

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, APRIL 15, 2019
9:23 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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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

Mr. David Miller

Ms. Eraina Ortega

Ms. Mona Pasquil Rogers

Mr. Jason Perez

Mr. Ramon Rubalcava

Mr. Theresa Taylor

Ms. Betty Yee, also represented by Karen Greene-Ross

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

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

ALSO PRESENT:

Mr. Allan Emkin, Pension Consulting Alliance

Mr. Steve Hart, Meketa Investment Group

Mr. David Soares, Retired Public Employees Association

Mr. Andrew Junkin, Wilshire Associates

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P R O C E E D I N G S

1
2 CHAIRPERSON SLATON: Good morning. I'd like to
3 call the Investment Committee meeting to order. First
4 order of business is roll call.

5 COMMITTEE SECRETARY BICKFORD: Bill Slaton?

6 CHAIRPERSON SLATON: Here.

7 COMMITTEE SECRETARY BICKFORD: Rob Feckner?

8 VICE CHAIRPERSON FECKNER: Good morning.

9 COMMITTEE SECRETARY BICKFORD: God morning.

10 Margaret Brown?

11 COMMITTEE MEMBER BROWN: Here.

12 COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

13 COMMITTEE MEMBER HOLLINGER: Here.

14 COMMITTEE SECRETARY BICKFORD: Henry Jones?

15 COMMITTEE MEMBER JONES: Here.

16 COMMITTEE SECRETARY BICKFORD: Fiona Ma?

17 CHAIRPERSON SLATON: She's here.

18 COMMITTEE SECRETARY BICKFORD: David Miller?

19 COMMITTEE MEMBER MILLER: Here.

20 COMMITTEE SECRETARY BICKFORD: Eraina Ortega?

21 COMMITTEE MEMBER ORTEGA: Here.

22 COMMITTEE SECRETARY BICKFORD: Jason Perez?

23 COMMITTEE MEMBER PEREZ: Here.

24 COMMITTEE SECRETARY BICKFORD: Ramon Rubalcava?

25 COMMITTEE MEMBER RUBALCAVA: Here.

1 COMMITTEE SECRETARY BICKFORD: Mona Pasquil
2 Rogers?

3 COMMITTEE MEMBER PASQUIL ROGERS: Here.

4 COMMITTEE SECRETARY BICKFORD: Theresa Taylor?

5 COMMITTEE MEMBER TAYLOR: Here.

6 COMMITTEE SECRETARY BICKFORD: And Betty Yee
7 represented by Lynn Paquin?

8 ACTING COMMITTEE MEMBER GREENE-ROSS: Karen
9 Greene-Ross.

10 COMMITTEE SECRETARY BICKFORD: Karen
11 Greenhouse[SIC} excuse me.

12 CHAIRPERSON SLATON: All right. Thank you very
13 much. Apologize to the audience for the slight delay, but
14 it was picture day here.

15 And I hope everybody is enjoying tax day today as
16 well.

17 (Laughter.)

18 CHAIRPERSON SLATON: All right. We'll move to
19 approval of the April 15th, 2019 Investment Committee
20 timed agenda.

21 Do I have a motion?

22 COMMITTEE MEMBER BROWN: Move approval.

23 COMMITTEE MEMBER TAYLOR: Second.

24 CHAIRPERSON SLATON: Motion from Brown and second
25 from Taylor.

1 All those if favor say aye?

2 (Ayes.)

3 CHAIRPERSON SLATON: Opposed?

4 Motion carries.

5 And we'll move to the Pledge of Allegiance. And
6 I've asked Henry Jones to lead us.

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

9 CHAIRPERSON SLATON: Okay. Next item on the
10 agenda is the Executive Report. For that I call on our
11 Chief Investment Officer, Ben Meng. Good morning.

12 CHIEF INVESTMENT OFFICER MENG: Good morning, Mr.
13 Chair, members of the Investment Committee. Ben Meng,
14 Chief Investment Officer.

15 So today, we have two agenda items in the
16 morning. One is an action item. It's about Assembly Bill
17 1320, the divestment bill from Turkish investment
18 vehicles. And then -- that's item 7a. Then item 7b, the
19 Investment staff will lead a discussion on the review of
20 co-investment activities in private equity. I also would
21 like to take this opportunity this morning to give you a
22 quick overview of the economy, the capital market, and the
23 portfolio, as my first quarterly report as the new Chief
24 Investment Officer.

25 As you know that this economic recovery is on its

1 way to become the longest economic recovery in history.
2 We know that the economy does not die of old age.
3 However, it does not take a lot to trip up a 100-year old
4 man. So we need to be very mindful of where we are in
5 terms of the economic cycle.

6 So speaking of the economy, the growth of the
7 economy, last year in 2008 in the United States, we
8 delivered a GDP north of 3 percent. However, with the
9 tailwind of the fiscal stimulus in the recent past, with
10 the tailwind of that behind us is the economic growth of
11 the 3 plus percent of growth that we saw last year, it's
12 unlikely to repeat in the future.

13 As a matter of fact, most people -- the consensus
14 forecast of the GDP of 2019 is slightly over 2 percent.
15 And the forecast -- consensus forecast for 2020 the GDP is
16 sub 2 percent. So that is the overall of the economy.

17 And speaking of the labor market, the labor
18 market in the United States as you know is really tight.
19 Last November, we saw a print of unemployment rate of 3.7
20 percent. And that is the lowest we have seen since 1969.
21 The wage growth is strong. Both nominal wage growth and
22 the real wage growth has been strong. They are either at
23 or close to cyclical heights.

24 So the tight labor market really point to -- that
25 we are in the late part of the economic cycle. However,

1 the tight labor markets and the wage growth have not
2 translated into high inflation yet, which one would expect
3 to see in the late part of the economic cycle.

4 There are a number of hypotheses explaining the
5 lack of the meaning of inflation, such as the advancement
6 in -- the increase in productivity due to the advancement
7 in technological innovations, the missing inflation
8 because of globalization, and also some argue that there
9 is measurement challenges. How do we measure inflation in
10 the new economy? So we don't see high inflation yet.

11 On the household side, the consumer's household
12 balance sheet is strong, and consumer confidence is high.
13 Many thanks to -- again, to the tight labor markets and
14 wage increases. However, a consumer rebound can face
15 challenges if the trade dispute is not resolved favorably.

16 On the business front, business confidence is
17 high as well. And the CapEx -- the pace of CapEx is
18 healthy. However, the business is facing hindwinds of
19 profitability. Again, given the tax cuts, the tailwind of
20 the effect of the tax cut, most of them has faded, and
21 plus, unresolved the trade dispute would impact the
22 business demand and the business confidence. And more
23 importantly with rising wages result the accompanying rise
24 in inflation and the pricing power will put pressure on
25 the corporate profitability going forward. So this is on

1 the business side.

