MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

MONDAY, MARCH 18, 2019

9:01 A.M.

JAMES F. PETERS, CSR
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Bill Slaton, Chairperson

Mr. Rob Feckner, Vice Chairperson

Ms. Margaret Brown

Ms. Dana Hollinger

Mr. Henry Jones

Ms. Fiona Ma, also represented by Mr. Frank Ruffino

Mr. David Miller

Ms. Eraina Ortega, represented by Mr. Ralph Cobb

Ms. Mona Pasquil Rogers

Mr. Jason Perez

Mr. Ramon Rubalcava

Mr. Theresa Taylor

Ms. Betty Yee

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matt Jacobs, General Counsel

Dr. Ben Meng, Chief Investment Officer

Ms. Natalie Bickford, Committee Secretary

Mr. Dan Bienvenue, Interim Chief Operating Investment Officer

Mr. Danny Brown, Chief, Legislative Affairs Division

Mr. John Cole, Investment Director

Ms. Sarah Corr, Interim Managing Investment Director

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

STAFF:

Ms. Kit Crocker, Investment Director

Ms. Carrie Douglas-Fong, Associate Investment Manager

Ms. Divya Mankikar, Investment Manager

Mr. Simiso Nzima, Investment Director

Mr. Don Pontes, Investment Director

Mr. Beth Richtman, Managing Investment Director

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

ALSO PRESENT:

Mr. Al Darby, Retired Public Employees Association

Mr. Allan Emkin, Pension Consulting Alliance

Ms. Sandy Emerson, Fossil Free California

Mr. Steve Foresti, Wilshire Associates

Ms. Tina Devon Gallier, Fossil Free California

Mr. Dillon Gibbons, California Special Districts Association

Mr. Richard Godfrey, City of Fremont

Dr. Robert Gould, Physicians for Social Investment Responsibility

Ms. Debora Hammond, Fossil Free California

Mr. Shep Harper, Fossil Free California

Mr. Steve Hartt, Meketa Investment Group

Ms. Stephanie Hueg, California State Retirees

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

ALSO PRESENT:

Mr. Dane Hutchings, League of California Cities

Mr. Daniel Ingram, Wilshire Associates

Mr. Ruben Ingram, School Employers Association of California

Ms. Karen Jacques, Fossil Free California

Mr. J.J. Jelincic

Ms. Cathy Jeppson

Mr. Andrew Junkin, Wilshire Associates

Mr. Kevin Menager

Ms. Leyne Milstein, City of Sacramento

Mr. Geoff Neill, California State Association of Counties

Ms. Christine Nelson

Ms. Lynne Nittler, Fossil Free California

Ms. Jane Scantlebury, Fossil Free California

Ms. Christine Shewmaker, Fossil Free California

Ms. Deborah Silvey, Fossil Free California

Mr. Robert Silvey, Fossil Free California

Mr. David Soares, Retired Public Employees Association

Ms. Dana Stokes, Fossil Free California

Ms. Patrice Sutton, Physicians for Social Investment Responsibility

Mr. Betsy Thagard, Fossil Free California

Ms. Sara Theiss, Fossil Free California

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

ALSO PRESENT:

Ms. Sheila Thorne, Fossil Free California

Ms. Martha Turner, Fossil Free California

Mr. Lawrence Wilson

Mr. Larry Woodson, California State Retirees

I N D E X

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

P R O C E E D I N G S

CHAIRPERSON SLATON: I call to order the Investment Committee meeting of March 18th.

Please call the roll.

COMMITTEE SECRETARY BICKFORD: Bill Slaton?

CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY BICKFORD: Rob Feckner?

VICE CHAIRPERSON FECKNER: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY BICKFORD: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY BICKFORD: Fiona Ma represented by Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: She'll be here in a second.

COMMITTEE SECRETARY BICKFORD: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE MEMBER MA: Here.

COMMITTEE SECRETARY BICKFORD: Eraina Ortega --

ACTING COMMITTEE MEMBER COBB: Here.

COMMITTEE SECRETARY BICKFORD: -- represented by

Ralph Cobb?

Pardon me.

Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY BICKFORD: Mona Pasquil Rogers?

COMMITTEE MEMBER PASQUIL ROGERS: Here.

COMMITTEE SECRETARY BICKFORD: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

COMMITTEE SECRETARY BICKFORD: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY BICKFORD: And Betty Yee?

COMMITTEE MEMBER YEE: Here.

CHAIRPERSON SLATON: Thank you very much.

Last Friday, the world once again witnessed the destruction and infliction caused by terrorism. Nearly, 70 people were killed or injured in mass shootings in two mosques in New Zealand. And just this morning, it was announced there was a tragedy aboard a tram in Utrecht the Netherlands. And so on behalf of the Board and the institution, we send our prayers and best wishes to those impacted and to the entire countries of New Zealand and the Netherlands.

We'll move to approval of the March 18th, 2019 Investment Committee timed agenda. And without objection, I would move item 7b to after 9c, because we're going to have a general discussion on divestments. So to take up the specifics of a divestment item, it made since to do it after the briefing. So with that change, I look for a motion for approval of the timed agenda.

VICE CHAIRPERSON FECKNER: So moved.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: A motion by Feckner, second by Hollinger.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

We'll now move to the Pledge of Allegiance. And I've asked Vice Chair Feckner to lead us.

VICE CHAIRPERSON FECKNER: Hand over heart.

(Thereupon the Pledge of Allegiance was recited in unison.)

CHAIRPERSON SLATON: Next item on the agenda is the Executive Report. And just I want to make a comment before they start. Committee members may notice that the materials -- and I to the compliment the staff, the materials presented are concise and focused on the issues that are most important to us in our oversight role, and yet, at the same time, in addendums detailed material is provided as well. So thank you for that.

And with that, I'll turn it over to our Chief Investment officer, Ben Meng.

Good morning.

CHIEF INVESTMENT OFFICER MENG: Good morning, Mr. Care, members of the Investment Committee. We have several important items on the agenda this morning, including a number of items requesting action for -- by this Committee.

So first, item 7b, the bill seek to increase CalPERS reporting on our engagement of emerging managers. Second item, 7b, the bill is about divestment of securities in private prisons. After item 7a and b, as the Chair just directed, 7b will take place after 9c.

So next in Item 8a of the agenda, we'll continue the efforts of this Committee and the staff over the last 18 months regarding changes to CalPERS private equity business model. Before we move on, I just want to underscore that requested action on Item 8a is not an approval of any specific investment transaction or contract, nor is it an override or exception to our existing investment policies. Rather, today's item asks the Committee to affirm our commitment to updating CalPERS' private equity business model through the addition of two new pillars, one focused on late stage venture and the growth strategy, and the other focus on the long-hold strategy.

In the course of our delib -- deliberations over the past 18 months, and accompanying popular media commentaries and speculation, a certain degree of confusion has arisen in the financial markets, particularly in regards to our commitment to this project. So today's item, staff seeks affirmation from the Committee regarding further exploration of Pillars 3 and 4, innovative options we believe could materially strengthen our hand -- our fund.

This affirmation is important as we believe attending to -- attempting to continue without it would compromise this important endeavor leaving potential partners unsure of our intent. Your support for the few -- for the further development of Pillar 3 and 4 today will help ensure CalPERS is able to bring potential partners to the table.

Now, moving on to Agenda Item 9a and 9b, we will receive update from our Corporate Governance and Sustainable Investment teams. We'll hear how CalPERS is leveraging our stakeholder rights in alignments with our Governance and Sustainability Principles, and how we continue to integrate sustainability issues into our investment decision-making process.

And finally, following up on the Committee's request at the February meeting, we'll have an introductory overview of CalPERS active divestment mandates, as well as some additional exploration of how Wilshire Associates estimates the economic impact of these divestment on the portfolio.

So now, I would like to take a -- spend a few minutes on the recent fund performance. So the deck you have, the number is based on John the end of John performance number. By the time of publish of this material, that was the data available to us. Now, we have updated number as of the end of February.

So, as you remem -- as you may remember, last time was in December when Eric Baggesen who was the Interim CIO during the interim period, the performance number he gave you, as of the end of December, the fiscal year, the total fund return was negative 3.54 percent.

I'm glad to report back to you that after two months, the first two months of 2019, the market has done very well and so have we. So as of the end of February, the total fund return is positive 1.62 percent.

However, our required rate of return the long range 7 percent. So it means that we're still falling short of 5.4 percent to be made up in the remaining four months of this fiscal year. And yesterday, we did a rough historical simulation assuming that -- you know, using the 60/40 portfolio means 60 percent of S&P 500 and 40 percent of Barclays Ag. So what's the probability -- if history is any guidance, we use the past 30 year data.

So if history is any guidance, the probability for us to achieve a 5.4 percent in the next four months is less than 30 percent. So that's our estimate of the -- using historical performance as a guidance.

Also it's important to note that private equity is the best performing asset class for this period. And also, private equity is on track to be the best performing asset class of the fiscal year, as well as the only asset class that will deliver 7 percent return for this year. So just a reminder.

And with that, this concludes my prepared remarks, and we are happy to answer any questions that you may have.

CHAIRPERSON SLATON: Okay. Thank you very much. I see no questions at this point. We'll move to Item 5, action consent, approval of the February 19th, Investment Committee open session meeting minutes. Do I have a motion?

COMMITTEE MEMBER TAYLOR: So moved.

COMMITTEE MEMBER MILLER: Second.

CHAIRPERSON SLATON: Let's see, who made the motion?

Tailor made the motion and who seconded it?

And Mr. Miller seconded.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

I have not had a request to pull any items on information -- excuse me -- information consent.

So we'll move to item 7a, Assembly Bill 181. And Danny Brown is here.

Good morning.

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Good morning, Mr. Chair and Committee members. Danny Brown, CaPERS team members

AB 181 by Assembly Member Rodriguez would require CalPERS and CalSTRS to submit a report to the legislature on the status of achieving our objectives and initiatives regarding their participation of emerging managers. The first report would be due by March 1st, 2020, and then filed every year thereafter until John 1st, 2024.

In the way of historical background, in 2011, legislation by Senator Curren Price was enacted that required CalPERS to develop a five-year strategic plan to expand the participation of emerging managers across all asset classes, and annually report on the progress.

That reporting requirement ended on John 1st, 2018. So the purpose of this bill is really just to continue the reporting efforts started by Senator Price.

For the most part, this reporting requirements are consistent with the annual reporting that our Investment Office has continued to provide the Board as part of our Emerging and Transition Manager 2020 Plan.

We are recommending a support, if amended, position with -- to remove the requirement that would require CalPERS to report on emerging managers that we have terminated in the annual report. And according to the author, he has already agreed to make that change.

So with that, that ends my report.

CHAIRPERSON SLATON: Okay. Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair.

Yeah, I support the -- this with the amendment, because I don't think we should be evaluating in public reasons for people dismissed, so I can support the amendment. And I applaud you for having this come back to continue that disclosure. Because when it was first implemented by Price, it was a very worthy document, because it shared the information definitions, it showed what our policy was regarding our Emerging Manager

Program, and it was well received throughout the financial industry. So I'm glad to see that it continues, so I would recommend the staff's -- approve staff's recommendation.

CHAIRPERSON SLATON: Okay.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON SLATON: All right. That was a motion, Mr. Jones?

COMMITTEE MEMBER JONES: Yes.

CHAIRPERSON SLATON: Yeah. So moved by Jones, seconded by Tailor.

I see no further people requesting to discuss.

So all those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

And an abstention from -- okay. Abstention from Mr. Cobb and Ms. Pasquil Rogers. Two abstentions.

CHAIRPERSON SLATON: All right. Thank you very much. We'll move to now Item 8a, because we moved 7b down after 9.

So 8a, Private Equity Business Model. Mr. Meng, Mr. Cole, and Ms. Corr, is she going to be part of this?

CHIEF INVESTMENT OFFICER MENG: Yes. I would like to ask my team members Sarah and John to come up to the table now.

(Thereupon an overhead presentation was presented as follows.)

CHIEF INVESTMENT OFFICER MENG: So Item 8a follows roughly 18 months of discussion between staff and the Committee on CalPERS private equity business model. As I noted in my opening remarks, this item is presented to the Committee for consideration as an action item, to approve the concept of adding two new pillars to CalPERS private equity business model, and thereby empower your investment staff to address the next key phase in this project.

It's important to note that this item does not constitute a change to our statement of Investment Policy, nor does it establish any exception to that policy. No contracts will be signed, nor any commitments made should you -- made, should you choose to approve the concept as recommended by the staff.

None of the slides are new here, so I will not walk through them one by one. Instead, I would like to take this opportunity to bring the key concepts from the last 18 months together and then address some of the questions that have come up from our meetings with stakeholders.

So in the past 18 months, we have discussed a number of key concepts, some of them are highly technical from both the investment perspective and legal perspective, and we have tried a few different ways to explain these highly technical terms, and we'll continue to try to balance between being accurate and being understandable.

Avoid adding further confusion to these concepts, as you will notice that, the team today will stick quite close to our prepared scripts, so that we can strike a right balance between being accurate and being understandable.

So to tie all these concepts together, I would like to break down our reasoning into a number of steps. So first step, all our stakeholders and the staff share the same goal, which is to deliver promised return. And then the second step is how do we accomplish that goal?

To do that, we know we must invest in a risk-aware manner and deliver 7 percent rate of return over the long run. We also need to know ourselves. We need to play to our strengths and our comparative advantages. As I stated, in my remarks at the John off-site, CalPERS key competitive advantage are our size, our brand, and our improved liquidity profile.

So how do we monetize on these competitive advantages to help us in achieving our required rate of return? So that's step number three in our reasoning process. So the answer through private equity to increase our chance of achieving the 7 percent required rate of return. We need private equity as an asset class, because of the superior expected rate of return, as well as its strong track record over time in history in the past.

In addition, private equity's realized volatility and drawdowns tend to be lower than expected, which provides some diversification benefits to the portfolio as well as downside protection to the portfolio. As I discussed last month, looking at where we are in economic cycle today, which is in late -- which is late in the cycle, I prefer private equity over public equity, while all asset classes are currently rich, meaning highly valued. Relatively speaking, private equity is probably the better place to be, given our liquidity profile.

So as I said last month, we need private equity to be successful, we need more of it, and we need it sooner rather than later.

So that leads to our step number 4 in our reasoning process. So we need private equity. We have the conventional existing business model. Why are we here today proposing an addition of alternative business model? And the reason is that there are challenges we have with the conventional business model.

The first is our size. We cannot assess private equity -- access private equity exposure on the scale that we need. And then there are characteristics of the conventional private equity business model that are suboptimal in terms of our needs, namely the higher fees, lower transparency and the low -- and the relatively lower control.

So then step 5 of your reasoning, so how can we tackle these challenges in a way that plays to our comparative advantages? So which brings us to the proposed business model, namely the addition of Pillars 3 and 4. Pillars 3 and 4 are designed to mitigate those characteristics of the conventional private equity business model that do not serve our interest.

We expect these new vehicles to improve our ability to deploy assets in private equity opportunities, so we can invest more in private equity, and over time to lower costs, as well as improved both CalPERS level of control over and the transparency concerning our private equity exposure, so we can make better investment decisions contributing to the long-term sustainability of the fund.

Please note that -- as we will elaborate further in later slides, but please note that the improved transparency is to your investment professional at

CalPERS. The general public will get exactly the same level of transparency as they do today.

So Pillars 3 and 4 will allow us to play to our strengths namely our brand, our scale, and our ability to invest in illiquid assets. It is our professional belief that the proposed new business model is the best option available to us at this time to monetize our comparative advantages and to increase our chance of success.

So now to step 6 of the -- our reasoning process. The new -- the new business model is not without risk. We have identified a number of benefits of the proposed business model. However, as we have consistently maintained, and as I stated last month, this new model is not without risks, as we know that no investment is without risk, but we can be smart and intelligent about risk taking, namely that we take risk where we have comparative advantages, and we award risk where we lack such advantages.

The proposed business model represents this form of intelligence risk taking. I believe the key risk of the proposed business model will be in the implementation details, particularly in regard to the governance structure and alignment of interests. Should you choose to approve the concept today, staff will move on to the second phase of this project, which is to identify and assess these risks, and find ways to mitigate such risks.

And we're glad to see that the staff has adopted the most risk prudent approach and will only proceed on our own terms and on our own timeline. We will not commit to any artificial timeline now to any forced of arbitrary outcome. We will continue to move in step with our Beliefs, our policies, and our investment disciplines.

So as I stated last month, the new business model may or may not work. And it may or may not work now, but we will not know if we don't try. And it is in this challenging capital market environment we owe it to all our stakeholders to explore all the options available to us.

So while no one knows all the -- all that the future holds, we do have certainty in some things. One, the landscape for institutional investors continue to grow more and more competitive; and two, more companies are staying private for longer. And it will become more difficult to deliver the required rate of return in the next 10 years than in the past 10 years.

We need to adapt as the market opportunities evolve around us, so we can stay competitive. We know that private equity is the only asset class is expected to exceed the 7 percent actuarial rate of return. Foregoing opportunities to increase our access, may lower our chance of get -- of generating the returns required to pay promised benefits, as we know that we will not compromise our principles in pursuit of this new business model.

So today, we're asking for your approval of the Pillars 3 and 4 concepts, so that the staff can continue with the next phase of this project. The public deliberation of this new business model over the past 18 months has generated some confusion with our stakeholders and in the financial markets, leaving some uncertain of CalPERS commitment to this concept.

The affirmation of CalPERS commitment to pursuing Pillars 3 and 4 today is an important signal to the financial markets and to potential partners that we are serious about this project.

Again, this action requested from the Committee today does not constitute the signing of any contract, nor the deployment of a single dollar. It does not supersede the existing Investment Policy. Should the Committee take action to affirm the concept of Pillars 3 and 4 as part of our private equity business model, staff will return with periodic progress updates and required revision to the Board's Investment Policy, and the prudent person opinion will be shared prior to any actual investment in Pillars 3 and 4.

So as I stated early, we would also like to take this opportunity to address some of the questions that have arisen in the course of CalPERS exploration of this proposed PE business model. And in total, we tallied about 10 questions from stakeholders and -- including you. I will take the first six and then I'll turnover to Sarah to talk the last four.

So the first question was does CalPERS intend to stop co-investments?

Simply put, the answer is no. Co-investment have always been part of CalPERS private equity strategy, and that will continue under Pillar 2, the existing business model, and where we'll be exploring alternative ways of implementing co-investment. And as I stated last month, as well as a -- and as a matter of fact, we're bringing our internal study on co-investment back to you next month in April.

So the second question is some have asked can we just bring it in-house or adopt the Canadian -- the Canadian model?

So as we discussed in February, there are those who say that we should not pursue Pillars 3 and 4 as proposed, but rather that we should simply bring those models and expertise in-house and hire the staff, or adopt a model similar to that in use in Canada.

So regarding the Canadian model, we evaluated that option and it is clear that it's not available for us at this time. We must also -- as I said last month, we must learn how to walk before we can run.

CalPERS as of today simply does not have the organizational structure nor the compensation options capable of matching what top tier managers can secure in the private sector. Another fact is that we are not located in global financial center, which seriously hinder our ability in attracting and retaining the top talents.

However, we remain open-minded and will consider the Canadian model if and when it comes a viable option. Until then, our duty to deliver the promised benefit to our beneficiaries remains.

I believe that we as the stewards of the System owe it to our beneficiaries to explore all options available to us today, especially those options that play to our competitive advantages, like the model that staff is proposing now.

The third question is about owning it and control.

So there appears to have been some confusion. And at some point, a narrative has started that CalPERS will own the partners associated with Pillar 3 and 4. And this is simply not the case. So I breakdown this question into a few subquestions.

The first question, what ownership structure do we contemplate for Pillar 3 and 4 now?

So Pillar 3 -- in Pillar 3 and 4 contemplates the formation of a new investment vehicle in the form of a limited liability Company, LLC. Our ownership interest for each pillar will take the form a non-managing member interest in LLC. The management company we select will serve as the LLC's managing member.

The second subquestion related to this, how is this different from a typical PE commingled fund investment?

The term "commingled" refers to a situation, in which we are only one among many investors. And times -- there are times there are over 100 investors. So we're one of the many investors. That's the current conventional business model, the commingled fund.

As currently contemplated, Pillar 3 and 4 will be captive investment vehicles, meaning that CalPERS will, at least initially, be the sole non-managing member supplying the lion's share of the capital to the LLC. The management company for each investment vehicle will, as the managing member, run out the remainder of the commitment to the investment vehicle.

The other subquestion is will we have an ownership in the management company? That's another misunderstanding.

Simply put, the answer is no. The management company will be separately owned and operated. We will not own or control the management company.

Another question that may arise is how can we reduce cost, if we do not own the management company?

The answer is that we will structure the vehicles -- the new vehicles in such a way that the reduced cost is embedded in the structure of these new vehicles, namely, we are adopting a pre-approved budget approach as opposed to paying a fixed management fee, and by paying reduced performance fee.

The other subquestion related to this is how will the management company be compensated?

In lieu of management fees, CalPERS will make periodic payments based on a pre-approved budget to fund the operations of the investment vehicle and the management company. In addition, the management company will earn an appropriate long-term economic incentive that aligns our investment partners with our best interest.

The fourth question about transparency. As we just said in earlier, these new vehicles will afford more transparency to CalPERS, not less. I would like to take this opportunity to underscore the issue of transparency. Some seem to think that CalPERS is seeking to reduce the level of information available to the public through these new vehicles. That is absolutely not the case.

To this, I would like to remind us all of three things. The information protected as proprietary, that is information for which a public discussion would impair the System's investment objectives and threaten our ability to pay promised benefits would continue to be protected. And information that's legally required to be made available to the public will remain available.

This business model -- new business model proposed no change to the information available to our stakeholders. However, the proposed business model does intend for more information to be made available to your investment professionals as fiduciaries with duties of loyalty and care to help strengthen our ability as investors.

The other subquestion related to transparency is legal agreements remain protected or not. The question is yes. So question has been raised as to whether or not the contracts with our Pillar 3 and Pillar 4 partners would be made public?

And under today's law, in the interests of our ability to be effective investors, they would not be public. Instead, they would remain protected proprietary documents.

The other subquestion related transparency is both fee and expense. The current business model contemplates that CalPERS, as a non-managing member responsible for operating payments, will review and approve the fund's budget on an annual basis. This budget -- this budget payment will be provided to the public. However, the breakdown between salaries, rent, et cetera will be not be provided.

As we've attempted to explain in the past, however, we expect the new model to afford an improved level of transparency to CalPERS and to provide at least the same level of transparency to the public as under the current model.

The fifth question we received is about control. Similar to transparency, we'll have more control in Pillar 3 and 4 than we currently have in Pillar 2, the conventional co-investment model. In the current model, the Board, you, controls the investment activity in our portfolio. We're controlling CalPERS investment policy statements as well as through the authority you have delegated to staff.

So -- but in today's private equity model, our staff has little control over the investment made by commingled private equity funds in which we invest.

In the newly proposed model, the first two elements remain the same with primary control held by the Board, by you, through the control of our Investment Policy as the power is delegated to staff. But when it comes to the selection of investment, using this new business model, the captive vehicle approach, CalPERS would have more control over setting fund level investment guidelines that fit within the parameters and limits set by the Board, and by having an option to terminate a vehicle under certain circumstances.

So again, as with transparency in the new business model, we'll have more transparency, we'll have more control, not less.

The sixth question raised is about my involvement. I would like to speak to those who would question my level of involvement as a newly appointed CIO with the concept we have -- we are addressing today.

So I can assure you that I have been fully and appropriately in the loop on this project for quite some time, and I'm fully briefed in terms where we are today and how we got here. In fact, I was an early believer in this concept, following the discussion as a global peer with CalPERS began publicly -- when CalPERS began publicly thinking about the new business model.

And when it became clear I would be returning to CalPERS in September, I engaged the senior team at CalPERS to deepen my understanding of and contributed to the exploration of this -- the issues and new business model. And also, I have reviewed in depth all the studies and analysis conducted by the staff in the past 18 months.

So now that's the first six questions. Now, I would like to turn it over the Sarah to answer the last four questions before we open up for questions.

