

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
OPEN SESSION

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

WEDNESDAY, MAY 15, 2019

9:00 A.M.

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

A P P E A R A N C E S

BOARD MEMBERS:

Mr. Henry Jones, President

Ms. Theresa Taylor, Vice President

Ms. Margaret Brown

Mr. Rob Feckner

Ms. Fiona Ma, represented by Mr. Frank Ruffino

Mr. David Miller

Ms. Eraina Ortega

Ms. Mona Pasquil Rogers

Mr. Jason Perez

Mr. Ramon Rubalcava

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Ms. Liana Bailey-Crimmins, Chief Health Director

Mr. Michael Cohen, Chief Financial Officer

Mr. Christian Farland, Chief Information Officer

Mr. Douglas Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

Dr. Ben Meng, Chief Investment Officer

Mr. Brad Pacheco, Deputy Executive Officer

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

STAFF:

Mr. Scott Terando, Chief Actuary

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

Mr. Danny Brown, Chief, Legislative Affairs Division

Ms. Cara Buchanan, Board Secretary

Ms. Sabrina Hutchins, Chief, Enterprise Strategy and
Performance Division

Mr. Michael Younger, Staff Services Manager

ALSO PRESENT

Mr. Tim Behrens, California State Retires

Mr. J.J. Jelincic

Mr. Neal Johnson, Service Employees International Union,
Local 1000

Mr. Chirag Shah, Chirag Shah & Associates
(via teleconference)

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1
2 PRESIDENT JONES: I'd like to call the Board of
3 Administration meeting to order.

4 And the first order of business is roll call,
5 please.

6 BOARD SECRETARY BUCHANAN: Good morning.

7 Henry Jones?

8 PRESIDENT JONES: Here.

9 BOARD SECRETARY BUCHANAN: Theresa Taylor?

10 VICE PRESIDENT TAYLOR: Here.

11 BOARD SECRETARY BUCHANAN: Margaret Brown?

12 BOARD MEMBER BROWN: Here.

13 BOARD SECRETARY BUCHANAN: Rob Feckner?

14 BOARD MEMBER FECKNER: Good morning.

15 BOARD SECRETARY BUCHANAN: Dana Hollinger?

16 PRESIDENT JONES: Excused.

17 BOARD SECRETARY BUCHANAN: Frank Ruffino for
18 Treasurer Ma?

19 ACTING BOARD MEMBER RUFFINO: Present.

20 BOARD SECRETARY BUCHANAN: Lisa Middleton?

21 PRESIDENT JONES: Excused.

22 BOARD SECRETARY BUCHANAN: David Miler?

23 BOARD MEMBER MILLER: Here.

24 BOARD SECRETARY BUCHANAN: Eraina Ortega?

25 BOARD MEMBER ORTEGA: Here.

1 BOARD SECRETARY BUCHANAN: Jason Perez?

2 BOARD MEMBER PEREZ: Morning.

3 BOARD SECRETARY BUCHANAN: Mona Pasquil Rogers?

4 BOARD MEMBER PASQUIL ROGERS: Here.

5 BOARD SECRETARY BUCHANAN: Ramon Rubalcava?

6 BOARD MEMBER RUBALCAVA: Here.

7 BOARD SECRETARY BUCHANAN: And Betty Yee -- or
8 Lynn Paquin for Betty Yee?

9 ACTING BOARD MEMBER PAQUIN: Here.

10 PRESIDENT JONES: Okay. Thank you. The next
11 item, approval of the May 15 timed agenda.

12 VICE PRESIDENT TAYLOR: Move approval.

13 PRESIDENT JONES: Moved by Ms. Taylor.

14 BOARD MEMBER MILLER: Second.

15 PRESIDENT JONES: Second by Mr. Miller.

16 All those in favor say aye?

17 (Ayes.)

18 PRESIDENT JONES: Opposed.

19 Hearing none.

20 The item is approved.

21 I've asked Mr. Perez to lead us in the Pledge of
22 Allegiance.

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

25 PRESIDENT JONES: Thank you very much.

1 The -- good morning to everyone. And this week
2 we welcome a new member to our Board, Lisa Middleton. Ms.
3 Middleton was in attendance the last two days, but was
4 unable to be here today to a prior -- due to a prior
5 commitment she had in her hometown of Palm Springs.

6 On behalf of the Board, I want to officially
7 welcome her to our CalPERS family. Lisa has served on the
8 Palm Springs City Council since 2017. I'm quite confident
9 that her background, service, and experience on boards and
10 commissions will be an asset to our Board.

11 Over the last several months, I've spent a lot of
12 time on the road meeting and talking with CalPERS retirees
13 throughout the State. And when I do, the topic of
14 greatest concern is whether their CalPERS benefits are
15 safe. I know how important it is for our retirees and our
16 future retirees to be able to count on the benefits
17 they've worked for and earned.

18 Our retirees also expressed concerns that the
19 recent Supreme Court decision in the CalFire case would
20 impact their benefits. And I assured them that it does
21 not. I reminded them that we've taken important steps to
22 ensure the long-term sustainability of the fund, including
23 lowering the discount rate, approving an asset allocation
24 mix that carefully reconsiders risk and reward, shortening
25 our amortization schedule to help employers pay down

1 liabilities on future costs faster, and exploring
2 innovative ways to assess private markets.

3 I would be remiss not to mention that May is
4 National Military Appreciation Month. So thank you to all
5 those who have served or continue to serve in our armed
6 forces. And at this time, I'd like all active and
7 veterans of military service to stand so we could
8 acknowledge you.

9 (Applause.)

10 PRESIDENT JONES: And this week is National
11 Police Week. To our Board Member Jason Perez, who is a
12 Sergeant with the Corona Police Department, thank you for
13 your service.

14 This week especially, we thank all police
15 officers who protect us every day and honor those who have
16 paid the ultimate sacrifice.

