

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, AUGUST 19, 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

COMMITTEE MEMBERS:

Mr. Rob Feckner, Chairperson

Ms. Theresa Taylor, Vice Chairperson

Ms. Margaret Brown

Mr. Henry Jones

Ms. Fiona Ma, also represented by Mr. Matthew Saha

Ms. Lisa Middleton

Mr. David Miller

Ms. Stacie Olivares

Ms. Eraina Ortega

Ms. Mona Pasquil Rogers

Mr. Jason Perez

Mr. Ramon Rubalcava

Ms. Betty Yee

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Michael Cohen, Chief Financial Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matt Jacobs, General Counsel

Dr. Yu (Ben) Meng, Chief Investment Officer

Mr. Brad Pacheco, Deputy Executive Officer

Mr. Eric Baggesen, Managing Investment Director

Mr. Dan Bienvenue, Interim Chief Operating Investment  
Officer

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

STAFF:

Ms. Kit Crocker, Investment Director

Ms. Caitlin Jensen, Committee Secretary

Ms. Kristin LaMantia, Assistant Chief, Enterprise Strategy  
and Performance Division

Mr. John Rothfield, Investment Director

Mr. Kevin Winter, Managing Investment Director

ALSO PRESENT:

Ms. Peggy Bernardy

Ms. Margarita Berta-Avila, California Faculty Association

Mr. Greg Brucker, Jewish Action NorCal

Ms. Alex Cole-Weiss, California State University,  
Sacramento, Queer and Trans Faculty and Staff

Mr. Al Darby, Retired Public Employees Association

Ms. Rose Dean, Wilshire Associates

Ms. Mya Dosch, California Faculty Association

Ms. Joanne Fanucchi

Ms. Sharon Flicker, California Faculty Association

Ms. Emily Goldman, Educators for Migrant Justice

Mr. Steve Hartt, Meketa Investment Group

Ms. Ruth Ibarra, NorCal Resist

Ms. Miriam Joffe-Block, California Alternative Energy and  
Advanced Transportation Financing Authority

Mr. Neal Johnson, Service Employees International Union

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

ALSO PRESENT:

Ms. Marlyn Jones, California Faculty Association

Mr. Andrew Junkin, Wilshire Associates

Mr. Ali Kazemi, Wilshire Associates

Ms. Jessica Lawess, California Faculty Association

Mr. Steve McCourt, Meketa Investment Group

Mr. Mark Ocegoeden, California Faculty Association

Ms. Janeth Rodrigues, California Faculty Association

Ms. Melanie Saeck, California State University,  
Sacramento, Queer and Trans Faculty and Staff

Ms. Heidy Sarabia, California State University,  
Sacramento, California Faculty Association

Ms. Sara Theiss, Fossil Free California

Mr. Tom Toth, Wilshire Associates

Ms. Maria Vargas, Center on Race and Immigration and  
Social Justice

# I N D E X

	PAGE
1. Call to Order and Roll Call	1
2. Approval of the August 19, 2019 Investment Committee Timed Agenda	2
3. Swearing-In Ceremony for New Board Member	2
4. Pledge of Allegiance	5
5. Executive Report – Chief Investment Officer Briefing – Yu (Ben) Meng	5
6. Action Consent Item – Yu (Ben) Meng	
a. Approval of the June 17, 2019 Investment Committee Open Session Meeting Minutes	7
7. Information Consent Items – Yu (Ben) Meng	7
a. Annual Calendar Review	
b. Draft Agenda for the September 16, 2019 Investment Committee Meeting	
c. Monthly Update – Performance and Risk	
d. Monthly Update – Investment Controls	
e. Trust Level Portfolio Management Annual Program Review	8
f. Opportunistic Strategies Annual Program Review	38
8. Action Agenda Item – Independent Oversight	
a. Board Investment Consultants – Selection of Finalists to Interview, and Interview and Selection Process – Dan Bienvenue and Matt Flynn	40
9. Information Agenda Item – Total Fund	
a. CalPERS Trust Level Review – Yu (Ben) Meng, Dan Bienvenue, Eric Baggesen and John Rothfield	45
b. CalPERS Trust Level Review – Consultant Report – Andrew Junkin, Wilshire Associates, and Stephen McCourt, Meketa Investment Group	106
c. Revision of the Total Fund Policy – First Reading – Dan Bienvenue, Kit Crocker, and Beth Richtman	131

I N D E X   C O N T I N U E D

	PAGE
10. Information Agenda Item – Program Reviews	
a. Consultant Review of Trust Level Portfolio Management Program – Andrew Junkin and Rose Dean, Wilshire Associates	143
b. Consultant Review of the Opportunistic Strategies Program – Andrew Junkin, Wilshire Associates	151
11. Information Agenda Item – Independent Oversight	
a. Review of Survey Results on Board Investment Consultants – Kristin LaMantia	159
12. Summary of Committee Direction – Yu (Ben) Meng	164
13. Public Comment	165
Adjournment	189
Reporter's Certificate	190

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

CHAIRPERSON FECKNER: Good morning. We'd like to call the Investment Committee meeting to order. The first order of business will be to call the roll.

COMMITTEE SECRETARY JENSEN: Rob Feckner?

CHAIRPERSON FECKNER: Good morning.

COMMITTEE SECRETARY JENSEN: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY JENSEN: Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY JENSEN: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY JENSEN: Fiona Ma?

COMMITTEE MEMBER MA: Here.

COMMITTEE SECRETARY JENSEN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY JENSEN: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY JENSEN: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY JENSEN: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

COMMITTEE SECRETARY JENSEN: Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY JENSEN: Mona Pasquil Rogers?

1 COMMITTEE MEMBER PASQUIL ROGERS: Here.

2 COMMITTEE SECRETARY JENSEN: Ramon Rubalcava?

3 COMMITTEE MEMBER RUBALCAVA: Here.

4 COMMITTEE SECRETARY JENSEN: Betty Yee?

5 COMMITTEE MEMBER YEE: Here.

6 CHAIRPERSON FECKNER: Thank you.

7 Item 2 is the approval of the August 19th  
8 Committee timed agenda. Any discussion on the --

9 VICE CHAIRPERSON TAYLOR: Move approval.

10 COMMITTEE MEMBER MILLER: Second.

11 CHAIRPERSON FECKNER: It's been moved by Taylor,  
12 seconded by Miller.

13 Any discussion on the motion?

14 Seeing none.

15 All in favor say aye?

16 (Ayes.)

17 CHAIRPERSON FECKNER: Opposed, no?

18 Motion carries.

19 Item 3, is swearing in ceremony for our new  
20 member.

21 Mr. Jones, please.

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

23 Before we get started I'd like to extend my  
24 congratulations to our newest Board member, Stacie  
25 Olivares. Ms. Olivares, was recently appointed by



1 Governor Newsom as an insurance industry representative.  
2 She is currently the Chief Investment Officer of  
3 Lendistry.

4 As it is customary, we will now have a brief  
5 ceremonial swearing in of our new member. Ms. Olivares,  
6 would you join me at the mic.

7 COMMITTEE MEMBER JONES: Okay. Would you please  
8 raise your right hand.

9 And, I, state your name --

10 COMMITTEE MEMBER OLIVARES: I, Stacie Olivares --

11 COMMITTEE MEMBER JONES: -- do solemnly swear  
12 that I will support and defend the Constitution of the  
13 United States --

14 COMMITTEE MEMBER OLIVARES: -- do solemnly swear  
15 that I will support and defend the Constitution of the  
16 United States --

17 COMMITTEE MEMBER JONES: -- and the Constitution  
18 of the State of California --

19 COMMITTEE MEMBER OLIVARES: -- and the  
20 Constitution of the State of California --

21 COMMITTEE MEMBER JONES: -- against all enemies  
22 foreign and domestic --

23 COMMITTEE MEMBER OLIVARES: -- against all  
24 enemies foreign and domestic --

25 COMMITTEE MEMBER JONES: -- that I will bear

1 truth faith and allegiance --

2 COMMITTEE MEMBER OLIVARES: -- that I will bear  
3 true faith and allegiance --

4 COMMITTEE MEMBER JONES: -- to the Constitution  
5 of the United States and the Constitution of the State of  
6 California --

7 COMMITTEE MEMBER OLIVARES: -- to the  
8 Constitution of the United States and the Constitution of  
9 the State of California --

10 COMMITTEE MEMBER JONES: -- that I take this  
11 obligation freely --

12 COMMITTEE MEMBER OLIVARES: -- that I take this  
13 obligation freely --

14 COMMITTEE MEMBER JONES: -- without any mental  
15 reservation or purpose of evasion --

16 COMMITTEE MEMBER OLIVARES: -- without any mental  
17 reservation or purpose of evasion --

18 COMMITTEE MEMBER JONES: -- and that I will well  
19 and faithfully --

20 COMMITTEE MEMBER OLIVARES: -- and that I will  
21 well and faithfully --

22 COMMITTEE MEMBER JONES: -- Discharge the duties  
23 upon which I am about to enter.

24 COMMITTEE MEMBER OLIVARES: -- discharge the  
25 duties upon which I am about to enter.

1 COMMITTEE MEMBER JONES: Thank you for  
2 acknowledging this ceremony. Thank you very much.

3 (Applause.)

4 COMMITTEE MEMBER JONES: And we appreciate your  
5 call to service to our 1.9 million member -- 1.0 million  
6 members, and our confidence that you will do all you can  
7 to represent their best interests.

8 So thank you again.

9 COMMITTEE MEMBER OLIVARES: Thank you.

10 CHAIRPERSON FECKNER: Thank you, Mr. Jones.

11 Congratulations.

12 The next order of business is the Pledge of  
13 Allegiance. I've asked Mr. Rubalcava to please lead us in  
14 the pledge.

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

17 CHAIRPERSON FECKNER: Thank you.

18 Item 5, the Executive Report for the Chief  
19 Investment Officer, Mr. Meng.

20 CHIEF INVESTMENT OFFICER MENG: Good morning, Mr.  
21 Chair, members of the Investment Committee.

22 CHAIRPERSON FECKNER: Good morning.

23 CHIEF INVESTMENT OFFICER MENG: We have full  
24 agenda this morning. We start with two standard  
25 reoccurring items. With item 6 is action consent item,

1 which is to approve the meeting minutes of the Investment  
2 Committee on June 17th.

3 Then Item 7 covers five information consent  
4 items. Item 8 is the only action agenda item today, which  
5 is to approve the suggested interview process for the  
6 Board investment consultants and to determine the finalist  
7 firms to be interviewed by the subcommittee.

8 Then in Agenda Item 9 -- can I have the next page  
9 please. So in 9A, my colleague, Eric Baggesen, Dan  
10 Bienvenue, and John Rothfield will provide you with a  
11 trust level review, where we'll provide you with the past  
12 involvement -- investment performance, as well as the  
13 current risk positioning of the portfolio, and concluded  
14 by an economic update -- economic outlook update by John  
15 Rothfield.

16 In agenda 9b, where your primary investment  
17 consultant, Wilshire, will provide a performance report,  
18 as well as Meketa, and Pension Consulting Alliance will  
19 provide comments specific to private equity, real assets,  
20 and infrastructure.

21 In Agenda Item 9c, my colleague Kit Crocker and  
22 Dan Bienvenue will lead a discussion to seek your review  
23 and direction on the proposed update and revision to the  
24 Investment Policy.

25 In Agenda Item 10, your -- again, your primary

1 pension consultant, Wilshire, will provide an annual  
2 program review of two of the total fund level investment  
3 programs, which are the Trust Level Portfolio Management  
4 Program and Opportunistic Strategy Program.

5 In Agenda Item 11, you'll be provided with an  
6 annual evaluation of your investment -- of your investment  
7 consultants.

8 So with that, back to you, Mr. Chair.

9 CHAIRPERSON FECKNER: Thank you.

10 Seeing no other requests.

11 Moving on to Agenda Item 6, the Investment  
12 Committee open meeting minutes from June 17th.

13 What's the pleasure of the Board -- Committee?

14 VICE CHAIRPERSON TAYLOR: Move approval

15 CHAIRPERSON FECKNER: Moved by Taylor.

16 COMMITTEE MEMBER JONES: Second.

17 CHAIRPERSON FECKNER: Seconded by Jones.

18 Any discussion on the motion?

19 Seeing none.

20 All in favor say aye?

21 (Ayes.)

22 CHAIRPERSON FECKNER: All opposed, no?

23 Motion carries.

24 Item 7, Information consent item. I do have a  
25 request to remove Item 7e and f. So that leaves us A

1 through D. No other requests to move those off.

2 So we will go to Item 7e and f. And I'm going to  
3 call on Ms. Yee.

4 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.  
5 And thank you, Mr. Meng, for introducing the item with  
6 respect to the informational item that will follow by the  
7 consultants. I thought that maybe perhaps appropriate  
8 just to have a bit of a discussion on these two items.  
9 It's the first I think I recall that these have been put  
10 on consent without kind of a public discussion. And  
11 rather than hear it for the first time from the  
12 consultants, whether we could just have a brief  
13 presentation with respect to both of these reviews.

14 CHIEF INVESTMENT OFFICER MENG: Let me call on my  
15 colleague, Eric Baggesen.

16 MANAGING INVESTMENT DIRECTOR BAGGESEN: Okay.  
17 Good morning. Eric Baggesen, Managing Investment Director  
18 for Trust Level Portfolio Management.

19 Perhaps, Ms. Yee, what I would ask first is if  
20 you have any specific questions or would you just like to  
21 cover some of the material in general.

22 COMMITTEE MEMBER YEE: No, just cover some of the  
23 material. And I'm mindful of some of my newer colleagues  
24 on the Board. And I don't remember this being agendized  
25 as a consent item in the past, where we've had an

1 opportunity to ask questions as the presentation has been  
2 before us.

3 MANAGING INVESTMENT DIRECTOR BAGGESEN: Okay.

4 I don't know. Is it possible to load up the  
5 PowerPoint that is attached to Item 7e?

6 MANAGING INVESTMENT DIRECTOR BAGGESEN: Oh,  
7 there. Perfect.

8 (Thereupon an overhead presentation was  
9 presented as follows.)

10 MANAGING INVESTMENT DIRECTOR BAGGESEN: Okay.  
11 Let me step through some of this material hopefully pretty  
12 quickly, and then we can get on to the next segment, which  
13 is the Opportunistic Program review, which I think also  
14 you had some questions about.

15 --o0o--

16 MANAGING INVESTMENT DIRECTOR BAGGESEN: Let's  
17 see. I think I'll move past the outline. So first the  
18 Trust Level Portfolio Management Program is basically  
19 positioned to be the collection point for almost  
20 everything that we talk about when we talk about the total  
21 fund. So, that -- this area is responsible for moving the  
22 strategic asset allocation work that we do with this  
23 Board. The last iteration of that work was completed at  
24 the end of 2017. And over the last year, we've been  
25 implementing the structures and the decisions that the

1 Board made in relation to that strategic asset allocation  
2 work.

3 The other dimension that we are working on is  
4 TLPM, or trust level portfolio management, is also one of  
5 the areas where we depend on to try to build a total fund  
6 culture and collaboration. So that's one of the primary  
7 functions of the entire team that I work with on a daily  
8 basis is to really bring people from across the Investment  
9 Office and across the organization to work on the big  
10 questions, and the big topics, and projects that are of  
11 importance to the organization.

12 An example of that is shown in number 2, where we  
13 basically work on, what we call, the ALM process, the  
14 asset liability management process. And that is a  
15 collaborative effort that goes on and involves the Finance  
16 Office, the Actuarial Office, the Investment Office, as  
17 well as folks in Public Affairs to basically bring in  
18 external stakeholder communication and perspective into  
19 that process. But that's just an example of the kind of  
20 collaboration that this team really tries to foster in all  
21 of the work that it does.

22 The major accomplishments over the last fiscal  
23 year or the primary accomplishment is moving the structure  
24 of the asset allocation to what was approved by the Board  
25 in December of 2017. There were quite a lot of changes



1 that happened in the structure of the investment  
2 portfolio.

3 There was almost \$150 billion of trading activity  
4 that took place over the year of 2018-19. And it has  
5 pretty much been completed at this point in time as of the  
6 end of the last fiscal year.

7 Our big initiatives for the next coming year  
8 really revolve around trying to continue to sort out the,  
9 what we call, active risk in the program. And I think  
10 that maybe just to help illuminate what we mean by that  
11 terminology, active risk, when the Board approves the  
12 strategic asset allocation, that, in essence, creates a  
13 target allocation to various parts of the marketplace.  
14 And those parts of the marketplace are typically proxied  
15 by some kind of a benchmark. And that benchmark tends to  
16 represent what we think that market opportunity set is.

17 So the very first job of the staff is to  
18 basically invest the capital into that market opportunity  
19 set. So that's the sort of must-do job for the staff to  
20 basically get the capital deployed into the market as  
21 close to what that market opportunity set is, then to the  
22 extent that you as a Board provide some risk tolerance.

23 And risk tolerance can be expressed in a couple  
24 of different ways. It is expressed in ranges around the  
25 target asset allocation. So, for example, the target

1 allocation to global equity of approximately 50 percent  
2 has a range where the global equity exposure can be as --  
3 drift through a plus or minus 7 percent variance from that  
4 target allocation. So that range is an expression of a  
5 risk tolerance.

6           You also provide a risk tolerance attached to the  
7 utilization of leverage. So we'll have some more  
8 discussion about that I think in the Total Fund Policy  
9 later on. But there is some leverage that is provided  
10 within the structure of our current policy construct. And  
11 the other risk tolerance is around tracking error or  
12 tracking variance.

13           So currently, the range of tracking that we are  
14 allowed to deviate from the strategic asset allocation is  
15 limited to 150 basis points. And that tracking variance,  
16 in all of these risk tolerances, open up the potential for  
17 the staff to choose to do something other than perfectly  
18 mirror this -- the strategic asset allocation. And the  
19 staff should only choose to do something different than  
20 mirroring the strategic asset allocation if we have a  
21 reasonable belief that by doing so we can improve the  
22 outcome to the fund.

23           And that improvement could be represented in  
24 higher rates of return, or it could also be represented in  
25 basically risk mitigation, or lower degrees of volatility.

1 But that's what that risk tolerance gets into. So when we  
2 talk about much of the material in both this part of the  
3 program and in the trust level review that comes later in  
4 today's agenda, we basically talk about the beta  
5 representing the market opportunity set, and then we talk  
6 about active risk, which is the utilization of some of  
7 that risk tolerance that has been provided by this Board  
8 in the past.

9 Is -- are there any questions in relation to  
10 that? Is that more or less understandable and How --

11 CHAIRPERSON FECKNER: We have one question.  
12 Ms. Brown.

13 COMMITTEE MEMBER BROWN: Well, I had a question  
14 about the table on page 12. I don't know if we're going  
15 to get to that or if we go to that now.

16 Okay. Great.

17 And you know we've spent a lot of time, my --  
18 almost my whole term on the Board talking about private  
19 equity and private equity returns. And so I see our net  
20 return for private equity is listed at 7.7 percent, but  
21 the benchmark return is 4 percent. And I'm wondering why  
22 that is. Am I reading that wrong or...

23 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah.  
24 The benchmark for private equity is basically a benchmark  
25 that represents what we consider to be the opportunity

1 cost.

2 And when I say opportunity cost, if we were not  
3 deploying capital into private equity, the likely place  
4 where that capital would be deployed is into the public  
5 equity portfolio. So the benchmark for private equity is  
6 linked back to the public equity portfolio, plus an  
7 incremental margin of 150 basis points of extra return.

8 But that benchmark is also it's lagged, because  
9 of the lagged nature of returns to private equity. So  
10 what you're seeing is the return that happened on a lagged  
11 basis. So the return at the end of the fiscal year really  
12 represents the return to both private equity and the  
13 public equity benchmark through the end of March of 2019.

14 Does that answer your question, Ms. Brown, on  
15 that?

16 COMMITTEE MEMBER BROWN: Yeah, it does. I just  
17 had a question about that.

18 And then on page 14, I don't -- what is  
19 completion overlay and it says pilot? I just don't know  
20 what that is.

21 MANAGING INVESTMENT DIRECTOR BAGGESEN: Sure.  
22 Yeah, these -- page 14 represents the collection of  
23 programs that do not fit neatly into any of the existing  
24 asset classes, if you will. So trust level portfolio  
25 management has become a collection point for a number of

1 different things.

2           What you see in this, for example, we're now in  
3 the process of collecting together the emerging manager  
4 programs, which is the top line of this chart. So this  
5 represents the public equity emerging managers. The  
6 external MAC Program is the Multi-Asset Class Manager  
7 Program that was originally started by Joe Dear. And  
8 trust level portfolio management is basically trying to  
9 restructure that program and make it relevant.

10           But the completion overlay is an effort to, in  
11 essence, use a derivative overlay to try to represent the  
12 entire structure of the asset allocation, but do so in a  
13 way that helps us actually manage the liquidity profile of  
14 the fund. So that's a program that has been being run in  
15 a pilot form. As you see, there's about 500 to 600  
16 million dollars that was deployed in this. So it's  
17 relatively de minimis as far as the size of the program.

18           But that completion overlay was exactly that. It  
19 was a -- it's a tool to be used to help us manage the  
20 liquidity profile of the fund.

21           COMMITTEE MEMBER BROWN: And what manager is  
22 running that program?

23           MANAGING INVESTMENT DIRECTOR BAGGESEN: That's  
24 being managed internally, one of the staff members Todd  
25 Eichman is the person who's primarily responsible for

1 that.

2 COMMITTEE MEMBER BROWN: Thank you.

3 CHAIRPERSON FECKNER: Ms. Yee.

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

5 Eric, can we go to slide 13. I did have a  
6 question. And I think it's something I'm just having a  
7 hard time getting my head wrapped around where you talk  
8 about the contributors to the underperformance -- the  
9 5-year underperformance, one due to negative contributions  
10 from private assets, but then also a second factor was the  
11 underweight to private assets, which required substituting  
12 public assets.

13 So I guess the question is if the private asset  
14 return contributed to the underperformance, why would an  
15 underweight to the same asset class also contribute?

16 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah. So  
17 I think -- you know, there's -- that's an interesting  
18 couple of questions. So the private assets creat quite a  
19 problem in the structure of the asset allocation, in that  
20 we have a fixed target to the private assets, and yet we  
21 do not have the ability to just push money into or out of  
22 the private asset areas.

23 So you inevitably -- as the rest of the portfolio  
24 bounces around in value, you inevitably have periods of  
25 time when you may be overweighted to private assets or

1 periods of time when you would be underweighted to private  
2 assets. And those over and underweights then create a  
3 performance attribution exposure.

4           So when we're underweight to the private assets,  
5 there is, by definition, the equivalent of a proxy. So if  
6 the money is not invested, for example, in private  
7 equity -- like currently right as of last Friday, our  
8 private equity exposure was approximately 7 percent of the  
9 fund. Our target allocation to private equity is 8  
10 percent of the fund, so we have a 1 percent underweight to  
11 private equity.

12           That underweight though is invested in other  
13 parts of the portfolio. So it's not money that's just  
14 sitting around in cash. What that means is that that  
15 money is spread into public equities or fixed income or  
16 other parts of the portfolio, so there's -- it, in  
17 essence, this defaulted proxy asset.

18           Private equity happens to be our highest expected  
19 return asset class. So a systematic underweight to  
20 private equity is constantly causing the expectation of a  
21 negative performance impact because of that. So --

22           CHIEF INVESTMENT OFFICER MENG: If I may, there  
23 are really two layers to this effect. Your observation is  
24 very right. But there are two layers. One is the asset  
25 allocation effect. It means that from the total fund

1 level, as Eric just mentioned, that our desired target of  
2 private equity is 8 percent, but we cannot get to 8  
3 percent. So we're currently at 7 percent. That 1 percent  
4 underweight to the desired allocation target, because  
5 private equity relative to other asset classes is the best  
6 performing asset class. So when you're underweight to the  
7 best performing asset class, so from the asset allocation  
8 effect, we take a hit on the performance.

9 And then the other -- the second bullet point you  
10 see is private equity relative to its own benchmark.  
11 That's the second layer. The first layer is allocation to  
12 private equity. We under-allocate -- we underinvested  
13 relative to the targets.

14 The second layer is that private equity itself  
15 against its benchmark it underperform. So that's a second  
16 layer that's where you see negative contribution from  
17 underweight -- under -- sorry, the first point, negative  
18 contribution from private assets, because private equity  
19 underperformed its own benchmark.

20 And then the second bullet point from the asset  
21 allocation perspective, we underallocated or underinvested  
22 to the best performing asset class. So these two both  
23 added to our underperformance.

24 COMMITTEE MEMBER YEE: That's helpful.

25 Thank you.



1 CHAIRPERSON FECKNER: Ms. Brown.

2 COMMITTEE MEMBER BROWN: Sorry, I had one more  
3 question about slide 14. I'm trying to read my own  
4 handwriting. We have a category, a program also called  
5 Absolute Return Strategies. And is this hedge funds, and  
6 if it is, why are we still in them?

7 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah.  
8 That's basically the residual of hedge fund program that's  
9 still being worked through on the wind down, Ms. Brown.  
10 So that program has been transferred in again to this  
11 total fund collection point, if you will. But that's just  
12 part of that exposure that still resides and is illiquid  
13 basically. So we're still working down through that.

14 COMMITTEE MEMBER BROWN: We're winding that down  
15 soon?

16 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yes.  
17 Well, we'll wind it down as fast as the manager can  
18 rationally sell that exposure without taking too much of  
19 an economic hit.

20 COMMITTEE MEMBER BROWN: Too much of a loss.  
21 Okay. Thank you.

22 CHAIRPERSON FECKNER: Ms. Ma.

23 COMMITTEE MEMBER MA: No, I didn't hit anything  
24 on purpose.

25 CHAIRPERSON FECKNER: Okay.

1 Mr. Jones.

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

4 Yeah. Eric, you may also comment on the hedge  
5 fund how large it was in terms of your ability to wind  
6 down from the -- and indicate what it is right now.  
7 That's the first comment.

8 And then I have another question.

9 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah.  
10 No. That's -- that's -- Mr. Jones is exactly right. At  
11 the time the decision was made to stop participating in  
12 the Absolute Return Program, the Hedge Fund Program, that  
13 program added up to -- I'd have to check the number  
14 explicitly, but it was probably 6 or 7 billion dollars, if  
15 not even maybe a little bit more in exposure. So there's  
16 been a lot of wind down. But this is sort of the stub of  
17 the illiquid assets that are left.

18 COMMITTEE MEMBER BROWN: Thank you.

19 CHIEF INVESTMENT OFFICER MENG: And if you  
20 remember, in the past, we talk about this can be part of  
21 the legacy asset review.

22 COMMITTEE MEMBER BROWN: Trying to get rid of  
23 that.

24 Thank you.

25 COMMITTEE MEMBER JONES: Okay. Thank you.

1           Yeah. My question goes to your comment about the  
2 private equity where you say we were underweight and you  
3 explained the implications of being underweight in private  
4 equity. And I think it would -- it's important to comment  
5 that that wasn't a Board decision to be underweight or  
6 have resources in this. It's inability to allocate  
7 additional funds into private equity.

8           And so as the fund grows, and if you stay at the  
9 same amount, the percentage is going to get large --  
10 smaller and smaller. So if you can comment on that  
11 concept.

12           MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah.  
13 No. Mr. Jones is exactly right about that is with the  
14 private assets, if we have a marketplace where the public  
15 assets are doing reasonably well and the public equity  
16 portfolio, for example, has done reasonably well over the  
17 last few years and really since the financial crisis, that  
18 expansion of value means that you're almost, by default,  
19 going to be underweight to private assets, such as real  
20 estate and private equity, simply because of that  
21 inability to just push money into those asset classes.