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

So some questions were asked about the valuations in the private equity portfolio, and whether or not they're overstated. We considered it extremely unlikely for a few reasons, including that valuations are reviewed by independent valuation experts for most of the funds that we invest in. And additionally, it's been our experience that upon the sale of the assets that the proceeds received are higher than the previous carrying value of the assets.

Secondly, we were asked whether or not Pillar 4 with a longer hold period would impede its success. So we're not dictating that the assets get held longer. We are providing the general partner or the managing member with the ability to opt to hold them longer than in a traditional private equity fund.

Some have a question where the location of the

Pillar 3 and 4 offices would be? CalPERS is not going to dictate where they would be. They would be wherever the managing member feels it would be most appropriate, given the strategy that they're pursuing.

And finally, has CalPERS investigated other options that would be a potential for Pillar 3 and 4?

And as Ben stated, we believe that we owe it to our stakeholders to consider all options, and recognize that not all would be viable or scalable, but we are exploring other options available to us.

And with that, I'll turn it back over to Ben to close.

CHIEF INVESTMENT OFFICER MENG: Thank you, Sarah.

Just on the appraisal, one question raised was that, you know, other appraisal in private equity portfolio tend to be inflated. And as Sarah mentioned, that is extremely unlikely.

For one, there's -- you know, there's established industry practice with auditing process in place. And for two, from our past observation, GP'S tend to undervalue their investment in the portfolio, so they would like to surprise the LPs on the upside when they truly exit the investment.

And thirdly, that GP is not compensated based on the interim valuation, neither their management fee nor their performance fee is based on the interim valuation.

So now I would take the opportunity address the last question raised is there seem to be some concern that you know, we have changed our narratives over the past 18 months. So I would like to address that generally speaking -- I would like to say that changes are good, especially when we explore innovation concepts as Pillar 3 and Pillar 4. It is the nature of the innovation and experimentation is to discover what works and what doesn't, and then we adjust our course of action accordingly.

Both John Maynard Keynes and Paul Samuelson, two renowned economists in history have said something along the lines that when my information changes, I change my mind. What do you do, sir?

So for that I applaud our staff's action in adjusting their position as they learn. It again shows that the staff is committed to funding the best approach for CalPERS by incorporating the new pieces of information as we discovered them. It shows that the staff is not preoccupied with any misconceived concept of saving face or being too rigid, too entrenched in our thinking to explore new and superior options when they appear.

So in addition to the questions we just walk through, we have received a number of letters from stakeholders, some supporting the proposed a business model and some voicing concerns or confusions regarding it. We have reviewed them all carefully, and our professional judgment remains the same, that it is prudent for CalPERS to continue to the second phase of this project.

Should the Committee approve the action item today, we would continue to report back to you periodically to give you a progress update, which include the expense outside of the approved INVO budget.

Further, I would like to emphasize that should the path to the right implementation be identified, full implementation would not proceed without a series of decisions and input from the Committee. For example, determining the scale of each pillar, if it is outside of the delegated authority, revising the Board statement of Investment Policy to reflect the business model, and as noted in agenda item, provision of a prudent person opinion to the Committee prior to funding any investment in Pillar 3 and 4.

So again, I would like to reiterate that today's action is not approve any one deal or revise our Investment Policy. At the end of the day, there are no new contracts and no dollar being put to work in Pillar 3 and 4. Rather, the item asks the Committee to affirm

CalPERS commitment to the continued exploration of an enhanced private equity business model through the addition of two new pillars, one focused on late stage venture and growth strategy, and the other focusing on long-term hold strategy.

So with that, thank you very much and we are happy to answer any questions you may have.

CHAIRPERSON SLATON: Okay. Thank you very much.

Mr. Feckner.

VICE CHAIRPERSON FECKNER: Thank you, Mr. Chairman. In order to move us forward and to put on the table for discussion, I would like to offer a motion.

I move the following:

The Investment Committee approve Pillars 3 and 4 in concept, and direct staff to include them in the update in the private equity strategic business model. The Committee directs the staff to develop the structure and guiding principles of the new pillars to be in compliance with the Board's Investment Beliefs and policies. The Committee recognizes the staff may propose policy changes for the Committee's approval. Staff will seek to identify and negotiate with capable partners. Expenditures on development of Pillars 3 and 4 will be managed within the existing INVO budget. The Committee will receive, at a minimum, quarterly progress reports. And lastly, prior to

Committee approval of any final implementation and funding plan, staff will supply the Committee a prudent person opinion.

Thank you, Mr. Chair.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON SLATON: Okay. I have a motion from Mr. Feckner, a second from Ms. Hollinger, is that right?

COMMITTEE MEMBER HOLLINGER: Ms. Taylor.

CHAIRPERSON SLATON: I'm sorry, Ms. Taylor. Thank you much. Sorry.

All right. Motion is on the floor.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you very much, Mr. Chair.

I want to thank you Mr. Yang[SIC] for this really clear presentation. It helped me get through a lot of the questions I think that we've had before. I did have one final question for Ms. Corr, just real quick. You had mentioned that you have investigated all other options, and they're either not viable or scalable. Can you give us some samples of that?

INTERIM MANAGING INVESTMENT DIRECTOR CORR: So I wouldn't say that we explored all other options. We have explored other options.

There's --

COMMITTEE MEMBER TAYLOR: Well, I didn't write "all". I just said "all".

INTERIM MANAGING INVESTMENT DIRECTOR CORR: We've locked at doing different co-investment strategies. We've looked at some other options for some separate accounts. We are pursuing some of those, but they -- to scale up to the -- between, you know, $10 billion that we need to deploy annually. We need other options besides co-investments and separate accounts.

COMMITTEE MEMBER TAYLOR: Okay. And so -- and we're doing co-investments in addition to Pillars 3 and 4, correct?

INTERIM MANAGING INVESTMENT DIRECTOR CORR: Correct.

COMMITTEE MEMBER TAYLOR: Okay. I just wanted to clarify that.

Again, I want to thank you for this very expansive and well-explained report.

Thank you.

CHIEF INVESTMENT OFFICER MENG: Thank you.

CHAIRPERSON SLATON: Controller Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. I also, too, want to just thank the staff for just providing a little bit more of the detail about what's behind the concept and appreciate that, you know, part of exploration and potential experimentation is going to be, you know, just trying to incorporate, you know, new information as we learn it. So I do appreciate that.

But I wanted to just kind of go back to a couple things. One, you know, just in terms of kind of what's been presented to us over the course of the last period of months -- and I'm trying to think about this, and it's been so focused on the two pillars, that I'm finding myself now trying to back up and just see how does this all fit with respect to our entire portfolio?

And so when I do that, it gets me to think about obviously what's the impact going to be potentially on providing relief to employer contribution rates. And I know one of the slides that gave me some concern last month was one that showed that increasing the allocation to private equity impacts projected average employer rates, I think, plus or minus three percentage points was the slide.

So that gets me thinking about how to look at this. And that is we're taking on a larger risk for a future benefit that likely will not move the needle with respect to providing any relief on contribution rates. But -- and this is kind of my problem. We're kind of looking at this kind of a little bit in a vacuum, but -- so that's one issue.

I think Mr. Cole at one point had talked about Pillar 4 not likely to lower costs in the short run or outperform the market, so that's kind of another aspect. And then I don't know that we've heard much about Pillar 3 with respect to expected returns. But I guess I have a little bit of skepticism about buying later stage venture companies that likely will be able to beat the market. But again, that's an unknown.

And then I was curious as to why Meketa was not given an opportunity to provide an opinion memo. But this is where I have asked for -- and I think part of my discomfort around this is that as you're exploring that we haven't been able to kind of just get a little inde -- more independent opinions along the way.

So regardless of the outcome of the motion, I would hope that we can have greater involvement from our consultant in real-time with respect to the evolving strategy, and -- such as providing opinion memos on the agenda items, and just getting information more real-time.

And then the thing that I really do hope we do get, because we are talking about new structures, new relationships, potentially new governance, and I would hope that this Committee would entertain a second fiduciary counsel opinion from a counsel with deeper investment experience. I mean, I think we're at that point now of where we just need to understand our ongoing relationship as fiduciaries with this strategy and model. And you've described some of that already.

So, I guess given all of that, I still have concerns. But I guess the more immediate concern is -- and I would, Mr. Chairman, like to invite Meketa to come up and give some remarks, if possible, after this.

CHAIRPERSON SLATON: Ms. Yee, I -- when I was viewing the materials last week -- and I've only been Chair since February, and I failed to notice until Friday that there was not a Meketa letter in the package. So I made contact with Meketa. We had a conversation. And, in fact, they did produce a letter, which was delivered this morning maybe in all the material that --

COMMITTEE MEMBER YEE: Yes, I have it in front of me. Yes.

CHAIRPERSON SLATON: Yeah. So that's their opinion letter. And we can certainly hear from them this morning as well.

COMMITTEE MEMBER YEE: Okay. Yeah, I would --

CHAIRPERSON SLATON: I apologize for it not getting out in the package earlier in the week.

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

MR. HARTT: Good morning, Steve Hartt, Meketa

Investment Group.

Thank you for the opportunity to speak today. I think, as staff has described, there is a lot of thought going into this opportunity here today. And that as we have spoken and the staff has spoken several times as this item has been thought about, that given the opportunities and -- that CalPERS has, and the challenges that it faces in order to deploy at scale, we continue to believe that the exploration of Pillars 3 and 4 make a lot of sense, and that it's something that staff should continue on.

We've heard today that staff's intention here is to continue that exploration to do it in a way that they will periodically report back to the Board and that today's action is not one that they're looking to seek approval for a particular investment strategy or partner at this point.

So I think that this makes a lot of sense, and that the way staff is approaching it makes sense. And they've articulated the particular objectives and goals that they would like to try to achieve as part of this exploration of Pillars 3 and 4 to help guide them philosophically about how they're going about doing it.

So I'm happy to discuss anything further.

CHAIRPERSON SLATON: Okay. Why don't -- why don't you stick around, because there may be some other questions.

MR. HARTT: Sure.

CHAIRPERSON SLATON: And Controller Yee, are you --

COMMITTEE MEMBER YEE: Just one more, if I could.

CHAIRPERSON SLATON: Sure.

COMMITTEE MEMBER YEE: And not for open session, but maybe just a question about the plan terms as you see them evolving. But is there -- do you have like any basic parameter of what plan terms may look like at this point, or is that still early? I mean, obviously, not going into specifics, but just --

CHIEF INVESTMENT OFFICER MENG: We have some idea -- ideally what will work for us. But these are further exploration. We don't know whether this working in today's market or not. And the details what we are thinking may be this afternoon we can discuss.

COMMITTEE MEMBER YEE: Okay. Thank you, Mr. Chair.

CHAIRPERSON SLATON: Okay. Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Mr. Chair.

I appreciate the report and your comments today. However, I still have concerns. In December, we got a due diligence report. I won't go into what was in that, but we actually never got answers to those outlined risks.

BCG, the consultant, basically outlined the risks and had some mitigation measures. Questions were asked and we had no responses to those, and we still don't have responses to those. And I really think it's important that it was a 41 page addendum that was in closed session. So it would be helpful to get those answers before we make a decision.

Also, I had requested information on co-investments and secondaries. I assume that's coming.

Also, what sort of fees and carry we're paying. Just like Ms. Yee said, it might be a closed session discussion. But again, we need to know that these pillars are going to increase returns -- net returns, and that costs will be down.

My other concern was back in John, CalPERS held a press conference. I believe Mr. Cole and Mr. Meng you were in that conference. And it's been reported to me that Mr. Cole told reporters that staff didn't need approval from the Board to move forward with Pillars 3 and 4. Merely, staff needed a change to the delegated authority.

My concern is if we approve Pillars 3 and 4 today, that staff could merely implement this as long as they stayed under the $2 billion delegated authority, that staff could move forward and do agreements. And that's a very big concern for me. And I want to hear you confirm that you're not going to do that, that you're not going to do Pillars 3 or 4 and stay under the delegated authority.

CHIEF INVESTMENT OFFICER MENG: Thanks for the question, Ms. Brown.

To answer the first three, the last one probably for John and our General Counsel to answer.

In terms of you mentioning in December the open questions that we still haven't answered yet, because that's exactly what we're asking for today for of the approval concept, so that we can continue with the second phase. We can discover what are the terms and conditions that may work for us, and what other risks mitigation of each measures.

The second question, you're absolutely right, the co-investment last month you asked. I said in opening remark, we plan to bring co-investment study back to you next month in April.

The third question, yes, it intends to increase net returns the total fund by having Pillar 3 and 4 together.

And the last one you're asking about John's comment at the January off-site at the media briefing, I'll turn that over to -- in terms of delegated authority, what kind of approval they need from this body, I'll turn it over to John and probably our General Counsel, Matt

Jacobs as well.

INVESTMENT DIRECTOR COLE: John Cole, CalPERS staff. I think it's important to note that throughout the process of reviewing the strategic model and in presenting these alternatives, we have said and commit publicly and often that in order to go to the next stage, which today's motion would address, that we would continue to engage and report to the Board at any level.

So the interview you're referring to is -- makes the distinction between if you read specifically what is necessary given our policies that delegated authority is specifically required for an exception that would lead to a larger commitment and investment. But our intention has been, and will -- continues to be that because these are different -- because we spent nearly two years discussing them, that whatever amount might be dedicated in these new directions would be together with the Board. It would be our decisions.

COMMITTEE MEMBER BROWN: So I just want to hear that we're not going to be doing multiple Pillar 3, multiple Pillar 4 under $2 billion, is that correct?

INVESTMENT DIRECTOR COLE: I want to be very clear that as we go along and we have gone to the market and understand what it -- would be possible in both Pillars 3 and 4, the notion which we laid out initially of a -- of the long-term plan that talked about $10 billion committed over 10 years in each of the two pillars was meant to give a sense of what the future would look like. And as a result, in simple terms, it -- it came across or it comes across as that might be done in a singular vehicle.

What I want to make clear is that we could choose to do multiple vehicles, but the idea would be to do it at a scale that ultimately would be that size. So I don't -- it's premature for us to be able to say that there will only be one vehicle.

CHIEF INVESTMENT OFFICER MENG: Yeah. So if I may secondly just add to that. We don't know yet. And this may get into our negotiation strategies, I would rather save this discussion for the afternoon.

COMMITTEE MEMBER BROWN: Sure. The concern I have though is that the strategy has been sold to us on two separate large pools, so we can have -- that we would have just two, one Pillar 3 and one Pillar 4. My concern is if you ended up doing five Pillar 3s and five Pillar 4s all less than $2 billion, with this approval today, you could move forward under the current delegated authority. And that's a concern I have. And I want to hear you commit today that that's not what you're going to do.

CHAIRPERSON SLATON: Ms. Brown.

INVESTMENT DIRECTOR COLE: We commit to that.

COMMITTEE MEMBER BROWN: Okay. Thank you.

CHAIRPERSON SLATON: Yeah. And I think it's clear in the motion. Regardless of the sizes, that this structure is going to come back to us.

COMMITTEE MEMBER BROWN: Great. Can you -- can you tell me about the role of the OCIO in investments. Up until December with Ms. Bourqui here, her name had been on the agenda items. And now I don't see Mr. -- Dan, I can't pronounce -- Bienvenue on the agenda items. So I don't understand. Because my understand is that the OCIO's role that they can actually not necessarily veto an item, but they're supposed to check and make sure that everything is okay. And I don't see the OCIO on the agenda item.

CHIEF INVESTMENT OFFICER MENG: So, Mr. Jones, you would like me to answer that question or --

COMMITTEE MEMBER JONES: Yes.

CHIEF INVESTMENT OFFICER MENG: Okay. So I have the COIO. So COIO have two main areas of responsibility, one is the operation part and the compliance part. And when Dan Bienvenue be came the interim COIO, we made a conscious decision that to carve out the compliance part to be under Eric Baggesen, so that -- because Dan Bienvenue is wearing two hats, the MID hat of Global Equity as well as the Interim COIO. So we would like him to continue to opine on investment decisions. And in order to do that, we decided to carve out the compliance function from Dan Bienvenue under Eric Baggesen.

And that's why when you're seeing signed agenda items, if it's under global equity, you see Dan Bienvenue's. If it's under operations, you see Dan Bienvenue's name. But if it's under compliance, you see Eric Baggesen's name first, and then Dan Bienvenue, and then mine.

And with that, I would like to also call on Marlene, our Chief Compliance Officer, to come up to explain the reason behind the set up as the -- for the interim period.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Good morning, Marlene Timberlake D'Adamo, Chief Compliance Officer, CalPERS.

So the question I think that Ben is asking is what is the role -- maybe why don't you repeat the question, Ben.

CHIEF INVESTMENT OFFICER MENG: So the question is the role of the COIO, particularly part of the independent check of the COIO role in terms of signing the agenda item, whether he or she agrees or disagrees with the -- with the agenda item.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So what you have outlaid is that the -- typically, the COIO role has several different activities and functions under its purview. And with Ben -- I'm sorry, Dan serving in the interim role, the compliance function was -- it was determined that that needed to be separate. And so the compliance function was moved to Eric Baggesen, so that that is separated from the investment activities and the investment decisions that are occurring, and that Dan could act in his capacity as the Managing Investment Director for Global Equity.

So I think what Ben has said is that when it comes to the review of the COIO, Eric is doing the compliance functions and operational risk and Dan is doing everything else.

Does that answer the question?

CHIEF INVESTMENT OFFICER MENG: And would you like to elaborate on the three lines of defense?

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Sure. So the operational model that CalPERS operates on right now is what's called three lines of defense. And for those of you that have been on the Board for a few years, you have seen this laid out in the Risk and Audit Committee materials, where we talk about who sits in the first line, who sits in the second line, and who sits in the third line. And the model itself is a --

is a model that is used by a lot of regulated entities, because it is meant to really sort of matrix, I'll say, the roles and responsibilities, and really to be able to provide independent checks on certain activities.

First line of defense sits within the business, and that is because those are the folks that are the closest to the risk. Their responsibility is to identify, assess, manage, and mitigate those risks. But they sit in the -- what I call, the vertical or essentially the business line.

Second line of defense is really meant as an independent overseer of that first line. And the thinking is, is that first line is supposed to escalate managed risk. They're the closest to the risk. They understand the risk. Second line is meant to provide oversight over that risk. And it's independent, so it doesn't report to the same vertical. So, for instance, Enterprise Compliance sits as second line function. I report to Marcie Frost.

First line of defense sits within the business and they report up to the COIO, as we just talked about, and ultimately to Ben.

Third line of defense is your audit function. And so the idea is that those three lines operating together are in the best possible position to help identify, manage, and mitigate risk, and also to provide independent outlets for concerns or activities and just to make sure that things are running the way that they're supposed to.

COMMITTEE MEMBER BROWN: I appreciate the answer. Although, there's no OCIO -- Eric Baggesen didn't sign this agenda item either, so it's a problem for me.

Thank you.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: The one -- the one thing -- Dan Bienvenue, Acting COIO. The one thing I would add to it, is that I do still see all the items. Having not signed it, I would have gladly signed it. We just decided to route in the way we did. I do see all agenda items in an initial folder that comes around, number one.

And number two, I think some of you are aware of some of the governance structures we have in the Investment Office around what we call our Investment Strategy Group, or our ISG. We consciously had me delegate the role of the voting member for global equity to John Cole. And I -- when I sit in the Investment Strategy Group, I actually sit as the COIO, which is where I have that sort of veto ability, that if there's something that gives me pause, I can stop it. So I hope -- I hope that helps.

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON SLATON: Okay. Thank you.

Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Thank you. Thank you very much.

I think it's important for everyone to put this in context. I sit on a global board, where we represent 34 trillion in assets. I just got back from the Women in Private Equity Conference. I can tell you that every sovereign wealth fund, every institutional investor -- I sat with Dallas Teachers, Texas Retirement, STRS, we are all looking to increase our allocation to this asset class. And typically, it's more than double the current allocation, even foundations.

I think we have to also recognize the danger going forward of flat returns for this fund. Flat returns will increase the unfunded liability, employer contribution rates. So with -- in context of a global picture, we used to have 8,000 public companies to invest in. We now have less than 4,000. How do you deploy at scale?

So we have to think outside of the box. The role of leadership in an organization is to think about what you could be doing. Not what you're doing, because what we're doing isn't going to move the needle.

So, Ben, I applaud your leadership, John, Marcie, the Investment team, because they are proactively acting like leaders and moving us forward into the future to think about what we could be doing.

So thank you.

CHAIRPERSON SLATON: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair.

First of all, I want to thank Ben and staff for the clarity in terms of responding to the number of questions that have been raised by the Board and by our stakeholders, including those that I received and forwarded to you yesterday, so I appreciate that.

I don't think it's a question of whether or not we need to invest in private equity. I think we all concluded that this is one of the highest asset returning classes, and that we need to do more, because we haven't been able to scale to bring in more returns from that category.

I think all of the -- what I'm hearing is is more or less around process and policy. And so a number of the responses that you made this morning to those questions deal with the process. And also, some of the questions that was raised this morning were dealing with policy issues, some of which cannot be discussed here in open session. They have to be deferred to closed session.

So I concur with Ms. Hollinger that you're doing the right thing. And I think we should move forward with this. If we are going to try and achieve those goals of getting -- of beating our actuarial rate of seven percent return. And it's been given that this is one of the asset classes that can do this -- do that.

And I do think though we need to, in closed session, respond to a couple questions that Ms. Brown and Ms. Yee asked. So given that, I can certainly be supportive of moving this forward.

CHAIRPERSON SLATON: Okay. Thank you, Mr. Jones.

Treasurer Ma.

COMMITTEE MEMBER MA: Thank you very much. So I just got here. This is my third month. And it was very hard for the last two months to figure out really what was happening. So I appreciate also the clarity, coming to my office, answering the questions -- many questions that my staff and I had, and even the 10 clarification questions today was very, very helpful. I understand better now what you are all trying to do.

I have also talked to many folks in the private equity realm and have -- and feel comfortable that the returns are exceeding what we are getting in the other asset classes.

I also agree that we should be exploring, like Ms. Hollinger said, any type of options that are going to get us to or over the seven percent return. And I agree with Ms. Yee that we should include Meketa, our consultants, in discussions, because that's why they're here is to also be that check and balance and advise us as well.

So I do have two questions in the motion and four recommendations or things that I would like the Board to think about adding into the motion.

But my first question is in paragraph 3, what is expenditures on development of Pillars 3 and 4 will be managed within the existing INVO budget? What does that mean?

CHIEF INVESTMENT OFFICER MENG: INVO is short -- there's so many acronyms in CalPERS I am still learning after almost eight -- seven plus years here. INVO stands for Investment Office. So the area get approved the budget. And on the budget note probably the best for Dan Bienvenue, the Interim Head of COIO, to talk about the Investment Office -- the budget for the Investment Office, and what our intended plan to carry out should you choose to approve the concept today for the next phase.

COMMITTEE MEMBER MA: Okay. Because I also heard that there would be no new contracts that would be signed at this time, no new dollar amounts allocated. So that's why having this vague expenditures will be managed. Are we going to spend money or not going to spend money?

CHIEF INVESTMENT OFFICER MENG: So we're talking about two things that no dollar means no investment dollar will be deployed. And the fees and expenses we're talking about the second phase, like the operating expense to find the right -- to identify the right partners and then to work out the desired governance and the economic terms.

So that is the expense in terms of -- as the operating expense. But we will not spend any dollar on investment -- or deploy any dollar on investments. So these are investment expense and operating expense. So Dan Bienvenue will talk about operating expense.

COMMITTEE MEMBER MA: Okay.

CHIEF INVESTMENT OFFICER MENG: And what I was talking about this morning is no investment dollar will be deployed.

COMMITTEE MEMBER MA: Okay. So I would like to see that added to the resolution. But my concern is that there is money being spent, and we are not being told how much money is being spent. And then at the end when we finally do ask, you know, it was X amount, and -- you know, because we didn't ask for those expenditures -- like, if you were going to report to us on a quarterly progress report, we would also -- I would also like you to let us know how much you've been spending internally on this concept.