17 Finally, I'd like to make a moment -- take a
18 moment of personal privilege to recognize a special person
19 and friend of CalPERS, Bill Slaton. Bill's tenure on the
20 Board ended last month, but he has served us well since
21 his appointment in 2012 by former Governor Jerry Brown.
22 Bill represented all members, but sat in the seat as a
23 local government elected official for two terms through
24 his role on the Board of Sacramento Municipal Utilities
25 District.

1 Bill was a strong advocate for interests of our
2 employers, partners, and, of course, our members. His
3 composure and pragmatic approach led to effective and
4 productive discussions on some very difficult subjects.

5 Bill, will you please join me on the stage.

6 Thank you. Technology, right.

7 Okay. Well, Bill, on behalf of the entire Board,
8 we want to honor you by presenting this resolution to you
9 for your work and your dedicated service to the CalPERS
10 Board and CalPERS member. So we hope that whatever your
11 endeavors are from here, that you would be successful in
12 that regard.

13 So thank you for your service.

14 (Applause.)

15 PRESIDENT JONES: Three minutes.

16 (Laughter.)

17 MR. SLATON: I have been advised by your counsel
18 I am not limited to three minutes.

19 (Laughter.)

20 MR. SLATON: However, I will adhere to that and
21 be under three minutes. So first of all, I want to
22 congratulate Ms. Middleton. I think Governor Newsom made
23 an excellent appointment to this Board. Her background
24 and her skill sets I think are going to be a great
25 addition to the Board. So I congratulate her as well.

1 So first of all, it's obviously been an honor and
2 a privilege to be on this Board for almost 7 years. So
3 when I do the math, that's about 400 Committee and Board
4 meetings. However, that does not even compare to Mr.
5 Jones's over 600 and Mr. Feckner's over 1,200.

6 So -- but with 400 of them, you start to get a
7 feel for how things work. And my conclusion is the
8 mission is pretty simple, pay the benefits, deliver health
9 care, make sure the checks get there on time. But the
10 work is not simple. And we all know that. Everybody who
11 serves -- everybody who's in this room understands that
12 it's not simple. And part of the reason is because we
13 don't control everything. And if we did, it would be
14 simple. So whether it's the markets, health care costs,
15 those who are stakeholders and their concerns, agency
16 budgets, you name it, there's a challenge. And the job of
17 the Board is to oversee this agency and rise to that
18 occasion.

19 So I kind of use the analogy that it's kind of
20 like CalPERS is a very sturdy ship, but on very stormy
21 seas. And it's a perpetual voyage. And every year, year
22 after year, your job is to come into port safely, all the
23 time, and not miss it once.

24 So what's the best chance for survival, if you're
25 trying to make sure you've got to come into port? And

1 that's for the crew and the officers to work as a team.
2 And so that's why my time on here, as those of you who've
3 served with me, has been primarily on the issue of Board
4 governance. That's where I've spent my time.

5 Now, you have an outstanding crew. In fact, my
6 career spans about 50 years of working with public
7 agencies. And I have to tell you, this is one of the most
8 outstanding staffs I've seen, with the exception of SMUD,
9 which is, you know, pretty -- you know, they're run very
10 close to each other.

11 (Laughter.)

12 MR. SLATON: And you have in Marcie Frost one of
13 the best CEOs that I've had the privilege of working with
14 and you should treasure her. And you have an Investment
15 Office, led by Ben Meng, that even though we have these
16 choppy seas, they're trying to provide the right guidance
17 in order to get through that and succeed and get into
18 port.

19 So in closing, I have just a few recommendations,
20 very few. First, recognize the value of your crew.
21 Second is maintain a culture of listening and respecting
22 each other. Focus on outcomes with goals and
23 measurements. And arrive, if possible, at consensus. But
24 even if you can't, support the group decision. In other
25 words, set your eyes on the horizon and pull together.

1 Again, thank you very much for the honor and
2 privilege.

3 (Applause.)

4 (Standing applause.)

5 PRESIDENT JONES: Okay. Thank you. We're going
6 to recess for a moment and have a little cake and coffee
7 on -- Bill's behalf.

8 (Off record: 9:09 a.m.)

9 (Thereupon a recess was taken.)

10 (On record: 9:24 a.m.)

11 PRESIDENT JONES: Okay. The next item on the
12 agenda is the Chief Executive Officer's report, Ms. Frost.

13 CHIEF EXECUTIVE OFFICER FROST: Good morning,
14 President Jones and members of the Board. I'd like to
15 start my report this morning by also thanking Bill Slaton.
16 In the seven years he's been with us, I think we've all
17 had the privilege of working with someone who has a lot of
18 insight, and has really helped to foster much thoughtful
19 discussion within this entity. His understanding of some
20 of the local government issues, I think also provided
21 valuable input, and data, and information as we were
22 contemplating changes that would have fairly dramatic
23 impact to our public employers.

24 And in my time here, I found that Bill's
25 pragmatic approach to resolving issues and looking at

1 tough data and tough challenges has been really quite
2 helpful and constructive.

3 So we'd like to thank Bill on behalf of the team
4 here at CalPERS for his service to the Board and to
5 CalPERS generally, and his dedication to protecting our
6 members' pension and health benefits.

7 I'd also -- although Lisa is not with us this
8 morning, also like to thank Lisa -- or welcome Lisa
9 Middleton to the Board. And the team at CalPERS is really
10 looking forward to getting to know her and working with
11 her directly.

12 So moving on to other business. Yesterday, the
13 Pension and Health Benefits Committee was presented with
14 the preliminary health premiums for 2020. It's important
15 to emphasize that these are preliminary health premium
16 rates, and represent months of negotiations that have been
17 happening between the health plans and the health team.

18 So we have another work -- or another month of
19 work ahead of us in negotiations. And I think there was
20 good direction from this Board. And we'll come back to
21 you in June with the final rates. That will be followed
22 by open enrollment in the fall, and -- with new health
23 premiums and any plan changes taking place or taking
24 effect January 1 of 2020.