2 So we talk about the economy, the growth. You
3 know, it's unlikely to repeat the high growth we saw in
4 2008. The labor market is very strong, indicating late
5 cycle. But inflation is still manageable, so which that
6 gave the Fed some room, flexibility in terms of continue
7 to be accommodative.

8 And the consumer sector is healthy. The business
9 sector is healthy. So do we see any major risks or
10 imbalances in the economy?

11 So since the end of last year, the Fed started
12 publishing the semiannual financial stability review
13 report. So in that report, in addition to the traditional
14 dual mandate of the Fed, which is maximizing employment
15 and price -- maintain price stability -- so in addition to
16 this traditional dual mandate of the Fed, the Fed has
17 started talking about leverage and asset valuations of
18 financial assets.

19 So in the recent Fed meeting minutes, it
20 mentioned, in effect, they see pockets of leverage risk,
21 particularly in nonbank corporates. And also, in the
22 recent past, the Fed also mentioned the leverage in
23 certain pocket of commercial real estate is high.

24 However we do not see that leverage risk. It
25 hasn't yet amounted to imminent systematic stress event

1 yet. But we're mindful and we're closely monitoring the
2 leverage build up in the system.

3 The other risk the Fed mentioned is the valuation
4 for asset classes. And as we know that, you know,
5 valuation in the long run really matters, particularly for
6 us as a long-term investor. And two major asset classes
7 or risk segments in our portfolio is public equity or the
8 growth part, which is public equity plus private equity.
9 That is about 60 percent of the asset. I won't say
10 probably 70, 80 percent the risk in the portfolio.

11 And then the other asset -- major asset class is
12 really fixed income, or we call this income segment. So
13 for these two major asset classes in our portfolio, for
14 their individual valuation, it's not as -- at the highest
15 or it's not at its richest point in history, so -- if you
16 look at the individual asset class by itself. However, if
17 you put them together as a portfolio -- we call the 60/40
18 portfolio, roughly 60 percent in equity, 40 percent in the
19 income component, the combination of the portfolio, the
20 valuation of that, it is at, historically speaking, a very
21 high level, which does not bode well for the future
22 returns of our portfolio.

23 That also highlights the importance of the
24 diversification, because in the past, when you have two
25 major asset class in the portfolio, when one is richly

1 valued, the other one is not so, so you get a
2 diversification effect. But now the combination with
3 60/40 portfolio, the valuation of that is quite high. So
4 again I said it does not bode very well for the future
5 return of the portfolio.

6 The other risks that recently surfaced and caused
7 a lot of people concern in the -- about the inflation --
8 the recession may be coming is the inversion of the yield
9 curve, which happened in March. So when we say the
10 inversion of the yield curve -- so normally, the interest
11 rate curve, the long end -- the long maturities -- say,
12 for example, the 10-year yield should be higher than the
13 front end of the interest rate curve, say the 3-month T
14 bill or Fed fund future.

15 And in March, the curve inverted. And the most
16 monitored metrics of that is the 10-year yield and the
17 3-month T bill. So if the 10-year yield is below the
18 3-month T Bill, that what they call the inversion of the
19 yield curve. And normally when that happens, a year -- on
20 average, a year after that, recession happens. But the
21 inversion -- in my personal opinion, in March, the
22 inversion yield curve is really because of the dovish
23 stand from the Fed. And the Fed adopted a more dovish
24 stand in March is really the main reflection of their
25 concern of the lack of inflation, plus the unsettled,

1 uncertainty from trade, and external -- the slow down of
2 external demand. So that is a risk that a lot of people
3 talk about the inversion yield curve.

4 And there's another risk people talk a lot, more
5 concerned, particularly at the end of last year was a
6 major -- was the monetary policy -- global monetary policy
7 with Fed and Central Bank other -- Central Bank of other
8 countries would they make a monetary policy mistake and to
9 upset the economy -- the recovery of the economy. So that
10 was a very legit concern back in Q4 of last year.

11 But since then, we haven't seen -- that again, as
12 I said, that in March, the Fed adopted a very dovish stand
13 in monetary policy. And so basically the Fed is on hold.
14 And then you also see other central banks, such as
15 People's Bank of China, PBOC, adopt outright easing
16 approach. And then with ECB and BOJ, Bank of Japan, and
17 the European Central Bank, they continue to be
18 accommodative.

19 So which I think the monetary policy, we are
20 seeing another around of globally synchronized Central
21 Bank action to stimulate the economy. So with that in
22 place, I believe the monetary policy risk is somewhat
23 abated.

24 So we talk about the -- we talk about the
25 economy, the major risks, and overall we believe that the

1 domestic risk in the U.S. is quite manageable. What can
2 really upset or cause concern is externalities, part of
3 the geopolitical risk, and element of how the trade
4 disputes will be resolved. So this in the near term, I
5 see a risk to the economy and to our portfolio.

6 So we talk about the economy. Now, I'd like to
7 say that you know does \$362 billion, that's the AUM, of
8 our portfolio today. If we say that's where the \$362
9 billion question to know which part of economic cycle we
10 are on, then how does that translate into the portfolio
11 performance or capital markets? That's another 3 plus
12 trillion dollar question.

13 But with that, I'm happy to report as -- that my
14 quarter on the job as the new Chief Investment Officer,
15 the market -- if you recall in Q4 last year, particularly
16 around Christmas time, the market was very volatile,
17 investment sentiment was quite bear-ish, and since has
18 changed meaningfully since then, the investment -- the
19 investor sentiment is high, the financial condition has
20 improved significantly.

21 So as a result of that, the risky assets have
22 delivered. All the major stock indices have delivered
23 double digit return, S&P 500 delivered close to around 15
24 percent of the return. And, of course, you know, as the
25 new Chief Investment Officer, anyone cannot claim any

1 credit for the market moves.

2 But on that note, I would like to take a moment
3 and again to recognize the importance as what I said in
4 the January offsite presentation to you, the importance
5 luck can play in short-term investments outcomes. And
6 with that, you know, the luck component cannot -- it gets
7 even better from here.

8 So now let's talk about the performance of our
9 portfolio in Q1 of me being the -- my first quarter being
10 the Chief Investment Officer. So in Q1, our global equity
11 portfolio delivered roughly about 12 percent return.
12 Fixed income, the other major asset class is four and a
13 half percent of return.

14 And again, as I said, the luck component cannot
15 get any better than this. If you combined all this
16 together, the portfolio -- our portfolio in Q1 delivered
17 exactly 7 percent of return, our target rate of return.
18 Not 1 BP more, not one BP less, exactly 7 percent return.

19 (Laughter.)

20 CHIEF INVESTMENT OFFICER MENG: And again, of
21 course, I cannot take any credit for that, but I take that
22 as good omen for the fund.