CHIEF INVESTMENT OFFICER MENG: Right. So it is our plan, as I said in opening remarks, we're committed to reporting back to you. Give you a progress update quarterly. And part of that including any expenses that are outside of the approved budget. So we are committed to do that.

COMMITTEE MEMBER MA: Okay. Then the last -- the second question is prior to Committee approval of a final implementation funding plan, staff will supply the Committee a prudent person opinion. What does that mean?

CHIEF INVESTMENT OFFICER MENG: So the prudent person opinion, so again, the second phase again, should you approve the concept today, we'll go out to further explore this concept to identify the capable partners and then work out what -- what is the desired governance structure and economic interest. So once we have all the terms together, we'll hire an independent -- the prudent person opinion, almost like an independent third party to comment on these details, the governance structure, the terms. So that's a prudent person opinion.

COMMITTEE MEMBER MA: So like a third-party consultant --

CHIEF INVESTMENT OFFICER MENG: Yes.

COMMITTEE MEMBER MA: -- outside consultant?

CHIEF INVESTMENT OFFICER MENG: Yes.

COMMITTEE MEMBER MA: And then would the plan go out for an RFP or how would it be awarded this general partner?

CHIEF INVESTMENT OFFICER MENG: Okay. That we'll turn the PPO process -- the selection of the PPO -- I know there's an established procedure. I will turn to the more capable more knowledgeable person.

COMMITTEE MEMBER MA: Okay.

CHIEF INVESTMENT OFFICER MENG: That would be Sarah Corr.

INTERIM MANAGING INVESTMENT DIRECTOR CORR: So for the prudent person opinion, we have a pool of consultants that we could use for that, and we would bid that out, as far as finding a capable partner. At this point in time, we don't anticipate using an RFP process.

COMMITTEE MEMBER MA: Okay. And then after you come back with a implementation and funding plan, would it necessitate another vote by this Investment Committee or not. It's very unclear.

CHIEF INVESTMENT OFFICER MENG: I would say yes.

COMMITTEE MEMBER MA: Okay. So that's what I would like to add. I would like to add that no new contracts are to be signed at this time. No new investment amounts are going to be allocated at this time of our investment pool. We are not committing any retirement funds to a general partner at this time. And that after implementation and funding plan is established, you will come back and get another vote by this Committee before moving forward. Those are the things that are unclear to me.

CHIEF INVESTMENT OFFICER MENG: Yeah. So as I said in my opening remarks, there were remarks that we'll back to you for any needed revision of the Investment Policy, should it outside of -- should it be outside of delegated -- current delegated authority. So if it's outside the current delegated authority, we'll come back to you for revision for the Investment Policy.

COMMITTEE MEMBER MA: Okay. So I just requested four things to be added for clarification. I don't know how others feel, but I think it would make me feel more comfortable having those specific items in their instead of us having to come back and revisit minutes, if we heard something, and didn't hear something. I just think it's better to put it in writing.

COMMITTEE MEMBER BROWN: If that's a motion, I'll second that motion.

CHAIRPERSON SLATON: So let's go through and make sure what we're talking about. One I got was no commitment that funding investments will require a final vote by this Committee, right?

COMMITTEE MEMBER MA: Right.

CHAIRPERSON SLATON: So that's one of them.

COMMITTEE MEMBER MA: Yes.

CHAIRPERSON SLATON: Okay. Let's go one by one. Would the maker of the motion accept that as an amendment?

VICE CHAIRPERSON FECKNER: Yes.

CHAIRPERSON SLATON: All right. So that would go after the last sentence.

COMMITTEE MEMBER MA: Okay.

CHAIRPERSON SLATON: So no funding -- funding investments will require a final vote by the Committee.

COMMITTEE MEMBER MA: Okay.

CHAIRPERSON SLATON: All right. What were the others thre? Let's go through them and make sure we understand.

COMMITTEE MEMBER MA: Well, Mr. Meng said no new contracts were to be signed at this time.

CHAIRPERSON SLATON: Well, if there's -- if there's no money to be spent --

COMMITTEE MEMBER BROWN: Well, they could sign a contract.

COMMITTEE MEMBER MA: The contracts sometimes cost money. And if they're going to sign contracts, then I just want to --

CHIEF INVESTMENT OFFICER MENG: Sorry. Can I clarify?

The contract mean -- again, go back to the investment or operating. So we will not sign any investment contract, but we may sign some contracts -- operating contracts. For example, if you require a PPO or outside consultant, or -- when we discover a certain topic that requires a deeper dive into the area, we may need some additional opinions. So that we may sign contract, but that's part of the discovery process. That's called -- is operating expense. But we're not signing any contract on investment. We're not deploying any investment dollars, just for clarification.

COMMITTEE MEMBER MA: Okay. I mean --

CHAIRPERSON SLATON: So let me add just a bit of clarity, maybe it would hope. Currently, the Investment Office in the private equity space spends effort, time, dollars, consultants, negotiating, travel, all sorts of things in order to fulfill the mandate of meeting the requirement for private equity.

So the Chair's view is the operational part of this, that exploratory operational part, is really no different than the current process that INVO uses to expend operational funds in the budget in order to explore particular private equity investments.

So I think the motion includes that it -- that this shall be done within the existing INVO budget, excluding the actual investments. And we're saying it has to come back for a vote before there's actually any expenditure on investments.

COMMITTEE MEMBER MA: Okay. So I just got here, so I don't how much money gets spent doing these type of exploratory so --

CHAIRPERSON SLATON: Let's find out.

COMMITTEE MEMBER MA: Yes. And so if there are going to be contracts, and I'd like to say the Committee will receive quarterly progress reports, including dollar amounts spent outside of the INVO or budget. Since we are authorizing you all to move forward with Pillars 3 and 4, we'd kind of like to know how much it's costing and not buried in a budget someplace.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Yes. So this Dan Bienvenue again. Maybe I can help a little bit. On the budget, the way process works here is that annually our budget comes to Finance and Admin -- the Finance and Admin Committee of the Board, and then the full Board for approval. So you currently -- we currently have an approved budget for fiscal year

'18-'19. That's the one that's in place now. And we're working our way through the process for coming up with our budget for '19-'20. We're getting close, but we need to get it through the final sort of executive approval and then it -- that one, too, will come to Finance and Admin Committee, and to budget for approval. So you will see the numbers.

As far as letting you know any incremental contracts that are strictly for this, we can certainly include that in the quarterly reporting. We're happy to do that. I will say that things like staff time can be a little bit challenging to disentangle, whether this is working on this or working on that. But certainly explicit expenditures on Pillars 3 and 4, whether it's contracting or otherwise, we can certainly include.

And our goal would be to bring us much transparency to that as we can.

COMMITTEE MEMBER MA: Okay.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: And as I said, you will get to see the '19-'20 budget when it gets proposed to Finance and Admin.

COMMITTEE MEMBER MA: Okay. And then how about the vote by this Committee before moving forward, is that required? Is --

CHAIRPERSON SLATON: Well, I think I added that in the end --

COMMITTEE MEMBER MA: Okay.

CHAIRPERSON SLATON: -- that the -- no funding investment -- funding of investments will require a final vote by the Committee.

COMMITTEE MEMBER MA: Okay.

CHAIRPERSON SLATON: So --

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: And we could include any expenditures. If we were to, you know, work our way through and get to a place where we thought that the '19-'20 budget, that again will be approved by this group, were to become a constraint, we would certainly come back to you before we -- before we exceeded the budget.

COMMITTEE MEMBER MA: Okay. And so I'm just asking.

CHAIRPERSON SLATON: Yeah.

COMMITTEE MEMBER MA: So the Committee will receive quarterly progress reports. I don't want to just hear what's happening, but also how much money is being spent pursuing this. So I would like to --

CHAIRPERSON SLATON: So if -- so if we said including external contract expenses? Would that be --

COMMITTEE MEMBER MA: That would be --

CHAIRPERSON SLATON: Would that be sufficient?

Would the maker of the motion accept that?

VICE CHAIRPERSON FECKNER: Yes.

CHAIRPERSON SLATON: Oh. And the second?

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON SLATON: Okay. She accepts it too.

All right. So --

COMMITTEE MEMBER MA: Thank you very much, members.

CHAIRPERSON SLATON: All right. So we've got basically those two changes to the motion -- all right -- so far.

Okay. Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. I want to thank Mr. Meng and the whole CalPERS team. Everybody that's touched this. This has been challenging. And I think a lot of the challenge has just been in how we communicate a concept. And that's the thing I really take home today is we're really focused on this at the concept level. And it's -- for me personally, I tend to want to dive into, well, what about the details that are -- we're still several steps away from.

And most of my concerns have to do with, well, the devil could be in the details when we get to them, but we haven't got there yet. And without this approval, we don't get there.

The other thing is I tend to sometimes say, well, wait a minute, even a bigger picture than the concept. Maybe we should be talking about, you know, our whole allocation, and private equity versus -- but that's a different level of decision making the other direction, which is for a different time and a different discussion.

And so you really helped me focus in on what is really before us right now. And that is are we going to go forward and explore the potential for this, are we going to delegate to staff and give staff the support to go forward and see are there deals to be made, is there something that we can work out the governance structure and the details that will help us have confidence that we'll make the kind of numbers we need to across the whole portfolio to get to that seven percent?

And in that context, I think that we really -- we need to go forward. We need to do what we can to explore those opportunities and those possibilities, because the status quo, I think, is unlikely to let us hit our targets.

And so we'll certainly have that bigger picture discussion when we go back to our portfolio allocations. I'm kind of on record as saying I think we need more private equity over time in the long run, but that will be a different discussion.

We'll also get to discuss some of the devil in the details in that next phase when staff comes back to us and says we think there's a deal to be made here or we didn't find any opportunities this go round, but we'll keep looking.

But for today, I see the future is looking for innovation, looking where we can take CalPERS' unique strengths of scale, and brand, and reputation, and market leadership, and everything, and put them into play in a way that really no one else can.

And so I'm in support for giving the team the opportunity to look and see what tools we can put on our tool belt. And ultimately, we'll see whether we -- we use them, or need them, or can -- but without a positive decision today, we're just spinning our wheels and sitting with the status quo.

CHAIRPERSON SLATON: Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

I just have two final questions I should have asked for the record. Is this an investment decision?

CHAIRPERSON SLATON: You mean today?

COMMITTEE MEMBER BROWN: Yes.

CHAIRPERSON SLATON: I would say it's not an investment decision today.

COMMITTEE MEMBER BROWN: Great. And for the record, what experts developed this strategy?

CHIEF INVESTMENT OFFICER MENG: Both internal expert and external experts.

COMMITTEE MEMBER BROWN: Yeah. I want their names. For the record, who developed the -- who were the experts that developed this strategy, consultants, staff?

CHIEF INVESTMENT OFFICER MENG: So as on the internal, you're looking at us on the table, plus the private equity team, and the head of Real Assets Paul Mouchakkaa and his team. So that's our internal expertise.

Externally, I want to say from what I know, people like Larry Sonsini and other well-established industry veteran investors in private equity, some of them being a conversation with people such as KKR, Blackstone. Maybe I can leave John and Sarah to -- you know, Hamilton Lane. So we talk to a number of highly respected industry experts as well with our global peers, such as the Canadian fund, some of the Asian funds.

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON SLATON: Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. Yes, I really appreciate the presentation and all the work that's been done. I want to thank the CEO, the Chief CIO, all the staff, both Investment and Compliance, and all your input in trying to clarify and bring a comfort level as it can be given the risk and mitigation efforts to this Board.

I also want to thank the fellow CalPERS Board members for their viligance -- vigilance. And also, the questions that were asked and the concerns expressed, I think the motion is finally amended is very strong and provides a road forward. And I would call for the question, Mr. Chair.

COMMITTEE MEMBER BROWN: Can we have a roll call

CHAIRPERSON SLATON: Well, we can certainly do a roll call vote, but we have other Board members who wish to speak, and I would want to hear from them first before we call the question.

And we'll also hear from the public before there's a vote.

Mr. Perez.

COMMITTEE MEMBER PEREZ: So in my world, we live in -- police officers, we live in lanes and boxes. So it's difficult for me to reconcile voting on a -- well, first, let me say that I do support the team. We do need private equity. Ben, you continue to have my support. I'm 100 percent confident in you and your team. So I'm excited about that. This is -- this is exciting.

My issue is voting on a concept. I wish there was another vehicle which we could show that support as opposed to an action item. And I understand that that came from the Committee. That's it. That's it.

CHAIRPERSON SLATON: Ms. Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: Thank you, Mr. Chair. Ben and team, I want to thank all of you for the work that you've -- that you've done and that you've put into this. I hope that what you hear is that we want to proceed to do the best that we can to give you the tools to do the best that we can, but there's -- there's a lot of gray.

So every step of the way moving forward being clear and extra clear is great, things such as -- nuanced as, you know, I think, I'm not sure, none of that. We want to get to as much detail as possible. It helps. It helps the Board.

Stay on course, but I just want to remind, you know, you -- this is a -- the rest of us it's a step-by-step process. This today is just to allow you, right, to -- to get to the next step and be as detailed -- I just ask that you be as detailed as you possibly can each step of the way.

CHIEF INVESTMENT OFFICER MENG: Yes. Thank you. And to both your comment and Mr. Perez question, that's exactly the action we're asking the Committee to take today, so that we can go down to the next phase of this project. Then we have more details for you all, you know, be shared -- to be shared. And, you know, we're committed to be very open, and transparent, and clear communication with you every step of along the way.

CHAIRPERSON SLATON: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Just one additional comment. And I appreciate the operations that we have these lines of defense, and it's necessary in any organization. But ultimately, this Committee and this Board holds the CEO and the CIO accountable. So regardless of who signs that document down in that organization, we hold the CEO, and subsequently the CIO, responsible for this.

CHAIRPERSON SLATON: Okay. I don't have any further requests from Committee members. We have a lot of -- we have a long list of people who wish to speak on this item, as well as some later items. So what I'd like to do is take a 10-minute break. So we will start again at 10:38.

(Off record: 10:28 a.m.)

(Thereupon a recess was taken.)

(On record: 10:40 a.m.)

CHAIRPERSON SLATON: Okay. I think we're back in session.

Mr. Feckner.

VICE CHAIRPERSON FECKNER: Thank you, Mr. Chair. It's been requested that I try and recap and reaffirm the motion going forward. So here we go. I move the following:

The Investment Committee approves Pillars 3 and 4 in concept and directs staff to include them in the update to the private equity strategic business model. The Committee directs staff to develop the structure and guiding principles of the new pillars to be in compliance with the Board's Investment Beliefs and policies. The Committee recognizes that staff may propose policy changes for Committee approval.

Staff will seek to identify and negotiate with capable partners. Expenditures on development of Pillars 3 and 4 will be managed with the existing INVO budget. The Committee will receive, at a minimum, quarterly progress reports, including only -- including any executed external contracts.

Prior to Committee approval of a final implementation and funding plan, staff will supply the Committee a prudent person opinion. Any commitments for funding investments will require a final vote by this Committee.

Thank you, Mr. Chair.

CHAIRPERSON SLATON: Okay. Hopefully that gives clarity so everybody understands, because it's somewhat of a lengthy motion.

We have members of the public who wish to address us. And a member has requested and I'm granting four minutes. So that means on this particular Agenda Item 8a the speakers will have up to four minutes. But I encourage you, if you can make your remarks in three or under, it would be appreciated.

So the first three people, and you can occupy these chairs, so that we can move expeditiously, Mr. Jelincic, Mr. Darby, and Mr. Soares.

You may proceed.

MR. JELINCIC: I'm J.J. Jelincic, a retiree.

You're being asked to approve, in concept, what technol -- the technology industry calls vaporware. Before you approve "it", you should know what "it" is. No one should have to point out to you that you are fiduciaries, and the trust documents give you the authority and responsibility to invest the assets of the trust. You may use agents, but that does not relieve you of your responsibilities.

In order to approve this, you must find it prudent to reject all the academic research in order to accept the industry sales pitch based on your expertise.

In a search for the same level of returns, you must find it to be prudent to refer higher fees over lower fees, less liquidity over more liquidity, prefer less transparency over more transparency, prefer unknown and unquantifiable risk over defined and identified risk.

You're being asked to find it prudent to give trust assets to a company that you do not own, who will talk to your staff, but will take direction from neither you nor your staff. The company will partner with an LLC, which you will not own, to purchase undisclosed companies. These entities, and not the trust, will own the assets.

You have been told numerous times that you must get the governance right. In order to approve this concept, you must find that it is prudent and consistent with your duty of loyalty to the beneficiaries to abdicate control and oversight.

In order to approve this concept, you must find the Warren Buffett, who you claim to be your model, is imprudent in disclosing what companies he invests in. If you approve this model, you will be finding all of your current managers imprudent for issuing press releases when they purchase companies. If you believe your current PE managers are imprudent and you do not fire them, then you are in major breach of both your duty of prudence and loyalty.

Every time this -- I hate to -- or at least hesitate to call it a plan, is discussed in public, it changes. It's a good thing, because plans cannot -- this plan cannot stand up to sunshine.

STRS is to be commended for developing much of its co-investment plan in the open. This has permitted the beneficiaries to know what the trustees are doing with their money and it has also permitted the CalSTRS Board consultants to weigh in.

Sunshine is a great disinfectant. This vaporware needs much work before it is ready to be approved even in concept. Direct the staff to continue to explore and develop this plan.

And I would point out that changing plans as you develop is okay, but you should be able to say this is the change we are making and this is what we learned that led to that change, rather than just announce that things are different without ever pointing out to the change being made. I urge you to direct staff to continue to explore, but I would not approve vaporware in concept.

Thank you.

CHAIRPERSON SLATON: Mr. Darby

MR. DARBY: Mr. Chair, Board members, Al Darby, President Retired Public Employees Association.

RPEA continues to oppose the two now known as member managers -- managing members approach. In recent forums, the narrative by proponents of CalPERS direct has changed to we need to do something more in private equity, and Pillars 3 and 4 are the best method to accomplish the new private equity objectives. However, the Investment staff is still uncertain about whether the proposed semi-autonomous general partner structure is the right approach.

Although the research and the experts are said to support this approach, and in other pension funds are said -- are said to be adopting it, there seems to be no documentation in verifying these claims. We do know that the entire -- Ontario Teachers have successfully done this work in-house for 10 years. There's no explanation why it can't be done here, except that I'm told that the laws in California -- or the laws in Canada permit it to a greater degree than it would here, but there's nothing specifically stated about that.

It would be prudent for CalPERS to adopt the Ontario Teachers approach, and thereby avoiding entanglements with independent outside entities that CalPERS may not always agree with. Outside non-public financial entities sometimes look for cozy relationships that provide kickbacks and other perks to the principles. We know that CalPERS members would not want their trust fund to be involved in any such schemes.

In view of this, an in-house approach to CalPERS would be a more prudent course in the beginning, rather than as a secondary approach, which seems to be what's being proposed. And with a new manager in private equity, which has been missing here for two years, it might be possible to bring this off. The argument that CalPERS can't find competent private equity experts is debunked by the claim that CalPERS staff says they can find general partner private equity experts. If they can find them, they ought to be able to find secondary private equity experts out there in the world.

Finding private equity acquisition experts should be easier, since they're going to be doing a Warren Buffett type approach to the acquisitions, which is much kinder and gentler, and it would be easier to accomplish.

The claim that some companies do not want to be bought by public pension funds due to transparency concerns is dubious. The right price is the most important factor. I just spoke to someone who was acquired by Genstar and he said they turned down a -- an offer from a company he preferred to be bought by to take the money -- the more money that the less desirable PE firm offered. So price is the most important factor.

Moreover, most companies would welcome CalPERS commitment to support healthy company growth instead of stripping its assets, leveraging it, cutting staff, managed bankruptcies, and whatever else traditional PE does. I spoke with the ex-head of the Texas Teachers Retirement System and he debunked this system as well.

I -- we urge you not to go forward with this style in Pillars 3 and 4. Go in-house first.

Thank you.

CHAIRPERSON SLATON: Thank you, Mr. Darby.

Mr. Soares.

MR. SOARES: Thank you very much.

My name is David Soares. I'm a licensed attorney. I'm retired after 32 years as a prosecutor in Santa Clara County. And first of all, I would like to incorporate my letter dated March 14th, which I sent via email, and which some of you have acknowledged by reply email, and I really appreciate that very much, reminding you of your obligations as the sole fiduciaries for the CalPERS fund.

I'm very concerned about this motion today, which seems to be a motion to do nothing. Mr. Meng, I've been following the last 18 months the development of this. What started out as CalPERS direct and is now Pillars 3 and 4. And I was gratified to hear Mr. Meng this morning, because he appears to have walked back everything that I have heard for the last 18 months.

And Mr. Feckner's motion seems to be almost a non-motion about this concept. Keep doing what you've been doing for the last 18 and get back to us. Why do we need a motion for that?

I'm very concerned that for some reason there's some face saving that's going to happen. I think that Mr. Meng is clearly walking this back, because he realizes that what's been done so far don't make sense. And I completely agree with his conclusion that the most important things are the implementation details and the government -- governance structure, which we basically have heard nothing about in the PowerPoints that have been presented to the Board over the last 18 months.

The concern is that we signal the markets that we're serious about this project. Well, as I suggest in my letter, the most important signal that we can send to the markets is filling a permanent Managing Director for Private Equity, a position that has been vacant for two years next month, since Mr. Desrochers left CalPERS. That is what will signal the markets that we're serious, and when the Board should start taking action, such as passing a motion to pursue this concept.

That being said, something happened this morning that made what little hair I have left stand on end. And that is Mr. Jones said that there's going to be further discussion in closed session. And Ms. Brown asked Mr. Meng are we talking about investment today? And Mr. Meng said, no. And I'd just like to remind this Board that under the Bagley-Keene Open Meeting Law, the exception under Government Code section 11126 subdivision (c), subdivision (15) allows closed session by pension boards about investment decisions. It does not provide an exception for discussion about creating governance structures. These are matters which are of public concern and must be discussed in public session.

And, in fact, Government Code Section 11130.7 makes it a crime for a board member to discuss in closed session a matter which that board member reasonably believes should be open to the public.

And I just -- I'm flabbergasted that this Board is discussing these governance issues, which are very important and matters of public concern, in closed session.

Thank you very much for giving me the opportunity to address you this morning.

CHAIRPERSON SLATON: Just one clarification, Mr. Soares. The question was asked are we in this session discussing specific investment? And so the answer was in relationship to this open session, not to what may be discussed in closed session.

MR. SOARES: And I'm -- What I'm saying is at this meeting of the Board --

CHAIRPERSON SLATON: I understand.

MR. SOARES: -- open or closed session, if you're discussing in closed session matters that are governance structure and not investment, there's a problem.

CHAIRPERSON SLATON: I think we -- we understand, Mr. Soares, and we have counsel to advise us on this. So thank you very much. Appreciate your comments.

MR. SOARES: Good luck with that.

CHAIRPERSON SLATON: Okay.

MR. JELINCIC: Mr. Chair, I would luke to --

CHAIRPERSON SLATON: No, you've -- you've had your public comment.

MR. JELINCIC: I would like to request a copy of the Meketa letter.

CHAIRPERSON SLATON: The Meketa letter is public information. I believe it was distributed to the Committee in open session.

MR. JELINCIC: Yeah, I would just like a copy.

CHAIRPERSON SLATON: So if it's not on the back, we'll make sure to get it in the back.

MR. JELINCIC: Okay. I'd like a -- I'd just like a copy. Thank you.

CHAIRPERSON SLATON: All right. Next speakers, Mr. Woodson, Mr. Ingram, and Mr. Hutchings.

MR. WOODSON: Can I defer to Ms. Hueg on behalf of -- first, so I can follow her?

CHAIRPERSON SLATON: Ms. Hueg, yeah, that's fine. Would you come up first? Followed by Mr. Woodson and followed by Mr. Ingram.

MS. HUEG: Thank you.

CHAIRPERSON SLATON: Okay.

Ms. Hueg

MS. HUEG: Thank you. My name is Stephanie Hueg, California State Retirees. I'm speaking on behalf of Tim Behrens, the President.

CHAIRPERSON SLATON: Just a moment, ma'am.

MS. HUEG: Yes.

