

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, SEPTEMBER 16, 2019  
9:00 A.M.

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

COMMITTEE MEMBERS:

Mr. Rob Feckner, Chairperson

Ms. Theresa Taylor, Vice Chairperson

Ms. Margaret Brown

Mr. Henry Jones

Ms. Fiona Ma, also represented by Mr. Frank Ruffino and  
Mr. Matthew Saha

Ms. Lisa Middleton

Mr. David Miller

Ms. Stacie Olivares

Ms. Eraina Ortega, represented by Ms. Michelle Mitchell

Ms. Mona Pasquil Rogers

Mr. Jason Perez

Mr. Ramon Rubalcava

Ms. Betty Yee

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matt Jacobs, General Counsel

Dr. Yu (Ben) Meng, Chief Investment Officer

Mr. Dan Bienvenue, Interim Chief Operating Investment  
Officer

Ms. Sarah Corr, Investment Director

Ms. Kit Crocker, Investment Director

Ms. Caitlin Jensen, Committee Secretary

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

STAFF:

Mr. Paul Kramer, Investment Manager  
Mr. Simiso Nzima, Investment Director  
Mr. Arnie Phillips, Managing Investment Director  
Ms. Beth Richtman, Managing Investment Director  
Mr. Lou Zahorak, Investment Director

ALSO PRESENT:

Mr. Carlos Alcala, Chicano Latino Caucus, California  
Democratic Party  
Ms. Norma Alcala, Chicano Latino Caucus, California  
Democratic Party  
Ms. Eileen Barrett, California Faculty Association  
Dr. Margarita Berta-Avila, California Faculty Association  
Mr. Greg Brucker, Jewish Action NorCal  
Ms. Mimi Coughlin, California Faculty Association  
Mr. Al Darby, Retired Public Employees Association  
Dr. Antonio De La Garza, California Faculty Association  
Ms. Rose Dean, Wilshire Associates  
Ms. Mya Dosch, California Faculty Association  
Mr. Harold Eisenberg, Jewish Action NorCal  
Mr. Steve Foresti, Wilshire Associates  
Mr. Duane Goff, Veteranos Chicanos  
Ms. Emily Claire Goldman, Educators for Migrant Justice  
Ms. Susan Green, California Faculty Association

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

ALSO PRESENT:

Mr. Steve Hartt, Meketa Investment Group

Ms. Ruth Ibarra, NorCal Resist, Coalition of Labor Union Women California Capital Chapter, LULAC West Sacramento, Sacramento Poor Peoples Campaign

Ms. Miriam Joffe-Block

Mr. Andrew Junkin, Wilshire Associates

Ms. Jessica Lawless,

Mr. Eric Lerner, California Faculty Association

Mr. James Martel, California Faculty Association

Mr. Steve McCourt, Meketa Investment Group

Ms. Eva Mroczek, Jewish Action NorCal

Ms. Michelle Ramos Pelliccia, California Faculty Association

Ms. Janeth Rodriguez, California Faculty Association

Mr. Oscar Santillano

Mr. John Sarraille, California Faculty Association

Ms. Syma Solovitch

Ms. Rachael Stryker, California Faculty Association

Mr. Tom Toth, Wilshire Associates

Ms. Claire Valderama-Wallace, California Faculty Association

Mr. Kevin Wehr, California Faculty Association

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

2 CHAIRPERSON FECKNER: Good morning. If we could  
3 all please take our seats. We'd like to call the meeting  
4 to order.

5 The first order of business will be to call the  
6 roll, please.

7 COMMITTEE SECRETARY JENSEN: Rob Feckner.

8 CHAIRPERSON FECKNER: Good morning.

9 COMMITTEE SECRETARY JENSEN: Theresa Taylor?

10 VICE CHAIRPERSON TAYLOR: Here.

11 COMMITTEE SECRETARY JENSEN: Margaret Brown?

12 COMMITTEE MEMBER BROWN: Good morning.

13 COMMITTEE SECRETARY JENSEN: Henry Jones?

14 COMMITTEE MEMBER JONES: Here.

15 COMMITTEE SECRETARY JENSEN: Fiona Ma?

16 CHAIRPERSON FECKNER: Represented by Frank

17 Ruffino?

18 COMMITTEE SECRETARY JENSEN: Represented by Frank

19 Ruffino?

20 ACTING COMMITTEE MEMBER RUFFINO: Present.

21 COMMITTEE SECRETARY JENSEN: Lisa Middleton?

22 COMMITTEE MEMBER MIDDLETON: Present.

23 COMMITTEE SECRETARY JENSEN: David Miller?

24 COMMITTEE MEMBER MILLER: Here.

25 COMMITTEE SECRETARY JENSEN: Stacie Olivares?

1 COMMITTEE MEMBER OLIVARES: Here.

2 COMMITTEE SECRETARY JENSEN: Eraina Ortega  
3 represented by Michelle Mitchell?

4 ACTING COMMITTEE MEMBER MITCHELL: Here.

5 COMMITTEE SECRETARY JENSEN: Jason Perez?

6 COMMITTEE MEMBER PEREZ: Here.

7 COMMITTEE SECRETARY JENSEN: Mona Pasquil Rogers?

8 COMMITTEE MEMBER PASQUIL ROGERS: Here.

9 COMMITTEE SECRETARY JENSEN: Ramon Rubalcava?

10 COMMITTEE MEMBER RUBALCAVA: Here.

11 COMMITTEE SECRETARY JENSEN: Betty Yee?

12 COMMITTEE MEMBER YEE: Here.

13 CHAIRPERSON FECKNER: Thank you.

14 Next order of business will be the approval of  
15 the timed meeting agenda for today.

16 What's the pleasure of the Committee?

17 VICE CHAIRPERSON TAYLOR: Move approval.

18 CHAIRPERSON FECKNER: Moved by Taylor.

19 COMMITTEE MEMBER MILLER: Second.

20 CHAIRPERSON FECKNER: Seconded by Miller.

21 Any discussion on the motion?

22 Seeing none.

23 All in favor say aye?

24 (Ayes.)

25 CHAIRPERSON FECKNER: All opposed, no?



1 Thank you. Motion carries.

2 Item 3, Pledge of Allegiance. I've asked Mr.  
3 Jones to please Lead us in the pledge. If you'd all  
4 please rise.

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

7 CHAIRPERSON FECKNER: Thank you.

8 Agenda Item 4, Executive Report, Chief Investment  
9 Officer.

10 Mr. Meng.

11 CHIEF INVESTMENT OFFICER MENG: Good morning, Mr.  
12 Chair and members of the Investment Committee.

13 As you see this morning, we have two standard  
14 reoccurring items. Item 5 is an action consent, and then  
15 action 6 -- Item 6 is an information consent. Then  
16 followed by action 7. So if you remember, at last  
17 Investment Committee last month, we presented to the --  
18 the first reading of the revision of the Total Fund  
19 Investment Policy. And today we ask for your  
20 consideration and action. Today is the second reading, so  
21 we ask your consideration and action regarding the  
22 proposed updates and revision to the Total Fund Investment  
23 Policy in item 7.

24 Then in Item 8, as you may recall, that last  
25 month we started an annual program review. We started

1 with two Total Fund Level Program with the Trust Level  
2 Portfolio Management, the TLPM program, and as well as the  
3 Opportunities Strategy, the OS program.

4           So today, we'll continue with the annual program  
5 review. We'll cover two of the -- the two public assets,  
6 global equity and global fixed income. And each one of  
7 them is paired with a consultant report. So that's item  
8 8.

9           And then in Item 9, we will ask -- this is the  
10 first reading the policy revision for the public asset  
11 classes, which is global equity and fixed income, where we  
12 ask for your review and direction regarding the proposed  
13 update and revision to the Investment Policy of these two  
14 public asset classes.

15           In item 10, in 10A, first our consultant will  
16 present a report to you how our fund is compared to our  
17 global -- to our peers. And then in 10B, our consultant  
18 will lead a discussion with you on information on -- as an  
19 asset class, where they will talk about the delicate  
20 balance between our fiduciary to the fund, as well as  
21 being a public agency -- the transparency requirement of  
22 the public agency.

23           With that, I will pause to see if you have any  
24 questions.

25           CHAIRPERSON FECKNER: Seeing none.

1 CHIEF INVESTMENT OFFICER MENG: Thank you.

2 So now we move to back to you, Item 5.

3 CHAIRPERSON FECKNER: Item 5, action consent  
4 items. This is the approval of the minutes for August  
5 19th and August 20th. I would recommend making that in  
6 one motion.

7 What's the pleasure of the Committee?

8 COMMITTEE MEMBER JONES: Move it.

9 VICE CHAIRPERSON TAYLOR: Second.

10 CHAIRPERSON FECKNER: Moved by Jones, seconded by  
11 Taylor.

12 Any discussion on the motion?

13 Seeing none.

14 All in favor say aye?

15 (Ayes.)

16 CHAIRPERSON FECKNER: Opposed, no?

17 Motion carries.

18 Agenda Item 6, information consent items. Having  
19 no request to remove anything for further discussion.

20 That brings us to Item 7. Mr. Meng.

21 CHIEF INVESTMENT OFFICER MENG: Thank you.

22 So before I turn it over to my colleague Dan  
23 Bienvenue, I just would like to make one remarks. As I  
24 mentioned to you in July, from our perspective, as we move  
25 to the total fund approach, there are four quote unquote

1 currencies that at a total fund level, they should be  
2 optimized and allocated by the total fund. And we view  
3 these four currencies being leverage, liquidity, drawdown  
4 capacity, and risk budget.

5 And as we redesign our Investment Office to be  
6 aligned with the total fund approach, we'll take steps to  
7 review each one of the four leverage, liquidity, risk  
8 budgeting and drawdown capacity.

9 So at first reading you saw some language  
10 regarding the Total Fund Level Leverage Policy. And this  
11 is only our first attempt to try to bring -- synchronize  
12 the total -- all the actions at the total fund level in  
13 the context of these four total fund currency. And we'll  
14 continue to come back to you with more updates on the  
15 investment policy regarding these four TOTAL Fund  
16 currency.