23 And if you remember, my January offsite
24 presentation where I referenced a story from my mom. She
25 was really concerned about what I do for a living, because

1 I couldn't predict her portfolio performance with
2 precision. And at least now I can say to her once, I
3 deliver something with precision that's 7 percent -- I
4 quote unquote delivered 7 percent return exactly on the
5 dot from the -- my very first quarter as the Chief
6 Investment Officer.

7 So with that, I would just pause and take any
8 questions that you may have.

9 Thank you.

10 CHAIRPERSON SLATON: Thank you.

11 Ms. Brown.

12 COMMITTEE MEMBER BROWN: Thank you. Thank you
13 for your comments. It would be helpful to have those in
14 writing. Maybe we can get those. That would be great.

15 You know, you talked about our asset classes --
16 or 60/40 and they're at a historical rich point. And I do
17 agree that sometimes when the global equity is high, then
18 fixed is lower. But you said they're not, and it does not
19 bode very well for returns. So without divulging secrets,
20 I -- can you just kind of help me, because you said we've
21 got, you know, 12.12 percent for global equity, and four
22 and a half. You know, do we -- it just sounds scary when
23 said it does bode well for returns. So just give me a
24 little hint as to what you mean by that.

25 CHIEF INVESTMENT OFFICER MENG: Yes. If you

1 recall, at January offsite, I mentioned a number of
2 challenges we face in the portfolio. And one of the
3 challenges is the high valuation for asset class. So when
4 the valuation for asset class is high today, it's
5 likely -- it's more likely that your return will be lower
6 in the future.

7 And so with the allocation of our portfolio --
8 sorry. With the valuation of the two major asset classes
9 in our portfolio at high levels, and particularly the
10 combination the of portfolio together at high levels,
11 that's why I said does not bode very well for future
12 returns, simply because the starting point today, the
13 asset class is so rich, you'll pay up for that asset, so
14 it does not bode very well for future returns.

15 COMMITTEE MEMBER BROWN: Okay. Thank you.

16 CHAIRPERSON SLATON: Okay. We have no further
17 questions. Thank you for the report. And 7 percent, not
18 one less or one more.

19 CHIEF INVESTMENT OFFICER MENG: Of course, the
20 goal is to achieve more than 7 percent.

21 CHAIRPERSON SLATON: No, I know.

22 CHIEF INVESTMENT OFFICER MENG: If we deliver 7
23 percent, the funded status stayed at 71 percent. In order
24 to close that gap, our aspiration, our goal to earn more
25 than 7 percent.

1 CHAIRPERSON SLATON: Of course.

2 CHIEF INVESTMENT OFFICER MENG: But my point is I
3 take it as a good omen for the fund.

4 CHAIRPERSON SLATON: Exactly. Very good. Thank
5 you very much.

6 We'll move to Item number 6. I don't have any
7 requests to pull any of the information consent items.

8 So we will move to Item number 7, which is 7a,
9 the Assembly Bill -- excuse me.

10 COMMITTEE MEMBER TAYLOR: Item 5.

11 CHAIRPERSON SLATON: So -- oh, I'm sorry. You're
12 right, number 5. I skipped that.

13 Pardon me. Item 5 is approval of the Investment
14 Committee Open session meeting minutes.

15 Do I hear motion?

16 COMMITTEE MEMBER JONES: Move it.

17 COMMITTEE MEMBER HOLLINGER: Second.

18 CHAIRPERSON SLATON: Motion from Jones, second
19 from Hollinger.

20 All right. All those in favor say aye?

21 (Ayes.)

22 CHAIRPERSON SLATON: Opposed?

23 Motion carries.

24 Now, I had no information consent requests to be
25 pulled. So we'll move to Item number 7a, Assembly Bill

1 1320 from Nazarian, divestment from Turkish investment
2 vehicles. Mr. Brown.

3 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Good
4 morning, Mr. Chair and Committee members. Danny Brown,
5 CalPERS team member.

6 AB 1320 by Assembly Member Nazarian is an action
7 item and it deals with divestment from Turkish investment
8 vehicles. The requirements of this bill would kick-in if
9 Congress passes and the President signs a federal law that
10 imposes sanctions on the government of Turkey for failure
11 to officially acknowledge its responsibility for the
12 Armenian genocide.

13 If such action is taken, then CalPERS and CalSTRS
14 would be required to stop making any new or additional
15 investments in an investment vehicle in Turkey that is
16 issued, owned, controlled, or managed by the Government of
17 Turkey. The systems would also have 18 months to divest
18 from any such investments.

19 The bill would also automatically sunset on
20 January 1st, 2025, or sooner, if a specified federal
21 entity determines that the Government of Turkey has
22 officially acknowledged its responsibility of the Armenian
23 genocide.

24 While we certainly appreciate and respect the
25 underlying spirit and purpose of Assembly Member

1 Nazarian's bill as it relates to the Armenian genocide, it
2 is -- we are making a recommendation of oppose, like we
3 did last month on the private prison bill. In making this
4 recommendation, staff is trying to take the social and
5 political issues out of the equation, but rather focus on
6 our investment policies that prefer construction -- or
7 constructive engagement as a way to change behavior.

8 We also want to ensure that our Investment Office
9 has a full set of investment opportunities to hit their 7
10 percent target. And with that, that ends my comments and
11 happy to answer any questions.

12 CHAIRPERSON SLATON: Okay. Mr. Jones.

13 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
14 Chair. I move approval.

15 COMMITTEE MEMBER BROWN: Second.

16 CHAIRPERSON SLATON: All right. We have a motion
17 on the floor. And, let's see. Okay. Treasurer Ma
18 seconded the motion.

19 VICE CHAIRPERSON FECKNER: She wants a roll call.

20 CHAIRPERSON SLATON: You want a roll call.

21 COMMITTEE MEMBER BROWN: Brown.

22 CHAIRPERSON SLATON: All right. Ms. Brown
23 seconded the motion.

24 COMMITTEE MEMBER BROWN: Yes.

25 CHAIRPERSON SLATON: All right. Thank you.

1 Okay. We have a motion on the floor, but we have comments
2 before that.

3 So, Ms. Taylor.

4 COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr.
5 Brown.

6 I just wanted to ask really quickly, so the bill
7 says that if the United States government ever passes a
8 law that says we're -- we need to divest because they
9 haven't -- Turkey hasn't admitted to the genocide, then we
10 would have to divest, is that correct?

11 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: That
12 is correct, yes.

13 COMMITTEE MEMBER TAYLOR: Okay. And then my
14 other -- I just wanted to make sure I understood this
15 correctly. While you were talking, I was going through
16 it, and I'm not sure I caught this. You said something
17 about that Turkey has acknowledged? Did I miss that? I
18 just heard that -- and I'm sorry, I missed it.

19 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: No, I
20 didn't -- I did not say that, or if I did, I am sorry.
21 But I said there is a -- I think -- I might have been
22 referring to the provision that says that if a federal
23 entity states that the Government of Turkey has recognized
24 the Armenian genocide, then this bill would sunset.

