT SERVICES DIVISION CHIEF
14 MALM: Thank you.

15 CHAIRPERSON TAYLOR: All right. Ms. Brown?

16 COMMITTEE MEMBER BROWN: I wasn't thinking the
17 Russians, I was thinking the Chinese, but okay.
18 Seriously, though, we don't necessarily need to have the
19 experts come in and testify. We just need to look at the
20 research and have a report written, in my opinion. The
21 other thing, though, is what we're talking about an audit
22 trail is, right now when you vote by absentee ballot, you
23 get a little number, and that number tells you vote, and
24 you can look up to see if they got your vote; it doesn't
25 say how you voted, but just that your vote counted.

1 And that's what we're talking about is an audit
2 trail, and we don't get that. When you vote online,
3 there is no secure audit trail that you voted and your
4 vote counted. You can't go back and say, "My number was
5 one --

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

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

10 CHAIRPERSON TAYLOR: But you made your point.

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

15 OPERATIONS SUPPORT SERVICES DIVISION CHIEF
16 MALM: Thank you.

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

23 So all we need is to approve the election --
24 approve the Notice of Election For 2019 CalPERS Board of
25 Administration Retired Member Election. I need a motion.

1 VICE CHAIRPERSON MILLER: So moved.

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

4 ACTING COMMITTEE MEMBER PAQUIN: (Raises hand.)

5 CHAIRPERSON TAYLOR: Seconded by Ms. Paquin.

6 All those in favor say aye?

7 (Ayes.)

8 CHAIRPERSON TAYLOR: Aye. Okay.

9 All those opposed?

10 COMMITTEE MEMBER BROWN: No.

11 CHAIRPERSON TAYLOR: Okay.

12 COMMITTEE MEMBER BROWN: Mr. Jones is abstained.

13 CHAIRPERSON TAYLOR: Go ahead, Mr. Jones.

14 COMMITTEE MEMBER JONES: Okay. Thank you.

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

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

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

21 (Thereupon an overhead presentation was
22 presented as follows.)

23 DEPUTY EXECUTIVE OFFICER PACHECO: Good morning,
24 Madam Chair and Members of the Committee. Brad Pacheco,
25 CalPERS team. We're pleased to be here this morning to

1 present our Annual Report on our Enterprise, Diversity,
2 and Inclusion efforts during the last fiscal year. I'm
3 joined by my colleges, Kelly Fox, who's our Chief of
4 Stakeholder Relations, Kim Malm, Chief of Operations and
5 Support Services, and Simiso Nzima, Investment Director
6 of Corporate Governance.

7 --o0o--

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

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

18 STAKEHOLDER RELATIONS CHIEF FOX: All right.
19 Thank you, Brad.

20 (Switches on microphone.)

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

24 --o0o--

25 STAKEHOLDER RELATIONS CHIEF FOX: Our D&I

1 strategy has three focus areas, and those focus areas --
2 you've got the material in your packets that you've had.
3 It includes our talking points, as well as the
4 information here on the slides, and the actual report
5 that will be -- that has been submitted and is online
6 now.

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

16 --o0o--

17 STAKEHOLDER RELATIONS CHIEF FOX: So measuring
18 our success. In 2016, we established a new workforce D&I
19 strategic measure through the Employee Engagement Survey.
20 We did experience a 1.7 percent increase over the 1.6
21 annual goal. As you can see from our target, we're
22 trying an increase of 8 percent over a five-year period.
23 So the simple math is try and increase that by
24 1.6 percent per year, and we did exceed that last year
25 with a 1.7. And we also gained insight of our workforce

1 to pivot our efforts to be more impactful.

2 --o0o--

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

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

16 --o0o--

17 INVESTMENT DIRECTOR NZIMA: Thank you, Kelly.
18 Good morning, Members of the Committee. My name is
19 Simiso Nzima. I'm Investment Director, Global Equity.
20 So in terms of our work around Corporate Board diversity,
21 the accomplishments that we had, we got 30 percent of the
22 companies that we engaged, starting at the beginning of
23 fiscal 2017, to actually add an element of diversity that
24 they didn't have at the beginning of the, you know, July
25 2017. I'll be back in March, at the March Investment

1 Committee meeting to actually give more updated numbers
2 because these numbers are always changing as we move
3 along.