25 As part of the work we do in health, I think we

1 did hear some public comment yesterday about an
2 informational workshop session that we held last week with
3 our stakeholders about mental health benefits. The
4 workshop was really developed in response to a request
5 asking for more information from the health plans about
6 mental health services. Representatives from Kaiser,
7 Anthem Blue Cross, UnitedHealthcare, and Blue Shield all
8 attended and explained the benefits that are available to
9 our members. And I think everyone did agree that it was a
10 valuable use of their time. We will continue to look for
11 additional avenues and content and topics to be able to
12 present in that format. So if the stakeholders or the
13 Board has input on other topics, we would enjoy hearing
14 those.

15 On Monday, the Investment Committee held a
16 workshop on risk and return. And that was done by the CFA
17 Institute in addition to members of our own team. This
18 was second in a series of workshops that we will be
19 providing over the next few months. And I think they
20 really do give a good opportunity to share investment
21 knowledge with the Board and with the team, and help you
22 prepare for the work ahead, and in particular the work
23 ahead over the next 12 to 18 months. Next month, we will
24 have the focus on the role of the various asset classes.

25 And later in the summer -- so we'll start with

1 private asset classes, and then later in the summer we'll
2 do the public asset classes, and then also asset
3 allocation.

4 So on another note, I am pleased to report that
5 CalPERS has been awarded recognition for the 2019 Richard
6 Goodman Strategic Planning Award by the Association of
7 Strategic Planning. This award does -- award does
8 recognize distinction in the practice of developing
9 strategy and then tracking those strategies through
10 implementation. It's an acknowledgement of the work that
11 was done on the 2017 to 2022 strategic plan. And I'd like
12 to thank the Enterprise Strategy and Performance Division
13 in partnership with all of the CalPERS programs and
14 branches in receiving that award.

15 To date, we're managing 94 strategic and
16 operational metrics and 34 strategic initiatives that will
17 guide the work through 2022. Now, those initiatives
18 obviously are not all major strategies bringing new work
19 into the organization. It is a combination of our
20 strategic plan, as well as the operational measures that
21 were presented to you about 18 months ago.

22 Switching gears now to outreach and engagement.
23 The California City Superintendents Conference I was able
24 to attend that just after last month's Board meeting. And
25 I participated on a panel with Jack Ehnes from CalSTRS,

1 and Derick Lennox from Capitol Advisors Group. As you
2 know, school budgets are under stress. I think you
3 probably hear that when you're out talking with
4 stakeholders. And trying to balance meeting the needs of
5 their students, as well as the needs of the district
6 employees, as well as paying for the benefits that have
7 been earned has been quite challenging. And I think
8 Derick Lennox did a good job of emphasizing the role that
9 school leaders can play in advocating for budget
10 improvements at the State level, which, of course, CalPERS
11 does not get involved in.

12 But for our part, we did share the strategies
13 that we've taken around making sure that they are informed
14 about budgets -- their budget responsibilities over the
15 next 1 to 5 years.

16 And then the following week, I did speak to a
17 group of library directors who attended their annual event
18 here in Sacramento. They asked me to share my view and
19 thoughts on leadership and leading organizations, and
20 getting organizations to become more focused on their
21 members and their employees. So that was a fun
22 opportunity to talk to the librarians. So -- and also I
23 think another opportunity to connect with a group of our
24 members.

25 And then finally, I was on a panel at the Milken

1 Institute Global Conference. I know Mr. Jones was in
2 attendance for that session. And it was really around the
3 importance of defined benefit plans. And the title of the
4 session was, "Can America Afford to Retire?" If any of
5 you would like a link to that session, I'd be happy to get
6 that out to all of you.

7 But it was be intended to be a very balanced
8 discussion. We had Andrew Biggs there for those of you
9 who have maybe heard of Andrew Biggs and some of the work
10 that he's done through the American Enterprise Institute.
11 We had the Board Chair of Texas Teachers. And then we had
12 the CEO of Principal Financial Group Dan Houston. So I
13 will forward that out to the Board.

14 Now on to some CalPERS internal activities,
15 starting with the participation of CalPERS team members in
16 the March of Dimes walk for babies and the Susan G. Komen
17 Race for the Cure. These are activities, of course, that
18 our team here at CalPERS really enjoys participating in.
19 And although we had to modify some of these events a few
20 years ago, we are sticking with our commitment to these
21 very important topics. And then this weekend, CalPERS
22 will participate in the annual Walk a Mile in Her Shoes
23 event.

24 I know it's getting warm in here.

25 And the goal there is to really help end violence

1 against women.

2 And then upcoming activities. There are a number
3 of those that I'd like to take just a moment to mention
4 starting with our annual CalPERS APEX award ceremony next
5 week on Thursday, May 23rd. APEX stands for Achieving
6 Performance Excellence. And it's our highest form of
7 recognition here at CalPERS. This year, we have the
8 privilege of honoring 15 recipients. And the award honors
9 our employees who go above and beyond their normal
10 day-to-day responsibilities, who live the core values of
11 CalPERS, and display a commitment to the overall success
12 of the organization.

13 And one of the special aspects of the APEX is
14 that it's not a management award. It is a peer-to-peer
15 award. And I think that makes it even more special.

16 Nominators also put in a significant amount of
17 work to get the form together, and -- or the nomination
18 package, which once submitted, are then evaluated by the
19 review and selection committee. With that level of
20 criteria and peer review, you can see why the APEX does
21 mean so much to the employees here at CalPERS.

22 And so we do have this year's class of APEX
23 recipients with us this morning. And I'd like to take a
24 moment to have them stand and we can celebrate their
25 accomplishments.

1 (Applause.)

2 CHIEF EXECUTIVE OFFICER FROST: So
3 congratulations to them.

4 And there's more. So in the first week of June,
5 we'll launch registration for our 20th annual Education
6 Forum for employers. The Educational Forum is a great
7 opportunity for our employers to come in and interact with
8 the team, get new information around legislation, about
9 operational issues that they're facing. And they get to
10 interact directly with the subject matter experts at
11 CalPERS. And they also get the opportunity to network
12 with their fellow colleagues around the state. And I
13 think this is a unique opportunity for them to do so.