17 So with that opening remark, now I will turn over  
18 to my colleague Dan, Kit, and Beth to cover Item 7a.

19 CHAIRPERSON FECKNER: Thank you.

20 INTERIM CHIEF OPERATING INVESTMENT OFFICER

21 BIENVENUE: Thanks, Ben.

22 As Ben mentioned -- Dan Bienvenue, Acting COIO.

23 As Ben mentioned, Item 7A is a second reading and  
24 therefore an action item with proposed changes to the  
25 Total Fund Policy rising out of this year's annual review.

1 Please recall that the changes center around four main  
2 areas, the first being strategic asset allocation and the  
3 segment work that we've gone through. The second  
4 centralization of the leverage governance. And as Ben  
5 said, note that this is a first step as we migrate away  
6 from asset class approach around leverage and the other,  
7 you know, currencies to a total fund approach around these  
8 utilities.

9           We'll continue to migrate towards total fund and  
10 moving things out of the asset classes and into the total  
11 fund, the Total Fund Policy, but this is a first step.

12           The other set of changes you see are around the  
13 governance and sustainability principles. And then  
14 finally a set of ad hoc changes to improve our policy  
15 framework.

16           There are also two updates to call to your  
17 attention from what you saw on the first reading. And  
18 those are really about how policy exceptions will be  
19 reported. The first is toward -- around what's considered  
20 a policy exception when assets are in transition from --  
21 you know, from a new program -- I'm sorry, to a new  
22 program or to a new subprogram. And then the second is  
23 kind of consolidating where we do the reporting. And  
24 you'll see those changes in appendix 1.

25           So since this is a second reading, we are looking

1 for action from the Committee and approval of this. But  
2 I'll pause there and take any questions and also see if  
3 you want to hear from either Meketa and/or Wilshire to  
4 comment.

5 CHAIRPERSON FECKNER: Thank you.

6 Mr. Jones.

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

9 My observation on the leverage is that I  
10 understand it's a Total Fund -- moving to a Total Fund  
11 Policy. However, if the Total Fund Policy is 20 percent,  
12 how do you not avoid one of these subasset classes going  
13 to 50/60 percent? So I would like to hear your views on  
14 that and also get a response from our consultant,  
15 Wilshire, as to how that's going to be managed.

16 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
17 BIENVENUE: So let me take a first shot at it and then  
18 I'll hand it over to Wilshire. We are -- the way that we  
19 came to the 20 percent was actually using the legacy asset  
20 class amounts that got us to round 23 or 24 percent. So  
21 then we just kind of rounded down and got us to 20 -- or  
22 maybe it was 25 percent, but it was definitely north of  
23 where we're getting to.

24 As far as how we make sure that we don't have  
25 excess leverage in any one of the subasset classes, that

1 language is staying in your -- what we're currently  
2 calling our IPGs, which is our -- that's the level that  
3 doesn't come to the Board in policy, but it comes to your  
4 consultants for review. So we have sort of desktop  
5 procedures, then we have our IPGs, and then we have our  
6 total fund -- our fund policies.

7 So the 20 percent governance at the policy level  
8 is centralized with the IPG still reflecting the legacy  
9 limits under your consultant's purview.

10 COMMITTEE MEMBER JONES: And IPG is?

11 INTERIM CHIEF OPERATING INVESTMENT OFFICER

12 BIENVENUE: We are -- we have -- it has changed several  
13 times, so I don't want to spend too much time on IPG, but  
14 right now it's Investment Procedure Guidelines. We're  
15 actually migrating to what -- calling them PRPs, but we'll  
16 talk about that at another time.

17 (Laughter.)

18 INTERIM CHIEF OPERATING INVESTMENT OFFICER

19 BIENVENUE: And our excessive use of acronyms. We're  
20 trying to stay clear.

21 (Laughter.)

22 COMMITTEE MEMBER JONES: Okay.

23 MR. JUNKIN: I still call them IPPGs. So I'm  
24 still stuck a generation behind.

25 Andrew Junkin with Wilshire.

1           To Dan's point, in our review of this, you know,  
2 the -- this is -- this is just a step in a process. And I  
3 think based on our conversations with staff and the  
4 experience there, there's a recognition that this is very  
5 complicated and really becomes a risk management issue.

6           To your point, you could implement 20 percent  
7 total fund leverage by having 100 percent leverage on a  
8 particular asset class. But that wouldn't make a lot of  
9 sense, because you might put that asset class out of  
10 business along the way. So it's not just about minimizing  
11 the interest expense for the total fund. Clearly, you  
12 want to control the cost and see if you can save money.  
13 But it's about matching the characteristics of the  
14 leverage with the characteristics of the assets, so you  
15 don't have really long assets and really short leverage,  
16 or vice versa.

17           So that's a critical component. And that will  
18 be, I would say, phase 2 or phase 3 in this process. As  
19 Dan pointed out, the existing asset class leverage limits  
20 stay in effect through the IPGs. And that is something  
21 that typically does not come to the Investment Committee  
22 unless we believe there is a substantial change, at which  
23 point we say it's time to take this to the Investment  
24 Committee.

25           So if there is a - I'm just going to make up a



1 number - a 40 percent cap on leverage for real assets  
2 right now, and staff says we want to take that to 20 or we  
3 want to take it to 60 - it could go either way - we'd say  
4 that's now a decision that the Investment Committee should  
5 make and we should bring it as an item for them.

6           And then I think as Dan correctly pointed out,  
7 the 20 percent total is actually slightly lower than the  
8 sum of the current assets classes. I think it's important  
9 to know that, you know, you should not be, nor do I think  
10 staff will, running the fund at the max leverage limit all  
11 the time, because then if there's a drawdown, you're  
12 automatically in vio -- in an exception standpoint.

13           And so they're very cognizant of that. But  
14 again, that's probably phase 2, phase 3 of this project to  
15 have a more cohesive total fund approach to leverage.

16           COMMITTEE MEMBER JONES: Okay. Well, thank you  
17 for that in formation, because my concern is with  
18 leverage, I mean, it was one of the elements of the  
19 financial crisis. People leveraged up to the yin yang and  
20 had no way to go and provide the a payoff. So that's why  
21 I'm concerned about the leverage issue.

22           Okay. Thank you.

23           CHAIRPERSON FECKNER: Thank you.

24           Ms. Yee.

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

1           So just along the lines of Henry's question in  
2 terms of process. So if the allocation exception exceeds  
3 that of the original timeline estimate, that would not  
4 necessarily come to the Board, but you'd work with our  
5 consultants just essentially throughout the process in  
6 those instances?

7           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
8 BIENVENUE: I'm sorry. When you say allocation exception,  
9 can you...

10           COMMITTEE MEMBER YEE: So you have kind of an  
11 allocation that's tied to the original -- it's estimated  
12 tied to the original timeline. So if there are -- if they  
13 exceed those in the original timeline, those -- I'm just  
14 trying to figure out what comes back to us and what kind  
15 of would essentially be just part of the internal process?

16           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
17 BIENVENUE: Yeah. So anything that goes outside of what  
18 was originally anticipated would come back to you, right?

19           COMMITTEE MEMBER YEE: It would. Okay.

20           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
21 BIENVENUE: So we would come to you tell you we're  
22 implementing this new subprogram --

23           COMMITTEE MEMBER YEE: Okay. Okay.

24           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
25 BIENVENUE: -- or whatever it is.

1 COMMITTEE MEMBER YEE: All right.

2 INTERIM CHIEF OPERATING INVESTMENT OFFICER

3 BIENVENUE: This is the timeline we expect, for example,  
4 the segment work.

5 COMMITTEE MEMBER YEE: Yes.

6 INTERIM CHIEF OPERATING INVESTMENT OFFICER

7 BIENVENUE: If we -- if -- you know, if the segment work  
8 wound up taking 2 years and we expected it to take one  
9 year, we would certainly have come back.

10 COMMITTEE MEMBER YEE: Okay. Sounds good. Thank  
11 you.

12 CHAIRPERSON FECKNER: Very good.

13 Ms. Brown.

14 COMMITTEE MEMBER BROWN: Thank you.

15 Actually, Ms. Yee asked my question.

16 And then I do have some questions about  
17 attachment 2, but I don't think we're there yet, is that  
18 correct?

19 Is that -- are we still -- are we on attachment  
20 2?

21 CHAIRPERSON FECKNER: They're looking.

22 INTERIM CHIEF OPERATING INVESTMENT OFFICER

23 BIENVENUE: Yes. I think we're -- We can take any --  
24 anything around Item 7A.

25 COMMITTEE MEMBER BROWN: Perfect.

1 CHAIRPERSON FECKNER: Very good.

2 COMMITTEE MEMBER BROWN: Great. I just wanted to  
3 be sure.

4 Hold on. Now, I need to get my thing back.

5 So I'm looking at attachment 2, page 41 of 112.  
6 I'm just trying to prove to everybody I actually read the  
7 it material.

8 Thank you, Mr. Meng. That was funny.

9 (Laughter.)

10 COMMITTEE MEMBER BROWN: Under Benchmarks, Item  
11 4, towards the bottom of the page it says for benchmark  
12 changes and material construction rule changes that  
13 require Committee approval, review and make a  
14 recommendation regarding approval. So I just had a  
15 question about -- I need some help understanding what is  
16 considered material, and can you give me an example of  
17 maybe past benchmark changes that required Committee  
18 approval, but would now not require Committee approval  
19 because of this change?

20 INTERIM CHIEF OPERATING INVESTMENT OFFICER

21 BIENVENUE: So that's a great question. Let me start by  
22 saying that what -- what we're doing here is just putting  
23 our historical practice into policy. We had -- we had  
24 previously not had it explicitly in policy, but we're just  
25 taking the practice and putting it into the policy.

1           As far as what is material, that really is a  
2 judgment call on the part of your consultants. And this  
3 is what Andrew was referring to earlier. If something is  
4 going from, you know, really looking like a fish to really  
5 looking like a fowl, it obviously needs to come to the  
6 Investment Committee. If something is really just a  
7 ministerial change, it doesn't, and it's a judgment call  
8 where -- you know, where it is in between those two.