22           And on the converse of that, when -- if the  
23 market is falling rapidly, you tend to be overweighted to  
24 those private assets. Also, because their value does not  
25 tend to decline as rapidly as we've seen, for example, in

1 the public equity portfolio in the past. So you're  
2 absolutely right.

3 CHIEF INVESTMENT OFFICER MENG: Yeah. And if I  
4 may, on that note, as you know, that we have been working  
5 very actively to find all the ways -- possible ways to  
6 increase our exposure to private equity. In addition to  
7 the Pillar 3 and Pillar 4, we have been working on, we're  
8 also looking to the existing commingled fund. And also as  
9 you know, in public, we discussed co-investment  
10 strategies.

11 So later, you will see in Item 9c part of the  
12 Total Fund Policy revision is to enable us to tap into  
13 these different ways to increase our exposure to private  
14 equity. And also, I'm very pleased to share with you that  
15 our new head of Private Equity, Greg Ruiz, joined us a few  
16 weeks ago.

17 So where is Greg?

18 MANAGING INVESTMENT DIRECTOR RUIZ: (Raises  
19 hand.)

20 (Laughter.)

21 CHIEF INVESTMENT OFFICER MENG: So he has been  
22 leading the team very tirelessly from day one, even before  
23 he joined us. He has been working with the team very  
24 tirelessly looking to all the possible ways in our  
25 existing fund model, commingled fund model, co-investment,

1 as well as the new model we're proposing, the Pillar 3 and  
2 Pillar 4.

3 CHAIRPERSON FECKNER: Thank you.

4 Ms. Taylor.

5 VICE CHAIRPERSON TAYLOR: Yes. Thank you.

6 Can I get you to look at page 22, staffing  
7 overview. I just was a little curious, and I appreciate  
8 the report, when we get down to the last total program  
9 50 -- is it, 62 FTEs full-time positions. Thirty-four --  
10 the last one, 34 support staff classifications, 6 SSMS, 9  
11 AGPAs, 6 SSAs, 20 OTs, 11 SCs. And for those folks who  
12 don't know what those are, we've got Staff Service  
13 Managers, Associate Government Program Analysts, Staff  
14 Service Analysts, Office Techs, and Seasonal Clerks.

15 MANAGING INVESTMENT DIRECTOR BAGGESEN: Seasonal  
16 Clerks, yes, that's correct.

17 VICE CHAIRPERSON TAYLOR: Why do we have seasonal  
18 clerks?

19 MANAGING INVESTMENT DIRECTOR BAGGESEN: That's  
20 basically a program that's in transition. These are folks  
21 that came and have worked in the organization. I think  
22 the organization is trying to eventually work down and  
23 remove the seasonal clerk exposure basically. But those  
24 are folks that are basically contributing to the  
25 administrative work of the office still.

1           VICE CHAIRPERSON TAYLOR: So you're working  
2 those -- shouldn't those be Office Tech positions.  
3 Because I'm a little confused, Seasonal Clerks are  
4 Seasonal Clerks. So we use them at the department I work  
5 in, so -- for the season.

6           MANAGING INVESTMENT DIRECTOR BAGGESEN: I think  
7 the -- yeah, I think Dan can help with that discussion.

8           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
9 BIENVENUE: Sure. Dan Bienvenue.

10           So we have used the Seasonal Clerks when we  
11 stopped doing an intern program. So years back we used to  
12 have an intern program. We started using Seasonal Clerks  
13 for that, where they would be students, because we got rid  
14 of the student intern. This gave us sort of an extended  
15 interview period with these, sort of, student-level  
16 part-time positions.

17           To be fair, the State has moved -- migrated  
18 towards not wanting us to do that. And so we're migrating  
19 way from that -- from that practice.

20           VICE CHAIRPERSON TAYLOR: So both the student and  
21 the Seasonal Clerk?

22           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
23 BIENVENUE: Basically looking to go back to an intern like  
24 program of some sort and stop the Seasonal Clerk Program,  
25 because Seasonal Clerks in the State organization are

1 really intended for things like lifeguards and things like  
2 that.

3 VICE CHAIRPERSON TAYLOR: Well, we use them for  
4 tax season, for --

5 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
6 BIENVENUE: Or for tax, exactly. For various high  
7 seasons, but they're seasonal by definition. And we have  
8 not -- candidly, we have not used them seasonally --

9 VICE CHAIRPERSON TAYLOR: Right.

10 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
11 BIENVENUE: -- which is why we're going to -- we're going  
12 to reduce that usage.

13 VICE CHAIRPERSON TAYLOR: Okay. So -- and then I  
14 would assume -- so you're saying they're going to be  
15 interns. What's our -- what is our definition of interns  
16 and are they paid?

17 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
18 BIENVENUE: We are working our way through it. But our  
19 definition of interns will be -- they have been paid  
20 historically. And my sense is that they will be paid  
21 going forward.

22 VICE CHAIRPERSON TAYLOR: Are they a State  
23 classification?

24 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
25 BIENVENUE: I'm getting the look of death.

1 CHIEF INVESTMENT OFFICER MENG: Let me take that  
2 one. So this topic is very topical now in the Investment  
3 Office. Just as Friday, John Cole and a few student  
4 interns -- we have five interns this summer in the office.  
5 Myself, John Cole, and Scott Greenberg and Lauren  
6 Rosborough together with the five student interns, so I  
7 hosted a lunch last Friday to talk about their experience  
8 and our desire to restart a formal internship program.

9 If you look around the Investment Office, we have  
10 had quite some success from the internship program. We  
11 have a number of very good employees. They came out our  
12 internship program. And if you recall my presentation to  
13 you in the July offsite, we talk about building the  
14 pipeline, the succession plan, the talent management.

15 And for us, we are not in global financial  
16 center. For us, we really need to start early and start  
17 local. So once people get to know CalPERS, get to know  
18 our purpose, what we do, and how we treat people, and the  
19 hope is that it will -- once they buy into our culture and  
20 mission, they are likely to stay locally. And hopefully,  
21 they'll come back to work in our office for full-time --  
22 on a full-time basis.

23 So again, we will look around the past couple  
24 years, we have had great success, and for some reasons --  
25 somehow we stopped the internship program. So as --



1 again, as I said, as Friday at noon, we're having this  
2 discussion to restart the internship program. And  
3 ideally, they should be paid. Currently, it is unpaid.

4 But we're looking into ways to pay them to have a  
5 formal internship program. And we're working with HR very  
6 closely on this.

7 VICE CHAIRPERSON TAYLOR: So -- and I do not  
8 approve of unpaid internships. I just want to make that  
9 very clear.

10 Are you working with any organizations, like  
11 Mayor Steinberg's organization, for interns?

12 DEPUTY EXECUTIVE OFFICER HOFFNER: Hi. Doug  
13 Hoffner, CalPERS team member.

14 Yes, to your point. So we have the five you were  
15 talking about, the high school students from the  
16 five-county region around Sacramento are through the  
17 Mayor's program. Those are paid internships. They're  
18 clear -- they'll be going back to school now, at this  
19 point, given --

20 VICE CHAIRPERSON TAYLOR: Sure.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: We have had  
22 folks working through Sac State, through the internship  
23 program as well, again, while they're not in school,  
24 looking to -- and they will be paid as well. So that's  
25 part of our program is to bring people in early on, get

1 that summer experience or longer, if they can work part  
2 time while they're here in the Sacramento area, and then  
3 hopefully have a longer term experience with CalPERS once  
4 they do graduate. So it's kind of a layered approach.

5 VICE CHAIRPERSON TAYLOR: Okay. How do we get  
6 away from the summer program, since they're all working  
7 summer programs? Are we like -- because if you -- 11 of  
8 them, which are currently seasonal clerks, you need 11  
9 interns, but they can only work in the summer. So what --  
10 who take -- who picks up their load of work at that point?

11 DEPUTY EXECUTIVE OFFICER HOFFNER: So I think the  
12 Seasonal Clerks that's in addition. So we're talking  
13 about this student internship program. The Seasonal  
14 Clerks could work at different times throughout the year.  
15 The ones in the internship program are typically based in  
16 the summer when they're not in school. But they could  
17 work as well, depending on their schedules and school  
18 classes

19 VICE CHAIRPERSON TAYLOR: So is that how you're  
20 paying them is to call them Seasonal Clerks.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: No, I think  
22 we're talking about two different things.

23 VICE CHAIRPERSON TAYLOR: Okay.

24 DEPUTY EXECUTIVE OFFICER HOFFNER: We have an  
25 internship program and then we have Seasonal Clerks in the

1 organization that are paid employees as well that work on  
2 a seasonal basis. I think to -- what I heard earlier was  
3 we're looking to move away from the Seasonal Clerks more  
4 to a traditional and build that internship program.

5 Right now, we have approximately five in the high  
6 school level and maybe seven in the -- sort of the, you  
7 know, Sac State college level at this point.

8 VICE CHAIRPERSON TAYLOR: So you're using those  
9 in addition to the Seasonal Clerks currently in the  
10 investment office.

11 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
12 BIENVENUE: Correct.

13 DEPUTY EXECUTIVE OFFICER HOFFNER: Yes.

14 VICE CHAIRPERSON TAYLOR: So then you've have to  
15 move 11 more positions into those -- no?

16 I'm very confused. Okay.

17 I'm just trying to figure this out, so that we  
18 aren't avoiding using State workers, which is my concern  
19 here.

20 CHAIRPERSON FECKNER: Mr. Miller.

21 COMMITTEE MEMBER MILLER: Yeah. Thanks. And  
22 again, kind of my return to my mantra, I'm really glad to  
23 see that we're thinking about that pipeline in terms of a  
24 kind of strategic workforce planning in a longer term  
25 sense. And it's something we can certainly talk about a

1 little bit more.

2 But in my experience, in regulatory agencies,  
3 we've had very good results working with university --  
4 like the Hornet Foundation for example to bring on, you  
5 know, year-round interns both at the undergrad and  
6 graduate level. And they were really quite fairly  
7 compensated and it really became a useful pipeline to get  
8 people interested in public service and get them in the  
9 door.

10 So I'd encourage you to continue to pursue those  
11 opportunities to, you know, cultivate and bring in more  
12 talent to public service.

13 CHAIRPERSON FECKNER: Thank you.

14 Ms. Olivares.

15 COMMITTEE MEMBER OLIVARES: Thank you, Mr. Chair.

16 I'd like to take us back to page 12, please. And  
17 this has to go with the discussion that Ms. Brown  
18 mentioned regarding the benchmark one-year return for  
19 private equity being 4 percent and that being tied to the  
20 opportunity cost relative to, if it -- those funds were  
21 invested into public equities. But I see that the 1-year  
22 benchmark for public equity is actually 6.2 percent. So  
23 I'm not really sure how that works.

24 And then the other point I wanted to mention,  
25 typically, what I'm used to seeing, and maybe it's

1 different on the pension side than insurance companies or  
2 investment funds, but when we're looking to benchmark  
3 performance of private equity, we're doing it based upon  
4 using services like PitchBook, those types of things,  
5 looking at top quartile returns based on the strategy.

6 So I'm wondering if we've ever looked at doing  
7 some type of weighted return based upon the strategies?

8 CHIEF INVESTMENT OFFICER MENG: So your first  
9 question, the benchmark for private equity. And that's a  
10 public equity benchmark. And your observation that why is  
11 it different from the public benchmark return from the  
12 same period?

13 So as Eric mentioned, that the private equity  
14 benchmark is lagged by one quarter. So that's the 4.0  
15 percent return is lagged one quarter public equity return  
16 plus 150.

17 And then the public equity, the benchmark 6.2  
18 return, this is current quarter return, not lagged. So  
19 that's the difference.

20 COMMITTEE MEMBER OLIVARES: How does that compare  
21 with other pensions and how they benchmark one-year  
22 performance for private equity?

23 CHIEF INVESTMENT OFFICER MENG: So I will speak  
24 to that and then we can call our consultant as well. So  
25 generally speaking, there two ways to benchmark private

1 equity, one is to benchmark the peer group to a private  
2 equity universe. But the challenge there that, as you may  
3 know well, there's not really a good comprehensive private  
4 equity index out there. So it suffers from a number of  
5 biases, such as survivorship bias, self-reporting biases.  
6 And sometimes we don't -- we only see the benchmark  
7 return. We do not really see the details of an unaligned  
8 strategy. So we cannot really compare apple to apple. So  
9 this is one way to benchmark private equity is to your own  
10 private equity peers.

11 And the other way to benchmark private equity as  
12 what we do now, as Eric mentioned, if we benchmark against  
13 opportunities cost. So if you look at private equity  
14 is -- by and large is to gain the same exposure as public  
15 equity, but with illiquidity. So we benchmark against our  
16 opportunity cost, which is public equity plus 150 bps to  
17 compensate for the illiquidity.

18 So you will see if you talk to other pension  
19 funds, and other global peers, you probably will see most  
20 of their practice fall into these two categories, either  
21 benchmark against private equity peer or a benchmark to a  
22 public equity plus a spread -- plus a premium approach.

23 COMMITTEE MEMBER OLIVARES: So this is then the  
24 public equity benchmark return less the liquidity or  
25 illiquidity.

1 CHIEF INVESTMENT OFFICER MENG: So public equity  
2 benchmark plus illiquidity, 150 bps.

3 COMMITTEE MEMBER OLIVARES: Yes.

4 CHIEF INVESTMENT OFFICER MENG: So you see 6.2,  
5 so that is the one year ending June --

6 COMMITTEE MEMBER OLIVARES: Um-hmm.

7 CHIEF INVESTMENT OFFICER MENG: -- June 30th.  
8 The 4.0 is the one year ending March plus 150.

9 COMMITTEE MEMBER OLIVARES: Um-hmm.

10 CHIEF INVESTMENT OFFICER MENG: And if you  
11 recall, the first quarter over the second quarter and for  
12 the last quarter last year, so the difference is mainly  
13 between one quarter, the second quarter of this year.

14 COMMITTEE MEMBER OLIVARES: It's a different way  
15 of displaying than I've seen before.

16 Thank you.

17 CHAIRPERSON FECKNER: Mr. Hartt.

18 MR. HARTT: Yeah. Steve Hartt from Meketa  
19 Investment Group, private equity consultant. As Ben was  
20 explaining, in the industry there's essentially two  
21 methodologies used for the benchmarking. CalPERS is  
22 choosing to use the public equity benchmark plus a spread  
23 for all time periods. Other pension plans use a peer  
24 index to augment that to show. But there's issues with  
25 regards to using that peer index, in that, you know,

1 several issues with benchmarking generally, but getting  
2 that benchmark in terms of its portfolio composition to  
3 look similar to what the CalPERS benchmark -- portfolio is  
4 is a real challenge, and all sorts of issues about whether  
5 it's investable and things.

6           There's lots of issues in using peer benchmarks  
7 as well. And, you know, that can be information that  
8 could be provided, but it's -- there's just challenges in  
9 just doing private equity benchmarking just generally.

10           COMMITTEE MEMBER OLIVARES: Thank you.

11           CHAIRPERSON FECKNER: All right. Thank you.  
12 Seeing no other requests.

13           Mr. Baggesen.

14           MANAGING INVESTMENT DIRECTOR BAGGESEN: Okay.  
15 Let's see, well, we've gone through an array of different  
16 topics so far this morning. Perhaps, the only other  
17 element that I might just point to or just to quick --  
18 very quickly just touch on two slides. One, this is  
19 basically the ALM cycles. This is shown on page 15 of the  
20 attachment.

21           The next activity where we'll be bringing  
22 information to you as a Board will be pretty much just  
23 about a year from now when we do our mid-cycle review.  
24 And this will be a topic that the TLPM team is working on  
25 over this -- the coming year.



--o0o--

MANAGING INVESTMENT DIRECTOR BAGGESEN: I think the only other place where I might just spend a moment would be just reiterating some of the work that was done in the last strategic asset allocation. One of the elements that came out in that work was to try to understand relative to the portfolio priorities, which were another adoption by this Board -- and I think we've got some information on that in the Total Fund Program review in Agenda Item 9a. But one of the concerns that we had in that asset allocation work was the potential exposure to significant drawdown risk. And that drawdown risk typically emanates from the public equity portfolio. And that's obviously what we experienced in the financial crisis in 2008 and '09.

When we did the asset allocation work, we looked through the lens of equity drawdown risk and tried to ask ourselves where there are different interpretations of what could constitute the market that might mitigate some of that drawdown risk. And the Investment Committee made the decision to add some market segments, both into the public equity asset class, where we have a market factor exposure that experiences an improved risk profile and equity drawdowns, and in the fixed income area, where we have discrete allocations to both long-dated or

1 long-duration U.S. treasury securities. We have a high  
2 yield component with high yield acting almost as an equity  
3 substitute, and also then residual of fixed income, which  
4 is called the long-spread bucket.

5 But those allocations into these market segments  
6 were implemented over the course of the last year. And  
7 when we do the total fund review, we'll get a little bit  
8 into some of the performance of those segments. But we  
9 were encouraged that the segments performed in accordance  
10 with our anticipation on the pattern of performance that  
11 they would generate.

12 So I think with that, maybe I would just stop at  
13 this point add see if there's any further questions. And  
14 we'll touch on this in the Total Fund review also.

15 CHAIRPERSON FECKNER: Mr. Jones.

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

18 Yeah. Eric, the public equity factor-weighted  
19 comments, I really would like for you to, not now, but  
20 when we get to that report expand on that to show how that  
21 has enhanced our returns and also protected us for any  
22 potential down.

23 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yes.  
24 We'll be covering that, Mr. Jones, in the Total Fund  
25 review.

1 CHAIRPERSON FECKNER: Ms. Olivares.

2 COMMITTEE MEMBER OLIVARES: I'd like to  
3 understand better the liquidity range. It seems quite  
4 broad.

5 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah.  
6 The liquidity range basically -- and this is where you see  
7 actually the ability to utilize leverage in the fund. So  
8 the liquidity target that came out of the last strategic  
9 asset location is one percent, the range being positive  
10 three to negative six. So around that one percent target,  
11 what that implies is that we could basically have as much  
12 as four percent positive allocation to liquidity or as  
13 much as a negative five percent allocation.

14 That negative five percent equates to a topic  
15 that we discussed with the Board, oh, a number of years  
16 ago called borrowed liquidity, where if we were  
17 experiencing real stress in the marketplace that we could  
18 utilize some of the collateral and other capital that we  
19 have dedicated, but that would constitute an actual  
20 leveraging of the fund.

21 So that's been authorized to be used on basically  
22 a short-term basis to deal with market disruption and  
23 things of that nature. But that's what that represents.  
24 This is where that would be accounted for.

25 COMMITTEE MEMBER OLIVARES: Thank you.

1 CHIEF INVESTMENT OFFICER MENG: And later in item  
2 9c part of the Total Fund Policy revision and update, part  
3 of the recommendation is related to the leverage policy.  
4 So the leverage used to be run at asset class level. And  
5 as many of you know that as we are moving to a total fund  
6 approach, one team/one culture, we're centralizing all the  
7 decisions at the total fund level instead of at each asset  
8 class level.

9 COMMITTEE MEMBER OLIVARES: Thank you.

10 CHAIRPERSON FECKNER: No other requests.

11 Mr. Baggesen.

12 CHIEF INVESTMENT OFFICER MENG: So now I would  
13 like to call on Kevin Winter, the Managing Investment  
14 Director of the Opportunities Strategies Program.

15 (Thereupon an overhead presentation was  
16 presented as follows.)

17 CHIEF INVESTMENT OFFICER MENG: Can you load the  
18 slide, please.

19 MANAGING INVESTMENT DIRECTOR WINTER: Good  
20 morning. Kevin Winter --

21 CHAIRPERSON FECKNER: Microphone.

22 MANAGING INVESTMENT DIRECTOR WINTER: Oh, sorry.

23 Good morning, Kevin Winter, Opportunistic  
24 Strategies.

25 Opportunistic strategies has mainly three areas

1 of focus for this past year. First was managing the low  
2 liquidity enhanced return portfolio, secondarily was  
3 executing most of the public market securities  
4 transactions for the various strategic asset allocation  
5 targets that we changed this year, and finally working on  
6 leveraging liquidity at this -- the total fund level.

7 In the low liquidity enhanced return, this year,  
8 we added roughly six basis points to the equity portfolio.  
9 We continued to work on finding additional securities that  
10 meet the goals of that program. The goals of that program  
11 being low probability of capital loss. We're giving some,  
12 liquidity but we know we'll get our capital back in the  
13 future.

14 On the ESS group, this past year, we've executed  
15 roughly \$150 billion in transactions to change the  
16 strategic allocations of the total fund. One of the big  
17 wins for the year was we had a separate target -- or  
18 strategic target for high yield. We thought the timing --  
19 or the amount of time it would take to execute that  
20 strategy was going to take a lot longer than we actually  
21 did. We came up with a very interesting, innovative way  
22 to get that exposure and it worked very, very well.

23 Finally, we've done a lot of work this year on  
24 leverage and liquidity management. We've changed our  
25 funding mix. We've brought the management up to the total

1 fund level. Opportunistic has worked very, very closely  
2 with TLPM to work on a framework for developing how we --  
3 how much -- how we -- how much leverage we have, where we  
4 source our leverage, and how that fits in with our  
5 liquidity profile of the fund. We will continue to do  
6 more work on this this year, and further streamline that  
7 program.

8 With that, I'm open to questions.

9 CHAIRPERSON FECKNER: Seeing none. Thank you.

10 MANAGING INVESTMENT DIRECTOR WINTER: Thank you.

11 CHAIRPERSON FECKNER: Okay. So that takes care  
12 of information items.

13 That brings us to Action Item 8, Independent  
14 Oversight.

15 Mr. Bienvenue.

16 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
17 BIENVENUE: Yes, sir, Mr. Feckner. Thank you.

18 As Ben mentioned earlier, Item 8a is our lone  
19 action item for today's agenda. It is regarding the  
20 selection of the Board's Investment consultants. And we  
21 have three desired outcomes from this item.

22 First is to approve the suggested interview  
23 process. Second is to request that the IC Chair establish  
24 a subcommittee to conduct interviews, recommend the  
25 selection, and come back to an open session of the

1 Investment Committee to actually ratify that selection,  
2 and then finally, to determine the finalist firms that  
3 will be included in those interviews.

4 By way of background, in March of this year,  
5 CalPERS issued an RFP to select up to four consultants.  
6 One in the area of general pension and then three in each  
7 of the private -- three for the private assets, one in  
8 each private asset class. It's worth noting that as part  
9 of the RFP, the firm that is awarded the general pension  
10 contract cannot be awarded anyone of the private asset  
11 classes.

12 So in front of you, you have the firms in each  
13 category that pass the technical criteria, which these --  
14 these could be your finalists, as well as the proposed  
15 process for selection, including direction to the Chair to  
16 establish a subcommittee, to conduct interviews, to notice  
17 an open meeting where those interviews would occur, and  
18 the direction to come back to the IC with the recommended  
19 chosen firms.

20 So staff's recommendation is to follow this  
21 process. We'll follow your lead in terms of selecting the  
22 interview -- the finalists for interview. And from there,  
23 Mr. Feckner, I'll turn it back to you. Happy to take any  
24 questions.

25 CHAIRPERSON FECKNER: Thank you.

1           Seeing no questions.

2           I do need to call on Mr. Jones and get  
3 authorization from the President to create a subcommittee.

4           Mr. Jones.

5           You went away.

6           There you are.

7           COMMITTEE MEMBER JONES: Okay. Thank you, Mr.  
8 Chair. You are authorized to establish a subcommittee.

9           CHAIRPERSON FECKNER: Thank you. Appreciate  
10 that. I would recommend authorizing a five-member  
11 subcommittee. It would be the Chair and Vice Chair,  
12 Controller Yee, Ms. Middleton, and Mr. Perez.

13           What's the pleasure of the Committee?

14           VICE CHAIRPERSON TAYLOR: So moved.

15           COMMITTEE MEMBER MILLER: Second.

16           CHAIRPERSON FECKNER: Moved by Taylor seconded by  
17 Miller.

18           Any discussion on the motion.

19           Seeing none.

20           All in favor say aye?

21           (Ayes.)

22           CHAIRPERSON FECKNER: Opposed, no?

23           Motion carries.

24           Anything else, Mr. Bienvenue?

25           INTERIM CHIEF OPERATING INVESTMENT OFFICER



1 BIENVENUE: No, sir. Thank you.

2 CHAIRPERSON FECKNER: Great. Thank you.

3 That brings us to Agenda Item 9. 9a, the  
4 CalPERS --

5 INTERIM CHIEF OPERATING INVESTMENT OFFICER

6 BIENVENUE: I'm sorry. I'm sorry. We need to select the  
7 finalists.

8 CHAIRPERSON FECKNER: Oh, that's right.

9 INTERIM CHIEF OPERATING INVESTMENT OFFICER

10 BIENVENUE: That's a great point. So I think we've got  
11 the process figured.

12 CHAIRPERSON FECKNER: Very good.

13 INTERIM CHIEF OPERATING INVESTMENT OFFICER

14 BIENVENUE: We just need to -- need to finalize the  
15 finalists.

16 CHAIRPERSON FECKNER: All right. You have the  
17 recommendation in front of you, Board members.

18 Ms. Ma.

19 COMMITTEE MEMBER MA: Can I just ask on the next  
20 page, there's a proposed fees for three years. So is this  
21 tied to any type of performance or we're going to pay this  
22 regardless of what the funds do?

23 INTERIM CHIEF OPERATING INVESTMENT OFFICER

24 BIENVENUE: The consultant fees are not performance based.  
25 They are based on a flat fee. And they should be part

1 of -- they are a part of the scoring criteria and they  
2 will be part of what's taken into account by the  
3 subcommittee making a recommendation on finalists -- on  
4 the selection.

5 COMMITTEE MEMBER MA: So I'm just asking. I'm  
6 not on the Committee, but the fees are a lot. And is that  
7 normal to have so many consultants at this level of fees?

8 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
9 BIENVENUE: The fees -- agreed, the fees are high.  
10 Investment consulting costs are high. It's actually  
11 intentionally not part of performance, because there's a  
12 potential conflict that's created there. So we've  
13 intentionally from a governance standpoint kept those as  
14 flat fees, but they are expensive services, but they do  
15 quite a bit of service for CalPERS.

16 I mean, we're a big complex organization. And  
17 there are only so many consultants that can actually take  
18 on our business.

19 COMMITTEE MEMBER MA: Okay.

20 CHAIRPERSON FECKNER: Ms. Yee.

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

22 I think to Treasurer Ma's question, I would just  
23 encourage my colleagues to remember these are Board  
24 consultants and we should fully utilize them. It's not  
25 what they're charging.

1 CHAIRPERSON FECKNER: Very good. So the  
2 recommendation of the finalists is in your Board packet.  
3 What's the pleasure of the Committee?

4 COMMITTEE MEMBER BROWN: Move approval.

5 CHAIRPERSON FECKNER: Moved by Brown.

6 COMMITTEE MEMBER MILLER: Second.

7 CHAIRPERSON FECKNER: Seconded by Miller.

8 Any discussion on the motion?

9 Seeing none.

10 All in favor say aye?

11 (Ayes.)

12 CHAIRPERSON FECKNER: Opposed, no?

13 Motion carries.

14 Anything else, Mr. Bienvenue? We got it this  
15 time?

16 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
17 BIENVENUE: No, sir. Thank you.

18 CHAIRPERSON FECKNER: Very good. Thank you.  
19 Moves us to Agenda Item 9, information agenda.  
20 9a is the CalPERS Trust Level Review.

21 Mr. Meng.

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

24 CHIEF INVESTMENT OFFICER MENG: Thank you. I  
25 will take it -- I will turn it over to Eric Baggesen again

1 to cover the Trust Level Program Review.