CHAIRPERSON SLATON: I want to make sure the clock is set.

MS. HUEG: I don't care about no clocks.

(Laughter.)

CHAIRPERSON SLATON: Well, we do.

(Laughter.)

CHAIRPERSON SLATON: We do, so it's okay.

Thank you. Now, you may proceed. Thank you.

MS. HUEG: Thank you very much for having me today or allowing me to speak. My comments today are directed to the recommendations of staff for this Committee to approve the concept of Pillars 3 and 4 in the PE business model. As you know CSR has not yet taken a pro or con position, but has raised many concerns before this Committee and with staff regarding various aspects of this plan.

We have expressed concerns regarding the lack of transparency to members of the two -- of the two general partners --

(Thereupon a sneeze from the audience.)

MS. HUEG: God bless you, whoever that was.

Anyway -- and our and funded pension assets. We have received no assurances that the start up and annual expenses associated with creating these private companies would be less than the current 2 plus 20 percent expenses paid under the current PE model. We've been told the contracts with these two companies would be non-disclosable under the Public Records Act.

We also have concerns with the governance model, which places huge authority in the two CEOs for these companies, including selecting all their own advisory board members, and not reportable to us.

We have continued to ask questions of staff to be better understand this model. And since we fully support the goal of increasing our funded status by increasing our returns, we still have concerns.

We have heard that it is important for the Board to send a signal to the market that it wants to pursue this model, so that they can retain the interest of potential top tier candidates. But we don't believe it's prudent for the Board to approve a concept for which so many execution milestones remain uncertain.

I don't recall this Board ever being asked to approve a concept, especially -- or this Committee, especially one which has been projected to invest 20 billion of our assets with so many unanswered questions. It's customary with uncertainty for staff to design pilot projects on a smaller scale with verifiable outcomes before proceeding to the large scale implementation.

We now have four very new Board members who have been -- who have had limited, and in one case, almost no time to become familiar with not just this plan, but all the many responsibilities they have assumed.

We don't believe it possible for them to carry out their due diligence and fiduciary duty on our behalf on this plan, and therefore request reasonable time for them to get fully up to speed, and request you delay a vote of -- or vote no on the approval of this concept today.

Thank you.

CHAIRPERSON SLATON: Thank you, ma'am.

Mr. Woodson.

MR. WOODSON: Good morning. Larry Woodson, California State Retirees. Mr. Chairman, members of the Board, thank you for the opportunity to comment. Also thanks to Mr. Meng for answering our stakeholder questions. We submitted those last week and we were told we would have answers Friday. We got them today, and a couple of -- and so we're having to digest them on the spot.

But I do have a response to a couple of their answers. One on transparency, CSR has always understood that 3 and 4 investments and returns would be as publicly available as the current model. That hasn't been our issue. And as Ms. Hueg pointed out, it is that these contracts will essentially be secret. The expenses to fund these two private entities will not be disclosable. And we've heard estimates of up to $100 million annually. So it's impossible for us to know if there's, you know, savings over the 2 plus 20 model.

Also, on the valuation issue and the validity, the answer this morning was that, you know, sales of private equity were very profitable. But that really kind of redefines the whole valuation reporting, because the vast majority of funds -- the vast majority of investments are illiquid and they are self valued by the PE manager, so it's not just the sales.

In moving to CalPERS report as of June 30th, 2018, shows that CalPERS 10-year return is at nine percent. So, you know, it depends on how you slice it. I heard the high -- the high one. But over the last 10 years, it's been nine percent.

And, of course, nine percent sounds decent. But if you do question the validity of those -- of the valuations, then it is questionable. I've found several studies that suggest investors are not getting true valuation from the firms they invest in. One Stanford study show almost half of the 113 of the largest PE firms had overvalued their returns, and 13 of them by 100 percent. These are billion dollar firms, and the kind that CalPERS is consulting with and would be turning to for staffing.

So valuation may be unreliable due to the fact that PE firms self-report, and there are no regulatory or professional uniform standards for reporting. So these managers are collecting two percent management fees based on their self-reported valuation.

Finally, we've heard, and we know, PE has higher risk. There's another risk to this plan, which can't be quantified. And that's risk associated with a governance model itself, and the hiring of just two managers to invest up to $20 billion of our assets.

First, diversification in firms in the number of firms lowers risk. Putting 20 billion into two firms raises it. And there is the risk of hiring someone with high skills, but low ethical standards. And unfortunately, there's no reliable method screening for that, as you know.

Too many examples in the PE and hedge fund markets of unethical and illegal behavior. And I'll just end by pointing out that Bill McGlashan who's the founder and managing partner of TPG, a major PE firm, which CalPERS has over a billion dollars invested, was indicted for $250,000 bribes to get his son into USC. He's been terminated. But he and his top managers self-report TPG value to CalPERS.

So, in conclusion, please consider voting against this proposal.

Thank you.

CHAIRPERSON SLATON: Thank you. I would ask the staff not to automatically turn off the microphone.

MS. HUEG: Thank you.

CHAIRPERSON SLATON: Allow people to finish their comments. So I apologize, Mr. Woodson.

Mr. Ingram, Mr. Hutchings, and Ms. Milstein.

Mr. Ingram.

MR. RUBEN INGRAM: Thank you. I'm Ruben Ingram, the Executive Director of School Employers Association of California. We represent school districts and superintendents.

We are here to urge you to adopt the recommendation from your staff. I know that there was some discussions earlier about what a board's role is. And there were talks about being visionary. And that's what we believe this requires is a vision and looking to the future.

I had a plan today to have Brett McFadden, the superintendent from Nevada Joint Union High School District here, but he had a family emergency. But he did send me his story, and that's what we wanted to share with you. Because as you know, as employers, we're concerned about the return, we're concerned about our contribution rates. And so I do have his story, and I'm going to share it with you today.

In the last three years from 2014-15 to 2017-2018, his district has had a 16 percent increase in contribution rates for CalPERS. For 2018-2019, he's projecting a 27 percent increase. And his five-year projection is an increase of 47 percent.

And so I think you can see that his district and all of our districts need your help to look forward and find ways to mitigate these increases. And I know you know that those things are happening.

So, with that, I would just say we support the recommendation. We look forward to how this plan will develop, and we hope it will help us, because we really need your help.

Thank you very much.

CHAIRPERSON SLATON: Thank you very much.

Mr. Hutchings.

MR. HUTCHINGS: Good morning, Chair. Dane Hutchings with the League of California Cities. Here in strong support of staff's recommendation to approve this in concept. I think it's important to realize that over the past 18 months there have been diligent discussions, and this is yet just another step in exploring, perhaps going into a new route to try to maximize returns.

You know, and quite frankly, I want to thank the Board for their, you know, continuing to ask these right questions. You guys -- you guys are asking the right questions, and really showing your due diligence. And I think a healthy amount of skepticism is a good thing. It shows that you're taking your fiduciary responsibility seriously. It shows that you're not looking out just for the employer, the employee, or the retiree, but the whole system. And so I do want to thank you for that.

But I will say I think that Board member Hollinger hit it on the head with regards to taking -- you know, having -- having to look at what the -- what the future holds, what is working right -- or what is happening right now is not working, and you've got to think -- think outside of the box.

So, you know, I continue to sort of share these numbers with you just to sort of remind you the difference really perhaps where cities are compared to where perhaps the State is from a financial position.

You know, so assuming we hit seven percent, which Wilshire has already said that over the next 10 years is probably not going to happen. We're thinking closer to 6.2 percent. But assume for a moment we're going to hit seven percent over the next 10 years, we are going to have over a doubling of our contribution rates for cities. We're going to have 10 percent of our cities spending anywhere from 18 to 21 percent or more of their entire general fund budget, not including heath care, not including salary, nothing. That is the minimum contribution to pay for CalPERS.

And to put that in perspective, that's about 50 cities. And that's again assuming they hit the seven percent rate. When you -- when you factor in the shortening of the amortization schedule, and with the discount rate reduction, you know, fiscal year '24-'25, that's when -- that's when things are really going to get real scary for our city governments trying to provide services in the future.

One of the things I -- that our association likes about the PE model is that it is going to really maximize the most profitable asset allocation within the portfolio. I mean, we've seen what private equity has done over the -- over the past 20 years, particularly in fiscal years '17-'18. We are not asking this Board to do anything that is erroneous. You guys are taking your time. You're doing your due diligence. We would -- we would hope that you continue to do that.

With me today I have Leyne Milstein, the Assistant City Manager for the City of Sacramento to share her story. And I will succeed my time to her.

Thank you very much.

CHAIRPERSON SLATON: Ms. Milstein.

MS. MILSTEIN: Good morning. Leyne Milstein. I'm Assistant City Manager of the City of Sacramento.

As you're aware, and you've heard here this morning, pension contributions for public agencies continue to increase significantly across California, and Sacramento is not immune to these rising costs.

With our pension costs doubling over the next five years - and I'll put that in perspective 100 percent cost increase - from an estimated $67 million we'll be spending this year to over $125 million in five years. So that's 10 percent of our general fund. And our revenues are not growing at that rate.

As such, the City of Sacramento supports new and innovative tools that will provide strong returns for employers, employees, and our retirees who are depending on the sustainability of the pension fund. Over the last 20 years, private equity has exceeded an average of 10 percent. And it's critical that CalPERS remain vigilant in seeking ways to maximize investment returns.

CalPERS proposed private equity model appears to be an opportunity to allow the fund to recruit the industry's best investment professionals focused on maximizing returns. And I hope that the Committee and the Board will support continued consideration of this new model.

Thank you.

CHAIRPERSON SLATON: Thank you very much.

Next, we have Mr. Gibbons and Mr. Neill.

MR. GIBBONS: Chair and members of the Committee. Dillon Gibbons with the California Special Districts Association here in strong support of the staff proposal for Pillars 3 and 4 with regard to the private equity models.

We're excited to see the efforts of staff and the direction that the Board has given the staff to try to maximize the investments of the fund. For the last several years, we've been coming and testifying to -- to the Board asking for assistance, while supporting efforts of the reduction of the discount rate, because it was the prudent and responsible thing to do the shortening of the amortization period, but also saying, look, we're -- we keep paying more money. What can you do to help us?

And this is something I think monumental for CalPERS to do and an effort to assist public agencies, and employers, and employees. For those reasons, we're -- we support the private equity model and encourage the Board to continue down this path taking a proactive approach to try and maximize fund returns.

CHAIRPERSON SLATON: Thank you.

Mr. Neill.

MR. NEILL: Yes. Geoff Neill with the California State Association of Counties. I want to associate myself with the comments of Mr. Gibbons and Mr. Hutchings, in the same way as special districts, and cities, counties have been struggling with increased costs for their public -- public pensions, many of them, though not all of them invest with CalPERS and have seen increasing in contribution rates really strongly support this proposal to try to increase the returns. Appreciate the attempt to do something that's a little bit different for this Board. Although, as was pointed out earlier, this is something that is being done at many institutions across the country and across the world. It's unexceptional in that regard, and we think makes sense for this Board to pursue.

Thank you.

CHAIRPERSON SLATON: Thank you very much.

And I want to thank all of the people who've come to address us today on this topic. You know, we've talked about this concept for these private equity models for over 18 months. And the foundation of our discussion has been our shared goal, which is to earn a seven percent return to help pay the benefits that have been promised to our members. And that continues to remain our primary focus, and private equity is one tool we have to achieve it.

I want to thank the staff for the work to date. I know that there's a tremendous amount of work going forward, and that hopefully we are going to take a team approach to this with us being responsible for oversight and meeting our fiduciary duty, while at the same time your role is to present to us a plan that can accommodate the increased returns and meet the objectives that we have in the private equity space.

So I don't have any further requests to speak, and I think I did hear a request for a roll call vote on this one from someone, as I recall.

So -- all right. So we will -- the motion has been made and seconded. Let's -- actually it's an electronic vote and you'll see it up on the -- coming up on the screen.

Okay. Committee members, please vote.

(Thereupon an electronic vote was taken.)

CHAIRPERSON SLATON: All right. The motion passes. Thank you very much.

We'll now move to Item number 9a, Sustainable Investment Update.

CHIEF INVESTMENT OFFICER MENG: Now, please the team member from Sustainable Investments please come up.

(Thereupon an overhead presentation was presented as follows.)

MANAGING INVESTMENT DIRECTOR RICHTMAN: Good morning. Beth Richtman, Sustainable Investments Program.

I'm here today to give you an update on our sustainable investments activities in 2018. With me are two colleagues of mine from the Sustainable Investments team, Divya Mankikar and Carrie Douglas-Fong, who will respectively cover our approach to climate change and also our recent research on economic inequality.

A lot happened in 2018. We're halfway through our five year Total Fund Strategic Plan, and I'm pleased to report that as a whole, we are on track for delivering the objectives approved by the Board in 2016. All the information about the plan's initiatives, timeline, and progress, as well as specifics about the initiatives are included in your appendix.

A lot of great work and collaboration throughout the Investment Office has driven our results to date. Also, I want to mention how important our external partners have been from organizations such as Ceres, PRI, SASB, ICGN, and CII, which are critical to the work we're doing.

Also, I'd like to highlight a few initiatives in the strategic plan in terms of progress. First, I'll mention Climate Action 100+. Climate Action 100+ has grown into a global engagement initiative, which now has over 300 investors representing more than $32 trillion behind it. And they're collectively engaging in 161 companies across the world. That -- it's really come a long especially in the past year, and we're excited about where it's going, which Simiso Nzima will talk about in a subsequent item on corporate governance.

Next, I want to note that staff conducted research on water scarcity in 2018. A multi-asset class team analyzed water scarcity at the total fund level. And as a result, for the first time, the Investment Office has insights into which industries and asset classes in our portfolio are most exposed to water scarcity risk.

In the strategic plan, it mentions in 2019 that a sustainable investments report will be issued. I want to note that we are actually working to overall our website as a way to provide updates on the work we're doing in a more ongoing basis.

So mostly we're on target for the strategic plan, but I do want to flag a few challenges.

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MANAGING INVESTMENT DIRECTOR RICHTMAN: The strategic plan asks -- asks staff to report on the carbon footprinting of our private equity portfolio in 2020. Basically, a carbon footprint is a snapshot of the carbon emissions of an investment portfolio at a period of time. Usually, it's looked at over the course of a year.

Though we remain on track for delivering carbon footprints for most of our asset classes, carbon emissions data just isn't available for the vast majority of our private equity portfolio, and we'd prefer to extend the deadline to try to get better data, rather than to report a very rough estimate next year.

Second, ESG integration is listed as a challenge, but that's not at all because work isn't happening or progress isn't being made. Rather, it's a journey we're on, and it's a work in progress. ESG integration for us is mainly about focusing on sustainable investment topics that can affect our risk and return. Industry tools and data remain in early stages, but are maturing. And there's growing acceptance of the importance of ESG topic analysis to finance professionals in terms of making investment decisions.

Related to that, I did want to just take a brief minute and point out a recent position statement that came out from the CFA Institute, which is the organization of chartered financial analysts. They said more thorough consideration of ESG factors by financial professionals can improve the fundamental analysis they undertake, and ultimately the investment choices they make.

Further, the CFA Institute encourages all investment professionals to consider ESG factors, where relevant, as an important part of the analytical and investment decision-making process, regardless of investment style, asset class, or investment approach.

Staff has been spending a lot of time exploring new tools and working on the strategic plan initiative on data and corporate reporting in order to usher in an era, where we have improved ESG data and information to help us and the market better price related risks and opportunities.

That said, integration requires different tools and approaches for our different asset classes, and styles of investment. To illustrate this point, I'll use real assets and global equity. In our real assets program, individual large assets are being carefully underwritten, and frequently Sustainable Investments staff is pulled in to consult with the Real Assets team and their managers to help analyze particular ESG topics that can affect the returns.

That type of fundamental underwriting of individual assets in real assets is simply different from how investment decision making works in our global equity portfolio, which has more than 10,000 stocks and is the largest part of CalPERS portfolio.

Rather than review of each stock, securities come in and out of our internally managed global equity portfolio, mainly through a systematic and quantitative prose. So therefore, ESG integration means very different things for those two very different styles of investment decision making.

There is also the consideration of how our benchmarks are designed, and whether they align well with ESG-informed decision making and CalPERS longer term horizon. A lot to think about, but progress is being made in thinking about these challenges.

So looking beyond the strategic plan, there are a few new and substantial pieces of work I wanted to bring to your attention. First, I'll note that in 2018, the Financial Markets team and their workstream became part of the Sustainable Investments Program. Two main areas of focus for our Financial Markets team are data and corporate reporting, very much in line with our strategic plan, and also market structure.

For market structure, the team works to address marketplace conflicts of interest and inefficiencies, with the goal of reducing transaction costs and improving our performance.

Second, in 2018, CalPERS led by our CEO helped found the Investor Leadership Network. This organization organizes initiatives for leading investors interested in addressing sustainability and long-term growth. One of the initiatives focuses on climate risk reporting, which is very timely, given the -- the new requirements of Senate Bill 964 that was passed last year, which are described in the appendix.

Climate change is a big topic for us as

investors, given the multiple risks and opportunities which accompany the unprecedented changes to the economy and physical world expected from the various facets of climate change.

We are currently at a one degree Celsius temperature rice globally. And the world and the economy are already seeing impacts. In 2017 and 2018, there were over $500 billion of economic losses from natural disasters. Munich Re, the world's largest global reinsurer, pointed to climate change as a key driver.

Yet, with global policies and practices, the temperature is set to rise an additional two to three degrees by the end of the century. With that rise, there's expected to be increasingly extreme and volatile weather and changes to the ecosystems that support so much of our business activity and our portfolio. These changes are unprecedented in human history, let alone since the development of financial markets.

We're tackling this very big topic in two ways. One, we're working to mitigate the absolute risk of climate change through emissions reductions, and also working to inform our investment decisions. For us, climate change is a systemic problem that requires and -- systemic tools like carbon pricing to address.

Divya Mankikar will now walk us through the set of related and reinforcing activities we're working on around climate change.

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INVESTMENT MANAGER MANKIKAR: Thank you, Beth. Divya Mankikar, Investment Manager with Sustainable Investment.

So on slide 3 you have our overall approach, and I'll just give you a little bit more detail on a couple of the bullet points here.

So broadly speaking, we are looking at research and integration, advocacy, and engagement-related activities. On research and integration, the SI Program is working to pilot and procure tools that can help our asset classes leverage climate science to inform relevant investment decisions. Though climate science is very mature, translating climate science in a manner that can inform investment decisions is an emerging tactic.

You may have seen in September that we announced leveraging a new partnership between Wellington Asset Management and Woods Hole Research Center, where we will be piloting insights from their research collaboration.

Wellington Asset Management is one of the world's largest asset managers. And Woods Hole is a world class climate research institution whose current president was a senior advisor to the previous administration's National

Science and Technology Council.

So we'll be working with them to distill their research on the physical impacts of climate change mapped at a global level into actionable investment insights that are useful to our decision process.

The last point on integration, we look forward to collaborating with the asset classes and INVO leadership to identify economically attractive opportunities that enhance returns and reduce emissions.

The next subheading there is advocacy. On advocacy we'll continue supporting -- sorry, analyzing and commenting on relevant regulation. For example, this past year, we submitted written comments to the EPA on environmental policy changes. For over a decade, CalPERS has repeatedly weighed in on domestic and international policy in support of greater disclosure from companies on climb-related risks, reduced fossil fuel subsidies, and regulation that prices carbon emissions.

A meaningful price creates an economic -- sorry, a meaningful carbon price creates an economic signal to companies that their -- and their customers that can incentivize lower carbon choices. And we feel carbon pricing is an investor-aligned approach. In aggregate, these lower carbon choices can help get us on track to a thriving low-carbon economy.

So as part of our annual principles review at a later date, we'll be proposing updating our governance and sustainability principles with the language on slide 4 to bring our principles in line with our long-standing support for such policy. We anticipate leveraging collaboration with our strategic partners that Beth mentioned earlier, as we think setting a meaningful price on carbon is key to getting our economy on track for a temperature rise limited to one and a half degrees, and that this would shield our portfolio from the worst effects of climate change.

Finally, back on slide 3, the subheading on engagement. We continue to support CalPERS work on Climate Action 100+ through collaborating with Corporate Governance on engaging major emitters. Further detail on those engagements will be provided by Corporate Governance shortly. And SI also helps to coordinate and provide leadership to Climate Action 100+ through contributing to the steering committee and the global working groups.

In addition, we've begun engaging companies dependent on agriculture through their direct emissions or through dependence on the sector and their supply chains. Particularly, we've begun working on deforestation and land-use change, because cultivation of soy, palm oil, timber, and cattle is one of the largest causes of carbon emissions.

Protecting forests is important for slowing climate change, because of the forests ability to pull carbon dioxide out of the atmosphere and ultimately store carbon.

Finally, this year, we're working on a report on climate-related financial risk under the purview of SB 964. This California legislation requires that CalPERS report on climate-related financial risks to our portfolio by January 1st, 2020. We're hopeful that the process of doing the substantial work for our climate risk reporting will be useful in helping our Investment Office and Board better understand the climate risks that we face as investors.

And with that, I'll turn to Carrie Douglas-Fong to take you through our approach on economic inequality.

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ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: Thank you, Divya, Carrie Douglas-Fong, Sustainable Investments.

First, background on why we're presenting a report on economic inequality. Noting increased economic inequality, Investment Committee members requested staff research the issue and bring back an update to the Committee. Today, we're providing that update.

The research we present builds upon prior work on the Sustainable Investment Research Initiative, or SIRI.

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ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: If you look to page 13 of your presentation, there's information on this as well PERFORMED by Columbia Law School, UC Davis Graduate School of Management, and Investment Office staff.

SIRI included a review of over 1,800 academic papers, and two symposiums at UC Davis. The 27 symposium focused on areas of human capital, including inequality. Results of the SIRI review of academic papers were inconclusive and did not identify actual -- actionable solutions for an investor.

In 2008, staff initiated a second research project in response to Investment Committee's request. Research focused on economic inequality, which is the extent to which both income and wealth is distributed unevenly among a population. Our research involved review of industry reports, reading relevant literature, and speaking with experts and other investors.

Some of the most valuable information came from the Investment Office economists who compiled economic data and reports that addressed inequality. Throughout our research, we focused on what was most relevant to an investor.

Our findings. Some research was conflicting and not actual for an investor. That said, the data did provide us with the following observations:

Economic inequality has increased in the United States dramatically since the 1970s. The 2008 Global Financial Crisis exacerbated existing inequality in the United States. Inequality seems well linked to geopolitical risk. It's hard not to find historical and current examples to support this, the fall of the Roman Empire, French Revolution, and events leading to World War II all illustrate how economic inequality increases geopolitical risk.

Today, we see a worldwide pattern of increased expression of populist views that appear driven, at least in part, by concerns over increased inequality. These include the yellow vest movement, Brexit, and current national debate on inequality in policy in the United States. Notably, in all cases, worker frustration with economic inequality is an important factor.

Given the geopolitical risk, staff compiled a list of next steps found on page five of our PowerPoint.

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ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: There are several we would like to conclude with. We can achieve strong investment returns, refine and further establish human capital management metrics, and finally, continue our financial markets work, which looks to promote healthy markets and address systemic risk, and prevent another 2008 financial market collapse.

Back to Beth.

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MANAGING INVESTMENT DIRECTOR RICHTMAN: Thank you, Carrie and Divya. We look forward to continuing the progress --

CHAIRPERSON SLATON: Microphone.

MANAGING INVESTMENT DIRECTOR RICHTMAN: Oh, sorry. Thank you, Carrie and Divya.

We look forward to continuing our progress an all these investment topics and efforts. And we are happy to take any questions you have or feedback. Additionally, Wilshire, the Board consultant, did submit a letter and is available for questions after our Q and A as well.

CHAIRPERSON SLATON: Yeah. Why don't we have Wilshire make a comment on this now, and then we do have Board members who have questions.

MR. DANIEL INGRAM: Happy to. Daniel Ingram from Wilshire Consulting. Thank you very much. Just a quick update on the sustainable investment team that we've included a letter in your packet. Here, we thought it would be helpful just to give a quick update, given some of the team changes and some of the new Board members. A quick note on process, we -- we went to host a series of meetings with different members of the sustainable investment team with Ms. Richtman and some of her direct reports, and reviewed some of their materials and outputs over the course of the past 12 months.