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

11 Moving on to Slide 7.

12 --o0o--

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

23 So we continue to work with other investors and
24 others, in terms of petitioning directly to us, to make
25 this something which companies can disclose. That

1 concludes my presentation on this.

2 CHAIRPERSON TAYLOR: Okay.

3 --o0o--

4 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

5 MALM: So the next slide is in regards to the supplier
6 participation, and we have continued our commitment,
7 CalPERS commitment, to the 3 percent of all contracts to
8 the Disabled Veterans Business Enterprises, and
9 25 percent to small and micro businesses. I'm actually
10 pleased to report that we did better than that this year.
11 We achieved a 3.09 percent DVBE participation level,
12 which is an increase of .30 over last year, and
13 25.04 percent small business participation, which is an
14 increase of 5.86 percent over last year.

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

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

20 --o0o--

21 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good
22 morning, Tina Campbell CalPERS team. I will be covering
23 three areas of the D&I. First, I want to talk about our
24 outreach efforts, and CalPERS Career Services Unit, which
25 is a unit within human resources, attended 23 outreach

1 events in 2017. Eight of our outreach events this year
2 were focused specifically on the veteran community. That
3 was one of the areas that we had selected to do a better
4 job of reaching out to was our veteran community. And we
5 also attended venues with a focus on investment,
6 accounting, and IT classifications, as well as hosting
7 tables at seven colleges, plus a few business specific
8 events, such as the accounting and investments.

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

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

23 CalPERS also partnered with Mayor Darrell
24 Steinberg for Thousand Strong. Thousand Strong is a
25 city-wide approach to workforce development that begins

1 with our youth. This initiative seeks to reward our
2 youth with various incentives to show them we value the
3 work they do while helping them prepare for the future.
4 All Thousand Strong students complete 40 hours of 21st
5 Century workplace skills training, to prepare them for
6 the workplace; and all students were supported by
7 professionals that served as mentors to ensure that tools
8 have the tools and wrap around support they need to be
9 successful on the job.

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

16 CalPERS also supported hiring through the
17 State's Limited Examination and Appointment Program, also
18 known as LEAP. The LEAP program is designed to help
19 persons with disabilities get jobs in the California
20 State Civil Service. LEAP is an alternative to the
21 traditional testing process, allowing applicants to
22 demonstrate knowledge, skills, and abilities through
23 on-the-job testing. In 2017, CalPERS hired seven LEAP
24 candidates, and so far this fiscal year CalPERS has hired
25 three LEAP candidates.

1 Lastly, CalPERS has enhanced our social media
2 presence by advertising our job openings on LinkedIn, the
3 Robert Toigo Foundation, Twitter, and Facebook. We have
4 seen a lot of success with our expanded partnership with
5 LinkedIn in particular, with candidates that are able to
6 actively recruit based on current and past employment
7 history, certifications, and knowledge.

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

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

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

22 The next question is on Page -- Page 8. The 3
23 percent and 25 percent commitments, are those CalPERS
24 commitments, or is that -- are they State designated
25 commitments?

1 OPERATIONS SUPPORT SERVICES DIVISION CHIEF

2 MALM: Those are State designated commitments.

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

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

21 But to add to that, you know, yesterday I was
22 actually talking to a number of other funds where we're
23 trying to see what can we do, especially given some of
24 the activities with the legislature with, you know, a
25 representative mixed bill on Corporate Board diversity,

1 and stuff like that, to say, what are the things that we
2 can do in terms of pushing and helping and showing that
3 investors are concerned and want this information
4 disclosed by companies.

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

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

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

18 DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

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

25 DEPUTY EXECUTIVE OFFICER PACHECO: Yeah.

1 Absolutely. We'll talk to our Investment Office and
2 follow up.

3 --o0o--

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

6 CHAIRPERSON TAYLOR: Sure.

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

14 --o0o--

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

22 --o0o--

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

25 --o0o--

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

3 --o0o--

4 STAKEHOLDER RELATIONS CHIEF FOX: And then our
5 Team Members.

6 --o0o--

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

9 --o0o--

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

12 --o0o--

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

17 CHAIRPERSON TAYLOR: Okay.

18 --o0o--

19 STAKEHOLDER RELATIONS CHIEF FOX: So our next
20 steps here for our Diversity and Inclusion strategy. We
21 are on track to meet that goal. Again, we hope to
22 implement our best practices for hiring and capturing
23 self-identifying data, develop our enterprise steering
24 committees for our D&I initiatives, and then collaborate
25 with CalSTRS to develop the content and host the next --

1 in which we are in the process of hosting the next
2 CalPERS and CalSTRS Diversity Forum, June 10th and 11th.
3 I believe it's at the Sheraton Hotel here in Sacramento.