9           COMMITTEE MEMBER BROWN: Mr. Junkin, thanks.

10          MR. JUNKIN: Yeah, I'm trying to think of some  
11 examples. I think there was a change in the treasury  
12 benchmark that had no effect on obviously quality, because  
13 it was 100 percent treasuries and no effect on -- no  
14 material effect on duration. And so we said that that one  
15 was one, to use Dan's analogy, fish to fish.

16          Had that changed to a treasury plus high yield  
17 benchmark, obviously, we're raising our hand and saying  
18 that has to go in front of the Committee, so --

19          COMMITTEE MEMBER BROWN: So you're helping make  
20 that determination whether or not it's material?

21          MR. JUNKIN: We are.

22          COMMITTEE MEMBER BROWN: Okay.

23          MR. JUNKIN: So we're essentially stepping into  
24 your shoes, in that case, and saying, you know, on behalf  
25 of the Investment Committee, this is significant enough

1 that they need to make the final decision, rather than it  
2 being a ministerial change.

3 COMMITTEE MEMBER BROWN: Great. And so this  
4 isn't actually a change. We're just -- like Dan said,  
5 we're just taking the current practice and putting it into  
6 policy.

7 MR. JUNKIN: Correct.

8 COMMITTEE MEMBER BROWN: Do you agree with that  
9 statement?

10 MR. JUNKIN: I do. I think prior Total Fund  
11 Policy revisions would catch everything from even like a  
12 name change from Barclays benchmarks to Bloomberg  
13 benchmarks, when Bloomberg acquired all of the Barclays  
14 set of fixed income benchmarks. And that suddenly was,  
15 you know, something that you all had to make a decision  
16 on.

17 COMMITTEE MEMBER BROWN: Great.

18 I have another question then on attachment 2,  
19 page 42, the next page. And this thing -- this I'm -- I  
20 have been concerned about. I know I've raised it,  
21 probably not with you, Ben, but maybe the prior year, in  
22 terms of the process for prudent person opinions.

23 Now, it looks like we're changing the  
24 co-investments under 200 million. It used to be -- some  
25 of those used to say require to now it's at MID

1 discretion. And I just want to be -- I know we're trying  
2 to be helpful, so the staff doesn't -- we don't slow you  
3 done, right? I think that was the complaint I heard  
4 that -- having to come -- to get the prudent person  
5 opinion takes awhile and you may not be able to act on the  
6 co-investment. So why don't you tell me if that's  
7 correct.

8 CHIEF INVESTMENT OFFICER MENG: Yes. So that was  
9 the main concern behind the size. In order to have access  
10 to the co-investment opportunity, we have to be able to  
11 respond in a timely fashion.

12 COMMITTEE MEMBER BROWN: And then great than 200  
13 million, their MID discretion. Okay. And then -- and  
14 then I do also want to hopefully get it in policy. When  
15 the prudent person is negative and then it still comes to  
16 the Board, I don't understand why that happen. This has  
17 to do with the Tower Project. But I hope in the future,  
18 we'll get a clear policy on that when the prudent person  
19 opinion says we shouldn't move forward and then it comes  
20 to the Board, because I'm concerned we will make a  
21 political decision as opposed to an investment decision.

22 So do we have that anywhere in the policy now,  
23 Mr. Junkin, about when a prudent person opinion says don't  
24 do it?

25 MR. JUNKIN: I don't think that's in there. I'm

1 looking around for Meketa, because I think they probably  
2 know all of the PPO requirements in the private asset  
3 classes, since they are the private asset class  
4 consultant.

5 COMMITTEE MEMBER BROWN: So if it's under the  
6 delegated authority, so it's over 2 billion.

7 MR. JUNKIN: 200 million?

8 COMMITTEE MEMBER BROWN: 200 million, sorry. I'm  
9 just -- I just want to -- I just want to be sure what that  
10 process and that we're following that in the future.

11 MR. JUNKIN: Yeah, I don't -- I don't think that  
12 a negative PPO requires you to not move forward.

13 COMMITTEE MEMBER BROWN: Okay.

14 MR. JUNKIN: It is a piece of the puzzle that is  
15 the full package of due diligence.

16 COMMITTEE MEMBER BROWN: Thank you.

17 CHAIRPERSON FECKNER: Thank you.

18 Mr. Jones.

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

21 Yea, Mr. Chair, since our roles and  
22 responsibilities of our board self-evaluation, we talked  
23 about having our consultants chime in on these issues, so  
24 I would like to ask that you ask Meketa to see whether or  
25 not they have any comments or observations on this item,



1 and also respond to Ms. Brown's question about the PPO.

2 CHAIRPERSON FECKNER: Very good. Mr. Hartt, can  
3 you please join us?

4 MR. HARTT: Good morning. Steve Hartt, Meketa  
5 Investment Group, private asset, private equity  
6 consultant. So you see our attachment, I believe it's, 5A  
7 to this Item 5 on the private equity side.

8 Again, looking to work with the staff to help  
9 make this co-investment program work efficiently in  
10 recognizing in the marketplace the -- in the private  
11 equity side the need for being able to be flexible and to  
12 work very quickly in some cases to execute on the  
13 co-investments in the private equity area.

14 And we feel that -- that CalPERS staff knows  
15 these private equity managers very well. They know where  
16 they are successful -- the kind of investments where  
17 they're successful, and that providing some flexibility to  
18 be able to execute on those investments at a more modest  
19 size without a PPO can add to the attractiveness of  
20 CalPERS to be able to actually get those opportunities and  
21 be able to execute on them.

22 For larger deals, I wanted to make sure that not  
23 only the MID, but the CIO signs off on those transactions.  
24 We think that makes sense, and then for ones that are  
25 quite large to make sure that there is that concurring

1 opinion.

2 We think that it's an appropriate balance to  
3 weigh the factors of being able to get proper oversight of  
4 the transactions, but also to allow the staff to be  
5 effective in the marketplace for private equity  
6 co-investments.

7 INVESTMENT DIRECTOR CROCKER: And excuse me. Kit  
8 Crocker, CalPERS staff. I just wanted to clarify in  
9 response to the earlier question that if there's a  
10 difference in agreement between staff and the PPO, then  
11 the issue comes to the Board under current policy.

12 COMMITTEE MEMBER JONES: Thank you.

13 COMMITTEE MEMBER BROWN: Can you tell me where  
14 that is in the policy?

15 CHAIRPERSON FECKNER: You need your microphone,  
16 but Henry is on first.

17 You were on, Henry. You turned it off.

18 COMMITTEE MEMBER JONES: I'm done.

19 CHAIRPERSON FECKNER: Oh, you're done. Okay.

20 Ms. Brown, push your button, please.

21 COMMITTEE MEMBER BROWN: Thank you.

22 CHAIRPERSON FECKNER: Go ahead.

23 COMMITTEE MEMBER BROWN: I just want to know  
24 where that is, if it's in writing in the policy anywhere?

25 INVESTMENT DIRECTOR CROCKER: It is not in

1 writing in the policy that I'm aware, but it's simply a --  
2 it follows from the fact that if -- of course, if staff  
3 isn't proposing we do something, we don't bring it to the  
4 Board.

5 COMMITTEE MEMBER BROWN: Right.

6 INVESTMENT DIRECTOR CROCKER: And the PPOs are  
7 required under certain circumstances, so we're within MID  
8 discretion. Sometimes staff often obtains them, whether  
9 or not they're required. And then that becomes, as Mr.  
10 Junkin says, another factor that the Board has at its  
11 disposal to consider in whether or not approve to the  
12 investment.

13 But if staff believes in the investment, it will  
14 bring it -- it typically, you know, has the discretion to  
15 bring it to the Board, notwithstanding a negative PPO.

16 COMMITTEE MEMBER BROWN: Yeah. And I think the  
17 concern was that staff is neutral on the investment, which  
18 really threw me off. So maybe we could talk about that  
19 later in closed session.

20 Thank you.

21 CHAIRPERSON FECKNER: Thank you.

22 Ms. Olivares.

23 COMMITTEE MEMBER OLIVARES: Hi. Sorry. Can I  
24 take us back to attachment 1.

25 Sorry. Can you hear me?

1           Sorry.

2           CHAIRPERSON FECKNER: Yeah, you're on.

3           COMMITTEE MEMBER OLIVARES: Sorry.

4           Okay. This is going back to the CMOs that Mr.  
5 Jones spoke about. So I understand that they're excluded  
6 from the definition of derivatives. What's our plan if  
7 something happens in the market and there's illiquidity?

8           INTERIM CHIEF OPERATING INVESTMENT OFFICER

9 BIENVENUE: Ms. Olivares, what page are you referring to,  
10 please?

11          COMMITTEE MEMBER OLIVARES: I'm on page 13.

12          INTERIM CHIEF OPERATING INVESTMENT OFFICER

13 BIENVENUE: And so the question is if CMOs were held in  
14 the portfolio and were to become highly illiquid, what's  
15 the -- what's the plan is that -- I just want to make sure  
16 I'm clarifying the question.

17          COMMITTEE MEMBER OLIVARES: I understand -- at  
18 the top of page 13, it says that they're excluded from the  
19 definition of derivatives.

20          INTERIM CHIEF OPERATING INVESTMENT OFFICER

21 BIENVENUE: Correct.

22          COMMITTEE MEMBER OLIVARES: So if there's  
23 illiquidity in the mortgage market, what happens?  
24 Because -- they are a derivative. I mean, that's what  
25 they are, right? But we saw in the housing crisis when

1 there was no secondary market for those securities. So  
2 what's our plan if there is no liquidity?

3 INTERIM CHIEF OPERATING INVESTMENT OFFICER

4 BIENVENUE: I would say our plan is similar to what it is  
5 with all the other illiquid assets that are in the  
6 portfolio. So we -- certainly, to Ben's point on these  
7 four critical utilities, we're leveraged with one where  
8 you talked about, liquidity is another. We're very  
9 focused on managing the liquidity of the portfolio. Just  
10 like if suddenly small cap equities became illiquid, or  
11 similar to the way that private equity and real assets are  
12 illiquid, we manage the liquidity through managing the  
13 liquidity in a very careful and concerted way. If these  
14 were to become illiquid, they would not be in our toolkit  
15 as something to raise liquidity.