The letter that we showed you, just really two points to make. One is around the change in structure. Clearly, in the past 12 months, the appointment of a Managing Investment Director in Ms. Richtman has been a big change to the Sustainable Investment Program. The team will be up to its full complement of 14 staff probably in the next few months. The team structure has changed with the bringing in of financial markets and responsible contracting.

In addition to the change in structure, there's also been a change in approach. We'd like to highlight this change in approach as a positive to move away from what can be quite a sort of clunky, potentially siloed approach to project-based outputs. The team is now clearly moving to much more of a strategic approach trying to join up the dots to help better inform investment decisions across the Investment Office.

And our opinion is that there is an emerging collaborative team culture. There is evidence of increased curiosity amongst the investment team around the materiality of environmental, social, and governance risks and opportunities. And the team's work is consistent with CalPERS Investment Beliefs.

Thank you.

CHAIRPERSON SLATON: Okay. Controller Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. Thank you for the report. I had a couple questions. Could you elaborate a little bit more about the challenge with the carbon footprint of private equity, and do you think you'll have enough information to meet to meet the new schedule?

INVESTMENT MANAGER MANKIKAR: Sure. So in researching how we would potentially approach carbon footprint in private equity, we've looked at examples that exist in the marketplace. And there are really just a handful. When you compare that to other asset classes, there are dozens of examples, and a cottage industry of experts willing to help us sort through reported data, different methodologies for estimating, and for then aggregating the footprint at the total portfolio level.

CDF, formally known a Carbon Disclosure Project, which is the main original source for such data, has been, you know, developing an approach to looking at private company disclosure. But still, their data set of disclosed company information pales in comparison to the publicly-listed asset classes.

So really, you know, where we would look is to support greater disclosure from private companies, which we can then ultimately aggregate into a portfolio carbon footprint.

COMMITTEE MEMBER YEE: I see. Okay. And then -- and first of all, thank you for -- I mean, when -- I think when we set out with our ESG strategic plan, it seemed like all the pieces were quite daunting. But it just really is beautifully kind of coming together, in terms of the integration of some of the pieces. But there's still challenges in terms of fully integrating the Investment Office. And I guess, can you just describe kind of the ongoing plans in terms of fully integrating ESG into our investment decisions?

MANAGING INVESTMENT DIRECTOR RICHTMAN: So, you know, as I noted in comments earlier -- Beth Richtman, CalPERS staff -- there is a lot of progress being made. And I would say that different asset classes are at different places in their journeys. I think, you know, some of the tools that have been emerging have proved very useful. For -- for instance, for Real Assets, they have the GRESB tool, and an ESG consideration matrix. Fixed Income has developed a lot of processes for how they are analyzing and tracking their analysis of ESG risks and opportunities when they do review corporate bonds.

But there still remains, I guess, lack of standardization for reporting for our publicly traded companies. And that is an area where CalPERS is very much focusing. And, you know, we have been working closely with SASB, which is the Sustainable Accounting Standards Board. Both Dan Bienvenue and I - he's the head of our Globe Equity Program - both sit on the SASB Investor Advisory Group. And we see that as working to push forward standards on a global basis.

We also have numerous positions on various financial markets and data and corporate reporting related entities and engagements in progress globally to try to improve the standards for what's getting reported. And that -- once we have that, it's going to be -- once we have really high quality standards and greater transparency about the ESG risks and opportunities, it's easier to integrate into your investment decision making.

But also, as mentioned, we do have very different investment decision-making processes in our different asset classes, which affects what can be done.

COMMITTEE MEMBER YEE: Right. Right. Okay.

You -- talking about the strategies for addressing income inequality, and I wanted to see if you could give us a little bit more flavor about the two ESG-themed strategies that addresses income inequality that CalPERS has invested the $2 billion.

MANAGING INVESTMENT DIRECTOR RICHTMAN: I'm sorry. Could you repeat the questions. I'm not quite sure I understand.

COMMITTEE MEMBER YEE: I think it was Slide 12 --

MANAGING INVESTMENT DIRECTOR RICHTMAN: Oh, slide, 12.

COMMITTEE MEMBER YEE: -- about the ESG-themed strategies addressing income inequality. Can you just describe those a little bit?

MANAGING INVESTMENT DIRECTOR RICHTMAN: Oh, so this was about -- so on slide 12, we described the research we completed --

COMMITTEE MEMBER YEE: Oh, okay.

MANAGING INVESTMENT DIRECTOR RICHTMAN: -- on water risk and economic inequality. Separately, it discusses that there were -- global equity did conduct some research on ESG strategies for global equity that weren't focused on economic inequality, but were focused on using ESG factors as a way to actually drive alpha in their portfolio, and they did invest in two strategies.

COMMITTEE MEMBER YEE: Okay. And then with respect to advocacy, I guess where is the SEC now with respect to just trying to help facilitate corporate response to either TCFD or SASB reporting?

MANAGING INVESTMENT DIRECTOR RICHTMAN: So I would say it's a work in progress. There are -- there is progress being made in -- for instance, CalPERS did support a human capital petition. And that -- we're hoping that will be further discussed in the coming year related to that topic.

Recently, actually, I think several members of the -- well, Sustainable Investment Team, but also I believe Dan was -- were in Washington D.C. about a week ago, and they met with Chair Clayton to talk about where the SEC is. And one piece of feedback I got from that meeting, and I'd let Dan or Don Pontes from our Financial Markets team chime in if they'd like, is that there is the question of what ESG means to different investors, because there is some confusion in the marketplace about what ESG means to various people.

I think it's interesting when I meet either stakeholders or even new Board members sometimes, they -- ESG, how it's reported in the press it makes it sound like it's about divestment or about one particular aspect of ESG, rather than it being about looking at what are the material environment, social, or governance topics that could be relevant to a particular industry or a particular investment decision making.

So it's -- I'd say it's still a journey. I think that they are still looking for clarity from investors. And that's one of the reasons we're very supportive of the approach that SASB is taking, and working with SASB to even improve what they have and build upon it, just because it's very focused on materiality and focused on industry-by-industry issues.

COMMITTEE MEMBER YEE: Okay. Great.

And then I was unclear about the Investor Leadership Network in terms of the goal of the Network and implementing of the TCFD disclosures. How does that relate or sync up with the Climate Action 100+ engagements?

MANAGING INVESTMENT DIRECTOR RICHTMAN: Sure. So those are a little separate. So Climate Action 100 is focusing on the companies disclosing according to TCFD. The Investor Leadership Network is focused on how investors like CalPERS and the other funds involved can disclose.

COMMITTEE MEMBER YEE: I see.

MANAGING INVESTMENT DIRECTOR RICHTMAN: Now, they are related in that in order for us to analyze the risk to our portfolios posed by the various aspects of climate change, for instance, transition risk or physical risk, we do actually need better reporting from our underlying companies. So that's where the Climate Action 100 push on getting companies to disclose does help that.

INVESTMENT DIRECTOR SIMPSON: Thank you. Anne Simpson, CalPERS team member.

I just wanted to add a little bit more detail in response to the question about the SEC. As you know, CalPERS sits on the Investor Advisory Committee, which had a hearing on ESG reporting towards the end of last year, which I think did a great deal to start mapping out, as Beth says, bring some clarity to really what we mean by environmental, social, and governance issues, and how they've become relevant for investors.

The next meeting of the Investor Advisory Committee we're expecting to make a recommendation that the SEC pick up rulemaking on human capital management. And this is an issue which CalPERS was very actively involved in supporting a petition to the SEC a couple of years ago. But it looks as though we're on the brink now of having that recommendation. And then we'll obviously be in a position to look at the SEC's response to that. So really I think some very good progress.

COMMITTEE MEMBER YEE: Okay. Good. That's good to hear.

And then one last question, if I may. And this may relate to the next time as well, but there's been a lot in the news about expected IPOs for Uber, Lyft, and a number of other companies. And just curious if you've heard anything about whether they plan to issue shares with full voting rights or are we -- that's what our principles call for, but I'm...

MANAGING INVESTMENT DIRECTOR RICHTMAN: I'm brining up Don Pontes who works as part of the Sustainable Investments team on our financial markets work.

COMMITTEE MEMBER YEE: Okay.

INVESTMENT DIRECTOR PONTES: Great. Good morning. Don Pontes, Investment Director, Sustainable Investments.

So we've had capital formation brought up a couple of times today, so certainly a very important topic. The structure of IPOs obviously we've had -- CalPERS has been very active with regard to our concerns over dual-class structures, our concerns in particular over no-vote structures. And we are continuing to advocate in that space.

However, really highlighting the comment from earlier from Ms. Hollinger with regard to the shrinking number of public companies, we do need to be aware that we may want to, as a group of asset owners, as long-term investors, seek a more amenable solution in trying to encourage these small upstart companies to utilize public capital formation.

But at the same time, obviously our priority is ultimately working towards one share one vote, maintaining sufficient investor protections, and transparency.

And so it -- it's an ongoing effort, both with our peers, our asset owner peers, a number of industry groups, CII being predominant, ICGN as well. And you've seen a number of solutions that have been put out that are attempting to maintain those protections while also promoting these companies to utilize public capital formation, sunset provisions being I think the most preeminent version of that.

The idea for the -- for Lyft is that they will have -- I don't know if we've had updated information as of today. I'll be clear. But with regard to a dual-class structure, we have not had -- and anybody can jump in if they have specifics. But with regard to the pure no-vote structure, which is our true concern, it has been quite sometime. And I think the efforts from CII, from ourselves, from other asset owners, and members of the pension community have been very active in identifying.

And not to mention, you had a visit here, at least at the off-site, with Commissioner Jackson in January, who's been a strong advocate in our corner, and in the corner of the industry of long-term investors with regard to really identifying the concerns. While we want to encourage these small companies to utilize public capital formation, ongoing perpetual control by insiders is certainly not in that best interests.

In fact, there's data that supports right around that six to seven year window is when those benefits potentially shrift. So this is an ongoing effort. It's one that we're very active. I will say that the engagement with the Commission both through Anne's membership in the IAC has been critical, but also our ongoing meeting -- ongoing meetings with the Commissioners themselves, specifically Commissioner Jackson, but also Chair Clayton and others. We've been very active in just making sure that our concerns are being heard in his space.

COMMITTEE MEMBER YEE: Great. Thank you very much. Thank you, Mr. Chairman.

CHAIRPERSON SLATON: Okay.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chair. I want to thank you, Beth, for the really clear concise report, and then kind of expanding on that report. I do appreciate it. I'm very happy to see our Climate Action 100. You guys have done an excellent job with that. It didn't start with that, as I recall. It started with, what was it, 80? 60? 80? So congratulations. This was a huge accomplishment with $32 trillion. I think that's amazing.

I also wanted to ask about our income inequality. And you know that that's been an interest of mine. And I really appreciate -- and I've lost the page. Where did it go? On page five -- woops. Was it page five? One of the questions I think that I had was -- maybe it wasn't page five. Hold on a second. There it is. Page 13, I'm sorry.

You have economic inequalities on the observations to date, on the far right-hand column. "Economic inequality's effect on growth is unclear. Economic gains may have shifted from labor to owners". I think we can cross out "may". But I think one of the comments that I'd like to make, and then a question I'll follow up with. As -- and we're going to have this later as a presentation, which is our say-on-pay, right? One of the reasons that I think that we're so active with say-on-pay and CEO pay is because it directly links to income inequality.

And the -- when -- when CEOs are being paid 340 times what the average employee in the United States is being paid, that's a huge income inequality wealth inequality problem. So it's important that we also draw -- when you talked about the geopolitical risk, well, as an institution and in collaboration, I think it's important that we look at what that say-on-pay means. It means that those CEOs and those corporations have a say on our political system, because they can buy that say. And that takes away from the tax base in our communities, cities, counties and states, which thereby widens the gap of the wealth inequality, because they get to vote basically with their money.

And we just saw it with a huge tax break that redistributes the wealth to the one percent, where the rest of us are just barely making it by. So I think -- and I know we've got this five-year strategy, so I'm not asking you guys to do this now, but I think something we need to consider, if we are looking at income inequality and looking at someway to resolve these issues, we need to look at tax policy.

So my question is, is there a way we can do that at a later date. I know we have our five-year strategy set. But I think tax policy is very important when we're looking at wealth redistribution.

MANAGING INVESTMENT DIRECTOR RICHTMAN: Well, two comments. One, I will say related to compensation, one of the -- if you look at item five -- on page five --

COMMITTEE MEMBER TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR RICHTMAN: -- just to say that we are going to be coming back to the Board as part of the Total Fund Policy review with updated language on the compensation section of our principles --

COMMITTEE MEMBER TAYLOR: Good.

MANAGING INVESTMENT DIRECTOR RICHTMAN: -- to talk more holistically about corporation's compensation of their workforce, and not just to focus on executive pay. That said, Simiso and the Corporate Governance team will be talking about our current activities related to proxy voting and corporate engagement about executive pay.

On tax policy, that is a complex topic for CalPERS, and one where I think there would have to be, I think, substantial discussions before we'd weigh in on tax policy, given just our tax-exempt status amongst other things.

COMMITTEE MEMBER TAYLOR: Understandable. Understandable. But I think that it's important that we at least take a look at it, do a little research on it. I'm not -- and again, I'm not asking -- I know we're -- our plates are full. I'm not asking for you guys to do that right now.

MANAGING INVESTMENT DIRECTOR RICHTMAN: Yeah. The other thing I just will point out that on this same slide you can see that is -- I guess the third bullet down, is that we are going to be reviewing and potentially commenting on policies that could exacerbate or decrease risks from economic inequality. So that is something that we will do as part of our review of policy on an ongoing basis.

COMMITTEE MEMBER TAYLOR: Thank you very much.

CHAIRPERSON SLATON: Controller Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I neglected to ask -- well, first, thank you for the proposed incorporation of the carbon pricing framework. And I just want to get a sense of timing of when that may be before us to actually incorporate fully.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Thank you for the question. As Acting COIO, one thing that we've talked about is kind of how and when we update our policies. If you'll recall from all of the asset classes, policies get looked at once per year with the program review. We've decided to migrate to that for the total fund. So we will do the Total Fund Policy -- right now, there hasn't been a -- the history has been that the Total Fund Policy has been open far too frequently. We would like to move to a place where we open it once a year just like the asset classes, do it in concurrent with the August total fund performance review, where staff takes the lead. So it would be a first read in August, second read in September. We would move to that as an annual basis.

COMMITTEE MEMBER YEE: Okay. Thank you.

CHAIRPERSON SLATON: All right. Thank you for the presentation for the materials. We do have a lot of people who have signed up to speak on this particular item.

So I have I think 19 people who've signed up. And so you can easily do the math at three minutes and figure out how long that's going to take. So I would ask if we can clear five seats here. I'm going to call people up five people at a time, so we can be efficient in our time. You will have up to three minutes. I want to emphasize it's up to three minutes. You don't have to take all of your time. And I would ask you all to do the best job you can in not being repetitive of people who've made comments before. But if you have original thoughts, we'd certainly want to hear them.

So the first five people, Deborah -- and I apologize in advance, if I mispronounce your name. So when you come up and start at the microphone, the timer will be set. You'll be able to see the clock below me. And -- well, the first three names are Deborah Silvey, Debora Hammond, Richard Godfrey, Patrice Sutton, and

Robert Gould, M.D.

And so if you'll state your name and your affiliation, if any, and you'll have up to three minutes. And are you Ms. Silvey?

MS. SILVEY: I am.

CHAIRPERSON SLATON: All right. Very good. You may start.

MR. SILVEY: So thank you. Yes. Thank you for allowing me to speak today. I am Deborah Silvey. I'm President and Board Chair of Fossil Free California. And a little over four years ago, I helped launch Fossil Free California just outside this building with the mission of promoting a just transition to a low carbon economy by reducing financial support for fossil fuels.

I'm also a CalPERS retiree, and I'm very grateful for this pension. I share your goal of ensuring that this fund continues to do well. But today, I'm even more concerned about the risk fossil fuel investments pose to our retirement funds than I was four years ago.

The current value of fossil fuel companies derives from their stated reserves, what still lies in the ground. But that value is on the decline, and it will continue to decline. These reserves are likely to become stranded assets sooner than we might have thought until recently. That's because there's growing awareness among financial and political leaders, apart from the U.S. administration, that we have to act now to keep temperatures from catastrophic increases. And a huge key to stopping temperature rise is to stop burning fossil fuels.

The rapid growth of renewable technologies will decrease fossil fuel's value even more. If this decline is inevitable, how can it best be managed for our financial future? We believe now is the time for a managed decline in investment in fossil fuels. This means taking a considered look at the kinds of companies that present the greatest risk.

Norway gives an important model for us. In its recent decision to divest $1 trillion of its wealth fund from oil and gas exploration companies, the objective, according to its Finance Minister, is quote, "To reduce the vulnerability of our common wealth to a permanent oil price decline. Hence...", he continues, "...it's more accurate to sell companies which explore and produce oil and gas rather than selling a broadly diversified energy sector".

We believe CalPERS can follow that model. Rather than propping up companies that continue to ignore climate science and confuse the public, do something else. Like Norway, stop investing in companies that explore for needless new drilling sites. They're wasting their money and ours.

Thank you.

CHAIRPERSON SLATON: Thank you, ma'am.

Ms. Hammond.

MS. HAMMOND: Hi. My name is Debora Hammond. And I'm a CalPERS retiree from Sonoma State University. I'm also here in support of Fossil Free California.

And I thank you for your efforts to integrate sustainability concerns in investment decisions. And I really appreciate the presentation from Beth Richtman and her staff. And also, thank you for the opportunity to express my concerns regarding the investment of my pension funds and the fossil fuel industry.

The environmental and ethical considerations are reason enough to begin to pull our funds out of fossil fuels, especially continued exploration. However, I think the financial arguments are even more compelling. I understand that CalPERS has lost approximately $16 billion over the past 10 years due to its investment in fossil fuels. Global indexes without fossil fuels are now outperforming those with fossil fuels. Over a thousand institutions, including the World Bank and the country of Ireland are in the process of divesting over $8 trillion in fossil fuels -- fossil fuel funds.

Projections for future returns on fossil fuel investments assume that all fossil fuel reserves will be consumed, which is highly unrealistic given the growing political impetus for policies restricting carbon emissions. Demand for fossil fuels is already in decline. Renewable energy is already competitive, economically and will only continue to be more so.

According to Science Daily, continuing current levels of investment in production, despite declining demand, could trigger a carbon bubble, resulting in a global wealth loss of several trillion dollars comparable to that which triggered the financial crisis in 2007.

With its enormous financial resources, CalPERS could play a critical role in averting this disaster and helping to fund the transition to a clean energy economy.

Thank you very much.

CHAIRPERSON SLATON: Thank you, ma'am.

Next, Richard Godfrey.

MR. GODFREY: Thank you very much for the opportunity to present to you. I'm going to, if I may, read one sentence -- or, excuse me, paragraph from a letter from the Mayor of Fremont, Lily Mei. I serve as the Chair of the Environmental Sustainability Commission. And as you may know, and you've received this letter already, the City of Fremont did divest from all fossil fuels recently.

The letter states, just this one paragraph, "With alternative investment strategies and sustainable and reliable funds, CalPERS is already prepared to pursue a fossil fuel divestment position and strategy. The City of Fremont encourages your agency to continue seeking sustainable growth investments in robust and reliable funds, so as to increase better yields, while at the same time completely divesting your holdings from fossil fuels".

On a more personal note, I would just like to say I've served as a surgical oncologist for 35 years, so I'm familiar with uncontrolled growth. But even more, all of you, and many of you are parents, have children, and you know there's such a thing as a tipping point. And that's when a temperature of a child goes higher than 106 degrees, at which point, they lose all capacity for further life-sustaining parts of their body.

The same may be true on a planetary level. So I don't think I can emphasize enough the importance of your Board and your decision making in terms of risking a tipping point with climate change. We look to your leadership, and we really thank you for your careful consideration on these decisions you're making today, and in the coming years.

Thank you.

CHAIRPERSON SLATON: Thank you.

MS. SUTTON: Good morning. My name is Patrice Sutton. I'm a public health professional who worked for 20 years at the California Department of Public Health, and for the past decade as a research scientist at UC San Francisco, Program on Reproductive Health and the Environment.

I've published extensively on how our environment impacts the health of workers, pregnant women, and children. I'm also a member of the San Francisco Bay Area Chapter of Physicians for Social Responsibility. And on behalf of PSR, I'm asking CalPERS to divest from the fossil fuel industry to protect the health of California's workers, their families, their communities, and future generations.

Our work at UCSF and the research of many other academic scientists, demonstrate unequivocally that burning fossil fuels and its related climate impacts, the health -- harms the health of the people you serve.

To take just one impact, air pollution, the science shows that there is no safe level of exposure. And because of the way our lungs develop over time, exposure to air pollution among pregnant women and children can lead to a lifetime of adverse health problems.

In California, our climate fueled wildfires bring extraordinary air pollution threats. And when fires burn in developed areas, the toxics that permeate our everyday lives also goes up in smoke. And for older adults like CalPERS retirees, exposure leads to more hospitalizations for respiratory and cardiac conditions.

Rising temperatures is a direct threat to California's agricultural workers, construction workers, emergency responders, commercial fishermen, paramedics, transportation workers, and many others who work outdoors.

Exposure to excessive heat killed 783 U.S. workers and injured nearly 70,000 between 1992 and 2016. And for the general public, it's estimated that the 2006 California heat wave alone led to an additional 600 deaths, 16,000 Emergency room visits and 1,100 hospitalizations in California at economic costs of 5.4 billion.

Climate change also means injury and loss of life due to severe storms, flooding, vector and waterborne diseases and stress and mental trauma from the loss of livelihoods, property, and displacement. The California coast extends 3,400 miles with 200,000 people living in areas at risk of inundation within the lifetime of my eight year old grandchild.

So I ask you if there were a cost effective medicine that your members could take, so they might not die too young, get sick, be unable to go to work and school, would you really say let's ignore that medicine? The science is clear. Investing in the health of Californians means divesting from fossil fuels.

Thank you so much.

CHAIRPERSON SLATON: Thank you very much.

Dr. Gould.

DR. GOULD: Yeah. Good morning. I'm Dr. Robert Gould. I also want to thank you for the opportunity to speak here and for your work. After working as a pathologist for over 30 years at Kaiser, since 2012, I've been an associate adjunct professor, Department of OB/GYN and Reproductive Sciences at UCSF School of Medicine with our Program on Reproductive Health and the Environment.

I'm speaking today as past president and member of the National Board of Physicians for Social Responsibility, and for the San Francisco Bay Area chapter of PSR for which I've been president for 30 years.

Representing thousands of health professionals, we speak for the health of our patients and communities. As such, PSR calls for CalPERS to completely divest from fossil fuels and instead invests its vast financial holdings in truly safe, renewable, and sustainable non-nuclear energy portfolios that could provide a prosperous future for its clients, while averting the most catastrophic public and environmental health consequences of global warming that as many speakers have said threaten all of human civilization.

The fourth National Climate Assessment warned us about the rapidly unfolding impacts of global warming that gravely threaten our health. Sea level rise, with flooding and contamination of water systems, extreme weather events, like last year's hurricanes that devastated Puerto Rio and Houston, horrific wildfires, such as we've witnessed in California, the anticipated spread of new vectors and their infectious agents with potential epidemics.

Consequently, many health organizations, such as the American Medical Association, American Nurses Association, American Public Health Association have issued strong policy statements on global warming. These have been joined by resolutions from numerous health specialty societies, including the American College of Obstetrics and Gynecology, the American Academy of Pediatrics, the American College of Physicians, and many other members of the medical society consortium on climate and health.

While greening our own health care institutions, health care -- health providers are increasingly supporting divestment campaigns. In June 2018, the AMA Board of Trustees passing official policy calling on the AMA to protect human health from the effects of climate change by ending its investments in fossil fuel companies.

The AMA now supports efforts of physicians and other health professional associations to proceed with divestment, including to create public analyses, support continuing medical education, and to inform our patients, the public legislators, and government policymakers.