2 MANAGING INVESTMENT DIRECTOR BAGGESEN: Okay.

3 Good morning. Eric Baggesen again, Managing Investment  
4 Director for Trust Level Portfolio Management. And we  
5 also have John Rothfield down on the end next to Mr.  
6 Bienvenue. And John will be providing an economic update  
7 after we get through some of the other items in relation  
8 to the total fund.

9 --o0o--

10 MANAGING INVESTMENT DIRECTOR BAGGESEN: So we  
11 have the Executive Summary. I think the main points in  
12 the Executive Summary are basically the performance for  
13 the fiscal year, the return for the fund in fiscal year  
14 ending 2019 was 6.7 percent. You see the 5- and the  
15 10-year numbers. The 5-year return was 5.8 percent, and  
16 did 10-year number 9.1 percent.

17 And I would mind the Committee that the 10-year  
18 number is basically almost exactly from the bottom of the  
19 financial crisis, which is one of the reasons for the --  
20 that level of return is coming up out of a significant  
21 hole. So that was kind of the rebound in the marketplace.

22 One of the dimensions on performance also, it's  
23 the sort of second bullet point down in the summary, which  
24 is the excess return or the active return. And this is a  
25 topic that our Chief Investment Officer, Ben Meng, has

1 been speaking about quite frequently. Our relative return  
2 was negative 42 basis points. So that is -- again, we're  
3 utilizing active risk. We are basically taking variances  
4 from the structure of the strategic asset allocation.  
5 That could be the utilization of managers that are doing  
6 things such as picking stocks or bonds. It can also be  
7 very -- weight variances from the target weights in the  
8 strategic asset allocation.

9           Again, the discipline on this should be that  
10 we're only using active risk if we believe, or have a  
11 reasonable belief, that somehow that variation is going to  
12 result in a positive return. For the fiscal year, that  
13 did not happen. It resulted in a negative return.

14           So one of Ben's significant projects that we're  
15 undertaking is really a review of the utilization of  
16 active risk in the plan with the intent to be very  
17 disciplined about the deployment of active risk only in  
18 areas where we have a great conviction that we're going to  
19 have a positive outcome. So there's a lot of activity  
20 that's happening with the Investment Office currently on  
21 this topic. And I'm sure you'll be hearing more about  
22 that in the future.

23           Just on the risk bullet point, and we'll get into  
24 this a little bit more, but the risk in the plan is  
25 considered to be the volatility or the variability in

1 returns that are generated away from the expected return.  
2 And again, our expected return on a long-run basis is  
3 approximately 7 percent. And that's also the discount  
4 rate for the fund.

5 The variability around that return though -- our  
6 return, for example, this year was almost exactly on the 7  
7 percent. That's a very unusual outcome. Typically, the  
8 returns will either be significantly higher than the  
9 expected return or significantly lower or even negative.  
10 So it's actually very unusual to have a return that almost  
11 sits exactly on top of the discount rate.

12 But that variability in risk that is generated  
13 predominantly by the amount of exposure that we have to  
14 equity-related assets.

15 And that is a facet again that impacted the  
16 structure of the asset allocation work that was done  
17 ending up with a decision in 2017 and we'll get some more  
18 into the segment work in a minute.

19 --o0o--

20 MANAGING INVESTMENT DIRECTOR BAGGESEN: But if we  
21 go on to performance on page four of the attachment, you  
22 see basically this is the Public Employees' Retirement  
23 Fund, the PERF, which is obviously the fund that every one  
24 thinks of when they think of CalPERS, but you also have  
25 listed out all of the affiliate funds.

1           What you'll notice is that the returns of the  
2   PERF shows the effect of that active risk. Typically, the  
3   majority of the affiliate funds are run with very, very  
4   little active risk. But you also see the variation that  
5   happens because of exposure to the private assets. So if  
6   you look, for example, on a 5-year or a 3-year basis,  
7   you'll see, for example, the 3-year return for the PERF  
8   was 8.8 percent. That return is higher than any of the  
9   affiliates of the CERBT Strategy 1 being the next closest  
10   return to that. But that is basically the effect of  
11   actually having things like private equity and real estate  
12   in the portfolio.

13           Those private assets can work to the  
14   organization's benefit or it can work to the  
15   organization's detriment, just depending on what's  
16   happening in the marketplace.

17           I would also call your attention to the 1-year  
18   return column, the column on the far right, where you see,  
19   for example, the Public Employees Fund had a 6.7 percent  
20   return. That was exactly the same return as in the Judges  
21   System II Fund. But what's very interesting is that the  
22   funds that have predominantly fixed income-related  
23   investments, things such as the CalPERS Health Care Bond  
24   Fund, actually had a higher rate of return than the PERF  
25   did for the fiscal year ending June of 2019.

1           So the marketplace over our last fiscal year was  
2 quite unusual in the respect that fixed income instruments  
3 had higher rates of return than almost every other part of  
4 the portfolio, with the exception of some of the segment  
5 work that we did in public equities and, to some extent,  
6 private equity.

7           So that's a fairly unusual outcome when you  
8 have -- and that is not the way our asset allocation is  
9 established to really benefit in a time period where fixed  
10 income generates higher returns than equity exposure. The  
11 belief that equities will have higher rates of return than  
12 bonds is one of the fundamental belief sets that underlie  
13 the structure of our strategic asset allocation. So it  
14 was fairly unusual in that regard.

15                               --o0o--

16           MANAGING INVESTMENT DIRECTOR BAGGESEN: The next  
17 page into the material shows the cumulative returns. And  
18 again, these are basically a 10-year period. And you see  
19 how the 10-year cumulative return, the very top line is  
20 the CalPERS benchmark, the line right below that is the  
21 actual outcome of the fund, and then the third line down  
22 is grayish line, represents the discount rate.

23           So what you're seeing over a 10-year period, both  
24 the benchmark and the fund have generated returns higher  
25 than the discount rate. And again, that comes from almost



1 exactly the bottom of the financial crisis. So this is  
2 the spring-back in valuation of assets that have happened.

3 But this represents the benchmark return  
4 cumulatively is about 146 percent over that 10-year  
5 period. For the fund, it was about 139 percent. And for  
6 the discount rate, it's about 107, 108 percent, somewhere  
7 in that ballpark.

8 --o0o--

9 MANAGING INVESTMENT DIRECTOR BAGGESEN: The next  
10 slide in the material gets into again some of the absolute  
11 returns. And these -- the solid horizontal bars are the  
12 10-year return numbers. And then the sort of hashed bars  
13 or the shaded bars basically right below it represent the  
14 1-year returns. So you can actually see the variance  
15 between 1-year and 10-year outcomes. If you look at the  
16 1-year outcomes, for example, down pretty much two-thirds  
17 of the way down the page, you get into the fixed income  
18 related areas, so total income, the long spread, long  
19 treasury, high yield.

20 And you see all of those numbers for a 1-year  
21 basis range between about 8 and a half up to 10 and a half  
22 percent for the long treasury portfolio. Those numbers  
23 outperform pretty much everything in the equity space,  
24 with the exception of the factor-weighted equity  
25 portfolio. And the objective of the factor-weighted part

1 of the equity exposure is to try to mitigate against the  
2 drawdown risk.

3 And we'll see a chart later on in this material  
4 that shows that it will trace the re -- how returns were  
5 generated over the course of the fiscal year. And what  
6 you'll see is that the areas where we incorporated these  
7 segments to try to minimize equity drawdown, actually were  
8 successful in doing that to some degree or another, and  
9 improved the overall outcome to the fund for the fiscal  
10 year.

11 --o0o--

12 MANAGING INVESTMENT DIRECTOR BAGGESEN: This  
13 chart shows -- and this is at page 7 of the material.  
14 This chart shows the actual excess returns of the active  
15 returns. And that's exactly what we were just speaking  
16 about. So you see for fiscal year 2019, you see that bar  
17 dropping down below the 0, that's the negative 42 basis  
18 points.

19 For the last few years, we have not had a good  
20 outcome to active risk taking. It has not been adding  
21 value to the degree that we believe that it should. But  
22 you also see, for example, that we haven't been  
23 experiencing anything like what we saw in the time period  
24 immediately after the financial crisis. That big bar in  
25 fiscal year 2010 -- so again, that would have represented

1 the time period from June of 2009 through June of 2010,  
2 that represents a time period where we started getting  
3 walloped on the real estate portfolio and having  
4 significant drawdowns in the valuation of those assets.

5 And there's been just a huge amount of work that  
6 has happened in the 10 years since then to restructure the  
7 entire way that we approached the real estate markets.  
8 That was started by Ted Eliopoulos and is carried on by  
9 Paul Mouchakkaa and the real estate team to this day to  
10 try to avoid that kind of an outcome in the future.

11 But this is a keen area of focus for our new  
12 Chief Investment Officer is to try to basically really  
13 apply more discipline in the utilization of active risk in  
14 the program.

15 --o0o--

16 MANAGING INVESTMENT DIRECTOR BAGGESEN: The next  
17 page shows 5-year and 1-year active return results. The  
18 areas where we've had the most consistent positive  
19 contributions from active risk taking have been the areas  
20 attached to the fixed income portfolio. Again, you see  
21 this about two-thirds of the way down the page in both the  
22 solid bars and the hashed bars. You see exactly how - on,  
23 I don't know - how variable the outcome to private equity  
24 can be.

25 That sits right about the middle of the page. So

1 on a 10-year basis, we had a negative active return. But  
2 again, that was predicated and measured against a public  
3 equity benchmark plus a 300-basis point margin.

4 So this shows it underperforming by 80 basis  
5 points. But that, in essence, represents a return that  
6 was still more than 200 basis points ahead of what we  
7 generated in the public equity marketplace over the same  
8 time period.

9 So even though it was a negative relative return  
10 against the expectation, it was still a positive return  
11 that is not easy for us to gain from any other exposures  
12 that we have available to us.

13 And then you see for the 1-year number though,  
14 the private equity portfolio outperforming by almost 370  
15 basis points. So that's a significant outperformance.

16 One of the areas that we're working on pretty  
17 hard at the moment is in the area of the public equity  
18 portfolio. You see these small negative contributions,  
19 You know, they're very small in the span of active return  
20 outcomes. But nonetheless, they tend to be negative. And  
21 public equities represent a significant amount of this  
22 portfolio being almost 50 percent of the allocation. So  
23 that's an area that we're concerned with.

24 But one dimension of these pieces of information  
25 that you have to recognize is that our benchmarks do not

1 represent any cost of actually maintaining that exposure.  
2 So the benchmarks are a purely theoretical construct that  
3 do not infer or impute any trading costs or turnover  
4 costs, which actually has to be incurred basically as our  
5 benchmark gets reconstituted periodically.

6 So there's a degree of turnover in just  
7 maintaining even an index portfolio and that turnover  
8 costs money. So the tendency of this asset class, even if  
9 you were taking absolutely no active risk, is to have some  
10 degree of underperformance attached to it, simply in the  
11 cost of maintaining the portfolio.

12 And that's one of the realities that I -- you  
13 know, again, Ben has mentioned in some of his discussions  
14 on trying to actually make these bench marks represent the  
15 real opportunity set inclusive of some of the cost that is  
16 required to maintain it.

17 --o0o--

18 MANAGING INVESTMENT DIRECTOR BAGGESEN: We get  
19 into again -- this is a repeat of this -- some of the  
20 slide material that we had some questions about earlier in  
21 the Trust Level Portfolio Management Program. But on a  
22 5-year basis, our predominant positive contributions --  
23 and this again is excess or active return. This is not  
24 just the absolute outcomes that are happening to the fund.  
25 But it really just shows again the positive areas on a

1 5-year basis have come predominantly from the fixed income  
2 related parts of the portfolio.

3 The private assets part of that again is just an  
4 underweight to some of the asset classes and also  
5 basically just adverse selection in the relative outcomes  
6 that have happened in some of those private assets.

7 --o0o--

8 MANAGING INVESTMENT DIRECTOR BAGGESEN: Just on  
9 the topic of risk. You see two pie charts on this page.  
10 So one pie chart actually represents -- the one on the  
11 left-hand side of the chart, represents the actual asset  
12 allocation. So you can see, for example, we have -- on  
13 the right-hand side of that pie, we have public equity cap  
14 weighted 35.5 percent. We've got the factor weighted 14.6  
15 percent. But basically that makes up half the portfolio,  
16 equity-related assets. And that's not even yet including  
17 the assets that are invested in private equity, which also  
18 have similar kinds of risk exposures. So we have an  
19 aggregate, you know, pushing towards close to 60 percent  
20 of the portfolio invested in equity-related asset areas.

21 If you look at the pie chart, though, on the  
22 right-hand side, that's the risk contribution proportion.  
23 So what you see is that the equity exposures, both -- all  
24 the public equity exposures add up to almost  
25 three-quarters of the actual risk outcome. So the risk

1 impact of the equity investing is significantly higher  
2 than the actual asset allocation attached to that. And  
3 that's just been a facet that has been driving the outcome  
4 to this fund for decades, as long as we've had significant  
5 equity investing, which really started taking place in  
6 kind of about the -- oh, sort of the 1970 into 1980 time  
7 period, where we had significant amounts of equity  
8 investing.

9           The line chart on the bottom of the page just  
10 traces the outcomes to the public equity portfolio versus  
11 the outcome to the total fund. And you can see how  
12 closely those lines fall relative to each other.

13           So what happens in the equity markets tends to  
14 drive what happens to the fund. And that's going to be  
15 the case as long as we have the proportion of equity  
16 investing that we do have. And this is not a typical for  
17 virtually every public pension fund in the United States,  
18 and honestly, many of them around the world as well.

19           All of these portfolios have tended to migrate to  
20 a space where there's a lot of equity concentration as we  
21 attempt to keep the expected returns up into an area  
22 sufficient to provide enough return to be able to afford  
23 the pension benefits that have been promised.

24                           --o0o--

25           MANAGING INVESTMENT DIRECTOR BAGGESEN: This gets

1 into some of the material that both, our Chief Investment  
2 Officer has referenced - Ben has used this drawdown chart  
3 in some of his other presentations with you as a Board -  
4 and also the questions that Mr. Jones had about the  
5 rationale as to what was some of the considerations that  
6 were driving the selection and the utilization of market  
7 segments in the strategic asset allocation work as it was  
8 last done.

9           And what you see in this chart is just the  
10 magnitude of periodic drawdowns that happen in the equity  
11 markets. And this traces all the way back into The  
12 Depression and the financial crisis that happened starting  
13 in the late 1920s and continued on through most of the  
14 1930s. And honestly didn't -- didn't ever come back to  
15 even until we get into almost the year I was born in the  
16 1950s. So it took literally a 20-year plus time period to  
17 get back to the place that it had started from before that  
18 happened.

19           More recently, you see the two big drawdowns that  
20 we had in the 2000s the dot-com crisis, you know, in the  
21 sort of 2002 time period, 2003 time period, and then the  
22 financial crisis that happened. And obviously the  
23 financial crisis is one of the worst drawdowns -- or I  
24 think it is the worst drawdown that happened since The  
25 Depression. So that was a pretty significant event.



1           And the sensitivity to what these drawdowns can  
2 do to both the funded ratio of the fund and the impact on  
3 contributions to the employers is the reason that when we  
4 went through the last strategic asset allocation work, we  
5 focused through the lens of trying to mitigate some of  
6 that equity drawdown potential.

7           Now, it is not possible to eliminate all the  
8 exposure to equity drawdown when you have an  
9 equity-centric portfolio. But nonetheless, we tried to  
10 look through that lens of equity drawdown and say are  
11 there other ways that we could define the marketplace that  
12 would mitigate or minimize, to some extent, the potential  
13 effect of those kinds of equity drawdowns?

14                           --o0o--

15           MANAGING INVESTMENT DIRECTOR BAGGESEN: And  
16 that's what led us to this concept of asset segments. And  
17 this is a body of work that we spent a significant amount  
18 of time over the year 2017 communicating with the Board,  
19 both in agenda items, workshops, and a number of other  
20 venues going through the public asset classes saying are  
21 there other types of benchmarks or structures that could  
22 serve to reinforce this concept of drawdown protection, or  
23 greater diversification, because basically those are on  
24 almost the same terminology.

25           Where we ended up with, and the decision you as a

1 Board made in the asset allocation was to break the fixed  
2 income portfolio into three segments. Again, it's a long  
3 treasury segment. Treasuries tend to be a protective  
4 asset when you have severe market dislocation, or stress,  
5 or financial crisis, or whatever you care about, because  
6 there typically is a flight to quality. So treasuries  
7 tend to be an asset that not only hold their value but  
8 oftentimes actually appreciate in value, if you're having  
9 a severe problem in the financial marketplace.

10 We also added a high-yield segment. And high  
11 yield is very similar to the kinds of returns that we  
12 expect from equity investing, but it actually is based on  
13 a promise or a fixed income instrument. So we felt that  
14 having a specific segment and a specific exposure to high  
15 yield acts as a bit of a substitute to some of the equity  
16 risk in the portfolio, which serves to maintain some of  
17 the expected rate of return, but also has a slightly  
18 different drawdown profile.

19 High yield does tend to get hit if there's a big  
20 sell off in the equity market, but it does not get hit to  
21 the same degree, for example, as typically like a market  
22 cap-weighted equity benchmark. And then everything else  
23 in the fixed income portfolio is lumped into the category  
24 of what's being called long spread. So that's corporate  
25 bonds, it's mortgages, and a number of other types of

1 instruments basically that did not display characteristics  
2 significant enough to warrant their called -- being called  
3 out as a separate segment.

4           Then in the public equity space, and if -- I  
5 don't know if you recall some of those diversification  
6 charts, the smile charts, where we have lines that bend  
7 up, and lines that bend down, and all that kind of stuff.  
8 What we determined was that using a market factor type of  
9 an index, where it is exposed to a different -- well, let  
10 me back up.

11           Our basic benchmark for public equities is a  
12 market capitalization global benchmark. So we use the  
13 FTSE All World All Capitalization benchmark.

14           Market capitalization is just simply the number  
15 of shares outstanding times the price of the shares that  
16 creates a market value for a company. And that market  
17 value with a few adjustments then determines its  
18 proportional weight in the overall benchmark.

19           So market cap benchmarks tend to represent the  
20 financial marketplace or the equity markets in aggregate  
21 as to the returns that will be generated.

22           There are a number of market factors which are  
23 viewed as dimensions or parameters that categorize  
24 securities in a way different than market capitalization.  
25 So these factors, there's a whole array and a whole gamut

1 of them. We looked at an array of different factors, and  
2 we decided on adding another market segment to the public  
3 equity exposure that was designed to be as different in  
4 its performance characteristics -- and when I say  
5 different, I mean different relative to the market  
6 capitalization weighted benchmark. So we're trying to  
7 maximize the degree of difference, even those these things  
8 are both equity exposure. So they tend to have very  
9 common patterns of performance, but the magnitude can be  
10 somewhat different.

11 When we assembled these -- when we assembled  
12 these market segments and we went through the asset  
13 allocation, we incorporated an allocation -- the target  
14 allocation to the equity factor-weighted segment is 15  
15 percent of the total fund, which represents a pretty  
16 significant allocation. We have, I believe, a 10 percent  
17 allocation to the long treasury exposure, and we have a 3  
18 percent allocation to high yield, and then, you know, all  
19 of the other asset allocation exposures derive from those  
20 numbers.

21 --o0o--

22 MANAGING INVESTMENT DIRECTOR BAGGESEN: When we  
23 actually look at the outcome that happened -- and  
24 remember, the year of 2018-19 was the year of transition.  
25 So we're basically acquiring these exposures. We were

1 moving money out of the market capitalization-weighted  
2 part of public equities and into the market  
3 factor-weighted part of public equities. And again, that  
4 represents 15 percent of the fund. So that was a lot of  
5 turnover activity that happened over the course of the  
6 year.

7           What you see on this chart, page 14 of the  
8 attachment, is the variation that -- and the outcome that  
9 happened. So the lower line on this chart is the line  
10 that represents the outcome that would have happened had  
11 there been no changes to the asset allocation. So if we  
12 had just kept the asset allocation structure that we had  
13 at the end of 2017 and carried that all the way through  
14 the last fiscal year, this is the -- the red line on this  
15 chart, or the lower line, is the outcome that would have  
16 happened. And that represents a return of approximately 6  
17 percent.

18           The top line is the outcome that did happen. And  
19 that had a return of 6.7 percent. That means that the  
20 implementation of the asset allocation, even though it  
21 took the entire year to complete that work, did have a  
22 positive effect on the fund that added approximately two  
23 and a half billion dollars to the overall market value of  
24 the fund, or 70 basis points. And that's a pretty  
25 significant achievement.

1           But what's even -- you know, that's an outcome  
2 that was fortuitous. But these things are different --  
3 these market segments are different than the places that  
4 we came from in the asset allocation. So there is an  
5 environment where those market segments could actually  
6 underperform as well.

7           But what we were actually most gratified by was  
8 the pattern of returns, because you see that, for example,  
9 the big differences, the biggest gaps were when the market  
10 was in selling off. So we had the market selling off into  
11 the end of December 2018, and you see that there was a  
12 significant gap that opened up between the two lines at  
13 that point. Then the market rallied going into April of  
14 2019, and that gap slightly closed. So again -- but it  
15 still maintained a positive increment. And then we had  
16 another severe sell-off, or significant sell-off, going  
17 into May of 2019. And again, the gap opened up basically.

18           That gap opening up is reflective of the fact  
19 that these assets are not selling off as badly into a  
20 drawdown situation as the asset allocation that we started  
21 with. So these markets segments performed pretty much  
22 exactly in alignment with what we thought would happen  
23 basically going into this exercise.

24           So even though this is just a 1-year period,  
25 which doesn't really mean much of anything, we're

1 nonetheless gratified by the fact that at least the  
2 characteristics that we thought would come through this  
3 segment work actually evidenced itself in a year that had  
4 significant volatility attached to it.

5 And I think that basically completes the comments  
6 that I would have. And I'd just ask if you have any  
7 questions before we turn it over to John for his economic  
8 update.

9 CHAIRPERSON FECKNER: We do. Mr. Jones.

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

12 Yeah. Thank you, Eric for expanding on this  
13 segment, because I think it's very important that we get a  
14 clear understanding of the outcome of that strategy.

15 And I'm looking at this chart of 14 of 17 here.  
16 But I'm also comparing it to -- or not comparing it, but  
17 also using it to look at chart 11 of 17. And I was  
18 just -- see if I'm interpreting this correctly.

19 Looking at the portfolio allocation compared to  
20 the contribution to volatility and looking at the public  
21 equity weighted at 35.5 percent on the allocation and then  
22 it jumps to 53.9 percent on the risk of volatility. But  
23 then I see you called out the risk factor -- the  
24 factor-weighted public equity and that was like 14.6  
25 percent of the allocation. But it only added to the risk

1 up to 16.9.

2 So am I seeing that if you had not carved out  
3 that piece, then we would have had a bigger drawdown,  
4 because it's not as risky?

5 MANAGING INVESTMENT DIRECTOR BAGGESEN: That's  
6 exactly right, Mr. Jones. I mean, you're basically  
7 putting your finger on exactly the element. What we're  
8 hoping that the market factor segment does is it -- while  
9 participating in the market doing well, we want it to  
10 basically act as a buffer on the drawdown. And the fact  
11 that it does do that, basically results in its lower -- or  
12 relative lower risk contribution compared to, for example,  
13 the capitalization-weighted equity portfolio, so you're  
14 exactly right.

15 COMMITTEE MEMBER JONES: Okay. Thank you.

16 MANAGING INVESTMENT DIRECTOR BAGGESEN: Just in  
17 reference to that, let me just back up for one second to  
18 our performance -- to our performance chart.

19 One of the -- if you look, this is the absolute  
20 returns, you know, 10-year and 1-year, but really it's the  
21 1-year number. The factor-weighted segment of -- in  
22 public equities over the fiscal year actually had a return  
23 of 13.4 percent. That was over 800 basis points in excess  
24 of what the market capitalization return was. So this  
25 thing had a significantly positive outcome in the



1 valuation of the fund.

2 Now, that actually though is a fairly unusual --  
3 I mean, that 800 basis points -- this portfolio operates  
4 and it has tracking error or tracking variance relative to  
5 capitalization weighting of somewhere around 400 basis  
6 points, somewhere in that ballpark, Dan?

7 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
8 BIENVENUE: (Nods head.)

9 MANAGING INVESTMENT DIRECTOR BAGGESEN: So an 800  
10 basis point outperformance would actually constitute  
11 almost a two standard deviation outcome. So that's --  
12 this outcome is even better than what you would actually  
13 expect in a normal set of circumstances.

14 So again, we're not keying off the return  
15 difference so much, but we definitely are encouraged by  
16 the pattern of returns that were generated. And I just  
17 happen to generate a very good outcome in the last fiscal  
18 year.

19 CHIEF INVESTMENT OFFICER MENG: If I may, just  
20 one comment to that. So as Eric said, the factor-weighted  
21 segment of public equity has performed exactly as we  
22 anticipated. So when there is market volatility, it  
23 should outperform the cap-weighted benchmark. So on the  
24 flip side, when the market is calm and start rallying from  
25 here, we probably expect some underperformance of this

1 segment. So just as a word of caution, it does not  
2 perform this well in all market environments.

3 But in the down market, we need it to perform  
4 better than other asset class, in which it has done. But  
5 when the market rallies, most likely this segment will  
6 underperform.

7 CHAIRPERSON FECKNER: Ms. Ma.

8 COMMITTEE MEMBER MA: Yeah. If we can go back to  
9 slide -- page 4, performance summary. So do we manage all  
10 of these other funds beside --

11 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yes, we  
12 do. Yes.

13 COMMITTEE MEMBER MA: And are there target or  
14 benchmarks that they're suppose to hit as well?

15 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yes,  
16 exactly. This board has approved basically the asset  
17 allocation for all these affiliate funds, Ms. Ma. That's  
18 a piece of work that happened subsequent to the decision  
19 on the asset allocation for the PERF basically. So that  
20 happened over the time period -- I'm trying to think when  
21 was the last decision? Yeah, April, May, and June  
22 basically. So that -- that typically follows on right  
23 behind the strategic asset allocation for the PERF.

24 COMMITTEE MEMBER MA: So if we're managing the  
25 funds, are all of these folks in these different funds

1 also getting reports from us on a -- I mean, like, we only  
2 usually just talk about our own fund, right -- so

3 INTERIM CHIEF OPERATING INVESTMENT OFFICER

4 BIENVENUE: Ms. Ma, your questions are music to my ears,  
5 because we've been talking about how the affiliates -- we  
6 owe the same fiduciary duty to those funds as we do the  
7 PERF. And we tend to focus on the PERF, because it's a  
8 \$370 billion pot. But this still \$20 billion, which is a  
9 large asset management function for many organizations.

10 So, yes, we run them through the same allocation  
11 process. And as Eric said in April, May, and June,  
12 Christine Reese and Alison Li were here working the Board  
13 through the -- you know, the various allocations to each  
14 of the trusts.

15 We do -- in the case of the defined contribution,  
16 we not only -- you know, we have an administrator do it on  
17 our behalf. We not only provide reports to the employers,  
18 but we actually provide reports to the defined  
19 contribution participants. But so, yes, we -- you know,  
20 we do do very similar reporting, and as I as say, the  
21 fiduciary standard.

22 COMMITTEE MEMBER MA: And so is there like a  
23 three-part, right -- we have to hit a certain target, the  
24 7 percent. There's a contribution by the participants, as  
25 well as local governments. How are these funds set up?

1 INTERIM CHIEF OPERATING INVESTMENT OFFICER

2 BIENVENUE: Yes, each of them are different. So the  
3 Judges' is actually a closed fund, the first one. Judges'  
4 II is a separate fund for the judges. And, yes, it has a  
5 set of contributions by both the judges themselves and  
6 then also the employers. The same with the legislators.