14 This year's forum will be held October 28th
15 through the 30th, if you want to mark that down, at the
16 Oakland Marriott City Center. And we'll have over 40
17 educational sessions to offer, as well as a full exhibit
18 hall, and one-on-one consultation opportunities. And one
19 of the most popular tables that gets filled out pretty
20 quickly is the work with our actuarial team.

21 So I hope that many of you will be able to join
22 those dates. I know that employers enjoy interacting with
23 the Board as well.

24 And then on employer visits, I will be visiting
25 with city officials in Concord, Vallejo, and Vacaville on

1 June 7th.

2 And then the Diversity Forum, we'll co-host again
3 this year -- or it happens every two years with CalSTRS.
4 And another date to write down, which is June 10th and
5 11th. That event will be held here in Sacramento at the
6 Sheraton Grand. And the two-day event starts on the 10th
7 with a workshop for investment professionals looking to
8 create a diversity and inclusion implementation plan. And
9 then the following day is a full day program with guest
10 speakers and panelists from some of the nation's leading
11 researchers, policymakers, and influencers on the topic of
12 diversity and inclusion.

13 And we're expecting about 200 attendees. And one
14 of the sessions, we have -- it will be moderated by Mary
15 Pugh, will be the two CIOs of CalSTRS and CalPERS. So Ben
16 Meng and Chris Ailman will have a session which I think
17 you all might find really interesting.

18 And so I will conclude with investment
19 performance year to date. And this would be for the
20 Public Employees' Retirement Fund as of March 31st of
21 2019. The total fiscal year-to-date performance is 2.8,
22 the rolling 1-year return of the fund is 3.4. The 3-year
23 return is 8.2. The 5-year return is 6.0. And the 10-year
24 return is 9.5.

25 And then finally, I'd just like to close by

1 highlighting Public Service Recognition Week, which took
2 place last week. But we really do try to celebrate
3 service throughout the year, but take an opportunity every
4 year to reemphasize. It's a national celebration for
5 civil servants with the goal of helping citizens connect
6 to their government. To honor the observance, we did take
7 time during the week to thank our team members here at
8 CalPERS, and in our West Sacramento and regional offices.

9 And Donna Lum did update that our contact center
10 that was over in West Sac has fully moved over to
11 headquarters now. They've come back home as they like to
12 say. But we did do a short video of a conversation I was
13 able to have with some of them, which really illustrates,
14 I think, the passion and the engagement that our employees
15 have in serving the membership. So these are the people
16 who are talking on the phone with our members every day.

17 So, at this point, I'd like to roll the video
18 that we did, and let you see that as well.

19 (Thereupon a video was played.)

20 CHIEF EXECUTIVE OFFICER FROST: So I think that's
21 a great illustration of just the customer service and the
22 attitudes that we have throughout the organization here at
23 CalPERS. So that does conclude my remarks, Mr. President,
24 and I'm happy to take questions.

25 PRESIDENT JONES: Okay. Thank you, Ms. Frost. I

1 see know requests for questions.

2 Next item on the agenda is action consent items,
3 6a and b.

4 VICE PRESIDENT TAYLOR: Move approval.

5 PRESIDENT JONES: And I would remind the Board
6 that there is a revised 6b in your folder.

7 So, Mrs. Taylor moved it.

8 Second?

9 BOARD MEMBER PASQUIL ROGERS: Second.

10 PRESIDENT JONES: Second by Ms. Pasquil Rogers.

11 All those in favor say aye?

12 (Ayes.)

13 PRESIDENT JONES: Opposed?

14 Hearing none. The item passes.

15 I have received no requests to move anything off
16 of the consent agenda items.

17 So we will move to Committee Reports and Actions.
18 The first one is Investment Committee. For that I call on
19 the Chair Mr. Rob Feckner. And I would congratulate Mr.
20 Feckner as being selected -- nominated and selected as the
21 Chair of the Investment Committee.

22 BOARD MEMBER FECKNER: Thank you, Mr. President.

23 There we go. Thank you, Mr. President.

24 The Investment Committee met on May 13th, 2019.

25 The Committee held an election of the Investment Committee

1 Chair and Vice Chair positions. Rob Feckner was elected
2 as Chair of the Committee and Theresa Taylor was elected
3 as Vice Chair of the Committee.

4 The Committee received reports on the following
5 topics:

6 An overview of CalPERS history and performance in
7 co-investing; a workshop covering the basics of investment
8 risk from a trustee's perspective.

9 The Committee heard public comment on the
10 following topics:

11 Labor relations and business practices; CalPERS
12 co-investment strategy; the risks of private detention
13 centers.

14 At this time, I would like to share some
15 highlights of what to expect at the June Investment
16 Committee meeting:

17 The second of four investment education
18 workshops; proposed updates to the investment policy for
19 the California Employers' Pension Prefunding Trust;
20 further discussion regarding private equity
21 co-investments.

22 The next meeting of the Investment Committee is
23 scheduled for June 17th, 2019 in Sacramento, California.
24 And that concludes my report, Mr. President.

25 PRESIDENT JONES: Okay. Thank you, Mr. Feckner.

1 The next item is the Pension and Health Benefits
2 Committee. For that, I call on the Chair, Mr. Feckner.

3 BOARD MEMBER FECKNER: Thank you, Mr. President.

4 The Pension and Health Benefits Committee, PHBC,
5 met on May 14th, 2019.

6 The Committee recommends and I move the Board
7 approve the following:

8 Agenda Item 6a, approve staff's recommendation to
9 use \$44 million of the available monies above what is
10 required for an actuarial reserve to mitigate the 2020
11 PERSCare Preferred Provider Organization basic plan
12 premium rate increase.

13 PRESIDENT JONES: Before I ask for a motion and a
14 vote on this, we do have a request to speak from the
15 public. Mr. Tim Behrens, if you could come up to the mic
16 and you will have three minutes.

17 MR. BEHRENS: Thank you, President Jones, members
18 of the Board. Tim Behrens, President of the California
19 State Retirees.