25 COMMITTEE MEMBER TAYLOR: Got it. Okay. And

1 then -- and we're taking an oppose position, even though
2 it would not impact us, unless the United States
3 government would pass something, correct, and --

4 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Well,
5 I mean that is staff's recommendation to oppose,
6 regardless of that requirement, just overall concerns with
7 divestment bills.

8 COMMITTEE MEMBER TAYLOR: Just because of
9 divestment bills.

10 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Yes.

11 COMMITTEE MEMBER TAYLOR: Not necessarily over
12 any underlying reason and --

13 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Sure.

14 COMMITTEE MEMBER TAYLOR: Okay. I just think
15 it's kind of a little odd that we're opposing a bill that
16 won't even go into effect, especially under this
17 administration. We know that for a fact. Is there a way
18 we can get to a neutral? Can I make a motion to amend --

19 COMMITTEE MEMBER RUBALCAVA: If you make a
20 motion, I'll second it.

21 COMMITTEE MEMBER TAYLOR: Can I make a motion to
22 amend to a neutral position?

23 CHAIRPERSON SLATON: Well, you can make a
24 substitute motion.

25 COMMITTEE MEMBER TAYLOR: Substitute motion.

1 CHAIRPERSON SLATON: That would require a second.

2 COMMITTEE MEMBER RUBALCAVA: I'll second.

3 CHAIRPERSON SLATON: Okay. Motion from Taylor,
4 second from Rubalcava. Let's continue the conversation.
5 So that's the motion on the floor is to take a neutral
6 position.

7 Treasurer Ma.

8 COMMITTEE MEMBER MA: Thank you. Thank you.

9 Having been in the Assembly before, I have
10 actually coauthored divestment bills. And I -- we had a
11 very robust conversation in CalSTRS about the Bonta bill,
12 for example. And I understand, you know, we have a
13 fiduciary hat over here. But like the Bonta bill, he did
14 put a provision in that would allow us, as CalPERS/CalSTRS
15 members, to put on our fiduciary hat, given if he gets
16 that bill to the Governor's desk and signed. So I
17 abstained from that vote in CalSTRS.

18 Similarly, I believe this bill also has a
19 provision that it requires the federal government to act.
20 I'm going to also abstain on taking a position here today
21 to be consistent.

22 CHAIRPERSON SLATON: Okay. Thank you, Treasurer
23 Ma.

24 Mr. Perez.

25 COMMITTEE MEMBER PEREZ: Thank you.

1 This isn't so much about the bill -- the intent
2 of the bill absolutely is to get Turkey to recognize what
3 they've done and shame on them. But we need to support
4 staff and take the politics and social issues out of
5 CalPERS. CalPERS Simply is a retirement fund, plain and
6 simple.

7 CHAIRPERSON SLATON: Okay. I see no further
8 requests to speak. We have a motion on the floor to take
9 a neutral position and requested to do a roll call. We'll
10 do an electronic vote.

11 So if you'll set up the Board for that.

12 This is on the substitute motion to take a
13 neutral position, which has been moved and seconded. So
14 please vote.

15 (Thereupon an electronic vote was taken.)

16 CHAIRPERSON SLATON: All right. The motion
17 fails.

18 I think the motion still fails.

19 All right. So the motion on the floor now -- if
20 you'll clear the Board, the motion on the floor is to
21 support the staff position to take a opposed position on
22 the bill.

23 Can you clear that Board, so we can.

24 MS. HOPPER: I already did.

25 CHAIRPERSON SLATON: Oh, everybody voted pretty

1 fast.

2 No, that's not -- it's not cleared.

3 Let's start over. All right. Now, if you'll --
4 everyone can vote.

5 (Thereupon an electronic vote was taken.)

6 CHAIRPERSON SLATON: All right. Motion passes.

7 All right. We'll move to Item number 8, the
8 information agenda item on total Fund. 8a, Review of
9 Private Equity Co-Investments, Ben Meng and Sarah Corr.

10 CHIEF INVESTMENT OFFICER MENG: Okay. Thank you,
11 Mr. Chair. Ben Meng, Chief Investment Officer. I'm here
12 today joined by Sarah Corr, our Interim Managing
13 Investment Director for Private Equity.

14 So as you recall that when we were reviewing the
15 proposed two addition to our private equity business
16 model, namely Pillar 3 and Pillar 4, we were approached
17 with a number of questions by our stakeholder groups. And
18 one of the questions was regarding the co-investment
19 activities in private equity as part of the Pillar 2, our
20 existing business model.

21 And in February Investment Committee, the Chair
22 directed the staff to develop a review of co-investment
23 activities in private equity. So today, Sarah and I are
24 here to report to you the preliminary findings of that
25 study.

1 the mechanism of the fund investment. So we as the
2 investor or limited partner is the box on the left, the
3 gray box. So we invest in a legal entity that's called
4 the partnership of the fund. And then that legal entity
5 hires the general partner, which is the private equity
6 manager, the general partner, to go out and source
7 potential investment deals of the portfolio companies.
8 That's the one on the right. And then the partnership
9 will invest in that company.

10 So that's currently the majority of our private
11 equity investment are done through commingled fund, the
12 top diagram. And in the commingled fund structure, the
13 general partners are investor like this, we have very
14 little say in terms of investment decisions. We have
15 no -- very little control in terms of portfolio
16 construction when -- what to buy and how much.

17 Then the bottom diagram is the co-investment. As
18 you can see, we as the investor on the left, the gray box,
19 in addition to the fund investment into the portfolio
20 companies, which is the box on the right, in addition to
21 the fund investment, we also invest directly into the
22 portfolio company. That's the line -- the solid black
23 line in the bottom.

24 We also invest in the portfolio company directly
25 alongside the general partners. And when we invest in the

1 co-investment -- when we engage in co-investment
2 activities, we do have some discretion in terms of when,
3 how much, and what to put into the portfolio. So that is
4 the basic difference between the fund investment and the
5 co-investment. So we're -- we'll be more engaged
6 participating in the investment decision-making process.

7 So this answers the question what is
8 co-investment activity in private equity.

9 --o0o--

10 CHIEF INVESTMENT OFFICER MENG: Now, the second
11 question is the how. What are the current approaches to
12 co-investment activities?

13 So broadly speaking, there are three different
14 approaches to co-investment activities. It comes with
15 different level of execution expert -- execution
16 complexity, as well as time required on the staff. So as
17 you can see on this chart, the X axis is the execution
18 complexity. So there are three labels of them,
19 syndicated, co on the right-hand and co-sponsor or
20 co-lead.

21 Then the Y axis is the time required -- staff
22 time required. So as you can see in the lower left part
23 of the chart that is the syndicated approach. And the
24 syndicated approach means that LP, or the investor like
25 us, we do not get involved in the investment until after

1 the GPs has their agreements to buy a portfolio company
2 has been signed by the GPs. So LP does not get involved
3 until the purchase agreement is signed by the GPs already.