7 In the case of the three CERBT strategies, those  
8 are pre-funded health care largely. Those CERBT  
9 strategies are pre-funded health care, similar to CEPPT,  
10 which is pre-funded -- the one that we just recently  
11 launched, which was the pre-funded pension contributions.  
12 Then you've got the health care bond fund. That is just  
13 basically a reserve fund for health care needs.  
14 Basically, costs that have not yet been incurred, but that  
15 are -- is there as reserve to pay those.

16 You've got the Long-Term Care Fund, and then the  
17 Terminated Agency Pool, which is actually technically part  
18 of the PERF, but it's for employers that have terminated  
19 their plan.

20 CHIEF INVESTMENT OFFICER MENG: Ms. Ma, just as  
21 Dan just gave you some flavor, as Dan said that, you know,  
22 each one of the program is different. Their different in  
23 their mandate objectives. They have a very distinct  
24 difference. And so their -- as you can see, their  
25 portfolio is set up, the return, and the risk

1 characteristics are distinctly different as well.

2           So that shows the complexity of our investment  
3 portfolio and the Investment Office. Very few of our  
4 peers run such a complex program. So we manage not just  
5 the PERF, we manage a number of other affiliated programs.

6           And as Dan said that, you know, we have the same  
7 level of fiduciary duty to each one of them. That goes to  
8 say when we talk about the budgeting of the Investment  
9 Office, the size of Investment Office, it is worthwhile  
10 keeping that in mind, when we benchmark ourself against  
11 our peers. Very few of our peers manage such a complex  
12 portfolio.

13           COMMITTEE MEMBER MA: Okay. Well, that's good to  
14 know. Like, when we were talking about the consulting  
15 contracts before, and I said they were high, you know, to  
16 be able to justify why they're so high compared to perhaps  
17 other pension funds across the nation, or, you know, it's  
18 just good to get that explanation on record that we're  
19 doing more than normal pension funds, and therefore, it  
20 requires a level of sophistication, or, you know,  
21 reporting. That's good for us to know, because as we're  
22 here thinking it's just -- for me, I just thought it was  
23 just the one fund. But now that we're managing all these  
24 other funds and have a responsibility -- a fiduciary  
25 responsibility as well to these other funds, it kind of

1 changes, I think, the way I think about these other funds,  
2 number one, and number two, the amount of work and  
3 complexity, right --

4 CHIEF INVESTMENT OFFICER MENG: Absolutely.

5 COMMITTEE MEMBER MA: -- that it takes to manage  
6 them.

7 CHIEF INVESTMENT OFFICER MENG: Yeah. And this  
8 is only to the Investment Office. And if you look at the  
9 enterprise, led by Marcie, we also run the second largest  
10 health program in the nation after the federal government.  
11 So that is another level of complexity tend to be  
12 underestimated when we compare to our peers.

13 COMMITTEE MEMBER MA: Okay. Thank you.

14 CHAIRPERSON FECKNER: Mr. Jones.

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

17 Yeah, following up on Ms. Ma's question about  
18 notifying the agencies and the participants in these  
19 various funds, which of those, if any, are we required to  
20 report to the Legislature on an annual basis?

21 MANAGING INVESTMENT DIRECTOR BAGGESEN: You know,  
22 honestly, I'm not sure what is required to be reported to  
23 the Legislature, Mr. Jones. But we basically report -- in  
24 our consent reporting that happens every month, there is  
25 information on all of these affiliate funds attached to

1 that body of information. But I think we'd have to check.

2 COMMITTEE MEMBER JONES: Yeah, I notice -- I  
3 remember seeing a report come through one of these  
4 committees to the Legislature and I'm trying to understand  
5 which ones.

6 DEPUTY EXECUTIVE OFFICER PACHECO: Mr. Jones,  
7 Brad Pacheco, CalPERS team. All of the funds that  
8 gentlemen have been talking about are mentioned in our  
9 annual financial report and that's submitted to the  
10 Legislature once a year. So essentially the Legislature  
11 gets information on all of these funds.

12 COMMITTEE MEMBER JONES: Okay. But I thought I  
13 saw an individual report to the Legislature not part of  
14 this CAFR.

15 DEPUTY EXECUTIVE OFFICER PACHECO: We can double  
16 check. There may be -- I see Michael is --

17 DEPUTY EXECUTIVE OFFICER PACHECO: Oh, there you  
18 go.

19 CHIEF FINANCIAL OFFICER COHEN: Michael Cohen  
20 with CalPERS. There are -- in particular, the actuarial  
21 reports that we do in the spring go to the Legislature.  
22 And those have cover letters I remember seeing and that  
23 sort of give a little bit of context regarding the  
24 particular funds. So there's the actuarial reports and  
25 kind of the -- these regular updates that the Investment

1 Committee gets. The Legislature certainly has access to  
2 information on all of these reports, but the actuarial  
3 reports may be what you're thinking of.

4 COMMITTEE MEMBER JONES: Okay. Thank you.

5 CHAIRPERSON FECKNER: All right. Seeing no other  
6 requests. Mr. Baggesen.

7 MANAGING INVESTMENT DIRECTOR BAGGESEN: Thank you  
8 very much. Let's turn it over to John Rothfield and he'll  
9 give us an economic update.

10 --o0o--

11 INVESTMENT DIRECTOR ROTHFIELD: Thank you, Eric.  
12 My slides are pages 16 and 17. And I wanted to -- page 16  
13 is kind of backward looking and tries to explain why, as  
14 Eric mentioned, we had more of an index like year for the  
15 return of assets despite what seemed to be a fairly  
16 turbulent year in terms of policy and economic trends, and  
17 the forward-looking piece is on page 17.

18 So getting back to page 16, if you look at the  
19 middle chart on the top, the main measure of U.S. economic  
20 growth is gross domestic product. That grew by 2.3  
21 percent. And by the way, June represented a 10-year  
22 economic cycle, which is a record for the U.S. We just  
23 reached a record economic expansion. And 2.3 percent  
24 turns out to be the average of that entire expansion.

25 So again, while it seemed like a fairly volatile



1 year for the economy and for policy, we landed at about a  
2 2.3 percent economic growth rate.

3 Looking a little bit into the composition of some  
4 of that, which is the -- which is the blue bar, consumer  
5 spending actually had a good fiscal year. We had a very  
6 poor winter for consumer spending, but then a very strong  
7 recovery into the spring and the summer.

8 And it's quite good quality of consumer spending,  
9 because it happened not with consumers borrowing or  
10 running down their savings, but the savings rate in the  
11 economy actually increased to eight percent. And  
12 consumers were not taking out much debt, except in  
13 specific areas like credit cards and auto loans, but in  
14 things like home equity loans and mortgages, the new debt  
15 creation was relatively benign, unlike the early 2000s and  
16 what turned out to be the subprime crisis.

17 The -- that strong income growth that led to  
18 strong consumer came from employment growth of 188,000  
19 workers per year in our fiscal year. And as a result of  
20 that, the unemployment rate fell from 4 percent to 3.7  
21 percent, which is a nice low number for the unemployment  
22 rate.

23 The areas of the economy that didn't do too well  
24 are business CapEx and housing. A few reasons why  
25 business CapEx didn't well, energy prices came down, so

1 some of the mining investment in some of the fracking  
2 states came down. The problems with the Boeing aircraft  
3 led to reduced CapEx by the aircraft sector, and also, of  
4 course, because of the slow down in the global economy and  
5 the strong dollar, we had an earnings slow down in the  
6 U.S. So earnings growth essentially this year has been  
7 quite flat on a year-on-year basis. And one typically  
8 doesn't see much business CapEx in a weak earnings  
9 environment.

10 Housing was also another sector, which has been  
11 quite weak. Some people worry about that, because housing  
12 is often a leading indicator of the next stage of the  
13 economic cycle. But essentially this has been a slow  
14 cycle for housing, really based upon the fact that there  
15 has been a preference for multi-dwellings and rentals.  
16 And real estate commissions have been relatively low,  
17 because there hasn't been much turn in the housing market.  
18 So if you look at things like consumer plans to buy a  
19 house, and the Home Builders Association expectations for  
20 traffic coming through housing, housing has slowed down,  
21 but it's not probably something that's going to trigger a  
22 more serious problem in the economy.

23 And then finally government spending has actually  
24 been strong. State and local governments improved their  
25 finances to the degree that you've seen those

1 jurisdictions increase their construction spending and  
2 also their employment.

3           And then if you look on the right-hand side of  
4 that chart, foreign trade has been very weak. That's  
5 partly because as our global trading partners have been --  
6 have had weak economies, they're not buying many of our  
7 exports. Also, there was a rush of imports into the U.S.  
8 as a result of trying to front-run some of the tariffs.  
9 So there's been a lot of volatility in that part of growth  
10 that's been caused by the trade wars.

11           If you look at the right of that, you can see,  
12 what we call, the Atlanta Fed labor market spider, which  
13 suggests that a lot of labor market indicators are pushing  
14 toward the edge of tightness that they've experience over  
15 the last three or four business cycles, but there are  
16 still areas where there's a possibility of finding  
17 increased labor supply to keep the expansion going.

18           The two charts on the bottom indicate that one of  
19 the problems in the global economy right now is basically  
20 exports have dropped off, purchasing manager indices have  
21 dropped up for activity, particularly in the industrial  
22 sector, as opposed to the service sector. And leading  
23 indicators are suggesting that the global economy downturn  
24 is getting worse.

25           But overall, you know, one of the main drivers of

1 the market has been this -- the U.S. economy with the U.S.  
2 consumer sector, and the strong growth of employment over  
3 the past year. Things like jobless claims have been  
4 relatively low. And we haven't seen that shoe drop to the  
5 extent in the economy.

6 --o0o--

7 INVESTMENT DIRECTOR ROTHFIELD: When you look  
8 through on the next page to the future, a couple of the  
9 messages is, you know, one of the other factors that has  
10 tended to hold up risk markets has been that central banks  
11 have turned from a tightening stance to an easing stance.

12 So the Fed quickly began to tell the market that  
13 it would stop raising rates and then on July 31 actually  
14 delivered a rate cut. The European Central Bank  
15 similarly. And, in fact, in a speech in Portugal in June,  
16 the European Cental Bank started to talk about doing  
17 whatever it takes to get the European economy going again.  
18 So the central bank pivots have been another reason for  
19 the strength of asset markets in the last fiscal year.

20 The message on the future when you look at macro  
21 is it is probably more difficult to continue to deliver  
22 these kind of returns, partly because central bank  
23 supportive action is already priced into the markets, to  
24 some degree, when you look at what's happened to much  
25 lower bond yields. Also, while optimists say that a China

1 trade deal would unlock pent-up activity in the U.S.  
2 money, an incremental trade truce that, for example, takes  
3 us through to the next election doesn't get over the fact  
4 that there's a lot of adjustment required by the U.S.  
5 corporate sector, which has 40 percent of its sales in  
6 foreign jurisdictions. They have to continue to adapt to  
7 the new reality of ongoing trade disputes and tariffs.  
8 And that is probably a longer term constraint on their  
9 CapEx.

10 So, you know, while U.S. economic growth and risk  
11 market returns are not highly correlated, this doesn't  
12 seem to be a promising environment for aggregate returns  
13 in the period ahead.

14 One thing to remember is that the Fed has started  
15 to cut interest rates. There have been past episodes  
16 where a Fed rate cutting cycle like by Chairman Greenspan  
17 twice in the 1990s, Chairman -- Chair Yellen's pause on  
18 rates in 2016 were actually enough to prevent a recession  
19 happening and were actually good for risk assets. But  
20 right now, the bond market is telling you that it could  
21 well be too late for this easing cycled by the Fed,  
22 because what's happening globally and it's impact back on  
23 the U.S. Corporate sector. So the market is saying to be  
24 cautious in terms of adopting a risk posture in the  
25 markets.

1 Thank you.

2 CHAIRPERSON FECKNER: Thank you.

3 Ms. Middleton.

4 COMMITTEE MEMBER MIDDLETON: Okay. Yes. I think  
5 all -- the big question that all of us are looking at in  
6 the general media is when is the next recession going to  
7 strike us?

8 So could you describe the activities that you've  
9 taken to stress test what will happen when there is a  
10 downturn in the economy? How many variables have you put  
11 into that in terms of the extent of that downturn? And  
12 most particularly, what will be the cash flow impacts for  
13 CalPERS depending on the nature of the next downturn?

14 CHIEF INVESTMENT OFFICER MENG: Okay. That's a  
15 very good question. And it has been the focus of the  
16 Investment Office in the past 6 to 7 months.

17 So let me start going back a little bit. In the  
18 recent past, in the past two years or so, the  
19 organization, again led by the Board and the management  
20 team working together with stakeholders, who had took some  
21 really major steps to prepare the fund -- better prepare  
22 for the next drawdown. So I will go back first with the  
23 additional cash contribution from the State that we're  
24 just close to \$10 billion now.

25 So every penny of cash comes to the system

1 directly goes to the bottom line. So really helps the  
2 fund's ability to sustain the next downturn, and other  
3 decisions such as lowering discount rate and shorten  
4 amortization schedule. If you think of our Pension Buck,  
5 about \$0.60 of \$1 coming from Investment Office and the  
6 other \$0.40 coming from contributions.

7           So when -- so by lowering the discount rate and  
8 shortening the amortization schedule helps on the  
9 investment side, the \$0.60 or the \$0.59 of the Pension  
10 Buck to sustain the downturn. But, of course, we'll try  
11 everything we can to minimize the pressure on agencies --  
12 on the employers. So that helps.

13           And then the other thing as you can -- Eric just  
14 mentioned, if you go back to slide -- slide 6, as Eric  
15 just discussed, risk segment work. As you can see that  
16 for the factor-weighted risk segment plus the fixed income  
17 somewhere down in the second half, the long spread, long  
18 treasury, and high yield, they all outperformed during the  
19 recent volatile market environment. So that help us.  
20 Portfolio is much better positioned to survive the next  
21 drawdown. So these are more longer term strategic  
22 decisions.

23           And then the other point is that I want to say  
24 either June or May I led a discussion talking about the  
25 next drawdown and what we are doing in terms of planning

1 our -- preparing ourself by developing a plan, and so that  
2 when the crisis comes, we can keep calm and carry on. The  
3 reason we can keep calm and carry on, because we have  
4 predetermined plan, well thought-out plan.

5           So on that note, I go back to liquidity  
6 management. We talk -- we talked a Number of times. And  
7 to the last part of your question about our cash flow  
8 position, so our overall objective is to survive the  
9 downturn and then thrive from it. And we are much better  
10 positioned than when we were 2008. And under liquidity  
11 dashboard -- we're developing a liquidity dashboard that I  
12 shared with the management team. The first draft is  
13 workable -- is in working -- is a workable solution now.  
14 And the team has had three wargaming exercises to stress  
15 test -- to your point, to stress test our liquidity  
16 profile during the next downturn.

17           And then last Thursday evening, the senior team  
18 of the Investment Office, 35 to 40 of us, we had a long  
19 discussion to go over the plan again. So that was as  
20 recent as last Thursday evening.

21           So in terms of other scenarios, if you go to  
22 slide -- so if you go to slide 12, so those are the -- how  
23 do we stress test ourself -- slide 12, please. So these  
24 are the historical scenarios which stress test our  
25 liquidity profile. Can our fund survive if any of these



1 historical scenarios were to happen today, given our  
2 portfolio today, were we able to survive? So each one of  
3 these we stress test our portfolio.

4 In addition to these historical scenarios, we  
5 also stress test some hypothetical scenarios in the future  
6 that may happen that we haven't seen in the past yet. So  
7 we also have a number of hypothetical scenarios to test  
8 our portfolio and to see do we have enough cash flow to  
9 survive first. And then in addition, as Eric mentioned,  
10 borrow the liquidity. And when we need, can we borrow  
11 liquidity, borrow money to deploy in the capital markets  
12 to take advantage of market dislocation during the  
13 downturn.

14 So we are confident to say that we are much  
15 better positioned than we were in 2008. There's still  
16 some additional to work. But given the action, the  
17 partnership between you, and us, and the stakeholders, all  
18 the steps you have taken, the management team and the  
19 Investment Office have taken, we feel much more  
20 comfortable where we are in terms of preparing ourself for  
21 the next downturn.

22 COMMITTEE MEMBER MIDDLETON: Thank you.

23 CHAIRPERSON FECKNER: Ms. Taylor.

24 VICE CHAIRPERSON TAYLOR: Thank you, Mr. Chair.

25 So thank you very much for your report, John. I

1 always enjoy your economic reports. So I just wanted  
2 to -- there's a -- just kind of wanted to go over  
3 a couple -- I think you mentioned four things -- or three  
4 things that we're showing some weakness, the housing  
5 slowed down, energy slowed down, there's a labor  
6 tightness -- oh, no, four things, exports are looking kind  
7 of weak.

8 So our trade issue, you said -- it says something  
9 different here, but you said that the trade issue actually  
10 could be a long-term thing even past our current  
11 administration. Is that what you were saying?

12 INVESTMENT DIRECTOR ROTHFIELD: I think so. I  
13 think the point probably is that we could get a truce on  
14 tariffs, which could extend the tariff hold off until  
15 after the next election. But businesses have to plan with  
16 a CapEx and their supply chains for the long term, and  
17 there's really no guarantee that we're going to get into a  
18 situation where corporates can be comfortable about a  
19 certain environment going forward.

20 Now, whether that outlasts this administration,  
21 I'm not sure, but I think a temporary eye truce on tariffs  
22 is not enough to regain that certainty that the corporate  
23 sector is worried about in terms of both CapEx and supply  
24 chains.

25 VICE CHAIRPERSON TAYLOR: Got it. Okay. And

1 whether or not it survives the Trump administration or  
2 not. The reason I ask is because I read an article that  
3 Japan and South Korea now are having a trade issue. And  
4 I'm wondering if this just our administration starting  
5 these trade issues are beginning to spill over into the  
6 rest of the world, which could also be a problem with our  
7 markets. But I was wondering if that was part of this as  
8 well.

9 INVESTMENT DIRECTOR ROTHFIELD: Yes, I think so.  
10 I think, you know, the probability of a no-deal Brexit,  
11 which would disrupt supply chains within Europe is another  
12 factor. And as you mentioned the South Korea/Japan issue  
13 goes back to, you know, prior World War II. But the fact  
14 that it's come up again right now may be related to the  
15 mercantilist trend in the world economy. And that does  
16 lead to some significant issues with supply chains,  
17 because of where -- the important place that South Korea  
18 and Japan both play in those supply chains.

19 VICE CHAIRPERSON TAYLOR: There's some commentary  
20 that I don't need to make, but it just seems like we  
21 started something that is a Pandora's box, because  
22 everybody has a long history of trade issues with each  
23 country that they deal with.

24 The housing slow down, which was an indicator of  
25 the previous recession, you didn't mention any -- I mean,

1 you said it wasn't really -- it didn't seem like it was  
2 going to be the same thing as the previous recession, but  
3 is it -- is it predicated on costs versus consumer ability  
4 to buy? What is it -- what is it predicated on?

5 INVESTMENT DIRECTOR ROTHFIELD: Yeah. So if you  
6 look at the prior -- the prior housing bubble followed by  
7 the downturn, that was based on increased leverage, so the  
8 homeownership rate went up. Renters became owners. And  
9 you also had a large home equity loan withdrawal  
10 happening. That's just not happened this time around.  
11 And we just had a slow recovery in the housing market.

12 Part of it, as you mentioned, is probably title  
13 lending standards. And we do -- despite the fact that  
14 lower income -- the lower income cohorts have managed to  
15 engage in some catch-up recently in terms of income  
16 growth, we have had widening income dispersion, which has  
17 led to both a supply and demand constraint on taking out  
18 mortgages to actually buy homes, which has the greatest  
19 GDP impact.

20 So I think there's a combination of supply and  
21 demand factors there that have been involved. It has  
22 become more expensive to get the land and to build a  
23 house, because of, you know, lumber prices, the fact that  
24 we don't have enough construction workers right now. If  
25 you look at job vacancies, they're very high in the

1 construction sector. So it's been a slow grind in that  
2 sector as opposed to something that's gone out of control  
3 and then started to come back.

4 If you look at measures like housing  
5 affordability, they're about long-term average right now.  
6 We're not at a point right now where house prices, except  
7 in certain markets like the west coast, California and  
8 Northern and Southern California, we're not in a point  
9 right now where affordability issues are starting to  
10 impact the national housing market. And, in fact,  
11 consumers have said they're quite open to buying a house  
12 right now.

13 VICE CHAIRPERSON TAYLOR: Okay. Okay. And then  
14 you didn't -- so, of course, we all heard about this last  
15 week, you didn't mention the inverted yield curve.

16 (Laughter.)

17 INVESTMENT DIRECTOR ROTHFIELD: Inverted yield  
18 curve. There's definitely a cottage industry in recession  
19 risk indicators based on inversion of the yield curve. So  
20 temporarily, the two-year rate fell below the 10-year  
21 rate. One interpretation of that is its foreign policy.  
22 The very weak and vulnerable Japanese and European  
23 economies, which are causing foreign capital to flow into  
24 long duration, U.S. bonds, and is forcing down U.S.  
25 long-term rates. And another story says that you have to

1 have a significant and sustained inversion of the 2- to  
2 10-year yield curve in order to be a very good indicator  
3 of future recession.

4 So some of these recession indicators, which I  
5 think are also being developed in conjunction with this  
6 liquidity effort that's going on in the fund are showing  
7 that there is something like a third chance of a recession  
8 within the next 12 months, a 33 percent chance roughly.

9 So the yield curve inversion is part of that, but  
10 there are some other indicators as well that are starting  
11 to turnover, like capital spending in the economy and just  
12 the tightness of the labor market.

13 VICE CHAIRPERSON TAYLOR: Okay.

14 CHIEF INVESTMENT OFFICER MENG: So under topic of  
15 inverted yield curve, I know that catch a lot of attention  
16 of the media recently. But it's hard to say, it is  
17 correlation or causality. So in the past, as John said,  
18 that when the curve inverted, particularly the 2-year and  
19 10-year inverted, the probability of a recession in the  
20 next 12 or 18 months is higher than when the -- a curve  
21 inverted already in 3 -- if you use a 3-month T-bill as  
22 the front end of the curve.

23 So we don't really know it's a correlation or  
24 causality, for one. And for two, the only theory -- one  
25 of the theories -- the only plausible theory to me is that

1 when the curve inverted, it may harbinger of recession  
2 down the road, is that if you think of commercial banks,  
3 their business model is really to borrow money from us, as  
4 a retailer, deposit money, and then they lend out. So  
5 they borrow from us. They pay us on front end of the  
6 curve. When they lend out, they lend out on the long end  
7 of the curve. So the curve inverted means that they  
8 cannot earn enough to their cost of capital.

9 VICE CHAIRPERSON TAYLOR: Right.

10 CHIEF INVESTMENT OFFICER MENG: So that will  
11 hinder the economic growth. If you think about commercial  
12 banks, they are the intermediary in the capitalism. So  
13 they facilitate the flow of capital and the creation of  
14 credit. But if they more -- the more they do, facilitate  
15 the capital flow or the more credit creation they do, the  
16 more money they will lose, so naturally they wouldn't do  
17 it. So that's only one of the plausible reasons I see for  
18 the causality between inverted yield curve and the  
19 recession down the road, so -- but still there's a lot of  
20 debate, is it correlation or causality?

21 VICE CHAIRPERSON TAYLOR: Right. Okay. I  
22 appreciate it. Thank you very much.

23 CHAIRPERSON FECKNER: Mr. Miller.

24 COMMITTEE MEMBER MILLER: Wow. So much to think  
25 about. A couple things that kind of strike me as -- you

1 know, we see a lot more participation in this tightening  
2 in the labor market, but we're not really seeing real  
3 improved -- big improvements or even modest improvements  
4 in wage growth and in income equality that seems to be  
5 driving things even in terms of global risk in the  
6 economy, and along with other big things like climate  
7 change and stuff.

8           And it just seems to me -- it's been a long, long  
9 time since I was in business school, but the model back  
10 then seemed to be kind of oh, a recession modeling is kind  
11 of a V. You got the curve and it's somewhat symmetrical  
12 and it comes back and then moves on. Then it kind of  
13 seemed to be, well, we've still got this convex drop, but  
14 maybe it's more like a U. And then we see more recently  
15 it's like, well, we've still got the big convexity, but  
16 then it's like you -- but then it's not symmetrical, and  
17 it's taking a long, long time to recover. And so how do  
18 we look at things going forward thinking that that might  
19 be more the -- you know, the kind of picture we're going  
20 to see, particularly with there's not much room for  
21 monetary policy to maneuver now, unless we go into  
22 negative rates or some craziness?

23           And as a long-term investor, we certainly can  
24 weather even those longer recovery cycles where we've got  
25 this confluence of long-term business cycles, medium,



1 shorter term, all kind of -- this amplitude effect that  
2 causes that big drop, but the slow recovery.

3 So do you see kind of is -- is the world and the  
4 thinking about recessions and recoveries changing in that  
5 way and how do we address it, if we're going to be  
6 thinking about how we use leverage and how we time our  
7 actions into that kind of recovery? Regardless of the  
8 politics of who's President, it seems like more it's a  
9 when not if kind of situation.

10 CHIEF INVESTMENT OFFICER MENG: So you had a  
11 number of questions. I take a stab and then turn it over  
12 to John. So in terms you were talking about the money and  
13 the policy and the effectiveness of it going forward.  
14 You're absolutely right that if you look at recent  
15 recessions, on average the Fed had to cut 5 percent to  
16 stimulate the economy to get out of the recession.  
17 Currently, the rate is about 2 percent, so we don't have 5  
18 percent to cut, for one.

19 And for two, if the Fed started in a way  
20 underwriting the trade policy -- so if the Fed used the  
21 limited bullets to underwrite the Administration's trade  
22 policy, when the economy really needs help from the Fed,  
23 we may not have even the 2 percent left to stimulate the  
24 economy.

25 And the other one, your observation is that going

1 forward for the future if our established framework,  
2 analytical framework, still work or not. So yes and no.  
3 We are in -- we are -- absolutely, we are in a different  
4 environment in many sense.

5 For example, the -- in terms of monetary policy,  
6 how effective monetary policy is going to be. We haven't  
7 seen that before. And also the quantitative easing, we  
8 have not done that such a scale before either, how to  
9 unwind it.

10 And other things, you know, the economy today --  
11 global economy today is different from the past. You  
12 know, it's much more globalized. And if you look at U.S.,  
13 U.S. is very much a consumer-based economy. As John just  
14 mentioned, there's more than two-thirds our economy driven  
15 by consumer. So even though we are experiencing a  
16 manufacturer recession -- manufacturing industry or  
17 industrial recession, but the consumers are strong bound  
18 by the low unemployment rate and -- actually, the income,  
19 growth the recent one, more than four percent wage growth.  
20 So we see some wage growth as well.

21 But back to your question, we use -- one of the  
22 framework we use, you'll hear in the media talk about it  
23 is the Phillips Curve, the relationship between  
24 unemployment rate and inflation. And then another debate  
25 is the Phillips Curve still working or not?

1 But if we look at it, again, a different economy  
2 we are in now. The San Francisco Fed recently published a  
3 paper. The Phillips Curve in the service sector, actually  
4 well and alive, works pretty well. But in the  
5 manufacturer sector, because it more globalized  
6 manufacturer sector, so you don't see the effective in the  
7 Phillips Curve.

8 So just one of the examples that we have to use  
9 established analytical framework in today's context. So  
10 that create a lot of difficulty and challenges for all of  
11 us to manage the portfolio when the next downturn comes.

12 So that's my two cents. I turn it over to John.

13 INVESTMENT DIRECTOR ROTHFIELD: Yeah, I agree  
14 with Ben there. If you look at the service sector, there  
15 are actually some signs that we're getting into a typical  
16 late cycle in terms of wage growth. So if you're -- if  
17 you stay in your job, the aggregate numbers are showing  
18 you're earning 4.2 percent on average more than a year  
19 ago. If you changed jobs, it's more like 4 and a half  
20 percent right now.