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

7 (Applause.)

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

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

17 CHAIRPERSON TAYLOR: I do have a couple of
18 questions by Board members. I just wanted to thank you
19 all very much for the presentation. I also want to
20 commend you for the work you're doing at Corporate
21 Boards, the work you're doing within our own
22 organization, incorporating Mr. Mayor Steinberg One
23 Thousand Strong or whatever it is. Makes me think of
24 something else. But, anyway -- so I'm just very pleased
25 to see this.

1 One thing for some of our new Board members.
2 Simiso, I was wondering if we could kind of explain right
3 now, and maybe provide some white papers or something at
4 a later date on the Board books, why diversity is so
5 important in the Financial Industry.

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

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

19 CHAIRPERSON TAYLOR: Education.

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

25 CHAIRPERSON TAYLOR: I'd appreciate it. Thank

1 you very much, because we have some new Board members and
2 I think it would be good information to have. Mr. Fox, I
3 just have one question because it cracked me up that I
4 saw this. BSU, I don't know who that is, but they have
5 all females.

6 COMMITTEE MEMBER BROWN: Board Services Unit.

7 CHAIRPERSON TAYLOR: Board Services Unit. Okay.

8 (Laughter.)

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

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

14 All right. Ms. Brown?

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

25 CHAIRPERSON TAYLOR: See, I didn't -- I didn't

1 even think of it.

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

4 (Laughter.)

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

8 INVESTMENT DIRECTOR NZIMA: Nzima.

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

11 INVESTMENT DIRECTOR NZIMA: Simiso. That's
12 okay.

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

21 INVESTMENT DIRECTOR NZIMA: So it's not my
22 staff actually doing that. So when we started looking at
23 this in July 2017, we went out to third party data
24 providers and asked them to, you know, looking at roughly
25 3,000 and say, "Can you provide and tell us, you know, in

1 terms of diversity of the Boards?" And when we looked at
2 the data that they actually had, maybe it was only about
3 60 to 70 percent, which was the same in terms of
4 identifying whether someone, you know, particular
5 ethnicity or gender and so forth.

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

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

23 So that's the challenge there, but it's
24 something which is out there. And I think it's getting
25 better now, you know, because a lot of investors are

1 demanding and asking companies to do these. So there are
2 some companies which are self-reporting and doing that,
3 but still it's nowhere near where you can just use one
4 data set and be comfortable that it's identifying
5 correctly.

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

12 INTERIM CHIEF OPERATING INVESTMENT OFFICER
13 BIENVENUE: Dan Bienvenue, MID of Global Equity. Yes,
14 that's correct. And really what Simiso is speaking to
15 and even the SEC petition, the challenge here is there's
16 a tension between getting data and then privacy issues;
17 right? So it's much more simpler, much less tension
18 around a topic like -- like gender. When you get to
19 ethnicity, when you get to gender identity, when you get
20 to sexual orientation, other things like that, there are
21 real privacy issues here that are just -- and we
22 certainly -- that's one of the SEC's concerns is making
23 sure that we honor people's right to privacy, while also
24 getting investors the data they need to the extent
25 possible.

1 COMMITTEE MEMBER BROWN: And we heard, I don't
2 know, two months ago about that having -- maybe gender is
3 not an issue, but certainly maybe even ethnicity could be
4 an issue in other countries if you're on a Board and
5 thinks like that. So I want to be -- why we would like
6 to have the data, I want to be sensitive that we're not
7 putting anybody in jeopardy. Thank you.

8 CHAIRPERSON TAYLOR: Thank you. Ms. Paquin?

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

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

25 Whether or not we're getting diverse candidates

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

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

18 We actually do find that the Cal HR did a
19 survey, I think it's been about a year and a half now,
20 where they asked all of us, all State Employees, to
21 identify, and I think that is a lot better data than the
22 way that we do it now. So that is really the way that we
23 find out if we're -- whether the outreach events -- we do
24 survey those attendees, but we don't know whether or not
25 they're actually joining CalPERS, and, when they do, what

1 we are learning is most of them are finding out about our
2 jobs through the Cal Careers website, so.