16 COMMITTEE MEMBER OLIVARES: Yes, but we don't  
17 treat them as derivatives. It sounds like here we're  
18 treating them as cash, is that correct?

19 INTERIM CHIEF OPERATING INVESTMENT OFFICER

20 BIENVENUE: No, we're treating them as the assets that  
21 they are.

22 COMMITTEE MEMBER OLIVARES: So -- but not as  
23 derivatives.

24 INTERIM CHIEF OPERATING INVESTMENT OFFICER

25 BIENVENUE: But correct, not as derivatives. Similar to

1 the -- we said, you know, we don't own convertible  
2 securities, but similar to convertible securities, similar  
3 to, you know, Spot FX you could argue is a derivative.  
4 What we're saying is that from the derivative limits that  
5 we're using, we're not considering CMOs derivatives.

6 COMMITTEE MEMBER OLIVARES: What's our exposure?

7 INTERIM CHIEF OPERATING INVESTMENT OFFICER

8 BIENVENUE: I'll ask Arnie to speak to that one.

9 COMMITTEE MEMBER OLIVARES: Thank you.

10 MANAGING INVESTMENT DIRECTOR PHILLIPS: Good  
11 morning, Arnie Phillips, Managing Investment Director,  
12 Global Fixed Income.

13 So historically, we -- I get the question that --  
14 whether CMOs are derivatives is a gray area. We have never  
15 historically defined them as derivatives. As for  
16 exposure, we have almost no CMOs any more in our mortgage  
17 portfolio. The -- when I first started here two plus  
18 decades ago, we used them quite a bit against treasury  
19 holdings. The purpose of fixed income has changed a lot  
20 since then, very siloed back then, very total fund focused  
21 now. And they're just not as good a fit from a fixed  
22 income perspective as they used to be, so we have almost  
23 no CMOs currently.

24 COMMITTEE MEMBER OLIVARES: What's almost no?

25 MANAGING INVESTMENT DIRECTOR PHILLIPS: I didn't

1 want to say zero. I think it's pretty close to zero. We  
2 have thousands of holdings in the mortgage portfolio, so I  
3 wouldn't want to put it at zero, but it's closer to zero  
4 than 10 percent.

5 COMMITTEE MEMBER OLIVARES: Could you narrow that  
6 range for me a little bit?

7 MANAGING INVESTMENT DIRECTOR PHILLIPS: Ten  
8 percent of overall fixed income. I think it's almost  
9 nothing even in the mortgage portion, which is 50 percent  
10 of the spread segment, which is not much of overall fixed  
11 income. So I would put it at an extremely immaterial  
12 amount, if we even have any.

13 CHIEF INVESTMENT OFFICER MENG: So why don't we  
14 do this, we can go back to get the exact exposure in CMO  
15 and then we'll send an email to you.

16 COMMITTEE MEMBER OLIVARES: Thank you.

17 I had a question about, let's see, on page 14.  
18 And I think this was discussed earlier too, about staff's  
19 direct control not to exceed 20 percent. And this is  
20 again the leverage that Mr. Jones discussed. What has  
21 that percentage been in the past?

22 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
23 BIENVENUE: I would say in the past, it's been around 10  
24 percent. There -- and again, it goes to how you define  
25 leverage. But we -- we do own some CLOs. And then we

1 have those overlaid with -- historically, with equity  
2 assets. Now, they're being overlaid with treasury assets.  
3 We call that leverage, because of the fact that the CLOs  
4 aren't technically cash. And then there's some leverage  
5 elsewhere in the -- sort of the Real Asset Program and  
6 others. But in aggregate, it's still -- it's still well  
7 below the 20 percent limit to Andrew's point. We have --  
8 we're not looking to lever the plan up. We'll come back  
9 to you as we -- you know, as we explore that and try to  
10 achieve 7 percent. But right now, the leverage is, I  
11 would say, south of 10 percent at the plan level.

12 COMMITTEE MEMBER OLIVARES: Okay. And then page  
13 16 on divestment. I've read the definition of divestment  
14 here. And it seems that we have divestments,  
15 sustainability, and then ESG. And I'm wondering how we're  
16 integrating all of this, because it's clear we don't have  
17 a divestment policy. We're seeking sustainability with  
18 our fund. And then we are looking at the ESG of our  
19 investment holdings. And so I'm wondering if there's a  
20 way to integrate all these things, so that we're taking  
21 one approach.

22 MANAGING INVESTMENT DIRECTOR RICHTMAN: I'm Beth  
23 Richtman, Managing Investment Director Sustainable  
24 Investments Program.

25 So when we talk about ESG, we're talking about it



1 from a risk and opportunity lens that we overlay on our  
2 investment decision-making process. It's not necessarily  
3 about, you know, excluding anything from our portfolio.  
4 It's about understanding the full spectrum of risk and  
5 opportunities that can act on those investments over time.  
6 So it's -- you could think about it as a process.

7           That is something that we're working on  
8 throughout our Investment Office, through our various  
9 asset classes, and bring that into our investment  
10 processes and our decision-making.

11           When you think of divestment, that is an  
12 exclusion from a portfolio usually based on, as it's in  
13 practice in this field, not based on just the investment  
14 merits of the particular issue. It's based on a decision.  
15 And this is sort of described in this policy. Let's see.  
16 First paragraph. Thank you.

17           So this is for the purpose of achieve --  
18 achieving certain goals that do not appear to be primarily  
19 investment related, so it's promoting other things.  
20 That's sort of how we think about divestment and that's  
21 why we separate the two. Because when we think about ESG  
22 integration, we are thinking about it from the perspective  
23 of, you know, as a way of practicing our fiduciary duty in  
24 terms of prudence and care and really understanding the  
25 complete spectrum of risks and opportunities that can act

1 on an investment.

2           The one other thing I would add related to just  
3 that, if you're thinking about the taxonomy of the  
4 sustainable investment space is impact investment is also  
5 a term that gets used. That is when an investment is made  
6 by an investor like us. We'll talk about it from a  
7 fiduciary's perspective. So an institutional investor  
8 would make an investment because of the financial merits  
9 of that investment. But also on top of that, it would  
10 achieve environmental or social outcomes.

11           So that is -- that practice can be very aligned  
12 with the way an institutional investor like CalPERS would  
13 approach investing, as long as that investment would stand  
14 alone on its investment merits.

15           COMMITTEE MEMBER OLIVARES: Thank you. Yes. I'm  
16 aware of those definitions. I was wondering if it might  
17 make sense to -- when we're looking at the sustainability  
18 of CalPERS as a fund and how this needs to last for many  
19 generations, and we have different language that touches  
20 many other areas, I think we need to have a more holistic  
21 approach. That's just something to --

22           INVESTMENT DIRECTOR CROCKER: Kit Crocker,  
23 CalPERS staff. Just to -- we have, in a sense, kept them  
24 intentionally separate because one is a compliance  
25 exercise that's actually handled under my group. And so

1 an example would be the Iran/Sudan divestment legislation.  
2 It was put in place in 2011. And we have -- you know, the  
3 Legislature has mandated that consistent with our  
4 fiduciary duties we undertake certain analysis and divest  
5 if certain companies meet the threshold requirements for  
6 divestment, subject to -- again to the fiduciary duties.

7 But that is quite different -- one reason we like  
8 to separate them is because, as Beth says, we want it  
9 to -- the ESG and sustainable investing is really through  
10 an investor's focus and lens what it will benefit the fund  
11 most in the long term, the sustainable aspect.

12 And we need to, from a compliance standpoint on  
13 the other hand, adhere to Board directives and legislative  
14 directives and that's a different sort of lens.

15 COMMITTEE MEMBER OLIVARES: Yes. I'm aware.  
16 Thank you.

17 I wanted to move on to page 28 and this is  
18 appendix 1 reporting to the Investment Committee. I  
19 wanted to talk through the frequency of reporting. So the  
20 first item, number 1, the total fund all programs. So as  
21 I'm reading, and I want to make sure I understand this, if  
22 there's some policy exceptions or other issues with the  
23 total fund, the report to the Investment Committee would  
24 be at the next Committee meeting or sooner, if deemed  
25 necessary. If we're going to quarterly Investment

1 meetings, I'm concerned that the Board might not have the  
2 information as soon as they need it.

3 INTERIM CHIEF OPERATING INVESTMENT OFFICER

4 BIENVENUE: So we can certainly look at including those in  
5 the Insight Tool. This language candidly is based on  
6 the -- recall the first reading of this policy was  
7 actually before those changes were discussed at the Board  
8 meeting on Wednesday in August. We can certainly look at  
9 making sure that we get those out on the Insight Tool. I  
10 will say the policy exceptions are -- they're called  
11 exceptions, because they're very exceptional. They're  
12 very rare. But we can find a way to make sure those get  
13 in front of the Board.

14 I would also say that there are two kinds of  
15 things. One is a policy exception that is reported that  
16 requires action. We need to either say we want to keep it  
17 in place because of some reason we want the exception to  
18 stay or requires remediation. And then there's others  
19 that are just FYI and we would probably -- we do need to  
20 look to bifurcate those --

21 COMMITTEE MEMBER OLIVARES: Yes.

22 INTERIM CHIEF OPERATING INVESTMENT OFFICER

23 BIENVENUE: -- and look at the Insight Tool and how to --  
24 and how to make sure that we get the Committee the  
25 information as quickly as they need, while not -- and, of

1 course, we always have the ability to schedule a -- you  
2 know, a one-off meeting. That can always -- a meeting can  
3 always be called with 10 days notice, if it's something  
4 that we do think that the Board needs to see ASAP. But  
5 we'll look at how to use the Insight Tool also.

6 COMMITTEE MEMBER OLIVARES: Yeah, I think we  
7 would need more clarity in terms of what is -- what the  
8 Board would need to see.

9 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
10 BIENVENUE: Right. And I would say this is another place  
11 that we would really look to the consultants to  
12 exercise --

13 COMMITTEE MEMBER OLIVARES: Yes, exactly.

14 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
15 BIENVENUE: -- the judgment. We very much look to the  
16 consultants to be the sort of day-to-day eyes and ears for  
17 the Board.