21 The reason the aggregate wage bill in the economy  
22 is growing only in the 3s is that the new workers being  
23 bought into the labor force right now don't have the kind  
24 of skill set as everybody else who'd been drawn in earlier  
25 in the cycle. So the entrants tend to be paid lower. So

1 the average stays down, so -- and the national accounts  
2 were actually recently revised to show that the wage and  
3 salary share of corporate gross value-added has gone up  
4 more quickly than we expected over the last 5 years with  
5 the revised numbers.

6 So you are starting to see kind of more  
7 traditional margin compression coming out of -- coming out  
8 of this business cycle where we are. So it actually puts  
9 some of these recession risk indicators a little higher  
10 because you are starting to see labor scarcity being  
11 reflected in the price of labor, which is good for top  
12 line, but not necessarily good for profits.

13 And the other question about the Fed, you know,  
14 we -- the Fed has already decided not only that it's  
15 probably in a rate cutting cycle, but also that it's going  
16 to end its, you know, buyback -- you know, running down  
17 its balance sheet and is actually going to be in the  
18 business again of starting to buy bonds.

19 And, of course, we could get into a situation  
20 over the next few years where it has to start buying bonds  
21 again when the Fed fund's rate approaches the lower bound.

22 The problem with that right now is if you look at  
23 trajectories for U.S. debt, which is trillion dollar  
24 budget deficits plus over the next 10 years or so, it  
25 could get even worse if we go into recession. There's

1 going to be a lot of supply out there as well.

2           So I think there are legitimate concerns, not  
3 only here, but abroad where, you know, the European  
4 Central Bank with negative rates is already talking about  
5 having to do more with rates starting negative and the  
6 same with Japan, that we are in a kind of constrained  
7 environment for what policy can do to generate much  
8 economic growth.

9           CHIEF INVESTMENT OFFICER MENG: And if you think  
10 about, we are starting at such a low level now, and when  
11 the next crisis comes, say if we get into negative yield  
12 territory for the U.S. as well, and again go back to my  
13 point just think about how capitalism works, at least in  
14 theory capitalism does not work well when capital is free,  
15 let alone when capital is negative, not only free, you had  
16 to pay the bank to take your money, to deposit your money.

17           And if you -- again, you think about banks as the  
18 intermediary of facilitating the capital flow and credit  
19 creation. So they -- if, say, the yield become negative,  
20 they take our deposits as negative yield, they will be  
21 okay, right? But they will not lend any money, because  
22 the more they lend, the more they lose. So in that case,  
23 in that scenario how capitalism really works, we don't  
24 know.

25           So again back to Mr. Miller's question, again,

1 we -- if that happens we will be in uncharted territory.  
2 And this -- all the risks longer term, even though we  
3 haven't seen it yet. But just recently we see a German  
4 bond, 30-year bond, nominal yield is negative now. So we  
5 have to prepare -- again, back to Ms. Middleton's  
6 question, we have to think about all these scenarios.

7         This on the slide, you see the historical  
8 scenario we stress test ourself. But these are  
9 hypothetical future scenarios. It's not just a  
10 possibility. It may be -- become a probability. So we  
11 have to prepare ourselves for all the different scenarios  
12 as well.

13         But again, on the slide here, when we say we're  
14 trying to prepare ourselves better for the next drawdown,  
15 when this happens, we will not be immune from it. We'll  
16 still take a hit in the portfolio. But what we are trying  
17 to do is that we take a lesser extent of the hit, and more  
18 importantly, we can survive the downturn. And then on top  
19 of that, we still have additional liquidity on demand that  
20 we can deploy to take a advantage of the market  
21 dislocation during the next downturn. That's what we call  
22 the survive part. So we have to survive first and then  
23 thrive.

24         So that's the plan. But I don't want to give you  
25 the impression that when the next downturn comes, we have

1 been working on the all -- you know, we are firing on all  
2 cylinders to prepare ourself and there will be no impact  
3 on us. That's absolutely not the case. So we won't be  
4 immune from this but we'll be in a better position than  
5 what we were 10 years ago.

6 COMMITTEE MEMBER MILLER: Yeah. Thanks very  
7 much. A very helpful discussion. And just not a  
8 question, but just a little food for thought when it comes  
9 to Phillips Curve and the industrial economy in the U.S.  
10 and worldwide.

11 You might consider that the effect of the  
12 diminished role of organized labor has played in those  
13 marketplaces is a factor that's quite different from the  
14 effect in the service sector.

15 So thank you.

16 CHIEF INVESTMENT OFFICER MENG: Yeah.

17 CHAIRPERSON FECKNER: Ms. Middleton.

18 COMMITTEE MEMBER MIDDLETON: Okay. I wanted to  
19 do -- again to the economic growth on housing. Question,  
20 is the trend national or are there significant regional  
21 differences, and very specifically how much is the  
22 downturn in the housing market in California contributing  
23 to these national numbers?

24 INVESTMENT DIRECTOR ROTHFIELD: It's harder to  
25 get a breakdown in terms of residential construction, that

1 big number in the aggregate within Gross Domestic Product,  
2 but I can certainly look at where that's coming from. If  
3 you look at housing starts, that has tended to be fairly  
4 broad based in terms of steadying rather than the growth  
5 we had earlier on in the cycle, but I'll get back to you  
6 with something regional on where that slow down in  
7 construction has come from.

8 COMMITTEE MEMBER MIDDLETON: Appreciate that.  
9 And thank you for your answers to Mr. Miller. I am not  
10 sure if I feel better or not.

11 (Laughter.)

12 CHAIRPERSON FECKNER: Mr. Jones.

13 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.  
14 Chair. This -- the historical equity market drawdowns,  
15 the implications of this -- I noticed a chart later. Are  
16 you going to go over that chart to show what the  
17 implications of these drawdowns are or is this the  
18 appropriate time look at that, or are you going to go over  
19 that later?

20 CHIEF INVESTMENT OFFICER MENG: Mr. Jones, we  
21 don't have that prepared for the meeting today, but we  
22 have done all the analysis, scenario by scenario.

23 COMMITTEE MEMBER JONES: Oh, the scenario chart  
24 later that shows what the scenario is and the portfolio  
25 return doesn't relate to this chart?



1 CHIEF INVESTMENT OFFICER MENG: No. These --  
2 each of the scenario what happened in the past.

3 COMMITTEE MEMBER JONES: Um-hmm.

4 CHIEF INVESTMENT OFFICER MENG: And what we did  
5 is pretend we -- our portfolio position today, and then we  
6 applied back what the use of the historical events and see  
7 what's the impact on our portfolio. But the impact on our  
8 portfolio from each one of the historical scenarios, we  
9 don't have it today prepared.

10 We have the number. We just don't have it here.

11 COMMITTEE MEMBER JONES: But I'm looking at  
12 something in attachment 2 that -- and that's what I wanted  
13 to know if you were going to get to that chart.  
14 Attachment 2, page 3, that's -- and I was trying to  
15 understand if this ties to attachment 1.

16 CHIEF INVESTMENT OFFICER MENG: Give us a second.

17 COMMITTEE MEMBER JONES: Some of the same  
18 scenarios.

19 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah, I  
20 don't -- I don't know if we can put this one up on the  
21 screen or not. But as Mr. Jones said, basically, it's one  
22 of the -- it's one of the standard risk management  
23 summaries that get printed out. And literally, what you  
24 see on this chart -- and I think this is page 3 of 9.

25 COMMITTEE MEMBER JONES: Yes.

1           MANAGING INVESTMENT DIRECTOR BAGGESEN: Is this  
2 the one you were looking at, Mr. Jones, with the  
3 horizontal lines and everything is basically, for the most  
4 part, moving to the left of the 0 line, which implies  
5 obviously a significant drawdown, if any of these  
6 situations plays itself out.

7           As Ben said, we use these scenarios to  
8 hypothesize what would it actually take in order to try to  
9 maintain the target risk profile in the fund, because  
10 ultimately risk management for CalPERS is to be able to  
11 maintain what we believe is the appropriate risk profile  
12 as evidenced through the structure of the strategic asset  
13 allocation.

14           So how much money, for example, if you had the  
15 tech crash repeat itself and you're looking at a drawdown  
16 in the, you know, 20 percent, 22 percent range, for  
17 example - that's the fourth one down the page - what would  
18 it take to basically be able to put 50 percent of the  
19 money back into public equities, because the public equity  
20 portfolio would have declined pretty significantly  
21 relative to other parts of the portfolio?

22           So as Ben said, we look at these numbers and we  
23 hypothesize how much liquidity would have to be generated  
24 in order to reestablish the risk profile flowing or  
25 deriving from one of these kinds of events. And you can

1 see, for example, even the financial crisis in 2008 and  
2 '09 was an even bigger drawdown.

3 I think we're fairly confident that if these  
4 scenarios were to repeat themselves, that we would  
5 basically be able to maintain the risk profile. The  
6 damage that was done to the fund in the -- particularly,  
7 the financial crisis was in -- in other words, there was  
8 enough capital commitments and contingent liabilities that  
9 it was unclear whether or not we would be able to satisfy  
10 those contingent liabilities and therefore we actually  
11 reduced the risk in the portfolio, and we raised probably  
12 excess cash. And that excess cash then created an  
13 opportunity cost to -- when the markets started to rebound  
14 after that.

15 The lesson that we've learned from that is that,  
16 one, we've changed the entire picture of those contingent  
17 liabilities. So, for example, the security lending  
18 portfolio going into the market crash in 2008 represented  
19 almost \$40 billion of exposure. The security lending  
20 portfolio today represents about \$15 billion of exposure.  
21 So it's about a third the size of what it was at that  
22 point in time.

23 The same thing with capital commitments to the  
24 private asset classes. We had approximately another 40 to  
25 50 billion dollars of capital commitments. That number is

1 now -- you know, approximately half that. So those  
2 changes and also the changes in the actual cash investment  
3 pools, and buckets, and categories give us a lot more  
4 confidence that we have adequate liquidity to reestablish  
5 the risk profile, given any of these kinds of scenarios.

6 But the reality of this is going to be that  
7 whatever happens in the marketplace, it's not going to be  
8 the same thing as exactly one of these things.

9 So all this stuff gives us indications of what we  
10 might think we can do. We're going to have to see exactly  
11 how it actually ultimately plays out. But that's what Ben  
12 says, we basically go through these exercises of replaying  
13 these kinds of events, saying, okay, here's the effect,  
14 here's what it's done to the asset allocation, where are  
15 we going to find liquidity in the marketplace to kind of  
16 reestablish the risk profile or maintain it?

17 An that is ultimately, at least in my own  
18 personal opinion, what risk management means to CalPERS is  
19 being able to maintain the strategic asset allocation  
20 almost irrespective of what's happening in the market  
21 environment, because we've determined that's the risk  
22 allocation that we think we like on a long-term basis. We  
23 now have to maintain that. I don't know if that directly  
24 answers your question.

25 COMMITTEE MEMBER JONES: Yeah. No. Yeah.

1 Thanks for clarifying that for me. I was going down the  
2 wrong path.

3 Okay. Thank you.

4 CHAIRPERSON FECKNER: All right. Seeing no other  
5 requests, I have one from the audience. Mr. Darby.

6 Please identify yourself for the record and  
7 you'll have up to 3 minutes for your comments.

8 MR. DARBY: Good morning, Mr. Chair, Board  
9 members. Al Darby, President, Retired Public Employees  
10 Association.

11 About a year ago an imbalance was identified in a  
12 Wilshire report between U.S. public equities and non-U.S.  
13 stocks. In other words, the PERF had an imbalance far too  
14 much in the non-U.S. stocks.

15 The report showed that stocks -- U.S. stocks  
16 outperformed non-U.S. stocks in 2018-19. Wilshire showed  
17 heavy U.S. concentration in those non-U.S. stocks. If the  
18 imbalance in the PERF hasn't been corrected, the PERF  
19 underperformed in 2018-2019 pretty significantly, because  
20 50 percent of the PERF is in equities.

21 Can you please inform us on this issue? The  
22 reports today don't indicate a difference or they don't  
23 indicate the commitment to non-U.S. stocks and U.S.  
24 stocks.

25 CHAIRPERSON FECKNER: Anybody?

1 MR. DARBY: Can somebody inform us?

2 Thank you.

3 CHIEF INVESTMENT OFFICER MENG: We're looking for  
4 the Chairman's direction.

5 CHAIRPERSON FECKNER: You know, if you have the  
6 information, let's share it. If not, let's bring it back  
7 next month.

8 MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah.  
9 We'll bring that information back to you in a report that  
10 shows the mix between U.S. and non-U.S. equity investing.

11 CHAIRPERSON FECKNER: Very good. Thank you.

12 Ms. Brown.

13 COMMITTEE MEMBER BROWN: That was my comment just  
14 to -- could we please answer his question.

15 Thank you.

16 CHAIRPERSON FECKNER: All right. Seeing nothing  
17 else on this item, correct?

18 All right. Before we move on to the next item,  
19 it's to take our break for the court reporter, so we'll  
20 reconvene at 11:20.

21 (Off record: 11:07 a.m.)

22 (Thereupon a recess was taken.)

23 (On record: 11:20 a.m.)

24 CHAIRPERSON FECKNER: If we could take our seats,  
25 please. The Board members could come forward.

1           Mr. Darby, we have an answer to your question.  
2 Mr. Junkin is going to provide it.

3           Go ahead, Andrew.

4           MR. JUNKIN: Good morning. I had to check the  
5 time. Sorry. Andrew Junkin with Wilshire.

6           So I believe Mr. Darby is speaking about our  
7 universe comparison where we stack CalPERS up against  
8 other peer funds. And on one of the measures is the  
9 allocation to U.S. stocks versus non-U.S. stocks.

10          CHAIRPERSON FECKNER: He's shaking his head yes.

11          MR. JUNKIN: Yeah. Okay. That's a report that  
12 we're brining back next month. We weren't passing  
13 judgment that it was right or wrong. It's just a  
14 difference between you and many of your peers. You are  
15 relatively overweight non-U.S. stocks compared to U.S.  
16 stocks, because of the decision of the Board to invest on  
17 a global Basis. So he's correct that there's been some  
18 performance impact, but we were not saying that's right or  
19 wrong. That's just how you are and here's how you stack  
20 up compared to your peers.

21          CHAIRPERSON FECKNER: Okay.

22          CHIEF INVESTMENT OFFICER MENG: Mr. Chair, before  
23 we start Agenda Item 9b, can I take a moment to  
24 acknowledge one of our global peers and one of the thought  
25 leaders in the industry, the CIO CalSTRS, Chris Ailman, is

1 here today in the audience with 10 of the student interns  
2 of the summer. So welcome to CalPERS.

3 CHAIRPERSON FECKNER: Welcome, Chris.

4 (Applause.)

5 CHAIRPERSON FECKNER: Thanks for being here.

6 MR. AILMAN: Just so you know, you're my  
7 retirement system.

8 (Laughter.)

9 CHAIRPERSON FECKNER: We got you covered.

10 CHIEF INVESTMENT OFFICER MENG: With that, back  
11 to you, Mr. Chair.

12 CHAIRPERSON FECKNER: Anything else, Mr. Junkin?

13 MR. JUNKIN: I suspect you probably want me to do  
14 the consultant report on 9b.

15 CHAIRPERSON FECKNER: Correct.

16 MR. JUNKIN: Okay.

17 (Laughter.)

18 CHAIRPERSON FECKNER: I didn't know where we were  
19 starting. So is that where you want to start, Mr. Meng?

20 CHIEF INVESTMENT OFFICER MENG: Yes. So here is,  
21 you know, your primary investment consultant Wilshire will  
22 provide a performance report followed by Meketa and  
23 Pension Consulting Alliance to provide us comments  
24 specific to private equity, real assets and the  
25 infrastructure.



1 CHAIRPERSON FECKNER: Very good. Thank you.

2 Mr. Junkin.

3 (Thereupon an overhead presentation was  
4 Presented as follows.)

5 MR. JUNKIN: Great. Thank you. I think I said  
6 this earlier, but I'm Andrew Junkin with Wilshire  
7 Consulting. 9b, we actually have two attachments, and so  
8 I've 99 page to cover.

9 (Laughter.)

10 MR. JUNKIN: Two of those pages are title pages,  
11 so really it's only 97.

12 (Laughter.)

13 MR. JUNKIN: So it should be fine.

14 I'm going to go pretty quickly. Staff has  
15 already covered a lot of this. We sort of take turns who  
16 goes first. So I'm going to try to pick on some spots  
17 where I think there's some differences and not just try to  
18 reiterate the same things that you've heard.

19 Thank you.

20 --o0o--

21 MR. JUNKIN: This chart is a little bit hard to  
22 read here on page 2. This is our June asset class  
23 assumptions. We update these every quarter. These are  
24 10-year forward-looking assumptions. Really, a couple of  
25 things I wanted to draw your eye to. One, the expected

1 returns for equities on a forward-looking basis continue  
2 to come down. So one way to think about that is as the  
3 market has continued to go up, and for most of this year  
4 it has, we would argue that the price is probably going up  
5 faster than the fundamentals area. If they'd sort of done  
6 up in lockstep, then we'd see that the expected returns  
7 haven't changed.

8 So you're kind of pre-earning, if you will, some  
9 of the expected return over those 10 years early in these  
10 last two quarters and that's dragged down the expected  
11 returns.

12 Private equity, our expected return there is down  
13 to 8.35, which I think is the lowest that we've shown.

14 --o0o--

15 MR. JUNKIN: Spend just a quick minute here on  
16 page 3. I was impressed that we made it as long as we did  
17 without talking about the yield curve inversion. So there  
18 should be a prize for Ms. Taylor for bringing that up, I  
19 think.

20 VICE CHAIRPERSON TAYLOR: Okay. What is it?

21 (Laughter.)

22 MR. JUNKIN: I don't know what the prize would  
23 be. Well, maybe it's this comment that in addition to the  
24 yield curve inversion, we also had a brief patch last week  
25 where we had negative yields on the 10-year TIPS. And so

1 you really were in a state where, you know, the market had  
2 just said give me -- just give me most of my money back on  
3 an inflation-to-adjusted basis and that's good enough for  
4 the U.S. economy.

5 So I think that says a lot about what the market  
6 thinks about the strength of the U.S. economy, but also  
7 the global economy. The break-even inflation point, so  
8 the difference between the nominal yield you could earn on  
9 traditional treasuries and the yield that you would pay on  
10 TIPS was about 1.6. So that's not a lot of implied  
11 inflation over the next decade.

12 One other point that -- with as many news letters  
13 as we're issued last week on inverted yield curves calling  
14 for the beginning of every recession, the New York Fed  
15 actually publishes a probability of recession, which is  
16 just based on a regression of a number of metrics. Right  
17 now, it's at 31 percent. It's never hit 40 and not  
18 predicted a recession. And there's only been one other  
19 time going back 50 years where it's been as high as 31  
20 percent and not predicted a recession.

21 So I think the market -- the bond market and  
22 statistics would say it's a challenging time.

23 --o0o--

24 MR. JUNKIN: Sorry. I've got my notes in a  
25 couple of places, and I've been sort of deleting as I go,

1 so I don't repeat staff.

2 Here we go, page 7. So using our forecasted  
3 returns, which I just showed you on page 2 in your asset  
4 allocation, these are the forecasted returns that go with  
5 that. In addition to the 10-year forecasted returns, we  
6 have 30-year forecasted returns. So the first two bars  
7 here - and I'll just focus on the target allocation - show  
8 the forecasted returns over the next 10 years and over the  
9 next 30 years. Really, 30 is most meaningful for you.  
10 That return is still 7 and a quarter. But the next 10  
11 years come in below 6 percent, 5.9.

12 --o0o--

13 MR. JUNKIN: Skipping ahead to page 10, here,  
14 we've got total fund performance broken down by asset  
15 class. Staff has already covered I think a large part of  
16 this. But I did want to point out that as was noted  
17 during the conversation about attribution, private equity  
18 has been the best performing asset class. And so that is  
19 really one of the reasons that you continue to allocate to  
20 it. You can see it in our expected returns. It's still 2  
21 and a half percent essentially above public equity, so it  
22 does play a significant role in most institutional  
23 investor's portfolios.

24 We'll talk a little bit about most of these asset  
25 classes as we go. I think Eric has really covered private

1 equity and the implementation of the factor approach  
2 there. And the timing was great. As he mentioned, the  
3 focus of the factor approach leaning on low volatility  
4 worked as expected -- worked better than expected. So  
5 it's nice to get off to a good start. I would encourage  
6 you all not to expect 800 basis points of outperformance  
7 from that strategy on a yearly basis, as Eric mentioned.

8 We'll talk a little bit about real assets in more  
9 detail since there was some performance detracted there.

10 --o0o--

11 MR. JUNKIN: I was going to spend just a minute  
12 on this attribution, since there were some questions  
13 earlier about how does this work? I think most of them  
14 were covered, but I try to break this down pretty simply.  
15 By asset class, what is the actual weight been over the  
16 last 12 months? So it's actually an average of the last  
17 12 months of weights. That's the first column.

18 What's the return. The benchmark, what's the  
19 weight? And it changes over the last 12 months, because  
20 you've had asset allocation changes, so that's why some of  
21 those numbers look a little weird, like 41.41 percent.  
22 That's not really your target to public equities, but  
23 that's been the weighted average of the target and the  
24 return.

25 And then you can see the next two columns,

1 differences. That's just the mathematical difference  
2 between the weight columns and the return columns. And  
3 then you do some multiplication. The last three columns  
4 really are what matters here. What's driving the return  
5 difference between the policy benchmark and the portfolio?  
6 And you can see you underperformed, if you look at the  
7 bottom, by 42 basis points. And that was split 29 basis  
8 points due to actual allocation and 13 basis points due to  
9 active management.

10           So actual allocation, if you are underweight an  
11 asset class that does really well, that's a drag on  
12 return. If you're overweight an asset class that does  
13 really well, that's a positive to returns in attribution  
14 space?

15           Flip that around as well, if you're underweight,  
16 one that does poorly, that actually adds to your returns  
17 from an attribution standpoint. If your overweight one  
18 that does poorly, that's a drag.

19           And then active management is did you beat your  
20 benchmark within that asset class. So as you scroll  
21 through here, you can see the allocation effects are  
22 really pretty small. The two that jump out, private  
23 equity for active management was a pretty significant  
24 tailwind adding 25 basis points at the total fund level  
25 and real assets detracted 34. And so we're going to talk

1 about that in a few more pages.

2 Any questions on that? I know that was a really  
3 quick fly-by of the attribution. To me, it's kind of a  
4 report card. What do we need to dig into further?

5 Okay.

6 CHAIRPERSON FECKNER: Seeing no other requests.  
7 Thank you.

8 --o0o--

9 MR. JUNKIN: Okay. Let me just jump to a couple  
10 of pages that we normally cover. So page 26, private  
11 capital dry powder. Here, this chart -- you have to  
12 really pay attention to the scale. The scale has gotten  
13 pretty significant. There's \$2 trillion with a T sitting  
14 on the sidelines waiting to be deployed in private asset  
15 classes. One trillion of that is in private equity. It's  
16 been committed, but not yet invested. So this says a lot  
17 about the private market landscape, right? It is very  
18 competitive right now. If you were selling a business to  
19 a private equity investor, odds are you're going to get a  
20 pretty good price, because you're probably going to have a  
21 line of them around your office waiting to deliver their  
22 bids.

23 So that's one of the challenges in this space  
24 we're investors. And one of the reasons our returns --  
25 our return expectation to private equity is as low as it's

1 ever been at 8.35 percent. There's so much competition  
2 for these assets.

3 --o0o--

4 MR. JUNKIN: Go to page 28. So here's the  
5 corresponding chart that goes with it. This is private  
6 equity pricing covering a similar time period. You can  
7 see we were at about nine or ten times before the  
8 financial crisis. That dipped to kind of seven times  
9 after the financial crisis. And now we're back up to what  
10 is an all-time high of 11.2 times for private equity deals  
11 getting done in the buy-out space.

12 Let's see. I think we've talked plenty about  
13 interest rates. Let me just jump to real assets quickly.

14 --o0o--

15 MR. JUNKIN: So page 41 here, the fundamentals  
16 behind real estate, the four large sectors here. The red  
17 line is essentially the vacancy rate. And fundamentally,  
18 vacancies are still down. So the real estate market is  
19 pretty healthy from a rent standpoint.

20 --o0o--

21 MR. JUNKIN: If we jump ahead to page 44, here,  
22 you can see the performance. And I just draw your  
23 attention to the 1-year number, 3.7 percent for real  
24 assets, 6.5 percent for the benchmark. So some  
25 underperformance. So what happened?



1 Well, one number that's going to jump right out  
2 at you is forestland. And as you know, there was a big  
3 piece of forestland that was sold about a year ago, so it  
4 rolls into this fiscal year's performance. There was a  
5 mark down and that explains most of, if not all of, that  
6 underperformance for forestland there.

7 Within the real estate market, some of the  
8 disparity came from your treatment of malls versus the  
9 universe or the index's treatment of malls. And when I  
10 say treatment, there's some decision to be made about how  
11 often an appraisal is made and how that flows into the  
12 valuations.

13 And I would argue that you all were pretty  
14 aggressive on pricing malls in that as -- I don't mean  
15 aggressive like inflating. I mean, aggressive in terms of  
16 writing it down quickly and facing what you thought was  
17 the truth in terms of mall pricing. And the index, which,  
18 in this case, is an index of peer funds, has been a little  
19 slower to write down malls.

20 So this is one of the tricks that you have to be  
21 careful with on private asset class performance. Shorter  
22 term time periods don't mean quite as much, right? So I  
23 suspect, and we'll see if I'm proven correct, that there  
24 will be some continued write-down on malls at the index  
25 level. Whereas, you've really kind of taken the bulk of

1 the hit. I think you'll see that mall section sort of  
2 become a relative tailwind over the next 6 to 12 months.

3 And then the bit of good news on the page is  
4 forest -- sorry not forestland, definitely not forestland.  
5 Sorry. Infrastructure. I read the wrong word. With, you  
6 know, significant outperformance over the last year, but  
7 over every time period that's been a huge -- a huge win  
8 for a portfolio for CalPERS.

9 --o0o--

10 MR. JUNKIN: One last thing I wanted to cover  
11 before we moved on. And this goes back to the TLPM  
12 strategies. So we're reporting on a number of strategies  
13 here. There's some really weird numbers on this page that  
14 I thought it was worth highlighting. So I'm looking at  
15 the TLPM Risk Mitigation Strategies. You have \$200  
16 million exposed to those strategies, and you can see down  
17 82 percent. That's seems awful.

18 Remember what those are there for. They are sort  
19 of tail-risk hedging strategies. In normal markets, or in  
20 markets that are slightly up, or slightly down, or even  
21 massively up, those strategies aren't going to do well.

22 But there could be a day when the market is down  
23 pretty significantly and we come in and we report that the  
24 risk mitigation strategies are up 1,000 percent. It's  
25 possible. So I just wanted to point out this one odd

1 aspect of the portfolio, because that's a big number in  
2 terms of the performance. It's a very small number in  
3 terms of the dollar values, but I wanted to call that out  
4 in advance.

5 So when the day comes, there's a huge number and  
6 somebody says why didn't we do more of this? It's sort of  
7 an insurance premium. You pay a little bit when the  
8 market is normal, and then when the market sells off, it  
9 should help support the fund.

10 And I'll finish there. Happy to take any  
11 questions.

12 CHAIRPERSON FECKNER: Mr. Perez.

13 COMMITTEE MEMBER PEREZ: Thank you.

14 So if your projections -- the 10-year projections  
15 and so on, if they are without fees, is there anyway to  
16 determine what it would look like for us?