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

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

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

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

24 INVESTMENT DIRECTOR NZIMA: I think mostly it's
25 from Equilar directly to us on an ad hoc basis and, you

1 know, but from the consultant, we get a report every
2 three months. I may have to verify that, but I think
3 it's every three months, in terms of looking at where we
4 are, what the activities, and what the outreach has been
5 happening on that.

6 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank
7 you.

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

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

20 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: I can
21 take that one. I believe the answer is, no, and the
22 reason for that is we do hire the best person for the
23 job, and we actually can't take into consideration other
24 things other than the merits that they bring to -- their
25 qualifications and what they bring to the job. So I

1 don't believe that based on gender or race or anything
2 else that we're not getting the best candidate for the
3 job.

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

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

16 HUMAN RESOURCES DIVISION CHIEF CAMPBELL:

17 Correct. We don't have a target.

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

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

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

25 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: That

1 I'll kick to the Investment Office. I was talking about
2 hiring State Employees for CalPERS, but I'll defer to the
3 Investment Office. Maybe they know that.

4 INTERIM CHIEF OPERATING INVESTMENT OFFICER

5 BIENVENUE: Yes, for the SEC, it's just about data
6 disclosure, but I will say there's a difference. The
7 State government, California State Government, we are --
8 under Prop 209, we're not allowed to have any advantaging
9 based on gender ethnicity, any of those things.

10 Corporations can do that and some do do that; however,
11 what our work with the SEC is really just about
12 disclosure. We believe, to Simiso's previous point, the
13 empirical results show that business decisions, portfolio
14 management decisions, and otherwise are made better when
15 diverse perspectives are brought to bear on those
16 decisions.

17 So we just want to see the data and what they're
18 -- something that we're focussing on is the diversity
19 part, but I think the inclusion part is also very
20 critical. But you have to both have the diverse
21 perspectives but then also include those diverse
22 perspectives in the decision making. And what we want to
23 know is, how do you get those, and how is the Board
24 overseeing their, you know, strategic policies around
25 diversity and inclusion.

1 DEPUTY EXECUTIVE OFFICER PACHECO: And if I may
2 add, Mr. Perez, to Tina's comments. I agree with her; we
3 always hire the best candidate. I think our efforts here
4 collectively are trying to expand the pool of candidates
5 and provide avenues of outreach to a broader candidate
6 pool that may represents greater diversity. So they have
7 access to, you know, apply for jobs and also work here at
8 CalPERS.

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

11 CHAIRPERSON TAYLOR: All right. Mr. Miller?

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

22 We look at it as a strategic imperative because
23 the person who may be the person who would solve some of
24 these huge problems as part of a team of scientists,
25 whether it be cancer, whether it be global climate

1 change, might be someone who would not have those
2 opportunities the way the world works today.

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

16 And so eliminating that exclusivity and really
17 having opportunity for everyone, regardless of their
18 immediate circumstances, is a long-term goal to
19 optimizing, you know, performance in almost any field.
20 And so I think in terms of us as a strategic long-term
21 investor, us as a Public Pension and Health Benefit Fund
22 that has to have a very long view, because we're
23 recruiting brand new members to government service today,
24 and we've also got retired members who are counting on us
25 and that performance of our organizations, of our funds,

1 of our partners, of the firms we invest in, of the
2 economy, of the State, the Nation, the world. It's all
3 tide into maximizing human potential. And so to me this
4 is just very encouraging, and I just really applaud the
5 work that staff is doing and the leadership CalPERS is,
6 you know, shown in these areas. Thank you.

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

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

15 CHAIRPERSON TAYLOR: Uh-huh.

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

25 CHAIRPERSON TAYLOR: So, yeah. That was a

1 request from the Chair. I appreciate it. Thank you,
2 Mr. Jones, and thank you very much again. Anybody else?
3 No.

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

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

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

18 The results of this valuation indicated a margin
19 of 1.2 percent and the funded ratio of 101 percent.
20 Several factors that impacted margin either negatively or
21 positively after 2017. I'd like to refer you to, first,
22 the table on Page 3 of the agenda item. Each shows a
23 list of all factors that impacted the margin and changed
24 the margin from 2017 which was negative 1.45 percent to a
25 positive 1.2 percent in 2018.