4 So that is -- and that requires a minimum amount
5 of execution complexity, and very short time turnaround as
6 well, because it's so late in the decision-making process.
7 When GP go out, they sign the agreement to buy a company
8 first. Then they turn around to syndicate out a piece of
9 the equity to selected investors as a co-investment.

10 So this is the lowest, this on the left part of
11 the chart. And then on the other end of the extreme,
12 which is the top right part of the chart, where you can --
13 co-investors can engage in co-investment activities much
14 early on, so that what we call co-sponsor and co-lead.
15 And naturally it comes with higher execution complexity
16 and much more requirement on the staff's time, expertise,
17 and the internal decision-making governance. So this is
18 on the right.

19 And on the co-lead, the co-sponsor, there are
20 times that co-investors like LP like us are involved even
21 before the deal is identified. So it means that the
22 co-investor LP is involved as early as in the deal
23 sourcing stage, so it can be very early on.

24 Then there is also the middle approach if it's
25 the co-underwritten approach, this is that the LPs, the

1 CHIEF INVESTMENT OFFICER MENG: So this answers
2 the how question, what are the different approaches to
3 co-investment activities.

4 And now let talks -- talks about why, why do
5 people do co-investment? What is the LP's perspective?

6 So first of all, LPs do co-investment, largely
7 because of a potential enhanced return, and mainly because
8 the lower overall fees. So in co-investment, unlike in
9 funds, in co-investment, LPs like this normally do not
10 have to pay any fee. No fee, no carry. So the saving of
11 the fee and the carry alone can -- everything else being
12 equal, will help us to increase the total portfolio net
13 return.

14 The other benefit LPs see in co-investment
15 activity is really to additional mean to increase capital
16 deployment to private equity, the best performing asset
17 class in our portfolio. As I said -- mentioned earlier on
18 that co-investment activity also gave investors like us
19 greater control over when, what, and how much they
20 investment to put into the portfolio. So that we have
21 better control in portfolio construction in terms of
22 geographic diversification, sector diversification,
23 vintage year diversification, and then general partner's
24 diversification.

25 So through co-investment we're getting some more

1 control of portfolio construction. And then last, but not
2 least, through co-investment, LPs will have an opportunity
3 to strengthen the relationship with our core GPs. And by
4 working alongside them, we can learn -- we can gain deeper
5 understanding of their team, their approach, their
6 investment philosophy and strategy, their strengths and
7 weakness.

8 And this deeper understanding of the general
9 partners comes with two added benefits. One is that when
10 they select managers for our Pillar 2 of the private
11 equity business, which currently is the cornerstone of our
12 private equity portfolio, the deeper understanding of our
13 general partners will help us to slack better general
14 partners in our portfolio.

15 And in addition, by working alongside with
16 general partners, we can gain the knowledge, the industry
17 best practice, and the investment knowledge, and with the
18 hope that gradually we can bring that expertise and
19 knowledge in-house. So we see two-folds of benefits by
20 working closely with core general partners.

21 So this why the benefits that GP -- no, LPs,
22 limited partner, investment like us see in co-investment
23 activities.

24 --o0o--

25 CHIEF INVESTMENT OFFICER MENG: But also there

1 are risks to LPs as well in co-investment. First, we see
2 co-investment can be very resource intensive. As you saw
3 in the previous slide, a different level of engagement by
4 LPs, you know, from syndicated as the lowest level of
5 engagement, all the way to the co-lead and co-sponsor,
6 that is the highest level of engagement from LPs. So it
7 can be very resource intensive.

8 And also co-investment opportunities usually
9 requires much quicker turnaround for approval, which can
10 impose challenges for the internal decision-making
11 governance model.

12 We also see risks in portfolio construction.
13 Inconsistent or uneven approach to co-investment can lead
14 to suboptimal portfolio constructions. We'll elaborate on
15 this point later in this afternoon.

16 Also, co-investment can lead to a more
17 concentrated portfolio. Because as you see the
18 co-investment in -- it is in addition to the fund
19 investment, we add more equity check to the portfolio
20 company. So that means that we are increasing
21 concentration to a few names in our portfolio. This risk
22 can be mitigated depending on our approach to
23 co-investment.

24 And concentration is not all bad. As I said
25 again in January offsite, there is, what we call, the

1 rational concentration. So you concentrate your portfolio
2 position in proportion to your conviction level.

3 The other risk -- potential risk people talk a
4 lot is the concerns of possible adverse selection. So
5 what we mean by adverse selections here is that what are
6 the motives for the general partner to offer co-investment
7 opportunities to LPs like us? Do they intentionally hold
8 back, you know, more attractive deals for themselves, and
9 perhaps only offer potentially less attractive deals to
10 general partners?

11 Recent studies, as well as our own experience,
12 disputes this. So we'll dedicate a slide later just on
13 this topic, the risk of adverse selection.

14 And then the last, but definitely not least, risk
15 is headline risk. So when we invest in portfolio company
16 in fund structure, we actually invest in the fund. And
17 then the fund go out to buy the company. So we're kind of
18 isolated a little bit from the portfolio company directly.
19 But now as a co-investment, we are one step closer to the
20 portfolio company. And as a public agency, we're very
21 acutely aware of the headline risk. So this co-investment
22 activity, because we are one step closer to the portfolio
23 company we own, can create more headline risk for us.

24 --o0o--

25 CHIEF INVESTMENT OFFICER MENG: So this is the

1 LPs perspective why co-investment. And we know everything
2 in the society in the capital market, it takes two to
3 tango. So the past rapid growth in co-investment
4 activities are the results of both the increasing demand
5 by investor like us, as well as a supply of co-investment
6 activities by the general partners.

7 So now I'd like to take a look at why general
8 partners provide co-investment activities. For one is
9 really to increase their competitiveness in large deal
10 size, the market segment. As we know that in private
11 equity, the larger the company, the larger the equity
12 check, the less competition is there.

13 But in the traditional fund investment, usually
14 each fund comes with a portfolio construction or
15 investment policy. And that policy stays normally put a
16 cap on how much the fund can invest in one portfolio
17 company. So there's a limitation. So that limitation
18 naturally limits how large the portfolio company the fund
19 can go out to buy.

20 However, now we with the co-investment --
21 co-investors available, the GPs can go up on the size of
22 the portfolio company without having to violate the
23 portfolio construction policy, because any extra beyond
24 and above the risk limitation, they can offer that as a
25 co-investment -- a co-investment to co-investors.

1 So the co-investment activity really helps GPs to
2 increase their competitiveness in the larger part for the
3 market segment. And that capability also will help them
4 to increase their capability in raising primary funds.