18 COMMITTEE MEMBER OLIVARES: Thank you.

19 INVESTMENT DIRECTOR CROCKER: And if I might add,  
20 in the four years I've been here, I've not seen a policy  
21 exception that was anything other than an information  
22 item. In other words, we were not coming to the Board for  
23 assistance in resolving the item, which we -- typically,  
24 they're resolved before they even come to the Board.

25 So I think one way to look at the policy

1 exception reporting process is it's a way to keep staff  
2 honest and make sure that, you know, the Board is aware if  
3 we're not staying within our Board directed guardrails.

4 COMMITTEE MEMBER OLIVARES: All right. And then  
5 on page 29, it's just the frequency of reporting to the  
6 asset allocation. And I'm hoping that with this new tool,  
7 we would be able to log in to something and see where the  
8 asset -- how the assets are allocated, so that we -- maybe  
9 we don't have to do reports. Would we be able to get all  
10 the information we need and then check in as frequently as  
11 we want or...

12 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
13 BIENVENUE: Correct. The idea would be to report -- on  
14 the Insight Tool to report what the strategic asset  
15 allocation is and what the portfolio's allocation is  
16 relative to that. The idea is to present that.

17 COMMITTEE MEMBER OLIVARES: And that -- would  
18 that information be made current monthly in some cases, if  
19 those are private assets or -- I'm assuming it's not going  
20 be real-time, because I understand that would be very  
21 challenging.

22 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
23 BIENVENUE: The idea would be -- would be monthly. It  
24 certainly would not be real-time. The idea would be  
25 monthly, recalling, of course, that on the private assets,

1 to your point, those valuations are -- are lagged three  
2 months and then they're stale for three months, right,  
3 because we only value those quarterly.

4 So the private assets would stay stale and  
5 lagged, the public assets would be an updated snapshot as  
6 of the month-end, you know, reported to the Board through  
7 the Insight Tool.

8 CHIEF EXECUTIVE OFFICER FROST: Yeah. And, Ms.  
9 Olivares, one of the process steps that we will do is each  
10 of the Board members will be interviewed directly, as far  
11 as the types of information and data that you'd like to  
12 see on the Insight Tool.

13 COMMITTEE MEMBER OLIVARES: Fun. Thank you.

14 On page 34, divestments. As I read this, it  
15 seems -- I'm a little unclear. So an independent could be  
16 con -- could be hired to evaluate the need for divestment.  
17 Is that at the Committee's discretion or is that staff's  
18 discretion?

19 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
20 BIENVENUE: It's always at the Committee's discretion, but  
21 historically staff has also engaged people to do the  
22 valuations as well.

23 COMMITTEE MEMBER OLIVARES: Thank you.

24 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
25 BIENVENUE: But certainly, if the Committee were to ask

1 for it -- the Committee directs it, then we would, of  
2 course -- of course do that.

3 COMMITTEE MEMBER OLIVARES: Okay. Thank you.

4 On page 39, Private Equity Program related  
5 responsibilities. This gets to reporting. So it seems  
6 there's a lot of -- this gets to the authority that's been  
7 delegated to staff. I'm curious as to the thinking about  
8 the opinions to the Board that are not required,  
9 especially for those investments that exceed staff's  
10 delegated authority, or at least that's how I'm reading  
11 item 4.

12 INTERIM CHIEF OPERATING INVESTMENT OFFICER

13 BIENVENUE: I apologize, Ms. Olivares. Can you please  
14 repeat the question?

15 COMMITTEE MEMBER OLIVARES: Sure. So it's the --  
16 I believe it's item 4, items -- or transaction types or  
17 sizes that exceed staff delegated authority. And it seems  
18 that that's required for like an opinion to the Board.  
19 For customized investment accounts, there's no opinion to  
20 the Board. For co-investments of a certain amount,  
21 there's no opinion to the Board. What's been our past  
22 practice on that?

23 INTERIM CHIEF OPERATING INVESTMENT OFFICER

24 BIENVENUE: And are you referring to private equity  
25 specifically?



1 COMMITTEE MEMBER OLIVARES: Yes.

2 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
3 BIENVENUE: I'll ask if Sarah can help us with that,  
4 please.

5 INVESTMENT DIRECTOR CORR: Sarah Corr, Investment  
6 Office.

7 Opinions are required for the Board only if  
8 investments exceed staff's delegation and the Board is  
9 required to make an opinion -- or make a decision.

10 COMMITTEE MEMBER OLIVARES: And that's been the  
11 past practice for how long?

12 INVESTMENT DIRECTOR CORR: At least 20 years.

13 COMMITTEE MEMBER OLIVARES: Okay. Thank you.

14 Page 46, this has to do with benchmarks. So the  
15 private equity benchmark I'm - I think I brought this up  
16 at the last meeting - shows us FTSE All-World All-Cap  
17 Equity plus 150 basis points. So that's taking a basket  
18 of publicly traded stocks that are -- you can sell the  
19 next day, right, and then adding 150 basis points onto  
20 that.

21 I'm wondering why we're not using some type of  
22 private equity benchmark like top quartile meeting IRR and  
23 instead we're using publicly traded securities?

24 INTERIM CHIEF OPERATING INVESTMENT OFFICER

25 BIENVENUE: You know, the lega -- benchmarking the private

1 assets is a challenge. And if you look at the history of  
2 our benchmarks in private equity, there was a period where  
3 we used a peer universe type comparison. Where we've  
4 ultimately settled is that private equity is held as a  
5 alternate -- as another way to harvest the equity risk  
6 premium, but as an illiquid alternative to public equity.

7 But the opportunity cost, so to speak, is public  
8 equity. And so that's why we've settled on a public  
9 equity, but then also 150 basis point premium for that --  
10 you know, for that illiquidity.

11 CHIEF INVESTMENT OFFICER MENG: Yeah. And Dan,  
12 you may recall the last time we talk about it, there are  
13 also practical limitations to a private equity benchmark.  
14 Given the size our fund, we cannot easily find a private  
15 equity benchmark that is representative of our portfolio.  
16 For example, there are private equity benchmark that  
17 include smaller funds that we don't easily have access to,  
18 or they include some other kind of VC fund or credit fund,  
19 which we don't have in our portfolio.

20 And also, as you know, that all this private  
21 benchmarks they're self-reported. So there is biases such  
22 as survivorship bias, selection bias, and the looking-back  
23 bias. So because of these biases and plus the practical  
24 limitations, we chose to use a public equity plus a  
25 premium benchmark that's more relevant to our portfolio.

1           COMMITTEE MEMBER OLIVARES:  Would you say that  
2 most of our private equity holdings are first quartile,  
3 top quartile?

4           CHIEF INVESTMENT OFFICER MENG:  Well, ex-ante --

5           COMMITTEE MEMBER OLIVARES:  For those with  
6 that --

7           CHIEF INVESTMENT OFFICER MENG:  Yeah.  Ex-ante,  
8 when we pick them, we try to pick top -- top quartile  
9 managers.  But exposed, there are managers that see in the  
10 second or even third quartile.

11          COMMITTEE MEMBER OLIVARES:  So then we would be  
12 looking at -- do we have any in the fourth quartile?

13          CHIEF INVESTMENT OFFICER MENG:  Oh.  In our  
14 portfolio, do we have fourth quartile?  I want to say at  
15 some point I'm sure we did.  But also the quartile  
16 analysis, you have to be mindful of which universe you're  
17 choosing and what time period.  So this is all innovative  
18 subjective.  So that's the challenge with investing in  
19 private markets, the availability and transparency of  
20 data.  We don't have a lot.  Not just us, the industry  
21 doesn't have a lot of data.

22           That's a luxury of public market asset classes.  
23 We have an abundance of data.  You can slice and dice  
24 anyway you would like to.  But in private market,  
25 really -- we are really limited to the availability of

1 data available to us.

2 COMMITTEE MEMBER OLIVARES: Right. So we could  
3 sort it by vintage and could still look at the top -- the  
4 first and second quartile, and then meeting IRR, and then  
5 do that for those funds for which that information is  
6 available. I'm thinking that we would have a different  
7 result though in terms of a benchmark than all-cap equity  
8 at plus 150 bps. That just seems really low for the  
9 additional risk we're taking and the additional cost.

10 CHIEF INVESTMENT OFFICER MENG: At our size --  
11 yeah, but to Sarah.

12 INVESTMENT DIRECTOR CORR: So we do look at the  
13 performance of our -- all of our funds by vintage years.  
14 Clearly, there are some that have underperformed our  
15 expectations. There are some funds in the portfolio that  
16 are third and fourth quartile. But overall, the -- it's  
17 above median for the performance.

18 COMMITTEE MEMBER OLIVARES: How -- so I'm -- I've  
19 seen other pensions use median IRR for first and second  
20 quartile. Insurance companies use that too. Are any  
21 other pensions using this benchmark where it's all-cap  
22 equities plus 150 bps?

23 MR. JUNKIN: Can I -- can I jump in on that one,  
24 because I think we've -- with our breadth of clients, I  
25 can answer the one pretty easily. The answer is most

1 pension funds use public equity plus premium. And if you  
2 pay particular attention to this page, this is what rolls  
3 up into the total fund benchmark. So you can't roll up an  
4 IRR and time-weighted rates of return. So in the -- in  
5 the private equity annual review, Meketa provides a whole  
6 host of comparative data. Staff does as well.

7 And I think a lot of the benchmarking that you're  
8 looking for by vintage year, things like that, that  
9 happens there.

10 COMMITTEE MEMBER OLIVARES: Right.

11 MR. JUNKIN: So you're getting that information  
12 there. This is specific to the public fund roll-up. And  
13 I would say everyone of our clients probably for the  
14 public fund roll-up has to make this concession. It just  
15 doesn't work otherwise.

16 COMMITTEE MEMBER OLIVARES: Is it the same  
17 premium?

18 MR. JUNKIN: No, the premium varies. It's  
19 broadly come down. And we've had this discussion before.  
20 And some people use S&P 500, and some people use Russell  
21 2000. It depends on the nature of their portfolio --

22 COMMITTEE MEMBER OLIVARES: Um-hmm.

23 MR. JUNKIN: -- and how tilted it is towards  
24 venture, or buyout, or geography. But I would say it used  
25 to be -- what used to be standard was probably S&P 500

1 plus 5. And then starting about 10 years ago, it started  
2 moving down. I would say the number these days is  
3 probably something like plus 250 or 300 in most cases.  
4 And this is lower, which speaks to Ben's comment about  
5 deploying 10 percent of \$375 billion --

6 COMMITTEE MEMBER OLIVARES: Um-hmm.

7 MR. JUNKIN: -- means you do end up with some  
8 third and fourth quartile funds, because you deploy  
9 capital across a much broader spectrum.