17 MR. JUNKIN: So the management fees for you for  
18 the bulk of your portfolio really would be -- the bulk of  
19 your portfolio has very little management fees, because  
20 it's internally managed. That's the way to say. Domestic  
21 equity -- public equity and fixed income is all managed  
22 internally. Where the bigger dollar value of fees are is  
23 in private equity in particular, and to some lesser  
24 degree, real assets.

25 Our assumptions on private equity, we make the

1 concession that you cannot invest in that asset class on a  
2 no-fee basis. All of the other things are essentially no  
3 fee. So what we assume there is that you're going to get  
4 top quartile returns net of fees and that leads to that  
5 8.35 percent. So it is -- in that case, that's how we try  
6 to address the fee issue. So I would say that the  
7 forecast that we showed that numbered just right under 6  
8 percent is essentially net of fees.

9 COMMITTEE MEMBER PEREZ: Okay. Thank you.

10 CHAIRPERSON FECKNER: Ms. Yee.

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

12 So you were calling out of the Risk Mitigation  
13 Strategy just had me thinking about a couple things. One,  
14 I guess from your perspective how well the total fund is  
15 positioned to withstand an economic downturn and are there  
16 additional measures that we ought to be thinking about in  
17 addition to the ones we've already taken?

18 MR. JUNKIN: Yeah. I think Ben made the point  
19 right before we broke that you've spent a lot of time and  
20 done a lot of work in this area and you're better  
21 positioned than you were in 2008. And I agree with that.  
22 I think one of the big levers you had left to pull was the  
23 implementation of the low-volatility equity strategies and  
24 you did.

25 BOARD MEMBER YEE: Yeah.

1 MR. JUNKIN: That was -- that was the biggest one  
2 that was obvious to me.

3 I think, at this point, really if you're not  
4 comfortable with your downside volatility, the big lever  
5 left is to take equities out of the portfolio or reduce,  
6 right? I don't mean completely. But then you start  
7 another whole conversation about what are we doing to the  
8 discount rate? And so that's a bigger issue.

9 COMMITTEE MEMBER YEE: Right.

10 MR. JUNKIN: So tactically, are there other  
11 things that you could be doing to mitigate drawdowns? I  
12 really think there's been a whole body of work done here  
13 within the TLPM group. And really, you've taken a look at  
14 everything that is possible. Things that are possible  
15 theoretically, in some cases are not possible because  
16 you're CalPERS and because you're trying to hedge, you  
17 know, \$180 billion --

18 COMMITTEE MEMBER YEE: Right.

19 MR. JUNKIN: -- worth of public equities. And  
20 that is too big a number in some cases.

21 So the answer is you've done as much as you can,  
22 but you still have a lot of equity risk in the portfolio  
23 that you just can't escape.

24 COMMITTEE MEMBER YEE: Right. Okay. Thank you.

25 CHAIRPERSON FECKNER: Ms. Olivares.

1 COMMITTEE MEMBER OLIVARES: Thank you, Mr. Chair.

2 I'd like to better understand the makeup of the  
3 custom volatility premia benchmark and why the divergence  
4 between the results in the benchmark.

5 MR. JUNKIN: I am honestly going to have to ask  
6 Eric Baggesen if he can explain that benchmark, because  
7 it's one of about 150 benchmarks that get plugged into the  
8 performance system.

9 INTERIM CHIEF OPERATING INVESTMENT OFFICER

10 BIENVENUE: So I'll start. I'm still wearing the MID of  
11 Global Equity hat also and we manage that internally.

12 It is basically a set of factors that we use.  
13 Andrew highlighted volatility. There's also some various  
14 other things that go into that, that basically the idea is  
15 to try to, as Eric said earlier, capture the equity risk  
16 premium. So capture markets, get something like full  
17 upside capture, while mitigating the downside capture. So  
18 trying to get lower drawdown in a down market. We can go  
19 as deep --

20 COMMITTEE MEMBER OLIVARES: I assumed that. I  
21 guess, can you explain the divergence then?

22 INTERIM CHIEF OPERATING INVESTMENT OFFICER

23 BIENVENUE: The divergence between the two?

24 COMMITTEE MEMBER OLIVARES: So I'm looking at the  
25 benchmark here and it looks like it's negative 5.8 percent

1 for the 1-year. Are we seeing that in terms of  
2 performance too?

3 So, I'm sorry --

4 INTERIM CHIEF OPERATING INVESTMENT OFFICER

5 BIENVENUE: Are you talking about cross-asset volatility  
6 premia? So you're talking about the trust level -- so  
7 that's not the factor-oriented portfolio.

8 MANAGING INVESTMENT DIRECTOR BAGGESEN: Bear with  
9 me one second. I'm just trying to catch up with your  
10 question here. Let me see the material. Yeah. So  
11 basic -- what you're seeing with the cross-asset  
12 volatility premia, in other words, this is literally just  
13 an exercise or a trial portfolio, where we're attempting  
14 to see --

15 COMMITTEE MEMBER OLIVARES: Um-hmm. Um-hmm.

16 MANAGING INVESTMENT DIRECTOR BAGGESEN: -- can  
17 we, in essence, sell volatility and do that in a  
18 profitable way? And what you're basically seeing is that  
19 that effort, you know, over the past year and over the  
20 past quarter just -- obviously did not work. But this is  
21 almost -- you know, it's a de minimis amount of money  
22 that's deployed into that.

23 But it's -- you know, I would -- I'd have to  
24 check with Ron Lagnado who's the person who would -- in  
25 TLPM that really runs that. Honestly, I just don't have

1 the detail as to what makes up the benchmark for that,  
2 that negative 5.8 percent. That's an -- we can respond to  
3 that question to you after the fact and give you a  
4 response to that.

5 COMMITTEE MEMBER OLIVARES: Thank you.

6 CHAIRPERSON FECKNER: All right. Seeing no other  
7 requests, anything else?

8 All right. Mr. McCourt.

9 MR. McCOURT: Good morning, Steve McCourt with  
10 Meketa Investment Group. Your private markets consultant,  
11 real estate, infrastructure, and private equity.

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

14 MR. McCOURT: I'm going to go through our reports  
15 that were provided in your packet under attachments 3, 4  
16 and 5. I'm going to make some high level comments on each  
17 category. And I also have behind me, to save me for any  
18 tough questions on real estate and private equity, subject  
19 matter experts at Meketa as well, David Glickman on real  
20 estate, and Steve Hartt on private equity.

21 So I thought I'd start with just a very broad  
22 context that's been mentioned a few times before, which is  
23 the level of interest rates in the economy. And I bring  
24 it up in the private markets realm, because at the end of  
25 the day, long-term interest rates and the level of



1 long-term interest rates in the global economy is probably  
2 the most fundamental factor that drives forward-looking  
3 returns for all asset classes, including private markets.

4           So when interest rates go down, it has generally  
5 the impact of elevating the prices of assets immediately,  
6 but then reducing the forward-looking return of assets,  
7 which is what Andrew had described. So all three of these  
8 asset classes in different ways have benefited from the  
9 decline in interest rates over the last 10 years or so.

10           Just looking at the last 5 years, where global  
11 equity markets over the last 5 years have returned roughly  
12 7 percent annually, bond markets were up 3 or 4 percent  
13 annually, your private equity portfolio has returned  
14 nearly 10 percent per year over the last 5 years, your  
15 infrastructure portfolio nearly 13 percent per year over  
16 the last 5 years, and your real estate portfolio, 7.6  
17 percent.

18           But if you X out the legacy assets in your real  
19 estate portfolio, your core real estate portfolio is up  
20 over 10 percent per year over the last 5 years. So all  
21 private market categories have done really well over the  
22 last 5 years. And that's partly due to the fact that  
23 lower interest rates encourage investors to invest in  
24 things other than bonds, as bonds yield less, and less,  
25 and less.

1           So these asset classes, like public equities,  
2     like high-yield bonds, and other credit instruments  
3     globally are really highly priced today. And that's just  
4     a reality that the Board should be aware of.

5           As evidenced by the returns, the execution across  
6     these three categories has been fairly strong over the  
7     last 5, 10 years. The challenge though I think will be  
8     similar across all three, which is how to deploy assets at  
9     scale, in a way that maintains a reasonable level of  
10    expected return without expanding the amount of risk  
11    significantly that you're taking.

12          And building on Andrew's comments around how  
13    you're positioned today versus 2007, the one thing I'd  
14    want to make sure you walk away with from a structural  
15    perspective is that all three of these programs are very  
16    well diversified by property asset, geography, and  
17    manager. And in the case of real estate, your portfolio  
18    today is largely invested in much more economically  
19    defensive core properties than it was 12 years ago. Your  
20    infrastructure portfolio is predominantly invested in core  
21    defensive infrastructure properties.

22          So to date, staff has done a nice job maintaining  
23    and building on the focus of these programs being on the  
24    more economically defensive side of the spectrum of how  
25    you can build various private market programs. And we

1 would encourage staff to continue in that endeavor at this  
2 stage in the economic cycle.

3 I'll start with, in terms of a couple of comments  
4 on each of the programs distinctly, I'll start with  
5 infrastructure, which has had for a long time now really,  
6 really strong returns. Arguably, this is the asset class  
7 that's benefited most from the decline of interest rates,  
8 because many global investors view infrastructure and core  
9 infrastructure in particular as a substitute for long-term  
10 bonds.

11 So when our 30-year treasury bond becomes  
12 yielding less than 2 percent, one can justify a much  
13 higher price on long-term contracts that have cash flows  
14 that exceed that.

15 Your returns, that being said, relative to  
16 anything I've seen in the marketplace are just in the  
17 stratosphere. 17.9 percent for 10 years in infrastructure  
18 is unheard of in the industry and your staff should be  
19 commended for that.

20 The other thing I want to highlight, when we came  
21 on again a couple of years ago as your Board  
22 infrastructure consultant, one of the issues we  
23 highlighted was the pace of investment infrastructure.  
24 Returns are great, but they don't really move the needle  
25 unless you can kind of increase the scale of the program.

1           Staff has done a nice job in the last couple of  
2 years of taking action to accelerate the pace of  
3 investment, again without unduly increasing the risk of  
4 the program.

5           On the Real Estate Program, I want to highlight  
6 and reinforce Andrew's comment earlier on the retail space  
7 of real estate. While most of real estate has done well  
8 for many years, for the last couple of years, the retail  
9 space has been challenged by what's, you know, largely  
10 referred to as the Amazon effect. And retail, you know,  
11 represents a meaningful allocation to many core  
12 institutional real estate funds.

13           Your staff and their separate account managers  
14 have been responsible in pricing retail assets  
15 appropriately as cash flows and values of retail  
16 properties decline over time. The rest of the industry is  
17 not for agency reasons. Many commingled funds that own  
18 retail properties are averse to reducing prices before  
19 they absolutely have to, because they're competing in the  
20 marketplace for customers.

21           So from our perspective, your staff has been  
22 responsible in that regard and has sort of at a broader  
23 level continued to do a really nice job orienting the  
24 portfolio towards more of a core income-producing real  
25 estate portfolio from where it was a decade ago.

1           The final comments I want to make on private  
2 equity. Your private equity portfolio represents just a  
3 tad over 7 percent of your overall program today. As  
4 we've noted before, probably the biggest challenge in your  
5 private equity portfolio, much like infrastructure, has  
6 been getting more dollars out the door invested. To give  
7 you a sense of the scale of that problem -- and I might --  
8 I might put quotations around the word "problem". Since  
9 2011, your Private Equity Program has returned back to you  
10 \$33.6 billion in gains above and beyond the capital you've  
11 given back to the managers to invest on your behalf.

12           It's really hard to keep your allocations up when  
13 the flow of capital coming back to you is at such scale.  
14 And that's something that has impacted many institutional  
15 investors. And your staff has started to react to that by  
16 elevating the amount that they're committing to private  
17 equity, and, as you know, looking at initiating at-scale,  
18 co-investment opportunities as well. So we're very  
19 pleased to see the pace of commitment increase over the  
20 last year, which is a nice step forward, and look forward  
21 to more deployment from there.

22           The returns of the private equity portfolio,  
23 staff went through a little bit. I just want to highlight  
24 a couple -- a couple of items.

25           As was noted for the last year, the Private

1 Equity Program returns 7.7 percent, which exceeded the new  
2 benchmark by a little over 3 percentage points. CalPERS,  
3 and this is not unusual for many institutional investors,  
4 periodically changes its benchmarks for a variety of  
5 reasons. And not unusual given human behavior, often  
6 those benchmark changes are made not at the best time.  
7 And so what ends up happening was when you link together a  
8 number of historical benchmarks, that linked benchmark has  
9 a much higher return than any of the legacy benchmarks  
10 that you used historically.

11 And so I just wanted to highlight that over the  
12 last 10 years, your private equity portfolio has returned  
13 14 percent per year on average over that time period,  
14 which is roughly in line with the new current benchmark  
15 over that time period, the FTSE all-world plus 150.

16 Your policy benchmark returns 16 and a half  
17 percent per year over the last 10 years. Because, as I  
18 mentioned, it's a composite benchmark that glues together  
19 several benchmarks that you had, there's literally not  
20 another usable benchmark in the industry that has a return  
21 as high as your historical policy benchmark, because that  
22 benchmark was changed at a time that wasn't propitious for  
23 you. And that just happens sometimes when you have a  
24 benchmarking policy where you don't retroactively change  
25 your benchmark, you simply append it to the legacy

1 benchmark. So I wanted to highlight that, as we have in  
2 the past as well.

3 In our report, we get into a little bit of detail  
4 on areas that have done well, areas that have done not as  
5 well. I would summarize those comments that you've  
6 generally done well in -- over the long period of time  
7 that we're looking here in co-investments and funds, not  
8 as well in fund of funds and secondaries. And you've done  
9 better in core traditional private equity sectors like  
10 buyouts, and less well in credit strategies that you've  
11 invested in historically.

12 I also want to highlight that private equity is  
13 about, depending on how you measure it, 60 to 70 percent  
14 U.S. focused. So as a global asset class, it is a little  
15 more tilted towards the U.S., which also gives it a little  
16 more defensive characteristic, given what's going on in  
17 the world today.

18 And my final comment, you know, is with all the  
19 private market categories, I would suggest a degree of  
20 patience with judging performance versus benchmarks,  
21 because as was noted before, short-term benchmark  
22 comparisons can be very lump for valuation reasons. And  
23 more importantly, because these are not publicly listed  
24 prices for assets and they're subject to valuation, you  
25 really don't know what your return is until the cash is

1 returned to you. And in closed in funds, that cash  
2 doesn't get returned to you for 7, 8, 9, 10 years into the  
3 future. So to look at performance shorter than that, what  
4 you're really looking at more is valuation policy than you  
5 are actually -- actual return.

6 And the returns that you see on these pages are,  
7 for the most part, time-weighted rates of return, where if  
8 we were to do a deep dive into specific sectors or  
9 strategies, we'd be looking at internal rates of return,  
10 which would make the numbers change a little bit as well.  
11 So just all reasons to take relative performance with a  
12 little more patience than with the public markets. And  
13 that concludes my remarks.

14 CHAIRPERSON FECKNER: Excuse me. Thank you.

15 Seeing no requests.

16 Anything else on this item, Andrew?

17 MR. JUNKIN: I neglected to mention that  
18 Treasurer Ma requested information on the affiliate funds.  
19 That's in the second 49 pages of our report. It's from  
20 about page 25 of attachment 2 on. We report every 6  
21 months on everyone of the affiliate funds. So if you  
22 could pass that along to her, Matthew, I'd appreciate it.  
23 Thank you.

24 CHAIRPERSON FECKNER: Thank you.

25 CHIEF INVESTMENT OFFICER MENG: No, Mr. Chair,



1 it's Item 9c.

2 CHAIRPERSON FECKNER: 9c, very good.

3 CHIEF INVESTMENT OFFICER MENG: Yes. So where we  
4 seek your review and direction on the proposed update and  
5 the revision of the Total Fund Investment Policy.

6 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
7 BIENVENUE: All right. Thanks, Ben.

8 So this is Item 9c. As Ben said, this is a first  
9 reading of potential changes to the Total Fund Policy  
10 arising out of this year's review of our policy intending  
11 to maintain an accurate, current, and relevant policy  
12 framework. Joining me are Kit Crocker and Beth Richtman.  
13 And then also we have other members of staff, if we get  
14 into deep questions. This definitely is an opportunity  
15 for feedback from the Investment Committee on this  
16 proposed policy.

17 So this year's review generated changes in four  
18 main categories. First of all, strategic asset  
19 allocation, secondly the total fund leverage management, a  
20 refresh of our Governance and Sustainability Principles,  
21 and then finally some ad hoc changes.

22 Regarding strategic asset allocation, and this  
23 was referenced earlier and to Mr. Jones' questions, it was  
24 really about implementation of the asset segment work into  
25 the Total Fund Policy.

1           Regarding total fund leverage, and again to Ben's  
2 previous comment, it's about migrating to a centralized  
3 total fund leverage governance framework using an  
4 aggregate limit of 20 percent as opposed to the historical  
5 disparate asset class limits around leverage.

6           The third main change again is the Governance and  
7 Sustainability Principles. And this draft reflects  
8 updated language on Board oversight of such things as  
9 corporate culture and labor practices, disclosure of such  
10 activities around lobbying, and then workforce demographic  
11 data, and then finally a refresh of our philosophy on  
12 executive compensation.

13           And then finally, I'll just highlight the most  
14 notable of the kind of general ad hoc changes, and that  
15 surrounds prudent person opinions, or PPOs, and the  
16 thresholds below which they will automatically be required  
17 for certain private market transactions.

18           So as mentioned, this is a first reading. We're  
19 seeking the Committee's feedback and questions. And I'll  
20 pause there. Mr. Chair, I'll turn it back to you. Happy  
21 to certainly take any questions or to hear what the  
22 consultants have to say, whatever is the pleasure of the  
23 Committee.

24           CHAIRPERSON FECKNER: Well, we have no questions  
25 yet, so let's hear what the consultants have to say.

1 MR. KAZEMI: Good afternoon. Ali Kazemi,  
2 Wilshire Associates. I just wanted to address the first  
3 reading of the proposed policy changes. As Dan mentioned,  
4 there were approximately 90 changes that were reviewed. A  
5 majority of those, around 80 percent, were low in terms of  
6 their material nature.

7 The area that we really kind of focused on had to  
8 do mostly with the leverage centralization that will be  
9 housed within the TLPM team. Leverage has, from a risk  
10 standpoint, the ability to really move the dial. And so  
11 we real wanted to focus on what those changes were.

12 We agree that the centralization makes sense from  
13 a policy standpoint, and these changes are appropriate.  
14 The one area that we discussed with staff was the removal  
15 of an appendix that had the leverage limits within the  
16 asset classes. We felt that those -- you know, as the  
17 policy was being constructed, that removing that would be  
18 potentially inappropriate for the time-being. So the  
19 decision was made to move it into an investment policy and  
20 procedures guideline, which still is under the purview of  
21 your consultant.

22 So with that change, including within this first  
23 reading, we are supportive of all the changes in the  
24 policy document, and are happy to address any questions.

25 CHAIRPERSON FECKNER: Thank you. We have a list

1 of questions now.

2 Ms. Ortega.

3 COMMITTEE MEMBER ORTEGA: Yeah. I just wanted to  
4 talk a little bit about the change on the leverage. So I  
5 understand the point about centralizing it. I get --  
6 understand that completely. What I would like a little  
7 more clarification on is if the results of this change to  
8 centralize is going to change behavior in terms of the use  
9 of leverage and the types of strategies that might be  
10 employed, because I'm kind of losing that nuance in the  
11 way it's being characterized.

12 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
13 BIENVENUE: So as Ali mentioned -- so the expectation  
14 would be no, other than to think of leverage due to total  
15 fund context. Much of what Ben is working is looking at  
16 liquidity through the total fund context, active risk  
17 through the total fund context, and leverage is another  
18 one of those.

19 When you view these topics from the bottom up,  
20 they tend to come together in a suboptimal way, as opposed  
21 to when you view them from the total fund down.

22 So that would be the -- maybe the change that we  
23 expect. It would be a more optimal use of leverage.  
24 However, to Ali's previous point, by including the legacy  
25 leverage limits within the IPG framework -- so that's what

1 comes to the Board consultants. It just doesn't come all  
2 the way to policy. We would expect that the limits will  
3 still be maintained, but there would be a more optimal use  
4 of the leverage by moving to centralized.

5 COMMITTEE MEMBER ORTEGA: Okay. Thank you.

6 CHAIRPERSON FECKNER: Mr. McCourt, did you have  
7 something to add before we take other questions?

8 MR. MCCOURT: No.

9 CHAIRPERSON FECKNER: Okay. Ms. Yee.

10 COMMITTEE MEMBER YEE: Thank you.

11 I -- the changes to the benchmark modification  
12 process, I guess I wanted to just get a sense of what this  
13 Committee can expect. So will that reduce the number of  
14 changes that will be brought before this Committee  
15 presumably? And then I just had a question about what --  
16 how define a material change for this purpose?

17 MR. KAZEMI: Happy to address that first. So we  
18 reviewed those proposed changes in terms of what would  
19 come before the Committee and what would not. We felt  
20 that those were all reasonable from our perspective, so  
21 we're supportive of the those changes.

22 COMMITTEE MEMBER YEE: And then I guess how would  
23 you define a material change, I guess, within this  
24 context?

25 MR. JUNKIN: As the person who signs all of the

1 benchmark change forms from Wilshire, I decided I should  
2 probably jump up here.

3 I don't think that we have a rigid set of  
4 strictures that we use to define materiality when it comes  
5 to a benchmark change. It would be a significant change  
6 in either the risk or the expected return profile of the  
7 benchmark, or if there would be a significant cost to  
8 implement it. So, for example, if you decided to change  
9 equity index fund providers, and it would cause, I don't  
10 know, 30 percent turnover in the portfolio - I'm trying to  
11 make something up that almost can't happen - but result in  
12 no significant change, why create all these transaction  
13 costs that you're never going to get paid back for.

14 So the way that process works, and to address one  
15 of the questions that you asked earlier, is this going to  
16 change the number of benchmark changes that you see? It's  
17 not, because you only see the material ones.

18 COMMITTEE MEMBER YEE: Okay.

19 MR. JUNKIN: Everything else comes to us, and we  
20 can either kick it back and say, no, we believe this is  
21 material and needs to come to the Board -- or the  
22 Investment Committee rather, or, yeah, okay, you're just  
23 changing the ticker on this benchmark for this reason,  
24 that's administrative. We sign off on it. It goes to  
25 State. It's implemented.

1 COMMITTEE MEMBER YEE: Okay.

2 MR. JUNKIN: Does that hep?

3 COMMITTEE MEMBER YEE: So you're kind of  
4 memorializing what you're practicing.

5 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
6 BIENVENUE: Yeah. I was about to say that -- absolutely,  
7 that what you've had in the past is we've been relatively  
8 silent on benchmarks, and we've been engaging in these  
9 practices, but we haven't had them codified in policy.

10 COMMITTEE MEMBER YEE Yeah.

11 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
12 BIENVENUE: The idea here is to actually memorialize them  
13 in policy, so that we're aware of what will come to you.  
14 And again though, there's some judgment applied between,  
15 you know, staff and specifically --

16 COMMITTEE MEMBER YEE: Sure.

17 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
18 BIENVENUE: -- your independent consultants on whether  
19 this is material and needs to come to the Board or whether  
20 this is something that more falls within -- within the  
21 purview of -- it doesn't change the expected risk and  
22 return parameters. And so we think we can just do this as  
23 a ministerial change.

24 COMMITTEE MEMBER YEE: Okay. That's great. And  
25 then just as an overall matter, very appreciative of the

1 inclusion of the carbon pricing language, which is getting  
2 a lot of national and global attention. So thank you for  
3 the work on that. And then the other changes that expand  
4 the financial reporting provisions I think are really  
5 strong as well. So thank you for the work on that.

6 CHAIRPERSON FECKNER: Thank you.

7 Ms. Brown.

8 COMMITTEE MEMBER BROWN: Thank you.

9 I have just -- I think it's a simple question on  
10 page 23. There's a small change to the TAP investment  
11 program and maybe not. Maybe it's just a numbering  
12 changed that says. Now, you refer to tables 6 as opposed  
13 to 7. And I just want to make sure that it's just a  
14 renumbering is all that's happened to the TAP, that we're  
15 not changing the way we invest in -- or the money in the  
16 TAP, or if we are, we're not making it more conservative.  
17 And I had to look -- I had to look at the second  
18 attachment that had -- that showed the changes.

19 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
20 BIENVENUE: I'm sorry, Ms. Brown. Can you --

21 COMMITTEE MEMBER BROWN: I think it's 9c,  
22 attachment 1, page, it's either 23 or 25. I can't read my  
23 own writing. So hold on.

24 Let's see. I just want to make sure we're not  
25 doing anything to the TAP. If you want to tell me that,



1 I'm happy with that.

2 MR. JUNKIN: There's no asset allocation change  
3 to the Terminated Agency Pool. And it couldn't be --

4 COMMITTEE MEMBER BROWN: Right. It just --

5 MR. JUNKIN: It couldn't be made more  
6 conservative, since it's fully immunized.

7 COMMITTEE MEMBER BROWN: Right. I'd hope -- I  
8 would hope you would make it less conservative. It's  
9 number -- it's item D. It says restrictions prohibited --  
10 prohibitions and authorized securities.

11 MR. JUNKIN: Yeah. I'm on the -- I'm on that  
12 page.

13 COMMITTEE MEMBER BROWN: So it says now it's  
14 appendix 6. And then the change it used to be appendix 7.  
15 So I just want to make sure nothing has changed in that  
16 appendix. I don't think so, but it's a very big report.

17 INVESTMENT DIRECTOR CROCKER: Kit Crocker,  
18 Investment Office. I believe it's just a change in the  
19 numbering of the appendices, because we eliminated one  
20 appendix --

21 COMMITTEE MEMBER BROWN: That's all I wanted to  
22 hear. Thank you.

23 INVESTMENT DIRECTOR CROCKER: -- when we  
24 connected with leverage.

25 MR. JUNKIN: Yeah.

1 COMMITTEE MEMBER BROWN: It was hard to figure  
2 out on my own.

3 Thank you.

4 CHAIRPERSON FECKNER: All right. Anything else,  
5 Ms. Brown?

6 COMMITTEE MEMBER BROWN: That's it. Thank you.

7 CHAIRPERSON FECKNER: All right. Seeing no other  
8 requests, anything else on this item?

9 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
10 BIENVENUE: No, Mr. Chair.

11 CHAIRPERSON FECKNER: Very good. Thank you.

12 That brings us to 10a, consultant review of trust  
13 level management.

14 Mr. Junkin, Ms. Dean.

15 Oh, pardon me. I have two requests from the  
16 audience, Ms. Sara Theiss and Neal Johnson.

17 If you'll both please come forward, identify  
18 yourself for the record, and you'll have up to three  
19 minutes for your comments.

20 MS. THEISS: Hello. My name is Sara Theiss. I  
21 am a board member of Fossil Free California and a CalPERS  
22 retiree. And as you know, I like to take advantage of my  
23 3 minutes every month to raise a few things I've seen in  
24 the press about what's going on in the fossil fuel  
25 industry. This is relevant to our agency's mission

1 regarding the dangers that fossil fuels present to the  
2 future of the planet. And it's relevant to me personally  
3 in terms of having an interest in the pension fund being  
4 funded as well as possible for my retirement.

5 So a just couple of things. You are all probably  
6 aware, this was alluded to in the discussion about  
7 problems in the energy sector. This is a particularly  
8 bleak financial outlook for the U.S. fracking industry.  
9 The losses continue to pile up. Shale companies are  
10 dropping in value. The debts continue.