5 The second benefit that a GP see is really to
6 enhance their relationship with the existing LPs by
7 offering favorable economic terms, and the more attractive
8 co-investment activities to selected limited partners
9 investors, like us. So this is the other benefit that GPs
10 see in co-investment. And that's why they offer
11 co-investment activities.

12 And then when GP -- as we said, as you know,
13 co-investment activities in hot demand. More and more LPs
14 wants more and more of co-investments. So when GPs decide
15 whom to offer the co-investment activities to, what are
16 their considerations? So normally GP have the following
17 three considerations when offer -- when deciding on whom
18 to offer the co-Investment activities:

19 First is they look for LPs who have had
20 significant co-investment experience, and track record,
21 and proven capability. Remember, they need a quick
22 turnaround decision from LPs. Sometimes, or many times,
23 these deals are already signed. The GPs already signed
24 the deal to buy the company. And they have only short
25 window of time to turn around to syndicate the equity

1 piece check to selected LPs. So they need to know that,
2 you know, LP you can deliver your part.

3 They're also looking for the speed of decision
4 making. In the syndicated case, normally it's about 20
5 days, you had to turn around to say whether you want the
6 deal or not. So the speed, can you make a quick decision
7 or not, have you managed co-investment in a portfolio
8 before?

9 And then recently, it's very interesting
10 developments in the marketplace. When GP offer
11 co-investment activities to co-investors, or LPs, they
12 also consider whether the co-investor, the LP like us, can
13 add other values. So in addition to financial capitals,
14 they're looking the co-investors to offer. They also
15 looking for co-investors who can add other values. What
16 do we mean by other values?

17 So there are two examples just announced in the
18 past months -- in the recent weeks actually. One is Valor
19 Equity Partners is a private equity fund manager focused
20 on early stage food and retail. And the reason that they
21 announced a partnership, they offered co-investment
22 activities -- co-investment opportunities to Starbucks.
23 And from the press release, you can see that it is
24 really -- is a -- it's a very good marriage.

25 So Starbucks being offered as a co-investor in

1 the deal, Starbucks can really accelerate its
2 understanding of the new trend in food and retail. But on
3 the flip side, the GP, really the Valor Equity Partners,
4 they really benefit from the knowledge of Starbucks
5 knowledge in retail, as well as the mass distribution
6 channel that Starbucks has.

7 So you see in this case, the Valor Equity
8 Partners that GP offer the co-investment opportunity to
9 Starbucks for value-added. In addition to financial
10 capital, it's for the value-added to the deal.

11 And the other example recently announced is
12 really the ES network, the continent distribution network.
13 In a recent transaction, they team up with Amazon. And
14 they hope that they can benefit from again the massive
15 membership and distribution channel that Amazon can offer
16 to the deal.

17 So again, that's where this is a relatively
18 recent phenomena. The GPs, when they decide whom to offer
19 co-investment opportunities to, in addition to the ability
20 of managing co-investment and the speed of decision
21 making, they're also looking for value-add from other
22 either operation or marketing, however you can bring to
23 the table. So that is GP's perspective.

24 --o0o--

25 CHIEF INVESTMENT OFFICER MENG: Now, I would like

1 to spend the next couple minutes on the current state of
2 the last question, the current state of the co-investment
3 in private equity.

4 So simply put, demand for co-investment
5 opportunities from LPs community outstrips supply by GPs.
6 In 2017, the estimated co-investment market share --
7 market size by Camber Associates is about \$60 billion.
8 And according to a survey last year, 72 percent of a large
9 investor like us have an active co-investment program.
10 And it is up from 60 percent in the previous year.

11 So LPs -- demand from LPs, it is our forecast
12 will continue to grow.

13 --oOo--

14 CHIEF INVESTMENT OFFICER MENG: And then the
15 supply from GPs is likely to continue to grow as well. So
16 approximately 60 percent GPs surveyed by Preqin offer
17 co-investments, and estimate to offered on six percent of
18 all completed transactions. The percentage will be higher
19 for buyouts and lower for VC, but on average will be six
20 percent.

21 And again, from our conversation with our global
22 peers that's LPs and GPs, and with the industry experts,
23 the syndicated approach, which is on the lower left part
24 of the chart, the least level of execution complexity and
25 the least amount of time required on the staff, that

1 remain to be the most common approach by investors to
2 approach co-investment.

3 --o0o--

4 CHIEF INVESTMENT OFFICER MENG: Okay. So now, as
5 I said, that you know we'll dedicate one slide on the
6 potential adverse selection. What are the motives for GP
7 to offer co-investment opportunities? Do they hold back
8 the better deals and offer only the potentially less
9 attractive deals to LP as a co-investment opportunities.

10 So there are two well known scholarly articles
11 with opposing views. One is Fang et al., 20 -- first
12 published in 2014, finalized in 2015 which found evidence
13 of adverse selection. And then three years later Braun et
14 al. paper in -- first -- again, first published in 2017
15 and finalized in 2018 found no evidence of adverse
16 selection.

17 The key difference between these two articles,
18 which we provided the link to the Board. The key
19 difference between these two articles are really in the
20 source of data, the size of the sample, and the
21 representativeness of the sample -- the data sample, as
22 well as the study methodology.

23 The later study, Braun et al. 2018 used a much
24 larger data size, more representative data size, and
25 slightly better study methodology. So naturally it will

1 lead to more solid conclusions, which conclude that there
2 are no evidence of adverse selection, which is consistent
3 with our own experience which we will elaborate later this
4 afternoon.

5 And that finding that there's no adverse
6 selection is also consistent with well respected private
7 equity industry consultants, fundings such as Camber
8 Associates, Preqin, and StepStone.

9 So with that, I would conclude. Okay. I guess
10 with that, I have to pause and answer questions, since
11 this clicker doesn't work anymore.

12 So answered -- I'm happen to answer any
13 questions.

14 CHAIRPERSON SLATON: All right. Thank you very
15 much.

16 Ms. Brown.

17 COMMITTEE MEMBER BROWN: Thank you for the
18 presentation, Ben. I've been -- since I've gotten on the
19 Board I've been talking about why aren't we doing more
20 co-investments or what co-investments are we doing? And I
21 think we'll be talking about that later in closed session.

22 And you sort of answered my first question on
23 page 10, which is you talk -- these two studies by Fang
24 and Braun talk about -- you talk about the difference in
25 data. And, of course, my note in my iPad is here is,

1 well, what's our own data show us? And I -- we're going
2 to discuss that in closed session, correct?

3 CHIEF INVESTMENT OFFICER MENG: Yes.

4 COMMITTEE MEMBER BROWN: Okay.

5 CHIEF INVESTMENT OFFICER MENG: We'll cover that
6 in closed session, and our own data. I have to say our
7 sample size is larger than the first study, the Fang et
8 al. So that again just shows the lack of transparency in
9 the private equity as asset class data is the challenge.
10 There are no shortage of smart people. A scholar can
11 analyze anything, but the challenge is lack of data.