10 CHIEF INVESTMENT OFFICER MENG: And also having  
11 seen funds use both of them -- both benchmarks but for  
12 different purposes.

13 COMMITTEE MEMBER OLIVARES: Um-hmm.

14 CHIEF INVESTMENT OFFICER MENG: For example, as  
15 Dan just mentioned that using public equity plus a  
16 premium, that's almost an opportunity cost model. If we  
17 don't invest in private equity, we would put that money in  
18 public equity to gain the exposure to growth, right?

19 COMMITTEE MEMBER OLIVARES: Right.

20 CHIEF INVESTMENT OFFICER MENG: So for longer  
21 term strategic asset allocation, I have seen funds used in  
22 public market, public equity plus a spread as the  
23 benchmark. But then I -- and I -- for evaluating the  
24 staff, I haven't seen funds using their peer group,  
25 exactly what you said, a vintage year. How is our fund in

1 the same vintage year compared to the same vintage fund in  
2 other -- in some of our peers.

3 So in that way, we can use that magic to evaluate  
4 our staff in terms of manager selection, to select better  
5 than average manager or not. So having seen funds using  
6 both benchmarks for two different purposes, one for a  
7 longer term strategic asset allocation purpose, and the  
8 other one for shorter term evaluation of the staff.

9 MR. JUNKIN: One of the newer methodologies  
10 that's getting a little bit more traction is the public  
11 market equivalent --

12 COMMITTEE MEMBER OLIVARES: Um-hmm.

13 MR. JUNKIN: -- which essentially you buy and  
14 sell imaginary units of whatever indexes your benchmark  
15 with the same timing as your cash flows. So -- but again,  
16 that would be part of the public -- I'm sorry, the private  
17 equity annual review. It wouldn't be part of the total  
18 fund benchmark here.

19 COMMITTEE MEMBER OLIVARES: So, I'm sorry. I'm  
20 still not clear on the 150 bps, and where we fall relative  
21 to others. You mentioned S&P plus 500 before, some  
22 reduced to 300.

23 MR. JUNKIN: Yeah, it's -- I would say it's -- it  
24 is on the lower end of the market. So the -- I would --  
25 the current probably median plus is 300.

1 COMMITTEE MEMBER OLIVARES: Um-hmm.

2 CHIEF INVESTMENT OFFICER MENG: But I think  
3 the -- sorry, go ahead.

4 COMMITTEE MEMBER OLIVARES: Oh, I was just going  
5 to ask how did we get to 150?

6 CHIEF INVESTMENT OFFICER MENG: I think the size  
7 we really had to consider our size. The larger you are,  
8 the more difficult it is to achieve the excess return.  
9 And if you recall from Hiro's presentation GPIF last  
10 month, right, they are -- run a trillion dollar fund, two  
11 and a half times larger than we are, but their -- their  
12 desired return is much lower than ours as well.

13 So when we run -- we try to get 10 percent. As  
14 Andrew said, 10 percent with \$380 billion to deploy into  
15 private equity, we -- given that size, it's just much more  
16 challenging and difficult to achieve the same amount of  
17 excess return by a much smaller fund, like a university  
18 endowment. So that's a reality we have to face.

19 COMMITTEE MEMBER OLIVARES: Yeah, but I think --

20 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
21 BIENVENUE: The one other thing I would call your  
22 attention to is just the difference between arithmetic and  
23 geometric, right? So one of the reasons why we settled on  
24 the 150 arithmetic is because that actually translates to  
25 more like 250 geometric just due to the multiplicative



1 process.

2           So we had historically had a 300, which actually  
3 translated almost 500, you know, geometric. And so that  
4 was one of the other rational was to use an arithmetic  
5 150.

6           COMMITTEE MEMBER OLIVARES: Yeah, this causes me  
7 some concern. That's all. That's all my questions.

8           CHAIRPERSON FECKNER: Thank you.

9           Ms. Mitchell.

10          Oh hold on. Go ahead.

11          ACTING COMMITTEE MEMBER MITCHELL: Thank you.

12          Going back to the prudent person opinion quickly.  
13 Just a couple things. I understand that you're raising it  
14 because you want more flexibility. You want things to be  
15 able to move a little faster. But can you tell me how you  
16 landed on 200 million and then what percentage of your  
17 investments fall between 100 and 200 million typically?

18          INTERIM CHIEF OPERATING INVESTMENT OFFICER  
19 BIENVENUE: Maybe I'll ask Meketa to take on the  
20 percentage of investments. I'll say as far as getting --  
21 landing on 200, it was just finding a way to balance  
22 between what Ben was saying earlier, the ability for us to  
23 actually be responsive and deploy assets in the  
24 co-investment space. That's how we -- that's how we bring  
25 our fee -- one of the main ways we bring our fee load

1 down, right?

2           So we needed to find a way to still be able to  
3 execute, while still having some limits that would give --  
4 you know, that would give the Committee and frankly the  
5 staff some comfort around when to bring in PPOs. But as  
6 far as the percentages, I'll maybe ask Meketa to comment.

7           ACTING COMMITTEE MEMBER MITCHELL: Thank you.

8           MR. HARTT: Yeah. Steve Hartt, Meketa Investment  
9 Group.

10           The -- CalPERS has not been executing  
11 co-investments for a few years now, so we don't have  
12 updated data to see kind of what their transaction size in  
13 today's market would be. The staff did do some research  
14 relatively recently looking at the managers that they have  
15 as part of their core portfolio and looking at their --  
16 examining how they have deployed to their other LPs other  
17 co-investment opportunities.

18           I don't have statistics exactly as to where  
19 things come out. Just kind of as a rule of thumb that a  
20 \$100 million co-investment would be probably for CalPERS  
21 somewhat middle of the road, and the \$200 million would  
22 be, you know, on the larger side. It would be for pretty  
23 large transactions to make that happen.

24           It's a little hard to tell. We don't have the  
25 data from their portfolio to see. But thinking of other

1 similarly sized programs, that's kind of where we might  
2 come out.

3           So it's hard to say with any specificity on this.  
4 But again, looking to try to be efficient about using the  
5 PPOs and involving, you know, staff's discretion versus  
6 having a third party involved in the process.

7           ACTING COMMITTEE MEMBER MITCHELL: Thank you.

8           CHAIRPERSON FECKNER: Mr. Jones.

9           COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.  
10 Chair. Yeah, Ms. Richtman, the response to the question  
11 about impact investing. And you mentioned that the  
12 first -- it's a two-step process. The first step is to  
13 make sure that it's having a social impact. And then the  
14 second step was investment returns. And I just need to  
15 understand that the driving factor in that process is  
16 investment returns as opposed to just being able to  
17 respond to social good?

18           MANAGING INVESTMENT DIRECTOR RICHTMAN: Beth  
19 Richtman, CalPERS staff. Yes. Maybe I -- if I reversed  
20 the order, I'm not sure. But the first step is to make  
21 sure that any investment has financial merit. What I'm  
22 saying though it doesn't preclude us in investing in  
23 companies that -- or companies, or industries, or  
24 investment strategies that additionally on top of an  
25 attractive financial return would also have social or

1 environmental impact that could be measurable.

2           And there are investments in CalPERS portfolio,  
3 for instance, our energy optimization initiative, where  
4 we're making investments in our real estate portfolio  
5 because they're attractive financially first, but also,  
6 they're reducing our greenhouse gas impact in a way that  
7 we can quantify and track. I hope that answers the  
8 question.

9           INTERIM CHIEF OPERATING INVESTMENT OFFICER

10 BIENVENUE: But, Mr. Jones, Let me just -- you know, you  
11 used the term driving factor. I'll even say take it  
12 stronger, the only factor -- consistent with our fiduciary  
13 duty, the factor is an investment factor how it's going to  
14 pay out. Now, if it has these other benefits, terrific.  
15 But ours is a fiduciary responsibility and we will look at  
16 these through the lens of how the investment outcome -- we  
17 expect the investment. Now, we're obviously making  
18 decisions in the face of uncertainty. That's investing,  
19 but it's -- it is about the investment return.

20           MANAGING INVESTMENT DIRECTOR RICHTMAN: And the  
21 one additional thing I'll add that I think Ben mentioned  
22 at the last Board meeting is that he's asked me to  
23 actually work on an ESG framework that I think will be  
24 helpful in answering Ms. Olivares' question and also Mr.  
25 Jones's question about how we're going to approach

1 integration across the fund.

2 CHAIRPERSON FECKNER: Thank you.

3 Seeing no other requests, anything else on this  
4 item?

5 INTERIM CHIEF OPERATING INVESTMENT OFFICER

6 BIENVENUE: So this is an action item.

7 CHAIRPERSON FECKNER: All right.

8 INTERIM CHIEF OPERATING INVESTMENT OFFICER

9 BIENVENUE: And we would look to -- we would look to the  
10 Committee for approval.

11 COMMITTEE MEMBER JONES: Move the item.

12 VICE CHAIRPERSON TAYLOR: Second.

13 CHAIRPERSON FECKNER: It's been moved by Jones,  
14 seconded by Taylor.

15 Any discussion on the motion?

16 Seeing none.

17 All in favor say aye?

18 (Ayes.)

19 CHAIRPERSON FECKNER: Opposed, no?

20 Motion carries.

21 That brings us to Agenda Item 8, Information  
22 Agenda Items.

23 Mr. Meng.

24 (Thereupon an overhead presentation was  
25 presented as follows.)

1 CHIEF INVESTMENT OFFICER MENG: Thank you, Mr.  
2 Chair again. So Agenda Item 8, we'll continue the annual  
3 program review. As I said the last IC meeting, we covered  
4 the total -- two total fund programs. And today, we'll  
5 cover two public market assets, global equity and global  
6 fixed income. And then at the next IC meeting, we'll  
7 cover the two private assets, private equity and real  
8 assets.