11 And basically, there's also a problem that  
12 they're running out of good rock. So the future of that  
13 industry is even worse than you would think. Given this,  
14 it's not surprising that exploration and production  
15 bankruptcies are on the rise, as oil and natural gas  
16 prices are not doing well.

17 One particular leading light in the industry said  
18 some stakeholders have given up hope that resurgent  
19 commodity prices will bail everybody out. Given this, I  
20 found an article headlined, *As Risky Finances Alienate*  
21 *Investors, Fracking Companies Look to Retirement Funds For*  
22 *Cash*. So it is my hope that -- and I know everybody --  
23 the staff, as has been talked about in this meeting,  
24 thoroughly do their homework that we won't be investing in  
25 that.

1           One, Pioneer Natural Resources CEO Scott  
2 Sheffield recently told - I think this was the Wall Street  
3 Journal - "We've lost the growth investors. Now, we've  
4 got to attract a whole other set of investors". So those  
5 are my -- oh, they're -- and they're planning on getting  
6 40 percent of their capital for 2019 from private equity  
7 funds.

8           So I'm just drawing your attention to these  
9 issues, which I think are just little benchmarks, so to  
10 speak, or signs in the -- what's the actual future of the  
11 oil and gas industry, which, in my opinion, is not good.

12           So thank you so much.

13           CHAIRPERSON FECKNER: Thank you.

14           Ms. Johnson.

15           MR. JOHNSON: Neal Johnson representing SEIU  
16 today.

17           Chairman Feckner, members of the Committee, I  
18 thank you for your work on this important item. SEIU  
19 firmly believes that the systemic risks in the economy  
20 really need to be looked at with respect to sustainable  
21 investment. We support most of the recommendations made  
22 by staff and the redrafting of this item. They really  
23 reflect your fiduciary responsibilities.

24           Specifically, we like the calling out of  
25 corporate boards to take steps to ensure healthy, and

1 safe, and transparent corporate cultures, implement real  
2 compensation strategies that value the work of the  
3 workers, not just the top echelon managers, the data  
4 disclosing lobbying efforts, increased disclosure on  
5 demographics and diversity within the organization, and  
6 really, truly financial -- integrated financial reporting,  
7 and what are the potential human capital, and risks, and  
8 particularly what are the climate risks.

9 We are supportive of the work or the comments  
10 made by staff with respect to incorporation of  
11 environmental risk factors and labor practices.

12 So on behalf of the 2 million members of SEIU and  
13 our leadership, we thank you for continuing your role as a  
14 real fiduciary and leader among pension funds.

15 Thank you.

16 CHAIRPERSON FECKNER: Thank you for your  
17 comments.

18 That brings to us Agenda Item 10a, Mr. Junkin,  
19 Ms. Dean.

20 CHIEF INVESTMENT OFFICER MENG: Mr. Chair, so in  
21 Agenda Item 10A and 10b, you'll hear from your primary  
22 investment consultant Wilshire to cover the annual program  
23 review of two trust level investment programs, which is  
24 the Trust Level Portfolio Management Program, as well as  
25 the Opportunistic Strategies Program.

1           The annual program review of the other four major  
2 asset classes, global equity, global fixed income, private  
3 equity, and real assets are to be covered in the following  
4 month.

5           With that, I turn it over to Wilshire.

6           MR. KAZEMI: Ali Kazemi, Wilshire Associates. So  
7 as Ben alluded, these will be the first of several opinion  
8 letters that you will be receiving from your Board  
9 consultants on the various teams within PERF.

10           Today, first, we're covering the Trust Level  
11 Portfolio Management team. The purpose of the opinion  
12 letter is to -- really to provide a summary of the due  
13 diligence that we perform on the various CalPERS teams.  
14 And it's similar to what we would perform on any  
15 investment management organization -- third-party  
16 organization.

17           The goal of that due diligence is really to help  
18 evaluate, whether TLPM is organized to be a value-add  
19 contributor towards CalPERS' long-term objectives. And so  
20 I think it's worth reiterating some of those objectives.  
21 One is generating a return that exceeds the actuarial rate  
22 of return. Secondly, employing meaningful diversification  
23 without -- throughout the portfolio, maintaining  
24 compliance with the asset allocation policy ranges, as  
25 well as ensuring adequate liquidity. And then lastly,

1 generating positive excess returns through asset -- active  
2 allocation decision.

3           So, in our review with staff this year on TLPM,  
4 it was clear that the recent emphasis on total fund  
5 performance has had a material impact on TLPM, as that  
6 group has had its mandate expanded from 3 core functions  
7 to 5 core functions.

8           The previous three functions were in relation to  
9 strategic asset liability management, dynamic asset  
10 allocation, as well as portfolio strategy we research.  
11 The new additional functions relate to the Investment  
12 Manager Engagement program, which has now been centralized  
13 within TLPM. And so that's the team that manages external  
14 manager selection, process, including the Emerging and  
15 Transition Manager Programs.

16           The 5th addition to the core functions of TLPM  
17 include the integration of the total fund business and  
18 analytical services team. So that team delivers business,  
19 analytical, and administrative services to the Investment  
20 Office and throughout the enterprise.

21           Wilshire feels that this expansion is consistent  
22 and makes sense with the emphasis on total fund  
23 performance and it makes sense to warehouse that within  
24 TLPM. However, we do want to note that any time you have  
25 change with an organization, that can create some

1 short-term uncertainty. And that was one of the things we  
2 did discuss with staff. As some of the projects within  
3 TLPM were reprioritized as part of some of the new  
4 functions of TLPM, we think that's natural. We just think  
5 as the vision of the CIO is implemented maintaining strong  
6 communication as part of that is appropriate --  
7 appropriately manage any issue with uncertainty.

8 In terms of our scoring for TLPM, it's actually  
9 detailed in the memo. As I mentioned at the onset, we  
10 compare CalPERS to any investment management organization  
11 out there via this qualitative framework. It's consistent  
12 with how we evaluate all managers. And rather than step  
13 through every component of the scoring, I wanted to just  
14 highlight some of the strengths, and then some of the  
15 areas for potential improvement.

16 First and foremost, I want to discuss, you know,  
17 the firm score relative to last year. There have been  
18 some changes overall within the firm as everyone is aware.  
19 So part of that is Ben's hire and his inclusion now in  
20 driving the overall vision of the team. We view that as a  
21 positive. And for that, we increase the score overall  
22 from a firm standpoint.

23 But it also did reflect the overall score of the  
24 departure of the COIO over the last year as well. So  
25 there was some positives and some negatives overall with



1 regards to the firm. But overall the score did increase.

2 Team score didn't change with regards to just the  
3 TLPM team. We discussed earlier today the discussion about  
4 staff size within the TLPM. That has increased over the  
5 last year. A lot of that increase has to do with the  
6 expanded functions that I mentioned earlier on.

7 And so we feel that team is certainly adequately  
8 staffed to support all the initiatives that TLPM is  
9 currently working on.

10 In terms of information gathering, Eric talked  
11 about it during the discussion this morning about the  
12 examination of active risk within the overall portfolio,  
13 and that being centralized within TLPM as part of the  
14 portfolio research function. We were very impressed with  
15 that project and how it's being implemented.

16 You know, looking at active risk holistically at  
17 the total fund level, makes a lot of sense from multiple  
18 reasons. And so for that, we increased the depth of  
19 information score within the research category.

20 From an implementation standpoint, over the last  
21 year, the new asset allocation was implemented. We felt  
22 that that was done in a very organized and smooth process.  
23 For reason, we also increased the score from an  
24 implementation and trading standpoint. And that was  
25 reflected in the overall scoring framework.

1           The last strength I wanted to highlight was the  
2 overall emphasis on attribution. You know, Ben mentioned  
3 that at his first presentation in January at the offsite,  
4 that attribution is going to be a big component of  
5 measuring performance throughout the fund.

6           You really can't manage, if you don't measure  
7 properly. And so that emphasis on measuring -- using  
8 attribution is something we are fans of, and we definitely  
9 support. So for that reason, we increased both scores  
10 with regards to attribution and it's something we'll  
11 continue to monitor going forward.

12           In terms of areas for improvement, the only area  
13 that there was a slight degradation in the score was with  
14 regards to forecasting success. That category -- there --  
15 you know, when Andrew looked at the attribution in the  
16 review, one of the areas we saw is a slight decrease in  
17 performance, about 9 basis points, coming from the  
18 external strategies that are in the TLPM program.

19           And so that highlighted some of the challenges in  
20 regards to tactical asset allocation. So you have certain  
21 partnerships with managers that employ tactical asset  
22 allocation as part of their process and those  
23 underperformed relative to benchmark for the year. And so  
24 that resulted in a 9 basis point loss.

25           We view TLPM as certainly still in the ramp-up

1 phase. It's really been only two years that we've been  
2 reviewing this program. So with the long-term view, we  
3 don't look at that as a material impact in terms of the  
4 nine basis point. But it's something that we wanted to  
5 factor into our scoring. So that was one area for  
6 improvement that we'll continue to watch.

7 I would also note that in terms of areas for  
8 improvement. The firm score, while still kind of at an  
9 average ranking, there can still be some room for  
10 improvement there, as we continue to see stability at the  
11 senior level. And we hope that that's the case going  
12 forward.

13 I would note that compared to the investment  
14 management organizations out there, it's probably not  
15 going to be realistic for the firm score to be at an A  
16 level, at any given point, because CalPERS is always going  
17 to be somewhat constrained in terms of what they can do  
18 relative to large investment management organizations.

19 For example, being able to give employees direct  
20 equity ownership, that's not something that's going to be  
21 possible. So that we really try to compare you all as a  
22 large investment management organization.

23 So just in conclusion, 2 years into the process,  
24 Wilshire views the build out of TLPM in a very positive  
25 light. The functions of the team continue to expand

1 consistent with the overall vision of the new CIO. The  
2 team is well staffed to handle the expansion of duties.  
3 And as long as there are strong and clear communication  
4 going forward, with regards to the role of TLPM, you know,  
5 we think it's positioned to add value over the long term.

6 So with that, I will stop and see if there are  
7 any questions.

8 CHAIRPERSON FECKNER: Thank you.

9 Mr. Jones.

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

12 Yeah. Thank you for your report. And while you  
13 indicated that the -- Wilshire views this expansion as a  
14 logical next step, but you go on to say that this has  
15 created some uncertainty within the existing team about  
16 the role of the TLPM. Could you expand on that?

17 MR. KAZEMI: So in our discussions with staff, it  
18 was noted that some of the projects that they were  
19 previously working on had been put on hold, as some of the  
20 vision and some of the focus for this overall total fund  
21 performance focus was implemented. So that affected some  
22 of the existing projects that the TLPM team was working  
23 on. So that was the uncertainty that I was alluding to  
24 there was a discussion about when those projects would be  
25 restarted.

1           So we don't really view it as a material level of  
2     uncertainty. But as I said, with any level of change,  
3     there will be some uncertainty as people try to understand  
4     what their roles are within the team going forward. And  
5     so it's not material in nature, but we wanted to address  
6     and highlight it as one of the things that we found in our  
7     discussions with staff.

8           COMMITTEE MEMBER JONES: So as you go forward, is  
9     that something that you will continue to be looking at to  
10    assess whether it's deteriorated?

11          MR. KAZEMI: Yes, absolutely, 100 percent.

12          COMMITTEE MEMBER JONES: Okay.

13          CHAIRPERSON FECKNER: All right. Seeing no other  
14    requests.

15          Anything else?

16          It's on.

17          MS. DEAN: Good afternoon. Rose Dean again from  
18    Wilshire Associates. I will be going over our program  
19    review for the Opportunistic Strategies.

20                 Ali just finished describing the changes in score  
21    for the TLPM from last year. So unlike other programs,  
22    this -- for the Opportunistic Strategy Program, this was  
23    the first year that we have scored -- or given scores for  
24    this program because this program was launched in 2017.  
25    And this past year was the first full year that it was in

1 play. So we didn't have a score last year. Our review  
2 last year was an abbreviated version with no official  
3 scoring.

4 This year, we have provided a score of 4th decile  
5 for Opportunistic Strategies Program. It's a relatively  
6 high rating. Given the fact that it's still in the  
7 build-out phase and going forward, what we will be  
8 focusing on in future reviews will be how the full  
9 build-out of the program will be implemented.

10 But just to give a little more detail about the  
11 program, given there are some new Board members here,  
12 there are three main substrategies within the  
13 Opportunistic Strategies Program.

14 So the first is the Execution Services and  
15 Strategy. So this is the centralized trading hub for the  
16 entire CalPERS Investment Office. The function or the  
17 goal of the ESS team is to reduce operational risk by  
18 having the execution be siloed in asset classes, as well  
19 as to increase efficiencies -- any efficiencies that could  
20 be had by cooling all those -- or being -- centralizing  
21 the trading executions across different asset classes.

22 And they also manage the sec lending, and also  
23 support the TLPM team, and the Leverage and Liquidity  
24 Management Initiative.

25 The second portion is the enhanced beta team,

1 which Kevin, the MID of the program, mentioned. And this  
2 is that low liquidity but short-dated -- relatively  
3 short-dated investment opportunities that provide enhanced  
4 returns in -- within this program.

5         The third part, which is not -- which the portion  
6 that I mentioned has not been fully built which is the  
7 truly opportunistic part of the program. And these are  
8 opportunities that present themselves across asset  
9 classes, where there may be some structural anomalies in  
10 the market or there's a meaningful dislocation in the  
11 market. And then the opportunistic strategies we be  
12 funded across asset classes where you can really enhance  
13 the total fund risk-adjusted return profile. So that is  
14 still being built out. So our review really focuses on  
15 the first two sections -- portion of the Opportunistic  
16 Strategies Program.

17         A few highlights in our scoring here. The firm  
18 score is the same for this program as across all the  
19 programs that we -- and Ali had alluded to that score.  
20 The team for the OS Program, the score is very high. It  
21 earns an A rating. The team makeup has been relatively  
22 stable throughout the time, given the fact that it's still  
23 ramping up and things are still in flux. We give credit  
24 to the fact that the team has remained stable. And also,  
25 they bring deep experiences and relatively -- you know, in

1 each sector of the program, under the guidance of the MID.  
2 So we rate that score very high.

3           On the investment approach, which includes  
4 information gathering, forecasting, et cetera, all of  
5 those scores are relatively high. But in particular, we  
6 gave a high score to implementation. And that has to do  
7 with what Kevin also mentioned in terms of the  
8 effectiveness of the ESS team and their participation of  
9 transitioning the asset allocation to the new targets, and  
10 particularly on the high-yield side as Kevin mentioned.

11           So at times through this process, the team was  
12 sort of stretched in its resources. But it also provided  
13 an opportunity for them to really work across asset  
14 classes and really solidify centralizing that trading hub  
15 practices and capabilities. So we rate that relatively  
16 high.

17           In terms of the, you know, overall effectiveness  
18 of the program, once -- I think, you know, there are a lot  
19 of initiatives that we talked about in terms of total fund  
20 focus. So as this total fund focus is going to -- part of  
21 that initiative is setting up a centralized research and  
22 strategy group. And we believe that the success of the  
23 Opportunistic Program is really related to the success of  
24 that group, where, you know, people from different asset  
25 classes come together, generate ideas, and think about how



1 to efficiently fund those ideas from the total fund  
2 perspective and how the governance of that group can be  
3 effectively implemented will affect, you know, the success  
4 of the Opportunistic Program overall. So that's what  
5 we'll be focusing on in our future reviews.

6 And with that, I'll take any questions you may  
7 have.

8 CHAIRPERSON FECKNER: Thank you.

9 Ms. Olivares.

10 COMMITTEE MEMBER OLIVARES: Hi. Thank you very  
11 much. I wanted to understand the correspondence between  
12 the deciles and the letter scores?

13 MS. DEAN: So we -- this is a Wilshire manager  
14 research rating scale. So what we consider to be A would  
15 be above third decile for all of the investment management  
16 companies and products that we rate. And then the next B  
17 rating would be above 6 decile I believe -- 4th decile.  
18 Fourth and above would be a B rating.

19 MR. TOTH: Just one quick -- Tom Toth with  
20 Wilshire Associates just to elaborate on that. The  
21 rationale for having the decile ratings and the letter  
22 ratings is really just to be -- the ability to be a bit  
23 more granular with the decile ratings. But the A, B, C  
24 and below ratings are just a -- I think a little bit more  
25 intuitive. So -- and you think about the grades you get

1 in school, A's and B's pretty good, C, roughly average,  
2 and then below obviously needs improvement.

3 So that's the rationale between having two types  
4 of scores shown here.

5 COMMITTEE MEMBER OLIVARES: Thank you. Can we go  
6 through the rest of the scores. I was given 1 through 6?  
7 What about 7 through 10?

8 MS. DEAN: I'm sorry?

9 COMMITTEE MEMBER OLIVARES: Assuming it's the  
10 full decile spectrum. Is it on a 1 to 10 basis?

11 MS. DEAN: Yes.

12 COMMITTEE MEMBER OLIVARES: So would 7 and 8 then  
13 be a D, and then 9 and 10 would be an F, or do you not  
14 grade below a C.

15 MS. DEAN: We do rate below a C.

16 MR. TOTH: Yes. We absolutely do, but none of  
17 the components here, as scored for either of the programs,  
18 merited that rating.

19 COMMITTEE MEMBER OLIVARES: Thank you.

20 MR. TOTH: Um-hmm.

21 CHAIRPERSON FECKNER: Thank you.

22 Ms. Yee.

23 COMMITTEE MEMBER YEE: Thank you.

24 Thank you for the continuing work to develop the  
25 framework on how we're going to pursue further

1 opportunities. My question -- two questions. One, do you  
2 think you have enough resources to do that or do we need  
3 to actually think about giving you more resources to build  
4 out the framework going forward?

5 CHIEF INVESTMENT OFFICER MENG: I assume that's a  
6 question for me, in the resources. I wanted to comment on  
7 Ali's question that's a question from Mr. Jones about the  
8 confusion in TLPM. So as, you know, Rose mentioned that  
9 we're creating a new group, the Research and Strategy  
10 Group. And that group is really to further, as you'll see  
11 in the TLPM Program review, the only area market rate as C  
12 is our ability of forecasting. So in order to beef up  
13 that capability, we're creating another new group, the  
14 Research and Strategy Group, which is really to focus on  
15 our forecasting ability and also to facilitate centralized  
16 total fund approach in terms of allocating risk budgeting.  
17 So that's -- I almost wanted to say the source of  
18 confusion, quote, unquote, was really from us -- from me  
19 particularly, because we're creating a new group. And  
20 when we're making changes, naturally there is -- there  
21 will be some period of unsettling issues, where we're  
22 working through these issue.

23 Now, directly back to your question, do we need  
24 more resources, yes and no. So the yes part are we need  
25 the right people for the right function. So we're --

1 currently, we are looking internally. Kevin Winter, again  
2 MID of Opportunity Strategies -- Strategy Group has  
3 stepped up to be the interim head of the new group.

4 And so we're looking -- first of all, we're  
5 looking internal talents from the macroeconomic research,  
6 and down to the asset class research, and then to the  
7 governance, how do we make investment decisions, how do we  
8 monitor investment decision after being made, and how do  
9 we hold people accountable for the investment decisions.  
10 So these all fall under the new group and the functions  
11 that somehow we overlook in the past.

12 So we'll need some resources. We're looking from  
13 internal first. And at some point, we have to go out to  
14 look -- find the best talent that we can find to come to  
15 Sacramento to work for CalPERS.

16 COMMITTEE MEMBER YEE: Yeah. Okay. Good. And  
17 then what's the likelihood for any additional  
18 opportunities over the next 18 months or so, given the  
19 increased market volatility?

20 CHIEF INVESTMENT OFFICER MENG: Very good  
21 question. We -- normally, when there's market volatility,  
22 we see market dislocation. There's some opportunities.  
23 So we're trying to foresee potential opportunities and get  
24 ourself ready both in terms of governance investment  
25 decision-making framework, and also the liquidity, so

1 making sure when this happens we -- first, we can identify  
2 these opportunities and then we can react to these  
3 opportunities quickly.

4 So these are all part of our drawdown in  
5 liquidity management plan. So we do foresee some  
6 opportunity. For example, when the crisis comes, usually  
7 the distressed shows up in the credit markets and we're  
8 trying to prepare ourself to take advantage of the  
9 distressed credit opportunities when the opportunity  
10 comes.

11 COMMITTEE MEMBER YEE: Good.

12 MS. DEAN: And I would just make one additional  
13 comment. From our discussions with the staff with the  
14 creation of this new centralized research and strategy  
15 group, what we think is important is how people from -- or  
16 resources from different asset classes will work together  
17 and make it a collaborative effort to really identify  
18 where these opportunities may come in the market  
19 dislocation.

20 COMMITTEE MEMBER YEE: Yeah. Good. Thank you.

21 CHAIRPERSON FECKNER: All right. Seeing no other  
22 requests. Anything else on this item?

23 CHIEF INVESTMENT OFFICER MENG: No.

24 CHAIRPERSON FECKNER: All right.

25 Moves on to Item 11, information item on

1 independent oversight. 11a, the review of the survey  
2 results of the independent consultants.

3 Ms. LaMantia.

4 (Thereupon an overhead presentation was  
5 presented as follows.)

6 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT  
7 DIVISION CHIEF LaMANTIA: Okay. And thank you, Mr. --  
8 thank you and good afternoon, Mr. Chair and Committee  
9 members. Kristin LaMantia, CalPERS team member.

10 I'm here today to go over the annual evaluation  
11 survey results of your Board investment consultants. As  
12 stated by Mr. Feckner, shown in the agenda item, the  
13 Enterprise Strategy and Performance -- sorry, Division, or  
14 ESPD, acts as a neutral third-party administrator of the  
15 Board investment consultant surveys.

16 The questions asked this year are the same as in  
17 last -- as in previous years. The number of Committee  
18 members responding to each consultant group's survey were  
19 varied. For Wilshire Associates, general pension  
20 investment, we had nine responses. Both of the Pension  
21 Consulting Alliance surveys, real estate, and general  
22 investment, and Responsible Contractor Program, 8  
23 responses. Meketa Investment Group, infrastructure, 8  
24 responses. And Meketa Investment Group, private equity  
25 survey, there were 10 responses.

1           For comparison, we had displayed the survey  
2 results for both 2018 and 2019. I would like to take a  
3 moment to highlight a survey calculation example. May I  
4 ask you to turn to slide number 6 of your attachment,  
5 which is Wilshire Associates question number one.

6           As a reminder this year, there were nine  
7 Committee members that responded to this survey. In 2018,  
8 10 Committee members responded to this survey. I'd like  
9 to provide the Committee member equivalent to the  
10 percentages you see listed here.

11           So for question number one, accurately analyzes  
12 issues and provides timely and objective information, the  
13 blue bar chart represents 2018, 50 percent, or five  
14 Committee members rated very satisfied; 30 percent, or  
15 three Committee members, rated satisfied; and 20 percent,  
16 or two Committee members, rated neutral.

17           For 2019, which is the gray bar chart, we have 56  
18 percent, or five Committee members, rated very satisfied;  
19 33 percent, or three Committee members, rated satisfied;  
20 11 percent, or One committee member, rated neutral.

21           When considering this specific question, this  
22 year, 89 percent of Board members who took the survey  
23 rated very satisfied or satisfied. Last year, the  
24 percentage was 80.

25           The comprehensive results for all consultant

1 group surveys are included in your materials in the form  
2 of charts representing the various answers selected by  
3 participating Committee members.

4 With that, I will pause and ask if there are any  
5 questions?

6 CHAIRPERSON FECKNER: There are none.

7 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT  
8 DIVISION CHIEF LaMANTIA: Thank you.

9 CHAIRPERSON FECKNER: Anybody?

10 No.

11 Okay. All right. Thank you very much.

12 Hold on. Oh, we have one now. Late bloomer.  
13 Mr. Jones.

14 (Laughter.)

15 COMMITTEE MEMBER JONES: Thank you. I let her  
16 come back.

17 This is a -- just get your thoughts on  
18 interpreting data, as a result of the changes in the  
19 makeup of the Board. I don't know, maybe five of these  
20 responses were new members to the Board with a very  
21 limited period of time and didn't have the benefit of  
22 seeing the changes from the prior year, et cetera.

23 What are your thoughts about interpreting data  
24 when you have that kind of turnover among your base?

25 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT



1 DIVISION CHIEF LaMANTIA: So comparing different response  
2 rates year over year, is that kind of what you're asking?

3 COMMITTEE MEMBER JONES: Yeah.

4 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT

5 DIVISION CHIEF LaMANTIA: So industry standard for  
6 benchmarking dictates that the majority of respondents are  
7 participating year for year. And so that provides the  
8 confidence that the data and the opinions are in the  
9 majority.

10 I do understand that there is a different makeup  
11 of the Board, so that probably dictates into the response  
12 rate of where we are in it. Hopefully, next year, we'll  
13 have a greater response rate for the questions.

14 COMMITTEE MEMBER JONES: Okay. Thank you.

15 CHAIRPERSON FECKNER: Mr. Miller.

16 COMMITTEE MEMBER MILLER: This also relates to  
17 the response rate. I've noticed on a few of the surveys,  
18 not just this one, we pretty consistently will have two,  
19 three, four or more members who do not participate on this  
20 Board. And I want to challenge my fellow Board members,  
21 this stuff is important. If three or four people didn't  
22 participate because they were unhappy with our  
23 consultants, that would be a huge information gap that we  
24 don't have when you don't take a few minutes and do these  
25 things. So please let's all challenge ourselves to

1 provide the feedback. That's part of our job. We need to  
2 do it.

3 Thank you.

4 CHAIRPERSON FECKNER: Good point. Thank you, Mr.  
5 Miller.

6 That's -- no, we have another one now. Ms.  
7 Brown.

8 (Laughter.)

9 COMMITTEE MEMBER BROWN: So, of course, I did my  
10 survey, but we did have quite a few new Board members and  
11 didn't feel confident expressing their opinions. And so I  
12 don't know if there's a slot for that or maybe they would  
13 just put neutral. But I do know that we had many new  
14 Board members that didn't have enough experience, and so  
15 that's why they didn't participate. But I do agree with  
16 Mr. Miller there are other times when everyone has been  
17 here and could have given their answers, like to Ms.  
18 Hopper's surveys.

19 So thank you.

20 CHAIRPERSON FECKNER: Thank you.

21 No others requests. Thank you.

22 That brings us to Item 12, Summary of Committee  
23 Direction. Mr. Meng.

24 CHIEF INVESTMENT OFFICER MENG: Yes, Mr. Chair.  
25 So I noted on two, one is from Ms. Middleton on the

1 housing market, region by region. And the second is from  
2 Ms. Olivares on the benchmark of the cross-asset  
3 volatility premium. So those are the two items --  
4 follow-up items that I noted.

5 CHAIRPERSON FECKNER: All right. Thank you.

6 Item 13 is public comment. The first one we have  
7 is Mr. Neal Johnson.

8 MR. JOHNSON: Neal Johnson, SEIU.

9 The other day I was reading Agenda Item 10a,  
10 which dealt with the Total Fund Investment Policy and  
11 there was a discussion of staffing and the support staff.  
12 And there are what looks like 11 seasonal clerks. And Mr.  
13 Feckner and Mr. Jones I think are the only two that were  
14 here when we went through the my|CalPERS buildup and the  
15 problem with Accenture, but you wound up having to hire a  
16 bunch of temporary employees to handle workloads and that  
17 process.

18 And then seeing these seasonal clerks made me  
19 wonder. So I looked back at records and find out that  
20 this Board has roughly 100 seasonal clerks. That is more  
21 than our -- only the Franchise Tax Board, which has a sort  
22 of classic tax season, hires more of these employees.  
23 They are -- these are temporary employees. We are  
24 supposedly a long-term fund. We had the gentleman from  
25 STRS that made the comment that PERS is their investment

1 vehicle.