20 I just wanted to give you kind of a heads up for
21 next legislative session, we plan to pursue bringing back
22 the Rural Health Subsidy Program. I agree with Board
23 Member Feckner and others yesterday that said sharpen your
24 pencil, CalPERS. We need to try to keep the cost of
25 health care down. I'm not optimistic about that. I feel

1 like we pat ourselves on the back, when we have a 9.2
2 percent increase, because we didn't get a 20 percent
3 increase. Nevertheless, the increase keeps coming.

4 And we have people that have retired 20 years ago
5 that are making a minimal amount as their retirement, that
6 are on a fixed income, and every time this goes up, it
7 takes part of their fixed income away from them, those
8 people living in rural areas.

9 And one thing about us retirees, when we retire,
10 we like to move to the ocean or up in the mountains where
11 it's nice a cool. And unfortunately, along with that,
12 comes very few choices of what kind of health care
13 benefits we can buy. So I just wanted to bring that to
14 your attention. And we'll be talking with you more about
15 that in the future. Thank you.

16 PRESIDENT JONES: Okay. Thank you.

17 So on the motion of the Committee.

18 All those in favor say aye?

19 (Ayes.)

20 PRESIDENT JONES: Opposed?

21 Hearing none. The item passes.

22 BOARD MEMBER FECKNER: The Committee received
23 reports on the following topics:

24 The Committee received information on health care
25 costs trends and preliminary 2020 health plan rates.

1 At this time, I'd like to share some highlights
2 of what to expect at the June PHBC meeting:

3 The Committee will receive information on PERS
4 Select value-based insurance design; state annuitant
5 contribution formulas; referencing pricing solicitation;
6 and approve the 2020 health plan benefit rates.

7 The next meeting of the PHBC is scheduled June
8 18th, 2019 in Sacramento, California. And that concludes
9 my report Mr. President.

10 PRESIDENT JONES: Thank you, Mr. Feckner.

11 The next item is a report on the Finance and
12 Administration Committee. For that, I call on the Chair,
13 Mrs. Taylor.

14 VICE PRESIDENT TAYLOR: Thank you, Mr. President.

15 The Finance and Administration Committee met on
16 May 14th, 2019. The Committee recommends and I move the
17 Board approve the following:

18 Agenda Item 4b, approve the Treasury Management
19 Policy.

20 PRESIDENT JONES: On motion of the Committee.

21 All those in favor say aye?

22 (Ayes.)

23 PRESIDENT JONES: Opposed?

24 The item passes.

25 VICE PRESIDENT TAYLOR: Agenda Item 4c, approve

1 the Treasury Management Reserve Policy.

2 PRESIDENT JONES: On the motion of Committee.

3 All those in favor say aye?

4 (Ayes.)

5 PRESIDENT JONES: Opposed?

6 The item passes.

7 VICE PRESIDENT TAYLOR: Agenda Item 6a, approve
8 personal services expenditure of 415.6 million as
9 currently calculated.

10 PRESIDENT JONES: On motion of Committee.

11 All those in favor say aye?

12 (Ayes.)

13 PRESIDENT JONES: Opposed?

14 The item passes.

15 VICE PRESIDENT TAYLOR: And Agenda Item 6b,
16 approve the second reading of the 2019-20 annual budget in
17 the amount of \$1.898 billion and 2,875 positions.

18 PRESIDENT JONES: On motion of the Committee.

19 All those in favor say aye?

20 (Ayes.)

21 PRESIDENT JONES: Opposed?

22 The item passes.

23 VICE PRESIDENT TAYLOR: At this time, I'd like to
24 share some highlights of what to expect at the September
25 Finance and Administration Committee meeting:

1 The annual actuarial valuation Terminated Agency
2 Pool.

3 And the next meeting of the Finance and
4 Administration Committee is scheduled for September 17th,
5 2019 in Sacramento, California.

6 PRESIDENT JONES: Thank you, Ms. Taylor.

7 The next -- there were no meetings for the
8 Performance, Comp and Talent Management Committee, the
9 Risk and Audit, and Board Governance Committee, so
10 therefore no report.

11 We move to item -- Action Item 9, 9a, Ms. Taylor.

12 VICE PRESIDENT TAYLOR: Yes. Thank you. Thank
13 you.

14 So I move to adopt -- number one, adopt the
15 proposed decisions at agenda item 9a2, agenda items 9a4
16 through 8, and agenda items 6, 9a -- I'm sorry, 9a10, with
17 the minor modifications argued by staff to agenda items
18 9a4, 6, and 8.

19 PRESIDENT JONES: Okay. Is there a second?

20 BOARD MEMBER MILLER: Second.

21 PRESIDENT JONES: Second by Mr. Miller.

22 All those in favor say aye?

23 (Ayes.)

24 PRESIDENT JONES: Opposed?

25 The item passes.

1 VICE PRESIDENT TAYLOR: I move to remand Agenda
2 Item 9a1 for the taking of additional evidence as argued
3 by the member

4 BOARD MEMBER MILLER: Second.

5 PRESIDENT JONES: Second by Mr. Miller.

6 All those in favor say aye?

7 (Ayes.)

8 PRESIDENT JONES: Opposed?

9 The item passes.

10 VICE PRESIDENT TAYLOR: I move also to remand
11 Agenda Item 9a3 for the taking of additional evidence
12 regarding the appropriate pay rate to apply to in
13 calculating the member's final compensation.

14 PRESIDENT JONES: Is there a second?

15 BOARD MEMBER MILLER: Second.

16 PRESIDENT JONES: Second Mr. Miller.

17 All those in favor say aye?

18 (Ayes.)

19 PRESIDENT JONES: Opposed?

20 The item passes.

21 VICE PRESIDENT TAYLOR: I move to defer agenda
22 9a9 -- Agenda Item 9a9 to till June.

23 PRESIDENT JONES: Second?

24 BOARD MEMBER FECKNER: Second.

25 VICE PRESIDENT TAYLOR: We'll give it to --

1 PRESIDENT JONES: Rob. Mr. Feckner.

2 Okay. Second by Mr. Feckner.

3 All those in favor say aye?

4 (Ayes.)