1 First, I'd like to go through those negative
2 factors impacted the margin. One major assumption we
3 made for the 2018 valuation was the mortality improvement
4 factors. We adopted the same mortality improvement
5 assumptions as CalPERS pension and also employed those as
6 the morbidity improvement factors. Those change had the
7 biggest negative impact on the margin.

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

15 This is the second valuation report produced by
16 using the results from the new First Principle Model.
17 This year we made a summary of regions and refinements to
18 the model. Those modeling changes helped actually
19 removed some unintended conservatism from the model, and
20 that had a biggest positive impact on the margin. In
21 fiscal year 2017-'18, the actual premium we received was
22 1 percent higher than projected; and the actual claim
23 payments were more than 5 percent lower than projected.
24 The better than expected liability cash flow had a small
25 positive impact on the margin.

1 Last year we had an actual gain from the
2 demographics change. In addition, the updated morbidity
3 assumption also helped increase the margin slightly. The
4 aggregated impact of all those positive changes to the
5 margin is more than 9 percent. The 2018 valuation margin
6 is positive, and the funded status is more than
7 100 percent. With the adoption of the new First
8 Principle Model, we have important statistics on the more
9 granule level for analysis.

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

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

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

23 SENIOR LIFE ACTUARY HU: Uh-huh.

24 COMMITTEE MEMBER BROWN: Okay. So we look at
25 the changes from 2017 to 2018. So present value of

1 future benefits went down, so that's a bad thing; right?

2 Help me. Right? When I read across one.

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

4 It means it's a --

5 COMMITTEE MEMBER BROWN: It's a good thing.

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

7 thing.

8 COMMITTEE MEMBER BROWN: Present value of future
9 benefits.

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

12 COMMITTEE MEMBER BROWN: Payments. Great.
13 Those go down. So down is a good thing. Present value
14 of future expenses?

15 SENIOR LIFE ACTUARY HU: Increased slightly.

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

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

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

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

23 COMMITTEE MEMBER BROWN: Okay.

24 SENIOR LIFE ACTUARY HU: -- because of the, you
25 know, the attend age of our population for the program

1 there. You know, the average attend age is about 78. So
2 we assume, yeah, in the future with more people terminal,
3 the premium will be less, yes.

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

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

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

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

25 COMMITTEE MEMBER BROWN: So we think more people

1 are going to die? Is that what that means or --

2 CHAIRPERSON TAYLOR: Yes.

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

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

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

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

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

15 CHAIRPERSON TAYLOR: Thank you. Mr. Rubalcava?

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

25 On the discount, let me see if I can find it.

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

6 COMMITTEE MEMBER BROWN: Was it Page 29?

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

9 COMMITTEE MEMBER BROWN: Discount increased by
10 .05 percent.

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

21 SENIOR LIFE ACTUARY HU: The second paragraph;
22 right?

23 BOARD MEMBER RUBALCAVA: Yeah. There's
24 something about -- I can't find it right now. Sorry. My
25 tablet froze.

1 SENIOR LIFE ACTUARY HU: I think with more
2 detailed information we can find data from the agenda
3 item in February 2018. We had a specific agenda item
4 explaining how we divert this new discount rate. The old
5 one was five-and-three quarters, which updated poverty
6 mark to kept to assumptions, and the 2012 asset
7 allocation adopted by the Board, so we re-calculated the
8 discount rate.

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

13 CHAIRPERSON TAYLOR: The methodology that you
14 were using.

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

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

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

25 SENIOR PENSION ACTUARY ARCHULETA: I think I can

1 understand how you would get there, but just to clarify
2 we did not change the way that we.

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

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

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

9 CHAIRPERSON TAYLOR: Okay.

10 SENIOR LIFE ACTUARY HU: Thanks.

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

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

22 On the diversity, the Toigo Foundation. We'll
23 circle back with the Investment Office and get you a more
24 specific answer, and, then, the white papers that we
25 discussed in terms of the importance of diversity in the

1 Finance Sector. We'll provide that to the Board as well.

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

7 (Thereupon the California Public Employees'
8 Retirement System, Board of Administration,
9 Finance & Administration Committee meeting
10 adjourned at 10:11 a.m.)
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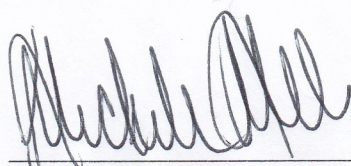
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I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand
This 25th day of February, 2019.



Michelle Marie Wilson, CSR, RPR
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