9 So without further ado, I turn over to my  
10 colleagues to cover Item 8a, Global Equity Annual Program  
11 Review.

12 CHAIRPERSON FECKNER: Thank you.

13 INTERIM CHIEF OPERATING INVESTMENT OFFICER

14 BIENVENUE: So again, Dan Bienvenue this time wearing my  
15 MID of global equity hat. I'll have a brief introduction  
16 here and then we'll be happy to take questions.

17 Global equity's role within the Investment Office  
18 is really centered around systemically harvesting betas in  
19 three main areas. The first area is cap-weighted global  
20 equity. That's attempting to harvest the standard equity  
21 risk premium.

22 And by stand -- by equity risk premium, we're  
23 talking about earning returns based on corporate and  
24 economic growth. So corporate earnings growth and  
25 economic growth.

1           The second is the factor-weighted beta that we've  
2 talked about. It again is trying to harvest that economic  
3 growth and corporate earnings growth, but also through the  
4 lens of mitigating severe drawdown. So those are the  
5 first two betas. And those two betas accrue to the PERF,  
6 the Public Employee Retirement Fund. And that's a \$380  
7 million portfolio. The third set of betas that we're  
8 looking to -- and I'm sorry, global equity is about half  
9 of that \$380 billion. The third set of betas this -- are  
10 harvested in global equity has to do with the Affiliate  
11 Program. And those span across the asset classes, again  
12 harvesting these -- systematically harvesting these betas  
13 to earn the asset allocation of those trusts.

14           And really, the last thing I would say is we put  
15 up here culture. Culture is something that the  
16 organization is spending a lot of time focusing on. And  
17 really this is about Investment Belief 10 for us. It's  
18 all about strong process and all about teamwork and really  
19 working in a healthy culture.

20                               --o0o--

21           INTERIM CHIEF OPERATING INVESTMENT OFFICER

22 BIENVENUE: Okay. I figured I'd call your attention to a  
23 handful of the major accomplishments that we're achieved  
24 in global equity in fiscal year 18-19.

25           First, the implementation of the strategic asset

1 allocation, both for the PERF, which is -- was the asset  
2 segment work, but then also the new asset allocation for  
3 the affiliates. And this is some of the stuff that Eric  
4 talked about in the trust level review last month.

5 Also continued work reducing the complexity of  
6 global equity and integrating ESG in our decision making.  
7 Again, all about the investment outcome.

8 And then finally, I'll call your attention to the  
9 launch of the California Employers' Pension Prefunding  
10 Trust, or the CEPPT. If you'll recall, that was approved  
11 in June and then launched.

12 --o0o--

13 INTERIM CHIEF OPERATING INVESTMENT OFFICER

14 BIENVENUE: For the upcoming fiscal year, really, the  
15 focus is in another handful of areas. First, continuing  
16 to reduce complexity and to execute on our ESG 5-year  
17 strategic plan.

18 Secondly, leveraging technology and data  
19 including migrating from a single -- migrating, I'm sorry,  
20 from disparate platforms that the public assets are  
21 managed on to a common platform for the public assets.  
22 And by the public assets, I'm referring to public equity  
23 and global fixed income, which are the program reviews  
24 you're hearing today.

25 And then finally, continuing to work on the best



1 way to harvest that equity risk premium in terms of  
2 CalPERS utility for -- for way to earns -- earn returns  
3 to, you know, work towards that 7 percent on the -- at the  
4 PERF level. And then also looking at interactions between  
5 public equity and private equity and trying to really sort  
6 of blend those.

7 --o0o--

8 INTERIM CHIEF OPERATING INVESTMENT OFFICER

9 BIENVENUE: So through the lens of Ben's four Ps, so far  
10 we've talked about portfolio, process, and people. That  
11 takes us to the last one, which is performance. And on  
12 slide 6 here, you can see -- see the performance of the  
13 portfolio. Performance, of course, depends on what time  
14 period what looks at. But by way of summary, I would say  
15 the absolute performance contribution to the PERF is  
16 positive across all time periods for global equity and  
17 quite strong longer term. The 10-year number is nice now  
18 that -- you know I think last year at this time, I got the  
19 question on when the global financial crisis rolls out,  
20 now, that the -- the global financial crisis, while it was  
21 in the numbers, everything looks not very good. As soon  
22 as it comes out, the numbers look definitely better. It  
23 is now out of the 10-year performance number.

24 Relative performance, again quite strong in the  
25 10-year number, more challenged in the shorter term.

1 Candidly, mostly due to underperformance in the last 18  
2 months.

3 --o0o--

4 INTERIM CHIEF OPERATING INVESTMENT OFFICER

5 BIENVENUE: Then onto slide 7, I'll call your attention to  
6 the performance of the affiliate trusts, where it's very  
7 varied, of course, just due to the disparate nature of  
8 their allocations, due to the disparate missions of the  
9 trusts. But in aggregate, I would characterize the  
10 performance as falling in line with expectations. So  
11 that's a high level overview of global equity, but  
12 certainly happy to take questions from there.

13 CHAIRPERSON FECKNER: Thank you.

14 Ms. Brown.

15 COMMITTEE MEMBER BROWN: Thank you.

16 Dan, I just have sort of a process question for  
17 you. And I think I've asked you this privately, but I do  
18 want to ask it for the full Board, which is how do you  
19 balance wearing both hats, the COIO, which is -- I call  
20 that position the traffic cop. You might tell us what you  
21 consider that role is. And then also wearing the global  
22 equity MID hat, because those conflict. So I'm wondering  
23 how you do both?

24 INTERIM CHIEF OPERATING INVESTMENT OFFICER

25 BIENVENUE: Well, I'd like to think the only way they

1 conflict candidly is from a time standpoint. And it's  
2 been busy, right? The days have been long.

3 But as I say, the -- I don't think there are  
4 conflicts in terms of the roles. It's more just been a  
5 time thing. It's been -- you know, the history of the  
6 COIO's office was to be sort of that traffic cop.

7 COMMITTEE MEMBER BROWN: Um-hmm.

8 INTERIM CHIEF OPERATING INVESTMENT OFFICER

9 BIENVENUE: In June of this year, we actually migrated all  
10 of those things that are more sort of compliance type  
11 activities actually from the Investment Office over into  
12 Enterprise, under ECOM, really allowing the entire staff  
13 of the Investment Office to be focused on the portfolio  
14 management outcome.

15 So in that sense, I would say that they -- that  
16 any conflicts that had existed now no longer do.  
17 That's -- the first line -- all of the Investment Office  
18 is that first line of defense, managing the portfolio and  
19 certainly managing the risks, with all of the sort of  
20 second lines of defense being in ECOM.

21 CHIEF INVESTMENT OFFICER MENG: And also if I may  
22 say something. Before we name -- named Dan Bienvenue as  
23 the Interim CIO, we thought about these potential  
24 conflicts. And if you recall, as we explained to the full  
25 Board twice in the past, when we announced Dan becoming

1 the Interim COIO, we moved the potential area of conflict  
2 to be under Eric Baggesen. And that was the solution for  
3 the first half of the year. And then as Dan mentioned,  
4 that since June this year, part of that function had been  
5 permanently moved to the ECOM area out of the Investment  
6 Office.

7           And on this note also, I want to take this  
8 opportunity to thank both global equity team and the COIO  
9 team, the operation team, as you have read in Wilshire's  
10 report in annual program review in global equity, the went  
11 on to elaborate on their compliments to the stability and  
12 flexibility of the global equity. So that they offered  
13 this opportunity for us to steal Dan Bienvenue from global  
14 equity because of the deep bench and the long-tenured  
15 staff in both global equity and in the COIO office.

16           So we're really fortunate, you know, to have this  
17 kind of flexibility and deep bench in both of the areas,  
18 so that Dan could wear both hats at the same time. So  
19 with that, I really want to thank both teams. They all  
20 have stepped up. And as you noticed that in the  
21 Investment Office, we have a few vacancy position and we  
22 have a number of senior managers wearing two hats now.

23           COMMITTEE MEMBER BROWN: And we're filling the  
24 COIO soon?

25           CHIEF INVESTMENT OFFICER MENG: The personnel

1 discussion I'm not allowed to discuss in public, but --

2 COMMITTEE MEMBER BROWN: Oh, thank you.

3 CHIEF EXECUTIVE OFFICER FROST: Ms. Brown, I  
4 think the only thing I would say there is that it's more  
5 important for us to find the right person than to find a  
6 person quickly. And so Ben being here roughly 9 months  
7 now and making sure that we have complementary skills  
8 within Ben's direct reports, and so I think the discussion  
9 that will happen at Perf and Comp will give you a little  
10 more insight into what we're thinking around the creation  
11 of Deputy CIO role, and then we'd be ready to begin  
12 recruitment on some of these other key positions.

13 COMMITTEE MEMBER BROWN: Great. Thank you.

14 CHAIRPERSON FECKNER: Thank you.

15 Ms. Taylor.

16 VICE CHAIRPERSON TAYLOR: Yes. Thank you, Mr.  
17 Chair. Dan, thanks for your report. It was really  
18 clarifying. I just wanted to kind of give a shout-out on  
19 your governance and sustainability integration and kind of  
20 go a little further into what you answered to Henry in  
21 terms of with Beth and the impact fund. Obviously, our  
22 governance and sustainability, or our SDIs, we always are  
23 looking at risk and reward even with our SDIs.

24 I absolutely agree with that, but it is the  
25 board's strategy to implement the ESG strategy across our

1 portfolio. So I just -- I'm glad to see all of this work  
2 that you guys have been doing in our global equities on  
3 our ESG strategies.

4           And I just kind of wanted to call out our Climate  
5 Action 100+ and our work on that, our work on our  
6 corporate board diversity. Because it's so important, as  
7 we see the issues with the climate that are -- you know,  
8 they're overt at this point. It's not like it's not  
9 happening and it's sort of far in the future. We're  
10 seeing impacts now on real estate, all kinds of things  
11 that are a risk to our fund. So I just wanted to give you  
12 guys a shout-out on this work. It's really good work.  
13 I'd like to see us highlight that more often.