2 Yet, you're hiring temporary employees who do not  
3 get benefits unless they've acquired them from some other  
4 appointment. And it's sort of amazing that you are the --  
5 have the second largest number of these temporary  
6 employees in the system.

7 Thank you.

8 CHAIRPERSON FECKNER: Thank you.

9 Okay. Now, we do have a number of requests, I  
10 assume all on the same topic. I want to remind you all  
11 that we're butting up against the court reporter's  
12 mandated of time, so I'm going to implore him to maybe go  
13 an extra 10 minutes longer than his normal time, and I  
14 think we can push through this.

15 But please, if you can all be as concise as  
16 possible and not repeat one another, that will certainly  
17 help in the process.

18 The first one I have is Emily Goldman.

19 MS. GOLDMAN: Are we not doing a few people at  
20 the same time?

21 CHAIRPERSON FECKNER: Pardon?

22 MS. GOLDMAN: Are we not doing a few people at  
23 the same time come up?

24 CHAIRPERSON FECKNER: I'm going to do you first.  
25 And then I understand there were a number of them that

1 just wanted to speak their name for the record. I'm going  
2 to have them come forward and put their names in the  
3 record, and then we'll go through your speakers.

4 MS. GOLDMAN: Okay. So my name is Emily Claire  
5 Goldman. I am the founder and director of Educators for  
6 Migrant Justice, as many of you know.

7 I want to start out by saying welcome to the new  
8 Board member and thank you all for your continued  
9 engagement and attention to the important issue of  
10 CalPERS' investments in for-profit prisons and other  
11 companies involved with the immigrant abuse crisis that is  
12 currently ongoing.

13 Just to give a short recap of what's been going  
14 on since the last Board meeting. CoreCivic and GEO  
15 Group's stock prices have plummeted more than 30 percent,  
16 and that's a two year low, while the S&P 500 has risen  
17 over 20 percent. So that means that they have both  
18 underperformed the market by nearly 50 percent.

19 Since last month's Board meeting, more banks have  
20 pulled out and committed to no longer providing anymore  
21 loans to these companies. That now includes JP Morgan,  
22 Wells Fargo, Bank of America, SunTrust, BNP, Fifth Third  
23 Bank, with PNC and Barclay's both stating they don't plan  
24 to provide any future loans. These eight banks account  
25 for more than 87 percent of CoreCivic and GEO Group's term

1 loans and lines of credit. And this increasingly  
2 restricted access to capital recently lead Fitch's rating  
3 agency to downgrade CoreCivic from BB+ to a BB.

4 CoreCivic and GEO also recently lost sell-side  
5 coverage, while Vanguard, GEO's largest shareholder  
6 announced that they will be pulling GEO from their ESG  
7 funds.

8 In the latest SEC filing, CoreCivic admits that  
9 the decisions by some of the company's largest banks have  
10 affected their capital markets for their securities, and  
11 that this could have a material impact on their business  
12 financial condition and results of operation.

13 GEO, in their latest filing, acknowledges similar  
14 risks, and for the very first time notes the potential  
15 adverse impact to its share price. GEO is now calculating  
16 that their market value of its stock options, assuming a  
17 stock volatility of more than 40 percent, which is rather  
18 large.

19 So on top of that, while in past SEC filings, GEO  
20 has discussed the three class action lawsuits they're  
21 currently facing, their most recent filing admits that  
22 they may not actually have insurance for any of the  
23 employment-related claims, which are the basis of those  
24 three class action lawsuits. And I cannot underscore the  
25 risk that that poses. One of those class action lawsuits

1 represents 60,000 people.

2           Moreover, in the latest SEC filing for CoreCivic,  
3 they are actually boasting about the fact that  
4 privatization of U.S. prisons quote, "allows government to  
5 avoid long-term pension obligations for their employees".  
6 That should raise concerns considering CalPERS is  
7 concerned with their funding status and having funding  
8 drained that would otherwise be going there.

9           Last but not least, I would like to remind the  
10 Board that we are also looking at other companies,  
11 including General Dynamics. I know there's been a  
12 significant change in your holdings in General Dynamics  
13 which is providing contracting services for the Homestead  
14 child detention facility. And it's important to follow-up  
15 on that.

16           CHAIRPERSON FECKNER: Thank you very much.

17           MS. GOLDMAN: Thank you.

18           CHAIRPERSON FECKNER: Now, those of you that are  
19 only going to put your name into the record, could you  
20 please come forward to the microphone and give us your  
21 name and your affiliation.

22           MS. BERNARDY: Good afternoon, Board members. My  
23 name is Peggy Bernardy. I'm a member of CalPERS. And I'm  
24 going to say one thing in addition to just my name and my  
25 support of what Claire had to say.

1 I retired recently from DWR after working there  
2 for 26 years and I am a CalPERS member. I urge CalPERS to  
3 sell its holdings for the for-profit prison companies,  
4 CoreCivic and GEO Group, and to use their leverage to  
5 pressure General Dynamics and United Rentals to provide  
6 access for redress to those adversely impacted by their  
7 operations and to end their material support for the  
8 detention of migrant children and families.

9 I would like to remind you, my feeling is that  
10 investing in these companies with knowledge of their role  
11 in the migrant abuse crisis makes CalPERS and its members  
12 complicit in these activities and I urge you to take  
13 action to stop these investments.

14 Thank you very much.

15 CHAIRPERSON FECKNER: Thank you.

16 MS. SARABIA: Hello. My name is Heidy Sarabia.  
17 I'm a faculty member in the Department of Sociology at Cal  
18 State -- California State University, Sacramento. I have  
19 been a CalPERS member since 2014, CFA member, and a member  
20 of the Task Force for Center on Immigration, Race, and  
21 Social Justice at Sac State. And I also encourage you all  
22 to consider divesting from migrant detention centers.  
23 It's a humanitarian crisis and we need to take action.  
24 Thank you.

25 CHAIRPERSON FECKNER: Thank you.



1           MR. OCEGOEDEN: Hello. My name is Mark  
2 Ocegoeden. I'm a faculty member at California State  
3 University, Sacramento. I'm here to support my colleagues  
4 to call on CalPERS to stop investing in CoreCivic and GEO  
5 Group. GEO's detention center in Adelanto was  
6 particularly notorious for their abuse of migrant  
7 detainees before the City of Adelanto ended their contract  
8 with this profit prison company. I urge CalPERS to divest  
9 in these companies, because they are destroying families,  
10 killing our most vulnerable, causing terrible trauma that  
11 will last generations. And these repercussions will be  
12 felt for many years to come.

13           Recently, members of Congress documented the  
14 inhuman and horrifying conditions of these detention  
15 centers, noting that detainees were forced to drink water  
16 out of toilets, noted psychological abuses, and in most  
17 extreme cases, migrant prisoners have died under these  
18 conditions.

19           CalPERS investment in these companies reinforces  
20 and legitimizes the de-humanizing treatment of immigrants.  
21 Each day that you continue to invest and empower these  
22 companies with the funds of public employees, you are  
23 actively complicit in these atrocities. For these  
24 reasons, I urge you to divest now.

25           Thank you.

1 CHAIRPERSON FECKNER: Thank you.

2 MS. JONES: Good afternoon. My name is Marlyn  
3 Jones. I'm a professor in the Division of Criminal  
4 Justice of California State, Sacramento. And I have been  
5 a member of CalPERS since 2001. I am here in support of  
6 my colleagues to call on CalPERS to stop investing in  
7 CoreCivic and GEO Group.

8 Thanks.

9 CHAIRPERSON FECKNER: Thank you.

10 MS. COLE-WEISS: Good afternoon, members. My  
11 name is Alex Cole and I'm a staff member at CSU  
12 Sacramento. I've been a CalPERS since 2016. I'm also  
13 here representing membership of the Queer, Trans Faculty,  
14 and Staff Association at Sacramento State. And I'm here  
15 to urge you to please stop investing in CoreCivic and GEO  
16 Group.

17 Thank you.

18 CHAIRPERSON FECKNER: Thank you.

19 MS. LAWLESS: Hi. Good afternoon. My name is  
20 Jessica Lawless. I work for the California Faculty  
21 Association. My spouse is a cook UC Berkeley and has been  
22 a member of CalPERS since 2014. I am here in support of  
23 my colleagues, neighbors, and friends to call on CalPERS  
24 to stop investing in CoreCivic and GEO corps.

25 CHAIRPERSON FECKNER: Thank you.

1 MS. RODRIGUES: Good afternoon. My name is  
2 Janeth Rodrigues. I'm here with the California Faculty  
3 Association in support of my colleagues asking the Board  
4 to stop investing in GEO Group and CoreCivic.

5 CHAIRPERSON FECKNER: Thank you.

6 MS. FLICKER: Hi. My name is Sharon Flicker.  
7 I'm a faculty member at CSU Sacramento. And I've been a  
8 member of CalPERS for one year. I'm also here to support  
9 my colleagues to call on CalPERS to stop investing in  
10 CoreCivic and the GEO Group. As a clinical psychologist,  
11 I really want to emphasize the traumatic and long-lasting  
12 effects of separating children from their caregivers.

13 Thank you.

14 CHAIRPERSON FECKNER: Thank you.

15 MS. JOFFE-BLOCK: Good afternoon. My name is  
16 Miriam Joffe-Block. I'm a manager at the California  
17 Alternative Energy and Advanced Transportation Financing  
18 Authority in the State Treasurer's office. A member here  
19 in my individual membership capacity supporting my -- the  
20 folks who spoke previously and supporting divestment from  
21 CoreCivic a GEO Corps.

22 Thank you.

23 CHAIRPERSON FECKNER: Thank you.

24 Now, I'll go through what I think I have left on  
25 my list. And if call you, please come forward. Joanne

1 Fanucchi, Ruth Ibarra, Greg Brucker.

2 Any of them?

3 I'll remind you, you have up to three minutes to  
4 speak and please give us your name and your affiliation.

5 MS. FANUCCHI: Good afternoon --

6 CHAIRPERSON FECKNER: You can sit at the other  
7 two microphones. They're lit up.

8 MS. FANUCCHI: Pardon?

9 CHAIRPERSON FECKNER: I'm telling the other two  
10 people behind you, they can sit in the other two  
11 microphones there.

12 MS. FANUCCHI: Oh. Okay.

13 CHAIRPERSON FECKNER: Thank you.

14 MS. FANUCCHI: It's lit up when it's red?

15 CHAIRPERSON FECKNER: Correct. That means it's  
16 on.

17 MS. FANUCCHI: Shouldn't it be green?

18 Okay. Anyway. Excuse me. I'm wearing  
19 sunglasses because I forgot my other glasses. Okay. So  
20 no offense.

21 My name is Joanne Fanucchi. I'm an independent  
22 ally of a lot of environmental groups in the Bay Area to  
23 stop all that. But I am here today to stand with  
24 Educators for Migrant Justice, and NorCal Resist, and all  
25 of the babies and all of the families at the different

1 borders.

2           Okay. Now, I've been up here, I don't know, six  
3 times already and -- not just about this, but about fossil  
4 fuels. I'll see you in September. But I wrote -- after  
5 the last meeting, I emailed the Board and again reiterated  
6 my stand with these two organizations who are pushing so  
7 hard to make you see the light.

8           Here's the response I got. I may be preaching to  
9 the choir with some of you, but I feel it needs repeating.  
10 This is your response.

11           "Thank you for taking the time to write to us and  
12 for sharing your concerns. We do hold shares in both  
13 CoreCivic and GEO Group and others. We've expressed our  
14 concerns with the issues you raised in your email and  
15 continue to actively engage with both companies on several  
16 fronts.

17           "At CalPERS, we believe that engaging with  
18 companies is the most effective way to change policies and  
19 behavior that can impact financial performance. Divesting  
20 from these companies would require us to give up our voice  
21 at the table and sell our shares to another investor who  
22 may not share our values".

23           Your values are murdering people. We want you  
24 away from this table. This is the same response that you  
25 gave fossil fuels last year. This is the same exact

1 response that you'd given us before. You are not moving  
2 on this. You are not understanding. You're denying. We  
3 exist. These people on the borders exist right now.  
4 There is no more time.

5 I don't know what I have to do or what anybody  
6 has to do to get you guys out of the process you're in and  
7 try something knew.

8 Now -- okay. So that's enough of that.

9 Last time I was here, I asked you to please  
10 provide us with a chart, risk and reward. How much risk  
11 are you guys willing to take? How many people have to be  
12 injured, have to be abused, have to be -- have to die of  
13 neglect of medical care before your rewards outweigh that?  
14 How many? How many children?

15 I didn't get the chart. I left you my email.  
16 This is what I got back. You're negligent in your duties.  
17 We are telling you this is what has to happen. Your  
18 stocks are already going down. It's a sinking ship. Wake  
19 up.

20 Thank you.

21 MS. IBARRA: Good afternoon. My name is Ruth  
22 Ibarra. And I have been a CalPERS member for 12 years.  
23 And I'm also a local activist helping asylum seekers who  
24 are being released from these concentration camps. I see  
25 the trauma that they've gone through on a daily basis.

1 I'm here today to demand that the use of my  
2 retirement funds be immediately divested from companies  
3 that are profiting from the immoral act of caging people.  
4 Individuals have died, children have died, trans folk have  
5 died, our most vulnerable members of our community, at  
6 these concentration camps. And thousands of children and  
7 women are currently reporting mass -- mass abuse, sexual  
8 base.

9 Investing in companies such as GEO Group and  
10 CoreCivic is complicit with these heinous crimes against  
11 humanity. It's time for CalPERS to stop putting profits  
12 over people. It's time to divest from corporations that  
13 treat people as disposable objects. Stop putting blood --  
14 blood on CalPERS -- sorry. Stop putting blood on CalPERS  
15 members' hands. Enough is enough. You must divest today.

16 Thank you.

17 MR. BRUCKER: Good morning. My name is Greg  
18 Brucker. I am here dependently. I first want to thank  
19 you for the time. I am a CalSTRS member. I am a teacher  
20 in our K-12 system in this State. And I strongly demand  
21 you to follow in the suit of CalSTRS in divesting from  
22 even putting one penny of the general public's money into  
23 investing in child prisons, family separations.

24 I am also here with a -- representing Jewish  
25 Action NorCal, a group of Jews from the larger area who

1 demand that these camps are closed, that this government  
2 stops treating our refugees and immigrants, also known as  
3 our ancestors, if this were another time, in a way that we  
4 find morally appalling. And that we see as very much  
5 along the lines of what happened before the Nazis started  
6 their death camps. We see it very clearly.

7 Families were separated. People were put into  
8 Camps. And you know what, a lot of the people that died,  
9 it wasn't because they were gassed. It was because they  
10 did of disease, of poor conditions, of the fact that they  
11 were denied the ability to keep themselves clean and be  
12 given basic things like soap, as is happening right now.

13 And we despise the fact that there is money from  
14 any public sector supporting even one penny of investment  
15 into groups that do this, that have directly fled -- led  
16 and are making money off of the backs of these children  
17 dying, families being separated, people that just a few  
18 years ago would come to our country for -- to be -- as  
19 refugees, because of the horrible things they're dealing  
20 with in their country.

21 When did we stop caring about those people? When  
22 did we stop saying that those people don't matter? Would  
23 you have said that about the Jews in the 30s?

24 Because that's what you're saying about these  
25 people now no matter where they're coming from. That it



1 don't matter. They just instated in the federal  
2 government a public charge rule. This goes right along  
3 with it. That led to people being denied the ability to  
4 come into this country who are subsequently then killed in  
5 the holocaust.

6 How many people have died because of the fact  
7 that money is being invested in companies which are  
8 creating these camps, which are making people either leave  
9 or go -- want to not come here or be turned away as we  
10 know lots are, that are then dying.

11 Is that what you want to fund? Is that how you  
12 want to take care of the people's money? Because that's  
13 how I see it working.

14 Thank you very much for your time.

15 CHAIRPERSON FECKNER: Thank you.

16 I have Margarita Berta-Avila, Mya Dosch, and  
17 Melanie Saeck.

18 I only called three. How did we get five.

19 MS. BERTA-AVILA: Just support.

20 CHAIRPERSON FECKNER: Go ahead.

21 MS. BERTA-AVILA: Good morning. I am Margarita  
22 Berta-Avila. And I'm a professor of education at  
23 Sacramento State University, as well as a proud member of  
24 the California Faculty Association. Our union  
25 collectively serves as the voice of the California State

1 University System's more than 28,000 professors,  
2 lecturers, librarians, counselors, and coaches.

3 And I'm here on their behalf to advocate on the  
4 topic about which we are unequivocally united. Your  
5 continued investment in CoreCivic and GEO Group, two of  
6 the largest corporations in the private prison industry,  
7 as well as the operators of the largest migrant detention  
8 centers in the country.

9 This marks the third consecutive CalPERS Board  
10 meeting that CFA representatives have attended during the  
11 last three months. Previously, you heard impassioned  
12 comments from my colleagues. But those appeals have  
13 unfortunately yet to make a difference. That is why I  
14 have 200 of these postcards that I am hoping to submit to  
15 you today after I speak with hundreds more on the way from  
16 CFA members at our 23 campuses statewide.

17 We want you to hear us loudly and clearly on this  
18 matter. As you know, the political climate in our nation  
19 has developed into a boundless pit of hate fueled daily by  
20 morally bankrupt leaders whose only goal appears to be to  
21 take Americans further down this black hole, mirroring  
22 this dynamic in CalPERS continued investment in CoreCivic  
23 and GEO Group, whose business models are based on the  
24 caging of children and the tearing apart of families.

25 But I do not have to tell you about it, because

1 like me, you have read the heart-wrenching stories and  
2 seen the dreadful footage capturing the savage tactics  
3 that private prisons employ at our southern border. They  
4 are human right abusers on par with the most corrupt and  
5 villainous regimes around the world.

6 If CalPERS was a private investment firm, I would  
7 still be here today to speak out on this issue. The  
8 frustrating Reality though is that your investment in  
9 these corporations is being done with the pension funds of  
10 CFA's 28,000 members, as well as those of roughly 1.4  
11 million other public employees.

12 Your isolated decision to continue investing in  
13 CoreCivic and GEO Group has made us all complicit in this  
14 unethical venture. As a teacher, I take heart the  
15 enormous responsibility I have in the classroom. It is a  
16 privilege to play a part in the intellectual development  
17 of succeeding generations of leaders.

18 But tell me this, how can I look my students in  
19 the eye with even a shred of integrity when my pension,  
20 which is paid in part of their tuition dollars, is being  
21 used to sustain businesses that perpetuate such callous  
22 atrocities. I can't.

23 As 19 years CalPERS member, how can I look at you  
24 in the eye, not only for initially making this investment,  
25 but for also failing to stop it. Finally, as a

1 compassionate person, how can I look at myself in the  
2 mirror knowing that some percentage of every dollar I earn  
3 per hour, per day, per week, per month is enabling this  
4 corporate campaign eye of abuse? I can't.

5 Like so many other times, the country and the  
6 world are looking to California for leadership that  
7 resists and inspires on the host of issues.

8 CHAIRPERSON FECKNER: Your time is up. Thank  
9 you.

10 MS. BERTA-AVILA: Thank you.

11 MS. DOSCH: Good afternoon. My name is Mya  
12 Dosch. Thank you very much for your continued engagement.  
13 I'm a CalPERS member in my role as an assistant professor  
14 of art at Sacramento State. And I'm here on behalf of 66  
15 Sacramento State Faculty and staff and CalPERS members who  
16 make up the Queer and Trans Faculty and Staff organization  
17 on campus.

18 Last month, our board, with the support of our  
19 membership, voted to urge you all to not invest our  
20 retirements in CoreCivic and GEO Group.

21 We are collectively appalled by the human rights  
22 abuses committed by these corporations against all  
23 migrants. And we're particularly motivated by those  
24 against our LGBTQ siblings. There are at least five  
25 transgender women in our Sacramento community who are --

1 who were incarcerated in CoreCivic's Cibola prison. All  
2 of these women are here legally with strong asylum cases.

3 The women survived horrific violence for being  
4 LGBTQ in their home countries, some with gunshot wounds or  
5 scars to prove it. They escaped to the United States to  
6 save their lives. Yet, the word Cibola is still spoken  
7 among them in hushed tones, as it is synonymous with  
8 systemic abuse, punishment, and disrespect for their basic  
9 rights as human beings.

10 These women witnessed so much violence and abuse  
11 in their home countries, but their time in Cibola stands  
12 out as among the darkest periods of their lives.

13 CoreCivic actually lost its Cibola contract with  
14 the Federal Bureau of Prisons in 2016 due to medical and  
15 safety failures. This is exactly when ICE swooped in with  
16 its Cibola contract. And these CoreCivic medical and  
17 safety failures killed transgender woman Roxana Hernandez  
18 last year. She died because of medical neglect. Treating  
19 her would have cut into CoreCivic's profits. They didn't  
20 treat her.

21 These vulnerable LGBTQ people come to the U.S. In  
22 hopes of escaping violence, and instead found worse  
23 violence at the hands of a U.S. corporation. So we as  
24 Queer and Trans CalPERS members in solidarity with LGBT  
25 members of our community demand that you use your power to

1 take our money out of these corporations.

2 Thank you.

3 CHAIRPERSON FECKNER: Thank you.

4 MS. SAECK: My name is Melanie Saeck. I am a  
5 staff member at Sacramento State University. I'm also the  
6 logistics coordinator for Queer and Trans Faculty and  
7 Staff who, of course, voted for the divestment cause.

8 We're appalled at the conditions. The  
9 overcrowding of cells. Detainees sleeping on bare floors  
10 without real bedding, lights kept on at all times, almost  
11 no access to a shower, or toothbrushes, or toothpaste,  
12 which were confiscated from the detainees upon their  
13 arrival, grown women being told to drink from the toilets,  
14 inadequate amounts of food, children separated from  
15 parents, children having to represent themselves in court  
16 without support or guidance from lawyers or parents,  
17 babies who soil themselves and are not given clean cloths  
18 or diapers, trans women, in many cases, being detained in  
19 men's facilities.

20 In one case a trans woman detainee reported being  
21 literally chained up in a men's facility for hours. Or,  
22 of course, there's Cibola, in which case there was a  
23 letter signed by 29 refugees imprisoned there talking  
24 about the verbal and psychological abuse that the guards  
25 perpetrated against them on a daily basis. This letter

1 was signed by asylum seekers from Central America  
2 primarily. And they reported that there was no medi --  
3 adequate medical attention for people with disabilities,  
4 HIV, people with skin infections that they acquired in  
5 their detainment, and lack of medication overall, which,  
6 of course, I remind you that asylum seeking is not a  
7 crime.

8 Trans women across the board were not given  
9 razors for their basic dignity, lack of medical care  
10 across the board, lack of hormones for trans detainees,  
11 and other crucial medications for all of the detainees,  
12 asylum seekers, and refugees. Several detainees,  
13 including children, are transferred to hospitals only  
14 after they are so sick that they die almost immediately  
15 upon arrival.

16 And there have been recent reports that the camps  
17 are becoming work camps on top of this where detainees are  
18 being forced to work for almost no money. These  
19 conditions are concentration camp conditions. I come from  
20 a Jewish family and my Ph.D. research focuses mid-20th  
21 century history. So I have extensive knowledge of what  
22 constitutes a concentration camp. We currently have  
23 concentration camps.

24 These are not Sac State's values. I hope, I  
25 truly hope, that these are not your values. This is why

1 I'm strongly urging CalPERS to divest from the  
2 concentration camps.

3 Thank you.

4 CHAIRPERSON FECKNER: Thank you.

5 All right, next, I have Maria Vargas and Alex  
6 Cole-Weiss.

7 MS. BERTA-AVILA: We're just going to stay with  
8 her for support as Maria speaks.

9 CHAIRPERSON FECKNER: Okay.

10 MS. VARGAS: Yes. Good afternoon. My name is  
11 Maria Vargas. I am here representing the Center on Race  
12 and Immigration and Social Justice. It is important to  
13 humanize migrant children and families who are often  
14 dehumanized in the news where their brown suffering bodies  
15 are sensationalized through the camera lens for the  
16 voyeuristic gaze of American society, who does not  
17 understand why they are here.

18 Darlyn Cristabel Cordova, Jakelin Caal, Felipe  
19 Gómez, Juan de León Gutiérrez, Carlos Hernandez, Wilmer  
20 Josué Ramírez, who was 2 and a half years, all of these  
21 children, five from Guatemala and one from El Salvador,  
22 have died in federal custody since September 2018, three  
23 of them from the flu.

24 The deaths of these children have resulted in  
25 outrage from human rights groups and law makers who



1 denounce the humane condition and medical neglect in  
2 detention centers. Earlier this month, doctors wrote a  
3 letter to Congress calling for an investigation into  
4 health care at the border.

5 The doctors stated quote, "We suspect that the  
6 Department of Homeland Security may not be following best  
7 practices with respect to screening, treatment, isolation  
8 and preventions of influenza", end of quote. However,  
9 even with the advocacy of immigrant rights groups,  
10 Congresswoman Alexandria Ocasio-Cortez and reputable  
11 doctors that chat -- that challenge the normalization of  
12 children dying at our borders, many Americans blame the  
13 parents and criticize them for fleeing with their children  
14 and inserting them into dangerous situations.

15 However, according to recent studies, El  
16 Salvador, Honduras, and Guatemala know as a country of the  
17 Northern Triangle account for the highest homicide rates  
18 in Latin America, as well as the most murderous countries  
19 for feminicidios, or the killing of women due to their  
20 gender.

21 In 2011, in El Salvador alone, 524 cases, in  
22 Honduras 466 feminicides where women's bodies were found  
23 mutilated and tortured with signs of sexual assault that  
24 were found. Feminicide not only targets adult women, but  
25 a larger percent of victims are actually girls under the

1 age 15, which why many fathers and mothers fleeing from  
2 the Northern Triangle say that during these times they  
3 would never leave their children behind, especially their  
4 daughters.

5 What Americans have failed to see is that the  
6 Central American State or government has failed to protect  
7 their most vulnerable children, women, indigenous people.  
8 Five of the six children that I read, five of them are  
9 indigenous children, Maya children, who the Guatemalan  
10 State in 1984 committed genocide against with the help and  
11 intervention of the CIA and the U.S. government.

12 Again, these other salients are not -- salient --  
13 salient factors are race, ethnicity, and poverty, right?

14 I, again with my colleagues, urge you to divest  
15 from these genocidal companies.

16 Thank you.

17 CHAIRPERSON FECKNER: Thank you. Anyone else  
18 that I did not call down yet?

19 Very good. We'll --

20 MS. BERTA-AVILA: Can I ask to submit the 200  
21 cards?

22 CHAIRPERSON FECKNER: Pardon?

23 MS. BERTA-AVILA: We have the 200 cards that --  
24 from our faculty from CSU across the State to submit to  
25 you all as a Board.

1 CHAIRPERSON FECKNER: Okay. Just hand them over  
2 here to staff, please.

3 We thank you all for coming and for your comments  
4 today and understand that we take your concerns as serious  
5 as you do. We're looking at it through different lenses,  
6 but you will see some action at some point in time. We  
7 are addressing the concerns.

8 So we thank you very much.

9 And this adjourns the open session meeting.

10 (Thereupon California Public Employees'  
11 Retirement System, Investment Committee  
12 meeting open session adjourned at 1:13 p.m.)  
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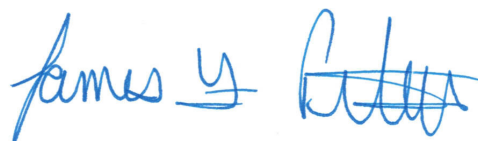
## C E R T I F I C A T E O F R E P O R T E R

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, 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 22nd day of August, 2019.



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