12 COMMITTEE MEMBER BROWN: Right. And I believe we
13 have that data in our -- is it called PEARS or PEARS the
14 system? Is that where we have that data?

15 CHIEF INVESTMENT OFFICER MENG: I'll defer to
16 Sarah.

17 COMMITTEE MEMBER BROWN: Great.

18 INTERIM MANAGING INVESTMENT DIRECTOR CORR: We
19 have --

20 COMMITTEE MEMBER BROWN: And I've only heard
21 about PEARS. I haven't actually seen it. Maybe we could
22 get that, at some point in time, some information on that?

23 INTERIM MANAGING INVESTMENT DIRECTOR CORR: So
24 the PEARS system has information on all of CalPERS
25 investments and whether they're co-investments or

1 co-invest -- or commingled funds or separate accounts.

2 COMMITTEE MEMBER BROWN: And so that's where
3 you're pulling our data set from, that --

4 INTERIM MANAGING INVESTMENT DIRECTOR CORR: Some
5 of it's from there and some of it's received directly from
6 the general partners.

7 COMMITTEE MEMBER BROWN: Great. And then going
8 back to slide 6, and -- on adverse selection. So again,
9 this is the same type of thing. You know, I would agree
10 that you would sort of think that the general partners
11 wouldn't necessarily give the limited partner the good --
12 the good co-investments. But again, they might need to in
13 order to generate more money, because they might be
14 limited by their agreement.

15 And also, I mean, an LP will take a
16 co-investment. But if we're always on the short end,
17 we're not going to continue to do co-investments. So
18 there's a symbiotic relationship between the GP and LP and
19 co-investments. And I'd just like to say that I really
20 hope we step this up, we get the consultant we need in
21 here to help us, and we start moving on this. If we --
22 first you do it on the low end of the XY axis, that's
23 fine. But hopefully, we get to the part where we can get
24 on the -- where we're doing a lot of the work ourselves
25 in-house. That's what I'm hoping for, and we can get the

1 benefit of the returns.

2 Because my knowledge is that when we co-invest
3 alongside with our private equity investments, because we
4 don't pay fees or carry, it actually helps the overall
5 returns for the portfolio. And I'm hoping we get there.

6 Thank you.

7 CHIEF INVESTMENT OFFICER MENG: Yeah. So that
8 will be a discussion this afternoon.

9 But back to your point adverse selection, I agree
10 with you. If you think about the general partner's
11 motives, why do they offer co-investment to selected
12 limited partners like us? One, is that the ticket size is
13 too big.

14 COMMITTEE MEMBER BROWN: Um-hmm.

15 CHIEF INVESTMENT OFFICER MENG: So they need
16 financial capital. And the other one is that they are
17 trying to enhance the relationship with selected limited
18 partners. So they wouldn't want to ruin the relationship.
19 And their business really relies follow on fund, follow on
20 fund, exactly as you point out that if the limited partner
21 fund out, they always hold -- always hold the shorter end
22 of the stick, you wouldn't reinvest with them anymore.

23 COMMITTEE MEMBER BROWN: Well, let's hope that
24 the GPs start looking to us to do more co-investments.
25 That's my hope.

1 CHIEF INVESTMENT OFFICER MENG: Thank you.

2 COMMITTEE MEMBER BROWN: Thank you.

3 CHAIRPERSON SLATON: Controller Yee.

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

5 And thank you for the presentation. This is
6 really excellent in terms of just going in knowing what
7 the risks are and identifying those.

8 As you know, I've placed a pretty good premium on
9 governance. And I wanted to just ask a question as to
10 whether CalPERS will have greater governance rights in a
11 co-investment structure? If you could comment.

12 CHIEF INVESTMENT OFFICER MENG: Yes. Yes and no.
13 Generally speaking, yes. So let me go back to this. So
14 once you become a co-investor, the bottom half of
15 diagram --

16 COMMITTEE MEMBER YEE: Yeah.

17 CHIEF INVESTMENT OFFICER MENG: -- no matter the
18 level of engagement, either the lowest level, from
19 syndicated, to the highest level, co-lead, will have more
20 information to the portfolio company, because we are more
21 direct ownership of the portfolio company now. So we'll
22 have more information, more transparency. And in terms of
23 the governance, if we're all the way on the right, say
24 co-sponsor and co-lead, most likely it will come with a
25 board seat at the portfolio company level. But that's a

1 requirement that we had to be ready and willing to sit on
2 the board, and be value-add on the board of portfolio
3 companies, and we'll have more influence on the
4 governance. So exactly we'll have more control on the
5 investments and on the governance and the information as
6 well.

7 COMMITTEE MEMBER YEE: Okay. Good. Good.
8 That's what I thought just kind of synching up those two.
9 That's great. And then, you know, with respect to the
10 risks that were identified, adverse selection, I
11 understand certainly the conclusion there. How do you
12 intend to mitigate portfolio concentration?

13 CHIEF INVESTMENT OFFICER MENG: Yeah. So I plan
14 to discuss that in the afternoon.

15 COMMITTEE MEMBER YEE: Okay.

16 CHIEF INVESTMENT OFFICER MENG: But that touch
17 upon our strategy forward.

18 COMMITTEE MEMBER YEE: Okay. All right. That's
19 fine. And then just a question with respect to the speed
20 I guess. How confident are you that your due diligence
21 process can meet the requirement that GPs are seeking in
22 terms of execution on opportunities quickly?

23 CHIEF INVESTMENT OFFICER MENG: Yeah. So again,
24 that's another topic this afternoon.

25 COMMITTEE MEMBER YEE: Okay. All right. Thank

1 you.

2 CHAIRPERSON SLATON: Okay. Ms. Hollinger.

3 COMMITTEE MEMBER HOLLINGER: Thank you.

4 Ben, I really appreciate this. And I think one
5 of the challenges going forward that we faced historically
6 is how do get to scale? How do we increase our allocation
7 to private equity? And I think co-investment provides us
8 with that opportunity. So I'm very supportive, along with
9 my colleague, Ms. Brown.

10 A couple of questions. When I was at Rotman and
11 I met with the Canadian Pensions who are doing direct and
12 co-investment deals, they can do that turnaround or give a
13 yes or a no immediately. And if this is a question for
14 later, is there something -- are we able to do that or is
15 there something you need from the Board to be able to
16 execute on that?

17 CHIEF INVESTMENT OFFICER MENG: Yeah. Currently,
18 We cannot. So that's what we intend to bring up this
19 afternoon, what we will need from this Board.

20 COMMITTEE MEMBER HOLLINGER: Okay. Okay.
21 Because that was my -- because I think historically,
22 probably that's prevented us. And so I just want to make
23 sure that we would give you the tools you need to move
24 forward.