5 PRESIDENT JONES: Opposed?

6 Hearing none. The item passes.

7 VICE PRESIDENT TAYLOR: Finally, I move to deny
8 the petition for reconsideration at Agenda 9b1.

9 PRESIDENT JONES: Second?

10 BOARD MEMBER MILLER: Second.

11 PRESIDENT JONES: Second by Mr. Miller.

12 All those in favor say aye?

13 (Ayes.)

14 PRESIDENT JONES: Opposed?

15 The item passes.

16 VICE PRESIDENT TAYLOR: I think I've got one
17 more. Hold on.

18 I move to direct the CalPERS Legal Office to
19 solicit written comments from the public on whether or not
20 to designate the decision at Agenda Item 9c1 as a
21 precedential Board decision.

22 BOARD MEMBER MILLER: I'll second that.

23 PRESIDENT JONES: It's been second by Mr. Miller.

24 All those in favor say aye?

25 (Ayes.)

1 PRESIDENT JONES: Opposed?

2 Hearing none. The item passes.

3 VICE PRESIDENT TAYLOR: And that is it.

4 PRESIDENT JONES: That's it.

5 Okay. Mr. Chirag was on phone. So thank you,
6 Mr. Chirag.

7 MR. SHAH: Thank you, President. Have a great
8 day.

9 PRESIDENT JONES: Okay. So now we move to Agenda
10 Item 10. 10a, Enterprise Performance Reporting.

11 Ms. Hutchins

12 (Thereupon an overhead presentation was
13 presented as follows.)

14 ENTERPRISE STRATEGY & PERFORMANCE DIVISION CHIEF

15 HUTCHINS: Good morning, Mr. President and members of the
16 Board. Sabrina Hutchins, CalPERS team member.

17 Before we jump in, I'd like to take a moment of
18 personal privilege to acknowledge the efforts of the
19 individuals next to me, the larger executive team, and all
20 of CalPERS for being awarded an Honorable Recognition for
21 the 2019 Richard Goodman Strategic Planning Award that
22 Marcie mentioned this morning.

23 I will have the honor of accepting this
24 recognition on behalf of CalPERS at this week's
25 Association of Strategic Planning Annual Conference. And

1 as part of our Honorable Recognition designation, we will
2 be featured on the Association's website.

3 So with that, I will turn this over to Michael,
4 who is our primary senior leader over our EPM program.
5 And he's going to provide you our third quarter
6 performance report update.

7 STAFF SERVICES MANAGER YOUNGER: Thank you,
8 Sabrina. Good morning, Mr. President, and members of the
9 Board. My name is Michael Younger, CalPERS team member.

10 Today, I'm joined by members of the executive
11 team to present to you the third quarter review of the
12 enterprise performance report. This report represents the
13 second year in the reporting cycle of the CalPERS 2017-22
14 strategic plan. Our focus today will be on those
15 strategic indicators this quarter that are either at risk
16 or off target. However, we have provided full details
17 within your agenda item attachment for both the strategic
18 and operational report.

19 Within your agenda item materials, you'll find
20 the strategic plan alignment map, which is included as
21 Attachment A. This shows the connection between the
22 strategic goals, objectives, measures, and initiatives,
23 and is what we refer to as the strategic side of the
24 business.

25 This map uses the Stoplight Methodology,

1 representing an overlay of status indicators of red,
2 yellow, and green. Additional details for each of these
3 indicators can be found in Attachment C and D of the agenda
4 item materials.

5 So this quarter you'll notice that we've added
6 trend analysis to the strategic measure summary sheets to
7 provide you a better view of current and past performance.

8 Next quarter, you can expect the same level of
9 trend analysis on the operational KPI summary sheets as
10 well.

11 --o0o--

12 STAFF SERVICES MANAGER YOUNGER: A little
13 background before we jump in. The framework that this
14 system aligns with really refers back to our foundation,
15 which captures our mission, vision, and core values, and
16 in the simplest terms, represents who we are, and what we
17 aspire to achieve. This includes our strategic
18 objectives, our strategic goals, as well as our outcome
19 measures, which outline our high level operational
20 expectations.

21 --o0o--

22 STAFF SERVICES MANAGER YOUNGER: Depicted on this
23 slide is a high level visual of the enterprise performance
24 management system, which involves the development,
25 implementation, monitoring, reporting, and ad hoc

1 refinement of performance metrics, which support CalPERS's
2 mission and vision.

3 The primary intent of this system is to reinforce
4 CalPERS's desire to be transparent and accountable in
5 support of strategic goals, objectives, and operational
6 expectations.

7 Given that this is an iterative process, we've
8 denoted within your Board materials when data is pending
9 refresh, under development, or currently not available.

10 --o0o--

11 STAFF SERVICES MANAGER YOUNGER: So regarding our
12 state of the business, our review and analysis of the
13 third quarter information identified four measures that
14 are currently refreshing with new data, and those relate
15 to the total health care cost annual change, risk employee
16 awareness survey, risk program maturity survey, as well as
17 the compliance employee awareness survey. I'm happy to
18 report that all of these measures are in the green on
19 target.

20 And of the 34 business plan initiatives, the
21 majority are in the green, three are showing as complete,
22 and two are reflecting off target. And we'll hear a
23 little bit more about that in just a moment.

24 Three -- of the three business plan initiatives
25 that have been completed, those are related to the

1 Actuarial Valuation System redesign under fund
2 sustainability goal, phase 2 of the enterprise business
3 continuity plan, under the risk management goal, as well
4 as our partnerships with health plans to engage in
5 community activities under the health care affordability
6 goal.

7 So as members of the executive team speak to the
8 initiatives that are currently off target, they will
9 provide information regarding root cause for the status,
10 as well as constraints and mitigation strategies currently
11 underway. Keep in mind that this information reflects
12 statuses as of March 31st, 2019, and represents topics
13 that are relevant and at the front-end of our strategic
14 priorities.