Recently, our UCSF Division of the Academic Senate overwhelmingly passed a resolution urging the UC Board Regents to divest from the 200 publicly traded fossil fuel companies with the greatest carbon reserves with this resolution now moving to other UC campuses for consideration.

My personal stake is I want my two grandsons to have a future to thrive in. So along with our community of physicians and health professionals, I urge CalPERS to speedily divest fossil fuels, set an example for the rest of the world to ensure we all have a planet that will be healthful and habitable for generations to come.

Thank you.

CHAIRPERSON SLATON: Thank you, Dr. Gould.

The next five people to speak Tina Devon Gallier, Robert Silvey, Sandy Emerson, Betsy Thagard, and Sheila Thorne.

Ms. Gallier.

MS. DEVON GALLIER: Oh, hi.

CHAIRPERSON SLATON: Okay. Great. Thank you.

MS. DEVON GALLIER: My name is Tina Devon Gallier. I am a member of Fossil Free California.

I would like to thank the CalPERS Board for what they have done on sustainability so far. CalPERS manages one of the largest pools of money in the world, and what you do matters. And right now, you have a chance to change history, and help the world avoid the worst effects of climate change at 1.5 degrees Celsius, which the Intergovernmental Panel on Climate Change has determined that we will experience in another 10 to 12 years, unless greenhouse gas emissions are dramatically reduced now.

So I ask you to please terminate your investments in fossil fuels as soon as possible, as well as investments in big banks such as Wells Fargo that finance fossil fuel infrastructure, and as well as carbon intensive industries such as concrete.

Thank you.

CHAIRPERSON SLATON: Thank you very much.

Mr. Silvey.

MR. SILVEY: Yes. Hello. I'm Robert Silvey.

And I appreciate the opportunity to speak to you. My wife Deborah Silvey, as she mentioned earlier, is a retired CalPERS member. It's very important to both of us that CalPERS invest its assets wisely and sustainably. We'd like to see that pension check keep coming, of course. I know that all of you on the CalPERS Board share our focus on the fund's long-term solvency.

As Fossil Free California has previously suggested, we believe that complete divestment from all fossil fuels would help achieve that goal of sustainability and of solvency. But I'd like to propose one specific interim step, a step which is actionable now. Stop investing in ExxonMobil, and accelerate the process of divesting from the company. Exxon is a risky investment and an unreliable partner.

As of December 31st, the CalPERS Institutional Portfolio has almost $800 million invested in Exxon. This has been a shockingly bad investment over the last 10 years. While the S&P 500 increased by 223 percent, ExxonMobil's stock declined by more than 4.5 percent. And the prospects for future growth are equally dim.

The peak of fossil fuel demand is expected sometime in the 2020s, perhaps within five years. Exxon will then find itself saddled with stranded assets in the form of reserves that cannot be extracted for the market price. Like coal stocks over the last few years, Exxon's stock will then plummet even further.

There's another reason to avoid Exxon, the company is an unreliable partner. For more than 50 years, its scientists have been aware of the dangers of climate change and the contribution of Exxon products to its accelerate. But until very recently, the company hid this information.

Exxon could have told the truth about climate change, and used its financial and political clout to begin the process of energy transition. Instead, it continues even now to explore for more oil and gas to add to its reserves. It also uses every stratagem jump to keep the internal climate risk calculations secret, even from its own shareholders.

Climate change is coming quickly, and it will have enormous financial impacts. We no longer invest in livery stables or buggy whip manufacturers. We should no longer invest in Exxon.

Thank you.

CHAIRPERSON SLATON: Thank you very much for your comments.

Ms. Emerson.

MS. EMERSON: I'm Sandy Emerson. I'm from Fossil Free California. I want to thank Beth Richtman and her staff for a thoughtful and comprehensive update on sustainable investments. It's notable that the Sustainable Investments office will be spending considerable time and effort monitoring and measuring carbon intensive investments to determine the size of the risk they represent to the portfolio.

Decarbonizing the portfolio not only reduces this risk, but also reduces the effort needed to report on the behavior of major emitters, which is unlikely to change until the market moves out from under them.

The value of fossil fuel sometime before 2035 will abruptly decline as investments in clean energy overtake the market, with or without government intervention.

This capital loss potentially between one and four trillion dollars will trigger worldwide economic chaos. By comparison, the market crash of 20 -- 2008 was triggered by a capital loss of only a quarter of a trillion dollars. Recognizing this risk over 1,000 institutional investors have pledged -- worth over $8.2 trillion have pledged to move their assets away from fossil fuels.

Institutional investors, insurance companies, and even banks are betting on the clean energy economy. As you heard in February, there's considerable upside potential in clean energy investments, such as the renewable sector of infrastructure investments. You could be making billions of dollars more by divesting from fossil fuels. The time is now to join the growing number of institutional investors who are investing in the transition to the low carbon economy.

The socially responsible investing sector has grown by 38 percent in just the last two years as an investing style to a total market size of over $12 trillion.

CalPERS should not only measure risk inherent in the traditional energy sector, but also actively move the fund forward by increasing its investments in the transition to the low carbon economy.

CHAIRPERSON SLATON: Thank you very much.

Ms. Thagard.

MS. THAGARD: Hello. I'm Betsy Thagard. I'm a California taxpayer and I'm an attorney. And I was very pleased today to see in the climate change coherent approach that was presented that CalPERS is committing to develop policies to routinely identify economically attractive investment opportunities to enhance returns and reduce emissions. That's great. That's the first half of what needs to be done.

What this coherent approach should also include is a commitment to developing policies to routinely identify and eliminate investments that reduce returns and increase emissions.

I'm not going to talk about how the fossil fuel industry increases emissions. That's their business model. That's how they make money. What I'm here to talk about is how those investments reduce CalPERS returns. As we've heard from Robert, ExxonMobil has been a very bad investment over the last 10 years. But that's not just Exxon, it's other fossil fuel companies as well.

Last year in 2018, the energy sector was dead last on the S&P 500. In 2017, it was second to last. In 2018, the S&P 500 index ended down four percent for the year with the energy sector declining more than 18 percent for the year.

Independent studies have shown that New York State's pension fund lost large sums over the last 10 years by failing to divest from fossil fuels, an estimated loss of almost $20,000 per member. Another study showed that if Massachusetts pension fund, its $1.6 billion in fossil fuel stocks had instead been invested in a fossil free index from 2012 to 2017, its assets -- those assets would have grown by more than 50 percent, or another billion dollars instead of suffering losses. There's no reason to believe that the CalPERS fossil fuel holdings, such as in ExxonMobil, are any different from those in New York and in Massachusetts.

In fact, three years ago, Trillium Asset Management estimated that CalPERS had lost $3 billion due to their holdings in equity assets in the world's 200 largest co-oil and gas companies in 2014-15, a year when most of its other investments rose in value. The fiscal, political, regulatory and litigation risks have grown substantially in those last three years with volatility and downward trajectory of returns from fossil fuel industry continuing.

I'm an attorney. I know what it means to be a fiduciary for a beneficiary. And I believe that you are starting CalPERS Board to fail your beneficiaries --

CHAIRPERSON SLATON: Ma'am you need to complete your remarks.

MS. THAGARD: -- and not to correctly follow your fiduciary duty towards the people of California who are relying on you.

Thank you.

CHAIRPERSON SLATON: Thank you, ma'am.

Next, Sheila Thorne.

MS. THORNE: Yeah. Good morning. I'm a retired member of the California Faculty Association, and also a member of RPEA.

And I'm concerned about the effectiveness of shareholder engagement with the fossil fuel companies. Research shows that between 2012 and 2018, 160 climate change shareholder resolutions were filed at 21 U.S. Gas and oil companies, yet not one of these companies has adopted targets to limit their fuel lifecycle contribution of greenhouse emissions.

Presently, ExxonMobil is even trying to block a joint proposal by the Church of England and the New York State Pension funds to set targets to align with the Paris Agreement. And according Reuters, the world's top 24 oil companies have collectively spent only one percent of the 2018 budgets on clean energy.

In fact, Exxon's commitment to renewable energy is mostly a commitment to deploying it to run its expanded oil and gas extraction, especially in the Texas Permian Basin, where it has outlined an aggressive growth plan for the next 10 years to triple its daily production. It also plans to expand production in Guyana and start up 25 new projects worldwide.

In the next 10 years, U.S. companies are on track to account for 60 percent of world growth in oil and gas production, expanding four times more than any other country. This expansion ignores climate action engagement goals, as well as increases the risk of stranded assets.

Another supposed argument for engagement is that the fossil fuel companies will become the green companies of the future because of their huge capital capabilities to invest in renewables. However, Chevron's equity stakes in solar, wind, and geothermal production amounts to enough power for no more than 113,000 homes, next to nothing in other words.

ExxonMobil has dedicated 1 billion per year to basic research in low carbon technologies, but this is only two percent of its spending on oil and gas exploration. And these projects are all at least 10 years away from any possible implementation. These are the 10 years in which both the UN Climate Report and the Intergovernmental Panel on Climate Change say action must be taken to limit global temperature rise before it is too late to stop catastrophic change.

I think it's plain to see that oil companies have not turned greener, and they have not invested to any significant degree in green industries despite shareholder engagement. And it's time that we acknowledge that shareholder engagement has proved ineffective in reforming an industry that must fundamentally change its product.

Thank you.

CHAIRPERSON SLATON: Thank you, ma'am.

The next five speakers are Christine Shewmaker, Lawrence Wilson, Martha Turner, Jane Scantlebury, and Shep Harper.

Ms. Shewmaker, you may begin.

MS. SHEWMAKER: So my name is Christine Shewmaker. I'm a member of Fossil Free California, and a retired plant molecular biologist. And I want to thank you today for your efforts that you described for climate change, particularly those relating to economic inequality.

As a scientist, the science is clear. Climate change poses an existential threat to human society and all the ecosystems we rely on. I won't belabor that. What I do want to say is that California, as a state, does recognize the threat and urgency to act on climate change, and has indicated through legislative and executive actions, the desire for fossil fuels to be rapidly phased out. This includes an Executive Order signed by Governor Brown in September of 2018, which targets carbon neutrality by 2045, and numerous bills including SB 32 and SB 100, which set goals for 40 percent reduction of carbon emissions below 1990 levels by 2030, and 100 percent clean electricity by 2045.

My suggestion is that CalPERS should align their investment with these goals, both for the urgent reasons to address climate change, but also to align their portfolio with the economy that these legislative and executive actions will create. Essentially, why do you -- why would you invest in that which the State is trying to eliminate?

California is not the only state to have these measures. Hawaii was the first state in the nation to set a deadline for clean electricity. And after the signing of SB 100 last year, a number of other states, including New Mexico, are considering such actions.

States are taking actions. Countries are taking actions -- some countries. So I urge you strongly to consider a fossil free portfolio for CalPERS and rapidly, and to align your portfolio with the fossil fuel free economy that's coming and rapidly.

Thank you.

CHAIRPERSON SLATON: Thank you, ma'am.

Lawrence Wilson.

MR. WILSON: Board members and staff, I want to thank you for giving me the opportunity to speak here today. My name is Lawrence Wilson. I'm a PERS retiree. I retired at the end of 2008 from CalFire after 24 years with the State.

First, I want to thank you for your efforts that have made my retirement a great success. I'd not be living the life I have today without your hard work, all of you.

I believe that sustainability of investments is a -- as a strategy is very important. We live in a world of finite resources. And there must be limits to growth, if we expect future generations to have the same opportunities that we do. And so I want to thank you for your interest in sustainable investing.

Several years ago, I determined to reallocate my own small amount of investments away from fossil fuels and into sustainable renewable energy. It's scary reallocating when every step of the way your advisor is warning you against it.

So I understand the pressure that you are under to go with the standard way of doing business. But there's a high risk that fossil fuel assets will be left stranded, and that this will affect other closely associated industries. There are two reasons for this. The main reason is that fossil fuels are now more expensive for energy generation than solar, wind, and battery systems. And most of the growth in the energy sector is in renewables.

The truth is that fossil fuels are being disrupted by renewables. Already, European utilities have written down about $150 billion in stranded assets in the form of fossil fuel installations that are no longer needed.

The other risks to fossil fuel investments comes from public policy. When climate change becomes a defining issue for financial stability, public policy decisions will move the energy sector quickly away from fossil fuels. And that is very likely to begin happening in the early 2020s in this country when change comes to our political system and the Green New Deal is launched.

I hope that you will reallocate investments from the fossil fuel sector. It will be good for our bottom line, and good for the sustainability of our society. Thank you very much.

CHAIRPERSON SLATON: Thank you for your comments.

Ms. Turner.

MS. TURNER: Martha Turner. And I'm a board member also of Fossil Free California. And just recently have joined the ranks of households that are receiving a pension from CalPERS, so we're very appreciative of the activity that's gone on here.

Some -- a few of you know that I have been observing CalPERS in the light of climate change, through that lens, for about six years now. And I also want to express my admiration of the work and dedication of the staff, both in this arena.

What I'd like to pose to you today, especially in light of the discussions that are happening around reconsidering the idea of the pillars, and the possible expansion of the use of private equity, I'd like to offer a somewhat different perspective, maybe a conceptual reframing of how to look at investing.

And I'm calling them -- personally, I'm calling them the four Rs, risk, resilience, respect, and reverence. Risk you're familiar with. Resilience, you're in the process of continuing to develop a portfolio that is resilient over time. Respect. You show that respect through your environmental, social, and governance activity. But reverence, where does that come in on this kind of a calculation?

I'd like to suggest that it's a deepening and a more full understanding of respect, and that it deepens and understands interconnectivity in ways that we have only begun to explore, but through the ESG effort, and through also some of the integration that's happening in the Investment Office.

I'd like to offer the idea that if we can increase that perspective of understanding interconnectivity in new ways, we will open up fresh approaches to understanding how to invest these large portfolios for the benefit of people such as myself and some of my other colleagues here.

And I'd also like to address very quickly a few thoughts about metrics. Because as I've learned over the years of observing the activity here, I've become to really understand a little bit more about how important metrics are in the work that's done here.

So if you're taking a peek at reverence, and your taking a peek at interconnectivity, what might be the arenas that you could develop more metrics in. I'd like to suggest that that could be in more fully understanding ecosystem indicators, more fully understanding public health indicators, more fully looking at social and emotional well-being, essentially health.

And I think if there can be a deeper dive into those arenas, and then linking that -- as we've heard earlier in a somewhat different way, but linking that with investment decisions, we'll be actually implementing a better understanding of interconnectivity and we'll be investing in reverence in how we manage the life energy that's embodied in our financials.

Thank you.

CHAIRPERSON SLATON: Thank you for your comments.

Ms. Scantlebury.

MS. SCANTLEBURY: My name is Jane Scantlebury, and I'm a CalPERS retiree, retired public librarian.

And I want you to think about how CalPERS, under your leadership, could truly influence the movement to stop climate change by divesting from fossil fuels, and contribute to saving our civilization.

Clearly, there is a growing movement against climate change inaction. Look at the students all over Europe and now in -- here in the U.S. and in other continents as well building forces to insist on having a future on earth.

In the 70s and 80s, the movement to divest from companies doing business in the South African apartheid government forced the University of California divestment, which was so significant that it became the driving force for divestment worldwide in all companies doing business in apartheid South Africa. This was in 1986, and the dismantling of apartheid began in 1990. The overthrow of apartheid is part of world mystery, and UC's divestment is part of that success.

If CalPERS, as the largest investment fund in the U.S., was to divest from fossil fuels, it would qualitatively influence the investments of other large institutions and change the destructive direction of our climate. It would be a significant contribution to history.

CHAIRPERSON SLATON: Okay. Thank you, ma'am.

Mr. Harper.

MR. HARPER: Hello -- excuse me. Hello, members of the Board. I'll be brief. My name is Shep Harper and I'm a PERS retiree, so I thank all of you and all of you PERS for that.

I spent my career in the fire service retiring at the rank of Captain. I'm sure it will be no news to any of you that in recent years we've seen an alarming increase in the severity of fires throughout the state.

Certainly, one of the factors in that increase is climate change. I would just ask the Board to consider divestment from fossil fuels as a step in protecting this great State of California, and the world.

Thank you.

CHAIRPERSON SLATON: Thank you very much. Thank you for all your comments.

The next five speakers are Sara Theiss, Dana Stokes, Lynne Nittler, Karen Jacques and Christine Nelson.

Ms. Theiss.

MS. THEISS: Thank you. My name is Sara Theiss. I'm in the -- on the board of Fossil Free California. I'm a CalPERS retiree, and I'm a member of RPEA.

We understand that you have to take your fiduciary duty to members very seriously. We also know that like all Californians, you're experiencing climate change and care deeply about the future of our state. In the past, you may have felt conflicted between your fiduciary duty and the need to take drastic actions to curb global warming.

Today, we suggest that this conflict no longer exists, and you can meet your fiduciary duty by pursuing a fossil free investment strategy. New York City is a case study in how a complex system like CalPERS can pursue such a strategy. And the takehome lesson is that it is process.

In 2018, New York City announced that it was divesting from fossil fuels, but the process actually began in 2012 after Super Storm Sandy when the trustees commissioned a study on whether it could divest from fossil fuel reserve owners consistent with its fiduciary duties. And the Mayor's Chief Pension Officer said explicitly we cannot sacrifice risk-adjusted returns for noneconomic reasons.

The next thing they did was solicit a report on climb-related financial risk to the portfolio. And then last December, they issued an RFP for a financial analysis, and -- to produce a financial analysis and suggest a prudent strategy to divest from fossil fuel reserve owners.

And in addition, they're getting a opinion -- trustees have asked for a legal opinion on whether the divestment process will align with fiduciary duty. So my point is is that this is a long process. They started in 2012, and they haven't even gotten to the point that they've actually made the decision do divest. Although, that is their intention.

Obviously, there's differences between their portfolio and CalPERS. Theirs is generally smaller. But I think that, you know, that basically similar steps could be taken, and they have forged a path.

The final thing I want to say is that I was happy to see all the changes, the increase in staff in the Sustainable Investing Division. But I think given CalPERS complexity, the rapidity of climate change, and the example of New York City, given all that, CalPERS may want to put more resources into the problem of fossil fuel investments.

And I've submitted a report that I got the New York City information from to the Board members. Thank you so much.

CHAIRPERSON SLATON: Thank you very much your comments. Ms. Stokes.

MS. STOKES: My name is Dana Stokes. And in the early 80s, I worked with State energy managers during the -- what some consider the first oil crisis to develop energy management plans to reduce state energy consumption. And more recently, I worked for CalRecycle to reduce waste and divert it from landfills.

As a retired State worker, the pension paycheck I receive every month directly reflects the investment decisions that CalPERS makes on my behalf, and that of approximately 1.5 million other CalPERS beneficiaries. I applaud the CalPERS Board and Investment staff for its investments in well-performing sectors, including energy efficiency and renewable energy that are reducing greenhouse gas emissions, improving the health of our planet and mitigating climate change.

But I am deeply concerned about CalPERS continued investment in fossil fuels. As others have mentioned, a growing body of economic research indicates that fossil fuel investments are becoming increasing -- increasingly risky. I've been asking myself a lot lately how is CalPERS upholding its fiduciary responsibility to us beneficiaries by retaining investments in this increasingly risky market sector?

A July 2018 report from the Institute for Energy Economics and Financial Analysis explains the numerous factors increasing risk for fossil fuel investors. Some of those risk factor are demand for fossil fuels will decrease as Signator countries to the Paris Climate Accord implement their carbon reduction -- carbon footprint reduction plans.

The oil and gas industry faces growing competition from cheaper renewable energy and electric vehicles, all of which are continuing to fall in price relative to fossil fuels.

Global economic growth is shifting from energy intensive manufacturing and industrial models to more service-oriented higher technology models, which low -- with lower energy intensity. Campaigns against fossil fuels are gaining in scope, sophistication, and success. Litigation is mounting against fossil fuel companies for facilitating climate change, and for misleading investors about the role of fossil fuels in climate change. And the oil and gas industry and its investors face potential huge losses in the form of stranded assets.

To avoid these risks and uphold its fiduciary responsibility to all CalPERS beneficiaries --

CHAIRPERSON SLATON: Ma'am, you need to complete your remarks please.

MS. STOKES: -- I urge CalPERS to phase-out it's fossil fuel investments and invest those funds instead in the energy efficiency and renewable energy sectors.

Thank you.

CHAIRPERSON SLATON: Thank you.

Ms. Nittler.

MS. NITTLER: Hi. I'm Lynne Nittler from Davis, a retired teacher and a member of Fossil Free California. My retirement is with CalSTRS, but my health care is with CalPERS. So I thank you for that and your actions do matter to me.

The climate news grows steadily worse. None of us I think has forgotten the fires last fall or the drought of the years before that. New research reported in the Sacramento Bee just yesterday warned of six feet, not merely a foot and a half, of rising sea levels that will impact our coasts with flooding of homes, airports, ports, businesses, utilities. It's not good news.

Our children now understand the threat to their only home. Fifteen kids in Davis gathered for the youth climate strike last Friday joining hundreds of thousands more in over 100 U.S. cities and 112 countries around the world. They're universal in wanting a future on a healthy planet. The photographs are stunning on-line.

My point is it's time for CalPERS to take climate change seriously, too, and begin to divest from fossil fuels. You won't be alone, and most likely it will turn out to be a wise financial move.

Approximately six percent of CalPERS holdings are in the top 100 fossil fuel companies. Fossil fuel stocks are poor performers, earning less than the overall stock indices. In 2018, the energy sector was the lowest in the S&P 500 index. While returns are declining fiscal, political, regulatory, and litigation risks are growing, making this sector increasingly unsound investment.

I, too, was looking at New York City, and I heard their announcement of the intention to divest from fossil fuels in person at the climate conference a year ago in September in San Francisco.

Their retirement system is the largest municipal pension system in the U.S., $194 billion. So that's about half the worth of CalPERS, so it's significant. They're progressing towards that. Here's a quote. "New York City's decision shows that divestment isn't scary. It's practical, a way to think about it". That's Bill McKibben.

The State of Massachusetts Pension Fund is also considering divestment at this point. There will be a bill sponsored in 2019, and it's based on these criteria, some more food for thought. Meeting an obligation to future generations to minimize the impact of climate change -- oh, I'm out of time -- avoiding the dangers of the carbon bubble, meeting State priorities to support renewable energy, divesting is a sound financial strategy gee, divesting --

CHAIRPERSON SLATON: Ma'am.

MS. NITTLER: -- is a proven tool for change.

CHAIRPERSON SLATON: Okay. Thank you very much for your comments.

Ms. Jacques. I may not have pronounced your name correctly.

MS. JACQUES: Good morning. I'm Karen Jacques. I'm a retired psychologist. My husband is a PERS retiree, and we both get our health care from CalPERS. And I appreciate the opportunity to comment today, and I appreciate work that has been done on sustainability. So much of what I planed to say has already been said that I strongly second all of that.

And I want to add, we are in a time of climate crisis, of rapid climate tipping points. We are also at a point of tipping where the public is becoming aware and demanding that something be done. Children all over the world are talking out of schools demanding that something be done. Litigation is growing to force the issue.

The future is in renewables. It is not in fossil fuels. To continue to invest in them is to invest in stranded assets, in massive environmental injustice to front-line communities, and to the continued extinction of species.

This is an opportunity to mindfully and immediately begin to pull out of your fossil fuel investments. Over the last five years, fossil fuel investments have been the slowest growing sector in the stock market. The investments in fracking are estimated by the International Energy Agency to be 200 billion in debt and getting ready to collapse.

Mark Carney the Governor of the Bank of England has been warning of stranded assets. This is now your opportunity to act and to begin to do it immediately and planfully.

And as a last comment, we are now in a climate crisis. We are facing the potential extinction of our civilizations, if we don't act. IPCC has said that we have probably no more than 10 to 12 years to take massive actions to move from fossil fuels to clean energy.

There is a movement. The other use of fossil fuels is in plastics. There is a growing movement to regulate and end the use of plastics. So please act now. It is also a profound moral and ethical issue for the continuation of life on earth in any way that we would recognize as livable.

Thank you.