25 CHIEF INVESTMENT OFFICER MENG: Yeah.

1 COMMITTEE MEMBER HOLLINGER: Okay. Thank you.

2 CHAIRPERSON SLATON: Mr. Miller.

3 COMMITTEE MEMBER MILLER: Yeah. Again, thank
4 you. This presentation has been -- is very well crafted.
5 And I think it provides me with a -- some -- a good
6 example and food for thought for some of the other work
7 we're doing on improving board materials. So thank you
8 for that right off the bat.

9 And to kind of piggyback on Ms. Hollinger's
10 comment -- and I know we'll probably get into more detail
11 late, but it seems to me that the co-investment space is
12 going to be important moving forward. And kind of my kind
13 of mantra I keep coming back to is, you know, I'm looking
14 forward to seeing more and more how this really aligns
15 with this whole concept of kind of strategic workforce and
16 talent flow management, and how it integrates with our
17 budget process and everything. And I know we'll get more
18 into detail.

19 But that's certainly -- you know, looking as a
20 long-term investor with long-term strategies, we've got to
21 build that in and cook it in from the get-go. So I'll be
22 looking forward to hearing more from you on this subject
23 as we move along.

24 Thank you.

25 CHIEF INVESTMENT OFFICER MENG: Thank you.

1 CHAIRPERSON SLATON: Mr. Jones.

2 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
3 Chair. I echo my colleagues, outstanding presentation.
4 Appreciate the clarity that's embodied in the
5 presentation.

6 And my question goes to the horizon, the
7 timeline, for these two types of investments, the fund
8 versus the co-investment. And one of the mitigating
9 issues that we've talked about is this turnover in terms
10 of private equity investment. You know, it's the
11 short-term, five, seven, maybe even 10 years that doesn't
12 align with our liabilities that are 40, 50, 60 years out.

13 So my question is looking at the co-investment,
14 while we could have already invested in the partnership,
15 but going around in the co-investment, can that be a
16 longer horizon than the partnership or does it have to be
17 the same?

18 CHIEF INVESTMENT OFFICER MENG: It has to be the
19 same.

20 COMMITTEE MEMBER JONES: It has to be the same.

21 CHIEF INVESTMENT OFFICER MENG: It currently is
22 structured as the same. So the portfolio company exit at
23 the same time. So as a co-investment, currently
24 structured, we cannot hold our co-investment piece for
25 longer. So the answer is no, we cannot do that yet.

1 COMMITTEE MEMBER JONES: So that explains we have
2 to find another vehicle to get that long term.

3 CHIEF INVESTMENT OFFICER MENG: Yes, exactly.
4 That Pillar 4.

5 COMMITTEE MEMBER JONES: Thank you. Okay.

6 CHAIRPERSON SLATON: Ms. Brown.

7 COMMITTEE MEMBER BROWN: Thank you.

8 My question is for Sarah. Are we doing any
9 co-investments now?

10 INTERIM MANAGING INVESTMENT DIRECTOR CORR: We'll
11 talk -- we can talk about that in closed session, but the
12 short answer is we're not currently doing any
13 co-investing.

14 COMMITTEE MEMBER BROWN: Thank you.

15 CHIEF INVESTMENT OFFICER MENG: Yeah. This
16 afternoon, I'll give you a comprehensive review of the
17 timeline history -- of our own history.

18 COMMITTEE MEMBER BROWN: Great. Thank you.

19 CHAIRPERSON SLATON: Well, I see no further
20 requests to speak. I want to thank you for this
21 presentation. I mean, it's very clear that we are
22 pursuing an all-of-the-above strategy, and that
23 co-investments are a critical piece to this. And I think
24 I speak on behalf of all the Board members that we're
25 going to look forward to our conversation in closed

1 session, where we can dig in more details.

2 CHIEF INVESTMENT OFFICER MENG: Yes. Thank you.

3 CHAIRPERSON SLATON: So we move -- I think we're
4 finished with this item. We move to Item number 9,
5 Summary of Committee Direction.

6 CHIEF INVESTMENT OFFICER MENG: I jotted -- I
7 noted none.

8 CHAIRPERSON SLATON: Okay. Didn't have any.

9 All right. So we'll move to public comment. And
10 I have one request to speak, Mr. Soares. And you'll have
11 three minutes. And good morning.

12 MR. SOARES: That's fine. Thank you.

13 Good morning. Again, I'm David Soares. I'm on
14 the Board of the Retired Public Employees Association, and
15 I'm a retired prosecutor.

16 And I just wanted to follow up on my comments at
17 the last meeting, because I'm very concerned about the way
18 that closed session is being used. And I just want to
19 remind the CalPERS Board as individuals of section 11120
20 of the California Government Code, that is the preference
21 for open government in the state of California.

22 And I'm also -- I want to remind the Board to
23 take a look at CalSTRS policy about closed session, and
24 especially the 11126 Government Code Investment Rule.
25 CalSTRS policy is with regard to investment decisions, the

1 Board shall consider most investment matters in open
2 session, unless such consideration would jeopardize
3 execution of the investment or cause harm to the value of
4 the investment.

5 What I don't want CalPERS to do is obviously
6 expose negotiations, where outsiders can front-run CalPERS
7 investments. That's not what I'm talking about. What I
8 am talking about is the governance issue. This agency has
9 had problems with governance. We all know, especially
10 when high fees are sloshing around, that we have had
11 problems at CalPERS with kickbacks even to a former CEO.
12 That kind of money is very dangerous.

13 And so I want to encourage the Board as
14 individuals -- Controller Yee had a really excellent idea
15 that she mentioned at the last Investment Committee
16 meeting, that this Board really needs independent outside
17 counsel for advice, who do not report to the CEO, but
18 rather report to the Board, and who are ethically bound to
19 give the Board good advice.

20 The other thing that I want to encourage this
21 Board, I don't know what you're discussing this closed
22 session. But if you believe that closed session is being
23 violated under the Government code, you do have the
24 ability to talk to the State Auditor. I know that the
25 State Attorney General has not taken an active role for

1 quite a few years in enforcement of the Bagley-Keene Open
2 Meeting Law.

3 But I can tell you from personal experience, I
4 have filed a complaint with the State Auditor's office
5 about Bagley-Keene involved in this Board a couple years
6 ago, and I had a very good response. And I know that our
7 State Auditor, Elaine Howle, is now much more active about
8 investigating and publishing public reports about these
9 issues.

10 And so as individual Board members, you're not
11 just here on your own. And I strongly encourage you to
12 engage with the State Auditor if you believe that there
13 are issues with open meetings.

14 Thank you very much.

15 CHAIRPERSON SLATON: Okay. Thank you for your
16 comments.

17 That concludes the open session agenda. We will
18 adjourn now and go into closed session as soon as the room
19 clears.

20 Thank you very much.

21 (Thereupon California Public Employees'
22 Retirement System, Investment Committee
23 meeting open session adjourned at 10:26 a.m.)
24
25

C E R T I F I C A T E O F 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 17th day of April, 2019.

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