15 With that said, I will hand it over to Brad to
16 take us through his updates under the fund sustainability
17 goal.

18 Brad.

19 DEPUTY EXECUTIVE OFFICER PACHECO: Thank you,
20 Michael, and good morning, Mr. President and members of
21 the Board. Brad Pacheco, CalPERS team member.

22 --o0o--

23 DEPUTY EXECUTIVE OFFICER PACHECO: I thought it
24 would be worthwhile for some of the new Board members to
25 just spend a minute about what we're trying to accomplish

1 around this initiative for educating stakeholders about
2 the risks in the system, and the steps we're taking to
3 mitigate those risks. This has been on the strategic plan
4 for a few years now. And the focus is on helping
5 stakeholders understand the why of the decisions that
6 CalPERS is making, and also, the impact to those
7 decisions.

8 So we're looking at things like lowering the
9 discount rate and changing the amortization schedule.
10 This fiscal year, our focus was around local elected
11 officials. It's a group where CalPERS has been less
12 interactive, and one where we saw a need for better
13 understanding around the system.

14 You might recall that we worked with our
15 associations that represent cities, counties, and special
16 districts last year to develop the first ever local
17 elected official education track at our Educational Forum
18 down in Indian Wells. And we're also using opportunities
19 when our senior leaders are out in the field in California
20 speaking at conferences to set up meetings with local
21 elected officials and our employer partners. You heard
22 Ms. Frost say this morning that she's going to be down
23 visiting the cities of Vallejo, Concord, and Vacaville.

24 One of the deliverables in this initiative was to
25 develop a guide for local elected officials. And we had

1 hoped to complete this in January, but we shifted our
2 priorities for a reason. And as a result, this initiative
3 is listed off target.

4 This shift in the priorities actually came from
5 direct experience in learning with our interactions with
6 local elected officials. Oftentimes, they need a
7 fundamental understanding of the system, because they're
8 new to their roles. There's a lot of turnover on city
9 councils, and commissions, and county boards.
10 Additionally, many of the decisions that were made around
11 benefit levels in cities, and counties, and special
12 districts were made prior to them even being in their
13 role. And they have to have an understanding of the
14 background and why those decisions were made.

15 So for those that have served on the Board, have
16 been around for CalPERS for some time, and Michael has
17 this, we often use this rather large poster --

18 (Laughter.)

19 DEPUTY EXECUTIVE OFFICER PACHECO: -- to try to
20 educate folks about the benefit structure. And it's quite
21 unlike navigating a world map. And it's -- clearly shows
22 the complexity within the system.

23 So what we did is we have made it more
24 user-friendly. We've tried to boil it down into an
25 understandable publication. It's a review of our

1 retirement and health benefits. We use this opportunity
2 to put information in here about your role in the system,
3 and just general basic CalPERS facts.

4 And we're going to use this as the foundation to
5 develop the toolkit for the local elected officials, and
6 then roll that out by the end of the fiscal year, and then
7 debut it at our educational conference in October.

8 So that's our plan moving forward. And I'm happy
9 to answer any questions.

10 PRESIDENT JONES: Okay. I see no questions at
11 this time.

12 DEPUTY EXECUTIVE OFFICER HOFFNER: Hi. Doug
13 Hoffner, CalPERS team member. To Brad's point, the
14 initiative here we're talking about relates to talent
15 management. And really, it's the internal focus of this
16 organization to have the most highly qualified individuals
17 working at CalPERS to provide those services for our
18 members.

19 This initiative was off target the last quarter
20 as well. This is really about creating a tool that we can
21 use through our Human Resource Management System to look
22 at our competencies. Those leadership competencies were
23 revised and developed over a year and a half ago. They've
24 been rolled out to the organization by a level of -- at
25 every level of the organization.

1 And what we've tried to do here is align that
2 with our new technology project that is not under contract
3 yet. And so we didn't think it was prudent to move
4 forward until that was done. The one piece of information
5 you don't have, cause we reported this 10 days ago, was we
6 were in informal discussions -- or formal discussions
7 yesterday with a provider. And so we're fruitful and
8 hopeful that in the next few days, that we will get to
9 sort of resolution to begin that formal process.

10 And so until that is done, this will continue to
11 be off track. What we have done is we incorporated all
12 those leadership competencies, and duty statements,
13 performance plans, the duty -- other information related
14 to the positions as they become vacant to really help
15 incorporate that culture of the leadership competencies
16 we're looking for here at CalPERS at every level of this
17 organization.

18 And so with that internal focus, we've been
19 engaging in that for the last year and a half to roll that
20 out. And in this we provided an automated tool to help
21 with that going forward. But until that project is under
22 contract, this will continue to lag.

23 Happy to take any questions.

24 PRESIDENT JONES: Okay. I see no questions.

25 STAFF SERVICES MANAGER YOUNGER: So just in

1 closing, we would like to share just a few reminders. We
2 look forward to attending the July offsite to facilitate a
3 strategic plan discussion with the full Board. Also, the
4 next EPR report will be presented in August 2019. This
5 concludes our report, and we're happy to take any
6 questions.

7 PRESIDENT JONES: Oka. Seeing no questions.
8 Thank you for the report.

9 The next item on the agenda is State and Federal
10 legislation update.

11 Mr. Brown.

12 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: There
13 we go. Good morning, Mr. President and Board members.
14 Danny Brown, CalPERS team member.

15 I will start with by just highlighting a few of
16 the bills that are in your packet. First, both of our
17 sponsored bills have made it out of their first house
18 without any no votes. We do expect them to be heard in
19 the second policy committee, probably sometime in
20 mid-June -- or late June once they finish the budget.

21 One other bill that I kind of wanted to highlight
22 was AB 33, which was Assembly Member Bonta's bill. As you
23 recall that deals with divestment from private prisons.
24 He did not have the necessary votes to get that out of
25 committee last month, so he's actually made it a two-year

1 bill. So we'll see if he does bring it back for -- back
2 next year.