CHAIRPERSON SLATON: Thank you for your comments.

Ms. Nelson.

MS. NELSON: Yes. I was a public health nurse for Butte County and I'm a PERS retiree.

I feel the sense of urgency that I hope each of you also feel regarding this. You know, prior to the fire on November 8th, I was worried about tick-borne illnesses, mosquito-borne illnesses, the crash of pollinator species, because I live in Chico, and these things were all around me.

But when the whole town of Paradise burned own when -- and the surrounding communities on November 8th, far after the time it should have rained, when our town became totally overwhelmed with climate refugees, when I saw the suffering and the intensity of what these people are going through have lost everything, you know, they're -- 85 people lost their lives, many more have lost their mental health. And our town is just absolutely overwhelmed.

And it really brought it home to me that we have to do something. This is -- this is a -- this is a crisis and it's happening now. I struggled to drive down here with all the gasoline-powered cars to get here. Then I struggled to find a charger for my car, because it's an electric car. And that's why I was late getting here.

And I'm not just saying divest from fossil fuels. I'm saying make good investments in the future, which is things like solar that will charge these cars. Get this industry moving. Make it work, because we have to do something and we have to do it now.

You know, we can't just rely on children in the streets telling us what we should already know. We -- you are -- you are investing money that I do not give you permission to spend on fossil fuels. I want a future for our beautiful planet and for our children and grandchildren. And I respect each of you as a thinking, and thoughtful, and moral person. So I hope that you'll work as hard as you possibly can. And I'm sorry to lecture you, but I really, really think that this is -- we don't have 12 years. It's happening now.

Thank you.

CHAIRPERSON SLATON: Thank you very much.

Mr. Hutchings, you signed up for 7b, but if you'd like to speak on 9a on this item, you certainly may.

And thank you all for your participation and your comments.

We're going to take up 7b after lunch.

MR. HUTCHINGS: Good afternoon, Chair and members. Dane Hutchings with the League of California Cities. I was planning on speaking on the other item. Unfortunately, I have to depart, so I feel like this is still a pretty appropriate venue to talk about divestment, given that's the -- been the lion's share of the conversation this afternoon.

And I first want to say that I absolutely respect the folks who came up and provided some impassioned pleas. I'm certainly guilty of doing the same of providing impassioned pleas to focus on investment returns and maximizing your investment returns. And so I certainly see the merit there.

I think I'd start off just by saying that from the League's perspective it is your charge to continue to be laser focused on returns. It is not your charge to modify State and federal policy that regulates these industries.

I'm just doing a quick rundown. Folks that sort of perhaps may have a better charge of that would be the U.S. Department of Environment, the Environmental Consortium, the Environmental Management Protection -- Environmental Protection Agency, Department of Natural Resources, the California EPA, the California Natural Resources Board, The California Coastal Commission, and maybe the California Resources Board as well. I think those are all better suited for what we should be doing or not doing with fossil fuels.

CalPERS should be focused on maximizing their returns for the folks who are relying on their retirement. What do we say to the retirees, whose health cares are eliminated, whose pensions can be reduced by upwards of 80 percent, and they have nothing. Sorry, that you lost your retirement, but at least we didn't invest in fossil fuels, guns, tobacco, big banks, or plastics.

One of the rationales that I've heard a couple times was there's pending litigation against the -- against fossil fuel companies, and so therefore, you know, it's prudent to divest. That's the same thing -- that was the same justification that was used to divest from tobacco, and that's cost about 10 or 12 billions dollars and it continues to grow.

When it comes to retirement security, there are no moral victories. We have to understand what our charge is here, protect the active employees, and protect the retirees, and protect the employers who can employ these folks that can provide services to the public.

This is beyond the scope of this Board to decide how to change the world. I swear if we could invest in rainbows and unicorns, and we can make money, I would be all in. But right now, we are at a critical juncture. We talk about the next 15 years of our planet. I'm talking about the next 10 to five years where cities are going to be going bankrupt, and they absolutely need your assistance to be able to provide employees, retirees, and those folks with their retirement security and their health care benefits.

Thank you.

CHAIRPERSON SLATON: All right. Thank you very much for your comments.

We're now going to take a lunch break. We're going to pick back up with Item 9b and we're going to do that at 1:35. So we're in recess till 1:35.

Thank you.

(Off record: 12:50 p.m.)

(Thereupon a lunch recess was taken.)

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

(On record: 1:35 p.m.)

CHAIRPERSON SLATON: All right. We're back in session for the open session. And we're on Item 9b, Corporate Governance update, proxy voting, et cetera.

(Thereupon an overhead presentation was presented as follows.)

INVESTMENT DIRECTOR NZIMA: Good afternoon, members of the Investment Committee. My name is Simiso Nzima. I'm an Investment Director in Global Equity.

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INVESTMENT DIRECTOR NZIMA: Jumping straight into the presentation. Really, this slide, slide 3, really shows the close-out of the 2018 proxy season. And really, there are two takeaways that I would like to leave the Investment Committee with.

The first take away is that engagement works. And by this I mean that if you look at that slide, 39 percent of companies that we engaged on corporate board diversity, that's 198 of 504 companies, have added a diverse director to their board since the engagement started in July 2017.

The second takeaway I would like to leave the Investment Committee with from this slide really is that we will utilize our active ownership rights to effect changes at portfolio companies. By this, really what I mean is if you look at that slide, we voted against 468 directors, 845 companies, where our engagement efforts on corporate diversity didn't produce productive returns.

So those were board chairs, nominating and governance committee members, as well as long-tenured directors. And also another example of that is we voted against 43 percent of say-on-pay plans, which is executive compensation plans, where we felt that the pay was not aligned with performance.

And a an example of that is really the activities that we ran in terms of shareholder campaigns where we -- you know, we targeted 146 companies, and we had settlement with about 125, and we ran proxy solicitations on 17.

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INVESTMENT DIRECTOR NZIMA: Moving on to slide 4, here, really we're giving you a preview of the 2019 proxy season. And again, I just want to focus on three takeaways from this slide. The first takeaway that -- is that we're going to apply a laser like focus on three main areas, climate change, corporate board diversity, and compensation.

The details on each of these three main areas I included in the appendix. And I'll be -- you know, I'll be taking questions at the end of this presentation if the

Investment Committee has any questions on those.

The second takeaway I would like to -- the Investment Committee to remain with on this slide is that with climate action engagements, we're seeing notable successes at companies, companies like BP, companies like Shell, Xcel, Glencore, A.P. Maersk, which have gone out and publicly committed to actually implementing the Climate Action 100 engagement goal.

So the different commitments, but, you know, each one of those companies have actually gone out and acknowledged the role that has been played by the Climate Action 100 engagement. So that's the -- that's the power of having $32 trillion, you know, behind an initiative.

And the last -- you know, the third takeaway from that slide really is that we'll continue to enhance our proxy voting, you know, practices in order to make sure that we have effective tools to hold management and directors accountable for creating long-term sustainable value. And again, all of these are actually covered in the appendix.

And that concludes my prepared remarks, and I'll take any questions.

CHAIRPERSON SLATON: Okay. Well, so far, it looks like Committee members have looked at it and have determined that the report is complete and they don't have any questions.

INVESTMENT DIRECTOR NZIMA: Thank you.

CHAIRPERSON SLATON: Okay. Thank you.

We'll move to Item 9c, the Divestment Overview.

CHIEF INVESTMENT OFFICER MENG: So now I would like to call team member Kit Crocker to come up to the table.

CHAIRPERSON SLATON: Maybe --

CHIEF INVESTMENT OFFICER MENG: Okay. Just give us a moment.

CHAIRPERSON SLATON: All right. We'll just take a moment.

CHIEF INVESTMENT OFFICER MENG: Okay. While we're waiting for Kit Crocker, Dan Bienvenue is going to take on the item.

CHAIRPERSON SLATON: Okay.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: All right. Sorry for the delay here. I had to scramble to find our talking points.

CHAIRPERSON SLATON: Okay.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: So hopefully Kit will be here soon, because she's definitely the expert on the -- if we go deeply into the divestment stuff. But Item 9c just responds to Mr. Perez's request for -- to come back and talk through divestment. Remember, we talked about doing it in April. We were able to do it in March. And we actually thought that given Item 7b, it made sense to have the conversation here before that.

So the Board's policy on divestment is in the Total Fund Policy, specifically section 8 -- I'm sorry, 7, related to -- and then parts of the appendices. It represents our fundamental direction from two staff from the Committee on sort of how to identi -- how to analyze the topic of divestment.

All new divestments come before the Committee for initial determination, whether divestment as proposed affirmatively supports the Board's prudent stewardship of the System's assets, and to ensure prior investment decisions are also supportive -- you know, continue to be supportive, so prior divestment decisions.

So recall that the way that the policy is currently written. Annually, the Board's general pension consultant comes forward with an analysis -- or not an analysis. I'm sorry just a high level demonstration of the economic impact of the various divestments. And then every five years, we do a deeper dive review into all of the active divestments.

Let's see here. The tobacco divestment was originally done in 2001, and then was reaffirmed in 2016, and even broadened in 2016 to apply to external management as well as internal management. The thermal coal divestment was implemented in 2017. And the five-year reviews of all six active divestments are scheduled to come back in 2021.

And the six active divestments are tobacco, emerging markets principles, Sudan, Iran, firearms manufacturers, and thermal coal.

So attachment 2 is Wilshire's summary of the performance impacts. And Wilshire is also available to walk through their performance impacts.

And with that, we're happy to take any questions.

CHAIRPERSON SLATON: I don't have any yet, but I'd Wilshire to step forward, and particularly in the illustrative example of methodology, to go through. So we just -- so we level set for all the Committee members on how the math of these kind of valuations is done.

MR. FORESTI: Good afternoon, Steve Foresti from Wilshire Consulting.

And, Mr. Chair, to your comment and request, I'm going to -- before getting into the numbers of the analysis and what our -- how our estimates look through the most recent fiscal year, I did want to spend a few minutes talking about the methodology and going through an illustrative example, both for the benefit of new

Committee members, but also in some follow up to some of the Q&A we've had in the past, and hopefully to provide some clarity around exactly what is baked into and represented within the numbers that we provide.

So on page two of attachment 2 is essentially this illustrative example. And I've set it up hopefully to be fairly straightforward and document a couple of points within the process. The first is just how the divestment of individual securities within the portfolio are redeployed or reinvested elsewhere in the portfolio. So I'll just walk you through this exhibit.

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MR. FORESTI: And it's created to just assume a very simple portfolio with four securities, security A, B, C. And while it's not labeled D, security D here would be the restricted name. So if you're moving towards -- you know, Dan mentioned these six active programs, just think about this being an example of one of those programs and the restricted name being one of those names that would be divested or removed from the portfolio.

So to set this up, I've just created this four security portfolio at $100 worth of investments. Obviously, much smaller than the scale of the CalPERS portfolio, and have just, you know, kind of made up allocations to the four securities, $45 to security A, $27 to security B, $18 to C, and then $10 to D, which again will be the name that we'll remove. And you can see again it's $100 portfolio. So those exact dollar amounts are also the weights to those securities.

The column then immediately to the right of those weights would be the assumed returns of these securities within a given period. And all the analysis that I'll share with you, we look at this on a quarterly basis. We compute the impacts on that quarterly basis, and then accumulate it through time. So just think about this example as a quarter's period of time. So those are the returns for the four securities in this hypothetical quarter. So 10.25 percent for security A, 10 percent for B, 9.75, and 9.5.

And then as we move from left to right in this example, we're now showing to get from the unconstrained -- and by the way, just in terms of terminology, I'll use the words "constrained", "unconstrained". So unconstrained would be the global equity tea benchmark before removing any names from it. And then constrained, or divested, or restricted would be how that portfolio looks after having removed names and redeployed those assets.

So by set up of this exercise, security D is a restricted name. The $10 that are invested in that security need to be redeployed to other securities within the portfolio. That is not equally distributed. It's, in fact, though distributed based on the relative weight of those remaining securities. So in the weights that I had set up here, those $10 are actually reinvested into securities A, B, and C at $5, $3, and $2 respectively, pushing their dollar investments and weights in the constrained divested portfolio to 50 percent, 30 percent, and 20 percent respectively.

When running those same weights across the returns, you'll see that in the first portfolio that included all four securities, there was a return of 10.02 percent in this period of time. After having removed divested security, the restricted security, and redeploying those assets, you can see that the return to the divested portfolio in this example is 10.08 percent. So it outperformed the unconstrained or the broad index.

Essentially, your index vendor who provides us with data for these analysis is performing this sort of mechanics behind the scenes for each of the divested portfolios, so whether it's tobacco, or EM principles, Sudan, Iran, et cetera, this is essentially what's happening behind the scenes on the returns that were provided.

Wilshire then, in this particular case, would be receiving from the index vendor a 10.02 percent return for this period for the broad unconstrained index, and for the divested portfolio of 10.08. And we'll get that information for various quarters through time.

So as we move from there and to the bottom part of this exhibit, in terms of what we do with that information and how we convert those returns to dollars, I've circled at the top here the 10.08 percent and the 10.02 percent and kind of brought them down to the bottom exhibit.

And essentially, we're going to take the return to the divested portfolio, compare that to the unconstrained or the broad starting portfolio, the difference in return in this case roughly six basis points, is then applied to the total dollars that are affected by that divestment program.

So in this hypothetical example, I have a $10,000 portfolio. In the case of CalPERS, it would be applied to your global equity portfolio, you know, somewhere in the 150 billion range. So working through the math here, at roughly six basis points on a $10,000 investment, that contributes for that particular quarter $5.75. It's not $6, because the six basis point actually has a little more precision underneath it. But for that period, that's essentially the way the methodology would try to capture what the impact. So it would be a gain of $5.75 in this period.

The exercise then accumulates these gains and losses in individual periods. So I've just simply shown here if we came into this illustrative period with a gain of $100 from previous impacts and quarters, how do we get from that $100, add the 5.75 to the new number? This is kind of the last wrinkle in the process. It seems like you would just take the 100, add the $5.75, and have $105.75.

The one wrinkle is that as we bring these figures forward, any previous gain or loss is essentially, if you think about its impact on the overall asset base or value of the fund is carried forward and grows or shrinks with the gains or losses of the total portfolio, so the PERF.

So I've shown here hypothetically the PERF had a 10 percent return in the same quarter. So the $100 that came into the quarter grows at a 10 percent rate. That turns into $110. We add to that the $5.75 from this period, and at the end of the period have a gain to this particular divestment program of $115.75.

I've gone through a lot there. And maybe before touching on program by program what these analysis lead to in terms of results, I'll be happy to, just on the methodology itself, field any questions you may have.

CHAIRPERSON SLATON: No, I think you can proceed.

MR. FORESTI: Great. So turning to page three.

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MR. FORESTI: There's two tables here. And this is a summary of the six current active divestment programs that CalPERS has in place. The top table shows our estimates of the impact of these programs from inception to date. So for each of the programs from their first divestment period when they were first -- when these securities were first divested from the portfolio, and again totals those through to June of last year. So it's through your most recent fiscal year-end June of 2018.

So you can see that of the -- and then I'll get to the bottom part in a moment. But that's since the last affirmation, Dan mentioned your policy, to affirm these programs now on an every five-year basis.

So starting with the top table, four of the six active programs currently have generated gains. So the divestment activities have actually contributed in a positive way to the asset value of the fund. Two of the programs have negative impacts, so losses inception to date.

The longest standing divestment program, tobacco, is obviously the biggest contributor. And you can see here that our estimate through June of 2018 is a loss to the fund of nearly 3.6 billion or one percent impact on the total asset value of the -- of the PERF.

We show for each program the inception date. And then again, so if you total these up again, the other loss is a small loss of 11 million to the firearms divestment. The other four programs all have gains. So EM principles, 594 million; Sudan and Iran, 200 and 138 million respectively; and then the most recent divestment program, thermal coal, a gain of $108 million.

Those all total -- so if you think about all contributions from active the programs since their inception to an overall expected estimated loss to the portfolio of just over $2.5 billion.

So just touching on the bottom chart, the bottom chart for these same six programs just simply repeats the exercise but shows the estimates from the last affirmation. All the numbers here are exactly the same with the one exception of tobacco.

As Dan mentioned, the Board, in December of 2016, went through the affirmation or reaffirmation process, for tobacco. So in that case, the reaffirmation was at the end of 2016. The figures we show for tobacco then are for the six quarters, basically the four quarters of 2017, and the first two quarters of 2018. And that actually turns that pretty substantial loss to the fund since inception to actually through those six quarters a gain from tobacco of nearly half a billion to the plan.

You'll see a column here that says program affirmation. And it says pending for all. But two of the programs again it says yes for tobacco, because you've gone through that reaffirmation within the last five years. It also says yes for thermal coal, because that program was just put in place in 2017. So it's not stretched out to the five-year reaffirmation period. The other four programs are pending this reaffirmation process.

So, Mr. Chair, I'll pause there and be happy to take any questions that the Committee may have.

CHAIRPERSON SLATON: I don't see any at this point.

Just a minute. Mr. Perez.

COMMITTEE MEMBER PEREZ: So on the last six quarters, you said that tobacco performed less well than it had during -- since we started the divestments? So it saved us money being out of tobacco?

MR. FORESTI: In the last -- in the last six quarters through June of 2018. It was additive to the tune of 490 million to the total fund. So it worked off some of the losses from prior periods.

And if you think about what's kind of underneath that from the numbers I went through on the methodology, that essentially suggests that for that six-quarter period of time, tobacco underperformed -- tobacco securities underperformed the rest of the market, so that that divestment and redeployment of assets into other securities outperformed what the index would have been had it included those tobacco securities.

Just incidentally -- I won't go through it, but the appendix has for each program annual impact snapshots, so you can see year by year, you know, what years were a gain, what years were a losses, and then we show the accumulated both from inception and, in the case of tobacco since last affirmation.

COMMITTEE MEMBER PEREZ: So in your last evaluation when the Board reaffirmed, was it your opinion that it would cost the fund money to remain divested?

MR. FORESTI: Was it our opinion --

COMMITTEE MEMBER PEREZ: Long story short, should we be -- should we go back into tobacco? Will it make us one percent that we lost?

MR. FORESTI: I think that's a -- that's a much broader question. So our view on these divestment programs has always been around the cost to divest, and the decision of engagement versus the cost. But in terms of the report that I provided today, it's essentially a forensic just measurement of what the impacts from those decisions have been.

But, for example, at that December 2016 Committee meeting, there was outside experts brought in on their view of the industry, what its prospects were versus the rest of the portfolio, and those sorts of opinions. Our opinion letter around that was essentially to try to minimize the cost of transactions, which would have been the same -- the same opinions we give when you're considering a divestment activity, which is what's the expected payoff versus the cost? We know the cost. The estimate of how it's going to hit returns is much harder to predict.

COMMITTEE MEMBER PEREZ: Dan's chomping at the bit.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: No. No. I'll just comment that your question is a perfect one. And it's one of those things where if we had a crystal ball, we would know what the answer -- you know, what the perfect answer is. And it just speaks to the challenge around -- around any of these things is we don't know what the next one year, three year, five year is going to look like. We don't know what the market is going to do. What we do know is that, and the reason that the principles are written to be preferring engagement versus divestment, is because what we do know is that if we constrain the opportunity set, as a -- Ben is more of a mathematician than I am, but I at least have a quantitative background. I can tell you that any time you constrain an optimization function, you can only get a worse solution.

So that's our big, you know, underlying conceptual concern with divestment. However, what -- you know, what these companies are going to do tomorrow or next year is, you know, if we knew that, we would -- we would all be billionaires.

(Laughter.)

MR. FORESTI: Add if I could just maybe just add one comment. So on page five, I mentioned that the cost for the transactions versus the impact from what markets do. Within our analysis, we try to capture both of those impacts. So I -- you know, I talked about in the illustration how the return of the market impacts accumulate through time. The other thing we capture are the trading costs to divest. So you'll notice -- and I apologize, I can't read what the headers are, because I'm legally blind. But there's two columns in here.

One is essentially the market impact, which I described earlier. But you'll also notice that there's a column for the transaction cost aspects of it. And you'll see that that is blank in all but two of the periods, and that was when the first divestment happened.

So again, one of the certainties we know about divestment is there will be a real trading cost when those securities are traded and reinvested. We know that's going to be a negative. The impacts we don't know. We know that's a risk. It could be positive. It could be negative. You will see upon that most recent affirmation, another negative number that came into that transaction period, and that is, as Dan mentioned, where the program was extended to broader reach within the portfolio.

So, you know, we very much focus on the known costs, and then try to just understand the risks around the unknown outcomes of just how market performance performs. But very much agree with Dan's perspective on the opportunity set and systematically just narrowing that opportunity set.

COMMITTEE MEMBER PEREZ: And then I would submit to the Chair maybe to ask the staff or direct staff to bring back their evaluation into responsibly -- as far as investments not so much social, but responsibly investing back into tobacco.

CHAIRPERSON SLATON: So we did an affirmation. What year was that we --

MR. FORESTI: It was December of '16.

CHAIRPERSON SLATON: December of '16, is that correct?

MR. FORESTI: Yes.

CHAIRPERSON SLATON: And as I recall, at that time, I asked the question of the staff, left to your own devices, would you go back in or not go back in, and the answer was we would go back in, recognizing you could not forecast what would occur in terms of price movement in the future.

So we now have a program set up for each of these specific areas to a reaffirmation every five years, is that correct?

INVESTMENT DIRECTOR CROCKER: Yes.

CHAIRPERSON SLATON: With an annual review, but an affirmation process, essentially an action item every five years.

INVESTMENT DIRECTOR CROCKER: That's right. The annual review is by Wilshire. It's high level. It's just basically a version of what you see today of the estimated impacts -- performance impacts. And then the deeper dive every five years is by staff.

CHAIRPERSON SLATON: Yeah. And that's when normally, according to our current policy, we would then make a decision about whether we want to change our strategy --

INVESTMENT DIRECTOR CROCKER: Yes.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Correct.

CHAIRPERSON SLATON: -- in regard to these investments. So the next time this is scheduled is 2021?

INVESTMENT DIRECTOR CROCKER: Yes.

CHAIRPERSON SLATON: Okay. So if we want to change that policy, that would need to be in the form of a motion, if we were going to do it sooner than that.

COMMITTEE MEMBER PEREZ: A motion.

CHAIRPERSON SLATON: All right. So we have a motion to -- we don't know the timing yet, but we're talking about --

COMMITTEE MEMBER PEREZ: Next month.

CHAIRPERSON SLATON: Well, I think next month it would be difficult for them. But let's put it this way very soon to do it. That would be the motion.

Is there a second to the motion?

COMMITTEE MEMBER BROWN: Second.

CHAIRPERSON SLATON: All right. So motion from Perez, second from Brown.

Discussion on the motion?

Ms. Taylor, do you want to speak?

COMMITTEE MEMBER TAYLOR: I can discuss on the motion too.

CHAIRPERSON SLATON: Sure.

COMMITTEE MEMBER TAYLOR: But I would like to go back and talk about some -- so, first, I would say I don't support the motion. We have a process set up to do this. I will also say that if you -- what I was going to say on this was that if we get back in tobacco now, we're also buying back in tobacco at a high. We lost a little bit over six months. But after all the $3.5 billion that we supposedly lost, now we're buying into it a high. So be prepared that we may not make anymore money on the tobacco stocks.

But secondarily, something that's never figured into this is we also provide health care. And no, this is not a consideration, but it is something that we should all look at. We also provide health care. So if we're invested in tobacco stocks, we're also costing our health -- our health care increases.

COMMITTEE MEMBER PEREZ: I would submit, ma'am, that we're --

CHAIRPERSON SLATON: No, let's -- no --

COMMITTEE MEMBER TAYLOR: No, no, no. We're not cross-talking here.

COMMITTEE MEMBER PEREZ: I don't know how it works.

CHAIRPERSON SLATON: Let's wait.