3 There are -- we're basically at another big
4 legislative deadline, which is the suspense hearing, which
5 takes place tomorrow. So this week is the week to get all
6 the bills out of the fiscal committees. There are
7 hundreds of bills on the suspense file, including a number
8 of the ones that we are tracking. So we will be watching
9 that closely.

10 Many of those bills will get amended in order to
11 bring the cost down. So based on the outcome of that
12 hearing, there could be three or four bills that we do
13 bring back to you -- bring to you next month for your
14 consideration.

15 On the budget front, which many of you kind of
16 heard yesterday in the Finance Committee, the Governor's
17 May revise came out. No changes to the \$3 billion
18 proposal to give CalPERS some additional money. We're
19 basically at the whim of the Legislature now as they move
20 through the process. We are watching it closely and
21 providing them information as they request it on the
22 impact of that \$3 billion.

23 On the federal side, there hasn't been much
24 change since last month. Obviously, there's a lot of
25 things going on in D.C., but nothing really pertaining to

1 the issues that we are tracking.

2 But in light of the conversation yesterday around
3 the health rates, I do want to ensure the Board that we
4 are closely watching the Health Insurance Tax and Cadillac
5 tax issues. While we're hopeful that both of these taxes
6 will be delayed, obviously, they will not be delayed
7 before you have to approve health rates next month. If it
8 does happen, it's likely to be in some kind of
9 end-of-the-year package that has to move through Congress.

10 But we will continue to look for opportunities to
11 advocate on those two bills, both through organizations
12 that we belong to as well as individually.

13 And then just staying on the topic of the health
14 care, there's been a number of hearings around health care
15 issues, particularly drug pricing. Many of those bill
16 packages are starting to materialize. And so we are
17 looking at them closely, and anticipate we'll be weighing
18 in on a few of those bills in the next couple of months.
19 But we'll definitely keep you apprised when that happens.

20 And I'll end there and answer any questions you
21 may have about any of the bills we're tracking.

22 PRESIDENT JONES: Seeing no questions.

23 Thank you for the report.

24 We now move to Item 10c, Summary of Board
25 Direction.

1 CHIEF EXECUTIVE OFFICER FROST: None noted.

2 PRESIDENT JONES: Good. Okay.

3 Now, we move to public comment. And I have a
4 request to speak from two members of the public, Mr.
5 Jelincic and Mr. Neal Johnson, if you can come forward.
6 And you will have three minutes to make your comments.

7 MR. JELINCIC: So we've debated. We decide I'm
8 going first. I'm J.J. Jelincic.

9 And I want to remind you that you are trustees
10 and fiduciaries. The trust funds exist to pay benefits
11 and to pay legitimate expenses. You don't run the system.
12 You work through staff and vendors. They have only the
13 authority that you give them, and you define the four
14 squares -- the four corners of that authority. They are
15 acting as your agents. You can delegate authority, but
16 you can't delegate away your responsibility.

17 We had an employee enter -- who was on leave,
18 enter the complex after hours and steal confidential
19 information. CalPERS did not call the cops. In fact,
20 CalPERS discouraged a police investigation. They did take
21 an adverse action against the employee, but only after she
22 had retired.

23 Now, the ex-employee is being sued and trust
24 funds are being used to fund her defense. That would
25 suggest that she is -- was operating within the scope of

1 her employment. The adverse action would suggest
2 otherwise.

3 But that's not bad enough. CalPERS is now
4 arguing in court using trust funds that while she didn't
5 have the right to steal the information, once she did, she
6 had the right to make it public. This should bother every
7 single member of the system, that their trust funds are
8 being used to defend making confidential information
9 public. It is upsetting that trust funds are being used
10 to defend the right to disseminate stolen information.

11 I think that you and your agents really need to
12 look at what you are doing.

13 Thank you.

14 PRESIDENT JONES: Mr. Johnson.

15 MR. JOHNSON: Neal Johnson, SEIU 1000. Two
16 things. One, I want to personally thank Mr. Slaton for
17 his service to this Board for a number of years.
18 Unfortunately, I got here a little late this morning to be
19 able to tell him personally. But I do want to make it
20 public. He has been a dedicated servant. I haven't
21 always necessarily agreed with his positions, but I think
22 he really took the mission of the agency into heart. And
23 I thank Bill for his service.

24 My second comment goes back to about 50 years ago
25 when I was in graduate school in Southern California. I

1 was a teaching assistant and lecturer doing principles of
2 economics. And one of the basic assumptions was that
3 transaction costs, which are the costs of information,
4 contracting, and policing are zero, and that all people
5 participate in the market have equal information.

6 Monday, we had a work -- or you had a workshop,
7 which I think Mr. Bailey did a very good job of, trying to
8 convey that your job is not the day-to-day operations, but
9 is to set the policy guidance and to oversee the system at
10 some level, where you have sufficient detail to know what
11 is going on, and -- as both a fiduciary and a trustee.

12 And I've had conversations with Board Members
13 Brown and Taylor in the last week about the agendas
14 becoming fairly short. And one of the concerns I have, I
15 think other -- and maybe other stakeholders have, and
16 hopefully you as Board members have, is are we getting
17 enough information?

18 You know, for years, I would wind up by the end
19 of Wednesday with a stack of paper, because we essentially
20 lost the forest for the trees. No pun intended. But we
21 had so much information, it was sometimes hard to discern
22 what was important and what wasn't important.

23 I think we have now -- what I'm seeing is maybe
24 have swung this pendulum the other direction, where
25 there's not enough information being disseminated for you

1 to be able to make informed decisions and set the policy.

2 I thank you very much.

3 PRESIDENT JONES: Okay. Thank you for your
4 comments.

5 Okay. That concludes the agenda items. And so
6 this meeting is adjourned. And we will convene closed
7 session in 10:15 -- no, 10:20.

8 (Thereupon the California Public Employees'
9 Retirement System, Board of Administration
10 open session meeting adjourned at 10:07 a.m.)

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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 open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California.

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 20th day of May, 2019.

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