COMMITTEE MEMBER TAYLOR: So -- but second, also we -- other -- since we have started -- it started declining, one of the things that I think I was going to ask Wilshire and maybe our staff is that if it started declining now, and you said that it's hard to say whether or not we'd get back into it, or, you know, what the -- what forecasting would be, at this point, are we looking -- are you seeing a forecast for it to go down, is that why we've lost in the last six quarters?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: So that is the rationale for the every five-year review is that it's a pretty deep dive. And we can go out to sell-side analysts, supply-side analysts --

COMMITTEE MEMBER TAYLOR: Right.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: -- and do the whole review. And that's what we did recall last time. Our recommendation was to not divest. But, of course, the Board took the action to go ahead and divest, as Mr. Slaton said.

COMMITTEE MEMBER TAYLOR: Well, we were already -- let's be clear about this, we are already divested. You wanted us to reinvest, correct?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: We were -- we were partially divested. It was out of our benchmark. External active managers could invest as an out-of-benchmark bet. The internal strategies did not own it. It was precluded from the internal strategies, and the Board's decision at that time was to actually expand the divestment to the external active strategies.

COMMITTEE MEMBER TAYLOR: Okay. So I -- again, I speak against this motion. I think that we have a process set up. We are currently losing money on tobacco. I don't see any sense in buying in at this point, especially -- you know, I just think it's a mistake for us to exit the process and try to do it outside the process.

CHAIRPERSON SLATON: Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. I actually the timing to be revisiting this again in, what, 2021 is probably pretty good timing just from the big picture of politics and everything else. I don't see anything creating a big drastic change in where tobacco fits into the agriculture industry sector. But, you know, it would be nice to imagine a future where the tobacco industry transforms into the cannabis industry. And that might be tune to look at in five years or 10 years. So I've got an open mind for the future.

CHAIRPERSON SLATON: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair. Yeah, just looking at the inception dates, because prior to last year, these divestment issues were coming to us almost annually one at a time. And we said, well, why don't we -- this was just last year. We said, well, rather than coming to us every year with a deep dive, let's wait to a prescribed period of time and have them all. So we just made that decision last year to bring all of these back on an an -- on a five-year basis rather than a year at a time.

And I think this is wonderful to see this chart, where you can put them together and you see the pluses and minus. So I would not be in favor of then dissecting and removing them and treating them differently. I would continue to support the five-year plan to bring them all back, so we could then look at them holistically and see where the ins and outs occur, and then make a decision based on the total data, rather than one at a time.

CHAIRPERSON SLATON: Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

I'd like to ask staff a bit of a hypothetical question, because if the Board was to take an action and say we don't want to divest from tobacco, Mr. Meng, we wouldn't be saying go out and buy tobacco today if it's high. We would just give you the opportunity to buy into tobacco, is that correct? Who what wants to answer that?

CHIEF INVESTMENT OFFICER MENG: Okay. So let me answer the hypothetical question hypothetically.

COMMITTEE MEMBER BROWN: No. No. No.

No, go ahead.

(Laughter.)

CHIEF INVESTMENT OFFICER MENG: So as Dan just said a moment ago, it's very difficult to predict the future. And I believe that in December 2016, the team -- internal team, as well as external experts, got together put our best estimate going forward. So if you're putting me on the spot now, at this moment is a year and a -- almost a year and three months after that comprehensive study, I cannot really give you an educated answer. So we need -- if that's the Committee direction, we have to do a deep dive before I can come back to you with the answer.

COMMITTEE MEMBER BROWN: Great. But my question is still, we're not -- if the market was high, if we were saying don't divest, are we saying you have to go and invest right now, if tobacco has high? Dan you want to give me that? Want a shot?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Sure. So I'll take off the COIO hat and put on the MID of Global Equity hat.

COMMITTEE MEMBER BROWN: Thank you.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Yes. This is one where the way that the global equity portfolio is constructed, it's constructed very systematically and mathematically. If these securities go into the benchmark, the vast majority of the portfolio we'll reinvest.

Now, our external managers will still be able to make their decisions. It is the case that the index methodology would apply over some timing, and that's when it would happen. But if we were to reverse that decision and take away the divestment in tobacco, it would go into our benchmark, and the vast majority of our portfolios would buy tobacco stocks.

COMMITTEE MEMBER BROWN: Great. And do we know if -- aren't tobacco companies actually buying cannabis now, buying cannabis companies now? Isn't that kind of where they're headed?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: There has been one announcement that I'm aware of a can -- of a tobacco company buying a cannabis company. There's also been several spirits companies that have made investments into cannabis companies.

COMMITTEE MEMBER BROWN: Oh, spirits. Okay. Good.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Like Constellation Brands who makes Corona. They bought a big stake I think in Aurora.

COMMITTEE MEMBER BROWN: Thank you. I like the sin stocks. Thank you.

CHAIRPERSON SLATON: Okay. Mr. Perez.

COMMITTEE MEMBER PEREZ: I just think it's one -- one percent of the fund is a lot of dinero. And that can go a long way towards easing a lot of the -- a lot of the public comment that we got, specifically from the League and the Special Districts and the Counties. And I understand that it's a five-year cycle. But in light of the fiduciary training I got as a rookie, I'm responsible for past Board decisions. So that's why I'm bringing it here. And I don't -- of course, I'm not doing the work, so it's easy for me to say it, but I think it's a worthwhile endeavor for you guys to do a deep dive and to come back and say, yeah, I would or, yeah, I wouldn't.

CHAIRPERSON SLATON: Okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: I just want to reiterate that this is already divested. So -- and we keep calling it a divestment, as if we're currently doing it. And I think maybe we need to change our language. But it's already divested, and we're not in it right now. So if we were to reinvest in it, that would be -- take a longer time. And then also you're keeping track of cannabis. Interesting.

(Laughter.)

COMMITTEE MEMBER TAYLOR: I just wanted to say that as I understand it, yeah, I think there's one company right now that's in cannabis. I think it's a great idea if they do that. But let's look at it in the years to come after an election when we can find out whether or not that might be legal in the United States. Because right now, we can't invest in the New York Stock Exchange in anything that's cannabis, unless it's from Canada right now, so...

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Yeah. Correct. There is one New York Stock Exchange listed company, but it's a Canadian company that's listed both in -- it's dually listed.

COMMITTEE MEMBER TAYLOR: Yeah.

CHAIRPERSON SLATON: So just the Chair to make just a couple of quick comments. One, is I resist trying to time the market. I've listened to enough ads from financial advisors saying that future performance -- past performance is no guarantee of future performance. So trying to time this is, in my book, kind of a fool's errand.

The second thing is staff resources to do this. And one of the reasons we put it on a five-year cycle was because this takes significant resources in order to be able to construct. And so the sense of the Board at the time was that doing it on a five-year cycle would meet our fiduciary responsibility. That was the decision we made then. But we do have a motion on the floor now to take up tobacco in the short term to do a full review of that.

Oh, first, Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you.

Just one additional question. If -- hypothetical. If we were to start changing our policy and reinvesting, wouldn't we also start to see transaction costs going up? And that's coming out of the PERF.

CHIEF INVESTMENT OFFICER MENG: Yes.

COMMITTEE MEMBER JONES: Okay. Thank you.

COMMITTEE MEMBER TAYLOR: Can we have a roll call please?

CHAIRPERSON SLATON: All right. We'll have a -- on the Board, let's have a vote on the motion.

Committee members please vote.

COMMITTEE MEMBER BROWN: To reconsider the divestiture in tobacco.

CHAIRPERSON SLATON: It is on now.

(Thereupon an electronic vote was taken.)

CHAIRPERSON SLATON: It's displaying up here.

All right. Is everybody -- all right. Motion fails.

Okay. Do we have more on this particular item before we move to 7b?

Kim, did we have anything else?

Kit. I'm sorry, Kit.

INVESTMENT DIRECTOR CROCKER: I assume -- and my policies that I wasn't here at the beginning. I assume Dan covered the basics. So we're good. Thank you.

CHAIRPERSON SLATON: He did. Okay. Very good.

All right. We will now move to the item that was delayed, 7b, Assembly Bill 33.

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: All right. So now it's good afternoon, Mr. Chair and Committee members. Danny Brown, CalPERS team member.

AB 33 by Assembly Member Bonta would prohibit CalPERS and CalSTRS from making any new or additional investments in private prison companies. It would also require CalPERS and CalSTRS to divest from a private prison company that doesn't transition from their business model to another industry following engagement.

Although, you see in the agenda item and you've heard from other presentations that it only appears there are a couple of companies that would be impacted by this bill, our recommendation to oppose the bill has nothing to do with the size of the impact or the issue that the author is trying to address, but rather our overall policy that we prefer engagement over divestment. And as was mentioned in the prior presentation, that it's important that our investment team has a full set of opportunities in the market as they're trying to achieve their seven percent goal.

And with that, I'll stop there and answer any questions you may have.

CHAIRPERSON SLATON: Okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Boy, that was quick. It was the only one, huh.

(Laughter.)

CHAIRPERSON SLATON: So far.

COMMITTEE MEMBER TAYLOR: Huh?

CHAIRPERSON SLATON: So far.

COMMITTEE MEMBER TAYLOR: I will say I appreciate everything you've done here on this. So there's a couple of things. One there's another bill out there. Are we covering it here? There's another bill out there to make it so that California can't open or invest in any new private prisons, correct?

It's like 32?

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN:

It's -- yes, I mean, there's -- it's AB 32 by Assembly Member Bonta, and it would prohibit the California Department of Corrections from contracting with private prisons.

COMMITTEE MEMBER TAYLOR: To outsource. Okay. But --

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Right. So it doesn't -- it doesn't eliminate necessarily private prisons. It just prevents the Department of Corrections from --

COMMITTEE MEMBER TAYLOR: Well, some of these companies are nationwide and worldwide companies.

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Right.

COMMITTEE MEMBER TAYLOR: So we can't really --

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Right.

COMMITTEE MEMBER TAYLOR: -- impact that anyway.

So here's what I will say. I represent State employees, all State employees 350 -- or 450,000 State employees. All of those employees work in the prison industry -- or a lot of those -- I'm sorry, not all. A lot of those employees work in the prison industry. And private prisons replace their jobs. So I am absolutely opposed to anything that is replacing State workers' jobs.

In addition to the fact that this is a horrendous business model, in general. I won't even get yet to the immigration issue. But, in general, private prisons exploit prisoners, treat them badly, pay their employees badly. It is a hugely awful business model.

Then when you get into what our current

administration is doing and using those private prisons to separate children from their parents, along the border when it comes to immigration, it's just another horrendous practice. And it's -- to me, it seems like it's anything to make money, which is great for us, but it doesn't seem like the returns have been all that great.

So I was going to ask how do we -- how can we -- can we do this on a neutral. I'm not saying that we say yes to divestment, but can we -- rather than oppose, can we say that we're neutral on the Assembly Bill right now? Because I don't want to vote oppose.

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Yes, you guys have -- yes, that is an option for you, the Board, to vote a neutral position on the Bill.

COMMITTEE MEMBER TAYLOR: Okay. Okay. So, I will also say that I think that it is incumbent upon us to consider how this money is being used as a fiduciary duty, because it is also part of our ESG strategy. So the S in ESG are social. And if you're taking away public sector jobs, you're hurting the pension fund itself. So that is -- that's the way I feel. I would like to propose -- is it an amendment to the action?

CHAIRPERSON TAYLOR: Well, we don't have a motion on the floor yet, so if you want to make a motion.

COMMITTEE MEMBER TAYLOR: Okay. So I'd like to propose a motion that the Board --

CHAIRPERSON SLATON: Take a neutral.

COMMITTEE MEMBER TAYLOR: -- take a neutral position on this.

VICE CHAIRPERSON FECKNER: Second.

CHAIRPERSON SLATON: Okay. It's moved and -- by Taylor, seconded by Feckner.

We a motion on the floor.

Thank you.

Mr. Feckner.

VICE CHAIRPERSON FECKNER: Thank you, Mr. Chair.

I also would support the motion for taking a neutral position and only because if this Committee, this Board, chooses to divest on their own from private prisons, that's another issue versus, in all due respect to Assembly Member Bonta, we can't be dictated to by the Legislature. So if we chose to do that, then that's another issue, but we can't let ourselves be walked down that path by opposing a position or taking positions on those bills that could harm us or our fiduciary responsibility.

CHAIRPERSON SLATON: Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair.

I had a question. I noticed on the bill there's a section to 2D that says basically that nothing in this section -- that the Board is not required to take action, unless the Board determines in good faith that the action described in the -- I guess the divestment -- it's consistent with fiduciary responsibilities of the Board. And so -- so even if the -- so I support the neutral position.

But even if the Board were to go, yes, or -- we would still be protected, because we would still withhold -- I mean, it doesn't impact our -- I mean, I can -- I agree with Mr. Feckner that we have a fiduciary duty. We have an exclusive duty to make this investment decisions, what-have-you, but part of that is the fiduciary deliberation.

But with this -- this section actually acknowledges that we still retain that right. I just want to -- do you read that it way?

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Yes, that is correct. And that's language that they typically put in these divestment bills to give the Board the ability to make a financial decision at the end as to whether or not to actually divest once staff has gone through the analysis.

COMMITTEE MEMBER RUBALCAVA: Okay. Thank you.

CHAIRPERSON SLATON: Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. I won't repeat the comments that my colleagues have already made. I agree with all of them. And the only reason I wouldn't be putting forward a suggestion that we should oppose this is because of the language in the bill that Mr. Rubalcava mentions. It is our fiduciary responsibility.

And as I mentioned at the previous Board meeting, their business model and some of the things that have come to light that are huge legal liabilities that we expose our[SIC] to with investments in these firms, where some of the substantiated and lots of the not-yet-substantiated allegations make Harvey Weinstein look like Mr. Rogers what's been going on in a lot of these facilities, especially with regard to abuse of young people and people in custody.

And so I will support the motion for a neutral vote as well on this -- on this bill. Neutral position.

CHAIRPERSON SLATON: Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Mr. Chair.

I'd just like to say for the record I like the staff's recommendation to oppose this bill. And in my career, I've seen this time and time again. It's a slippery slope. If the Legislature comes up with a set of rules, and we can do some research, and we can do some analysis, and then we can at the last minute decide not to divest, the Legislature does not tell this Board how to invest or divest. And we should always take a position of oppose when the Legislature tries to help us make investment decisions.

We just -- we just need to stay steadfast in this policy and in this practice. Otherwise, we're going to see many more bills come up through the Legislature. And I think we need to stay steadfast and hold our ground on this. And we really need to stick with the staff's recommendation of oppose.

Thank you.

CHAIRPERSON SLATON: Mr. Perez.

COMMITTEE MEMBER PEREZ: Look, as a cop, I understand that it should only be the government that takes away your civil liberties. And I think it's -- I think it's shameful that the government contracts out private prisons.

To Ms. Taylor's point, those are -- those are dues-paying, PERS-paying member's jobs. That's not the priority. The priority is to make the fund money.

It's a strange duality that this Board lives in where we can have a heartburn with this and not have heartburn with what we just talked about two minutes ago.

I strongly oppose -- I support staff's decision. I strongly oppose. But I'm 0 for 2 today, so...

CHAIRPERSON SLATON: All right. Well, we're not ready quite to vote yet, so -- I don't have any further requests to speak. We do have the public wishing to make comments on this item.

Mr. Jelincic, Ms. Jeppson, Mr. Gibbons. And I think Mr. Hutchings had to leave, so...

Mr. Jelincic.

MR. JELINCIC: Thank you. I would like to thank the Chair for getting me the copy of the Meketa letter.

I would oppose the motion, and encourage you to go back to the staff recommendation. You do not want the Legislature telling you what you should and shouldn't invest in. Granted, they give you the out. But you ought to say we need to make investment, not social decisions. So I would encourage you to take an oppose position.

I couldn't help but notice in the agenda item, a little section says, "In addition, the bill states that the private prison companies have incentives to maximize their profits and to minimize their costs". It sounds like an asset class you talked about a little while ago.

The truth of the matter is whether you invest or don't invest is not going to change the behavior of these companies. Just as with tobacco, whether you -- I have not found anyone who smokes because CalPERS might reinvest, and I haven't found anybody who quit smoking because you divested. If you're not changing behaviors, then there's not even a social argument for it.

So I would encourage you to say that this is not good policy. If the Legislature actually thought it was good policy, they would direct all California funds not to invest in this area, but they're not.

So I would again encourage you to reject the motion as it currently stands, and adopt staff's recommendation.

Thank you.

CHAIRPERSON SLATON: Mr. Jeppson. And before you start, Kevin Menager is on the list as well, if you'd come down. Make your way down.

Thank you. You may proceed.

MS. JEPPSON: Thank you for the opportunity to speak to you today. I'm also in support of the staff's recommendation. A lot have of you know me and know that I am a retired emeritus professor from the California State University System.

And in the last 40 years that I was teaching, the chancellor's office was continually giving us unfunded mandates, things that we had to do, but they were not giving us the funds to do that. We had to pull that out of our regular funds.

And I think that's what's happening here with the

Legislature. That if they were going to indemnify CalPERS for the losses or the additional expenses we had of divesting, that would be fine, but that's not the case here.

And personally, I'm not for private prisons. I think putting children in cages is criminal. And I think that separating families is inhumane. But that's really not the point here. The point here is that CalPERS has a process of engagement, and it is a good process. And I think that the decisions to invest or divest lie with the investment team not with the Legislature. I don't know about you, but I don't ask the Legislature for investment advice.

Thank you.

CHAIRPERSON SLATON: Thank you very much.

Mr. Gibbons.

MR. GIBBONS: Chair and members of the Committee, Dillon Gibbons with California Special Districts Association. Our association has taken an oppose position on this bill, as has have the California State Association of Counties and the League of California Cities.

We believe that divestment as a means of achieving a political objective is not a sound investment strategy. And we're going to try and stop this bill and essentially the legislature from telling you how to do your job, and how to handcuff your Chief Investment Officer.

We just heard in the discussion before that engagement works. And we support CalPERS using their investment as a tool, as a power to effect change from within. This is an opportunity to send a message to the Legislature by adopting the staff recommendation that they should not be telling you how to invest your dollars. Leave that to the capable staff, leave that to your engagement process. If it doesn't work -- if engagement doesn't work and you want to come back and you determine that it makes sound and financial decision to divest, then go for it.

CSDA adopted a policy on divestment that I want to read to you that I would you to adopt something similar, but -- "CSDA supports CalPERS priority to its members, as stated in the State Constitution Article 16, section 17. A retirement board's duty to its participants and their beneficiaries shall take precedent over any other duty. CSDA opposes any efforts that would divert CalPERS from its duty to its members, including divestment of CalPERS assets to achieve political objectives, if the divestment would have a negative impact on the overall health of the fund. CSDA supports CalPERS proxy access efforts to effect change from within business. CalPERS has invested in to ensure they are well managed for sustained long-term success".

We want to work with you. We want to help CalPERS. What I am asking for you is help from you to stop these bills. It's really tough for me as an advocate to go before the Legislature and say this is not a good idea. This is bad -- this is a bad investment strategy, if I don't have CalPERS saying the same thing. To start quiet on what is good or bad investment is not helpful. It's not -- it's not looking after the -- your fiduciary responsibility.

So again, I encourage you to support the staff recommendation and oppose this bill.

CHAIRPERSON SLATON: Thank you for your comments.

Mr. Menager.

MR. MENAGER: My name is Kevin Menager. I'm a State worker, a programmer for the Franchise Tax Board, and respect and appreciate the efforts of CalPERS to safeguard my pension. Thank you very much. I'll be using it in a few years, I hope.

I understand and agree that divestment is never an issue to be taken lightly. Only the most egregious more and/or ethical failings could possibly override the fiduciary responsibility of the Board in securing its investments. But I'm old enough to remember when apartheid in South Africa was one such issue.

And as recently as 2015, the issue of divestment in coal came before this Board, which then decided to take a no position -- no position at all. And now, we're forced -- we see forced labor, mass incarceration for profit, the ripping apart of children from their parents at the border. Certainly this is a moral outrage that rises above mere fiscal opportunities.

CoreCivic and Geo Group together are responsible for about 70 percent of migrant detentions in the U.S., a vast number of whom enter the country legally seeking asylum.

For comparison sake, let's look at CalSTRS, who oversees, what, 20 -- $219 billion. They have about 13.7 million invested in these two companies. CalPERS oversees 359 billion. That's more than 64 percent more than CalSTRS, but it just has 11.4 million invested in these companies.

That's 17 percent less than CalSTRS, and yet CalSTRS saw their way to divest. Human rights violations of CoreCivic and Geo Group have triggered several lawsuits that note their business models rely upon forced labor and medical neglect.

Further more, sexual assault and rapes that occur in these facilities are rampant and unchecked with minimal investigation, if any. If lawsuits don't create progress, why would we think engagement would?

They're not going to listen to us. This is a volatile and precarious industry as evidenced by the recent performance of the companies in question. In the last four years, I think it was, CoreCivic's valuation dropped about 47 percent and Geo Group lost about 20 percent, while the S&P went up about 20 and a half percent.

So while many of my colleagues and I are sickened that we might profit from this vile acts, we would prefer to sea CalPERS divest from such examples of people -- of profit over people, but I recognize the duties of this Board.

So I urge you -- I'm surprised you brought it up, because I was going to urge you to take a no position on SB 33 and avoid the headaches of moral outrage versus fiduciary duties.

Thank you.

CHAIRPERSON SLATON: Thank you very much for your comments. I see no other requests to speak. So we have a motion on the floor to take a neutral position on the bill.

COMMITTEE MEMBER BROWN: Point of order, Mr. Chair.

So a yes vote.

CHAIRPERSON SLATON: Microphone.

Just a minute.

COMMITTEE MEMBER BROWN: Thank you.

I just wanted to be sure that we're voting on the neutral position. So a yes vote would mean you agree with the neutral position, is that correct?

CHAIRPERSON SLATON: Right. We would be instructing staff to take a neutral position on the bill --

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON SLATON: -- if you vote in favor of the motion.

All right. And it's been requested that we do a recorded vote. So if you'll set up the board.

(Thereupon an electronic vote was taken.)

CHAIRPERSON SLATON: We've got 1, 2, 3, 4, 5.

COMMITTEE MEMBER BROWN: 4 to 4.

CHAIRPERSON SLATON: What does it take? Counsel, what does it -- it takes 7 votes? It takes 7 affirmative votes. So the motion fails.

Oh, Wait a minute. Counselor.

GENERAL COUNSEL JACOBS: This is not an investment decision, so --

CHAIRPERSON SLATON: So that's the --

GENERAL COUNSEL JACOBS: So this is 6 vote plurality or majority.

COMMITTEE MEMBER BROWN: It fails anyway.

CHAIRPERSON SLATON: So it fails anyway. It's 5 --

COMMITTEE MEMBER PEREZ: Plus, it's a Monday after lunch.

CHAIRPERSON SLATON: -- 5 to 4. Pardon me?

GENERAL COUNSEL JACOBS: The Chair can vote.

CHAIRPERSON SLATON: Oh, the Chair can vote. I had a hunch this was going to happen. I'm going to vote against the motion.

Motion fails. All right.

COMMITTEE MEMBER PEREZ: Can I make a motion to --

CHAIRPERSON SLATON: Just a second. Let me get out of this a second.

Okay. Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Mr. Chair.

I'd like to make a motion to support staff's recommendation to oppose.

COMMITTEE MEMBER PEREZ: Second.

CHAIRPERSON SLATON: To oppose position.

Okay. It's been moved by Brown and seconded by Perez to take -- to accept the staff recommendation and take an opposed position to the bill.

COMMITTEE MEMBER TAYLOR: I'd like to call for a recorded vote.

CHAIRPERSON SLATON: All right. And we'll have a recorded vote on this one.

COMMITTEE MEMBER BROWN: We're going recorded vote, Pam.

That's okay.

(Thereupon an electronic vote was taken.)

CHAIRPERSON SLATON: Okay. It passed. All right. Motion passes.

All right. Well, let's see, I think that completes that item.

And we'll now move to Item 10, Summary of Committee Direction. Mr. Meng.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: We have -- I -- we took no directions during that session.

CHAIRPERSON SLATON: Okay. All right.

So we'll move to public comment. And I don't think I have -- do we have any?

We have no public comments.

So the open session is adjourned.

And we'll meet in closed session as soon as the room is cleared.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 2:37 p.m.)

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of March, 2019.

James F. Peters

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