14           And then corp -- and it was really important  
15 when -- as I went to PRI. And PRI worldwide is  
16 considering climate change urgent at this point, because  
17 of the risk it poses to everyone's portfolios.

18           But also, I just wanted to kind of go into  
19 corporate board diversity a little further. We're  
20 engaging with companies to improve corporate board  
21 diversity and use proxy voting and shareowner campaigns to  
22 bring about change where engagements have not lead to  
23 positive outcomes.

24           I don't know if you want, Beth, to speak to this  
25 or not. But it was -- what I'm trying to figure out is

1 when there have not had positive outcomes, what are some  
2 of our solutions as we're engaging with those companies?

3 INTERIM CHIEF OPERATING INVESTMENT OFFICER

4 BIENVENUE: And I'll ask Simiso to come up and answer that  
5 question.

6 VICE CHAIRPERSON TAYLOR: Oh, Simiso.

7 INTERIM CHIEF OPERATING INVESTMENT OFFICER

8 BIENVENUE: But as he's making his way up, I'll just thank  
9 you for your comment around the work. There's been a lot  
10 of work to integrate ESG into all the investment decisions  
11 that are being made. And that's been candidly a lot of  
12 work across a lot of people. So certainly Beth and team,  
13 Simiso and team, Anne Simpson and company, it's I been --  
14 it's been a lot of work.

15 I do think there's been a lot of successes and it  
16 will remain an area of focus, but thank you for the  
17 comment. And I'll also underscore what Ben said and kind  
18 of back to Mr. Brown's comment before I'll let Simiso  
19 talk. Sorry.

20 I have made this comment several times. It has  
21 only been the fact that the two teams, both the COIO's  
22 office and the global equity, the senior leadership and  
23 the whole teams were as strong -- are as strong as they  
24 are that one could do both jobs for an 8-month period  
25 or -- and we'll see how much longer it is. It's only been

1 a function of how great those teams are. And so I really  
2 want to underscore that comment, so -- but Simiso, with  
3 that long preamble, I'll let you answer the question  
4 around board diversity review.

5 VICE CHAIRPERSON TAYLOR: We have a lot of  
6 confidence in you, Dan.

7 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
8 BIENVENUE: Thank you. I appreciate it.

9 INVESTMENT DIRECTOR NZIMA: Thank you. Simiso  
10 Nzima, Investment Director, Global Equities.

11 So to the question of corporate board diversity,  
12 again, if you look at what has happened and what we've  
13 achieved, especially with the 53 percent of the companies  
14 that we engaged, actually adding, you know, a level of  
15 diversity that it didn't have, where the engagement is not  
16 working we've actually voted against corp -- you know,  
17 directors in those companies whether we vote against board  
18 chairs, nominating and governance committee members, as  
19 well as long-tenured directors.

20 If you look at the number of directors we voted  
21 against this past season, which is 255 at 97 companies,  
22 that's a lower number than we did in 2018. And in 2018,  
23 we voted against 468 directors, 845 companies.

24 To me, that actually shows progress that we've  
25 made that we're actually voting against fewer directors at



1 fewer companies.

2           If you recall, in March, when we came to the  
3 Investment Committee, we reported that about 40 percent of  
4 the companies that we'd engaged added, you know, a  
5 component of diversity that they didn't have. And as you  
6 see now, that number has moved to 53 percent. So there's  
7 been progress in there.

8           And the other thing that we're doing, as far as  
9 holding companies accountable, is that they're companies  
10 where they don't have majority voting. So if a company  
11 doesn't have majority vote standard for director  
12 elections, even if 99 percent 99.9 percent of shareowners  
13 vote against that director and the director just gets  
14 one -- you know, one person voting for them, they stay on  
15 the Board.

16           So what we've done is at companies where they  
17 don't have diversity, we've -- and they don't also have  
18 majority vote for directors, we filed shareowner proposals  
19 to actually have these companies adopt majority voting  
20 standard for -- and we've identified 114 companies at the  
21 beginning of the -- of the year. And we've had many  
22 settlements with those companies. Some of those companies  
23 that did not respond to us initially, you know, over the  
24 2-year engagement period, but have now responded.

25           So there are a lot of tools that we are actually

1 using in terms of trying to address this issue.

2 VICE CHAIRPERSON TAYLOR: Thank you.

3 And so I think I wanted to kind of expand on  
4 that. And I know that further in our presentations here,  
5 maybe not under global equity, but under one of the others  
6 - I'm trying to see if it was here or not - we have -- I  
7 think we're having success with getting more women on  
8 boards. I'd like to see the numbers of success in other  
9 races. I think that might be an issue on corporate  
10 boards.

11 So I was wondering if that's also something that  
12 we're targeting, not -- we're having a little more success  
13 with women. And now, I think maybe we should move on to  
14 the races in terms of being equitable.

15 INVESTMENT DIRECTOR NZIMA: Yeah. So in terms of  
16 the criteria that we've used to identify companies, really  
17 we're used gender just because, you know, that's the data  
18 that's available. So some of the challenges that once you  
19 start getting into race and ethnicity, and other forms of  
20 diversity, the data is not there. But what we've seen is  
21 that where companies lack gender diversity, they also tend  
22 to lack other forms of diversity.

23 And when we engage companies, we actually are  
24 clear to them that the identification criteria may have  
25 been gender, but we're looking at all forms of diversity

1 and not just gender. And, you know, we are working with  
2 talking to different affinity groups, for example. What  
3 we've sort of suggested to them is that those that have --  
4 if they could encourage their membership to self-identify  
5 in terms of race, and ethnicity, and so forth when they  
6 actually, you know, list in some of these databases, that  
7 would actually help in terms of getting the information  
8 available.

9           We have -- in the past, we've filed a petition  
10 with the SEC, human capital management petition. Again,  
11 one of the things, which we're asking for, is that to have  
12 some of that information in terms of being disclosed by  
13 companies. But we're not in a position where there's  
14 mandatory disclosures around, you know, diversity from the  
15 SEC.

16           So we're trying to work all angles in terms of  
17 trying to get the data out there, either from  
18 self-reporting perspective or from having the SEC sort of  
19 having mandate for companies to report that data.

20           VICE CHAIRPERSON TAYLOR: So one of the problems  
21 we have with ESG integration is data. It's always been  
22 the case. I was wondering, can we tap into EEOC data for  
23 this?

24           INVESTMENT DIRECTOR NZIMA: So as part of our  
25 principles update, one of the things that we've actually

1 identified and put in the principles is actually to  
2 encourage companies to report that data. Because when you  
3 think about it, if the EEO data is already out -- it's  
4 already reported by companies, not even an issue of -- you  
5 know, companies will say, well, it's costly to -- you  
6 know, to collect this data and make it available. It's  
7 already reported under federal regulations.

8           So it's data, which if companies actually wanted  
9 to -- wanted to make available to investors, they can. So  
10 one of the things we're trying to do is to encourage  
11 companies to do that. And hopefully, we'll get more  
12 companies to do that.

13           I don't know if Beth wanted to add something on  
14 that.

15           MANAGING INVESTMENT DIRECTOR RICHTMAN: Beth  
16 Richtman, CalPERS staff.

17           I was going to add the comment, which is great,  
18 that the principles you just approved, the update, does  
19 include that information. Additionally, as part of our  
20 strategic plan, we recently did a diversity and inclusion  
21 survey of our external managers, and one of the questions  
22 we asked was about their process for nominating portfolio  
23 board company members.

24           So basically, you know, for our private equity or  
25 our real assets, are they looking at these criteria when

1 they're selecting members for their portfolio company  
2 boards, which is important, because board experience at  
3 the -- even the private company level can lead to the type  
4 of skill set that then would allow someone to be on a  
5 public company board as well.

6 VICE CHAIRPERSON TAYLOR: Great. And I  
7 appreciate all your work on this, because I know how  
8 difficult it is when we're looking data, when the SEC  
9 isn't being cooperative and allowing us to get majority  
10 vote. So I just want to -- it's so important that we  
11 continue to focus on this, because as we know, the Board  
12 diversity on a board, the more likely it -- we are to  
13 lessen the risk of that company and the impact that that  
14 company could have in terms of a drawdown.

15 MANAGING INVESTMENT DIRECTOR RICHTMAN: The one  
16 other thing I would add is that it does become a bit of a  
17 challenge for international companies because of the type  
18 of maybe laws in place about reporting --

19 VICE CHAIRPERSON TAYLOR: Right.

20 MANAGING INVESTMENT DIRECTOR RICHTMAN: -- which  
21 may mean that it -- and they also aren't subject to the  
22 EEO 1 data requirement.

23 VICE CHAIRPERSON TAYLOR: Right. Right.

24 MANAGING INVESTMENT DIRECTOR RICHTMAN: So it  
25 is -- as we think about it, this is an international

1 level. We do have to be --

2 VICE CHAIRPERSON TAYLOR: It's almost all U.S.

3 Okay. Thank you.

4 MANAGING INVESTMENT DIRECTOR RICHTMAN: Yes.

5 CHAIRPERSON FECKNER: Ms. Yee.

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

7 First, thanks to Dan for wearing multiple hats and really  
8 doing a great job on both. Really appreciate the work.

9 I wanted to go back to slide 6, if I could, on  
10 the performance summary chart. And as you say, we're --  
11 we've kind of gotten through some of the rough year  
12 horizons and approaching a pretty strong place with the  
13 10-year horizon.

14 But I was wondering in terms of the  
15 underperformance in the 1-, 3-, and 5-year periods,  
16 whether that kind of informs your thoughts maybe  
17 differently or more expansively about how you evaluate  
18 benchmarks and kind of the work that you're doing this  
19 year on the whole -- in the whole area of benchmarks.

20 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
21 BIENVENUE: Thank you for the question and for the  
22 comment. Your performance always has to weigh in to how  
23 you -- you know, you're ongoing evaluation. And one of  
24 the -- one of the simultaneously most challenging but also  
25 most interesting parts of investment management is

1 striking that balance between being humble enough to feel  
2 like you maybe you missed something and you can learn from  
3 it, and always be learning, but also maintaining the  
4 strength of your convictions as a long-term investor.

5           And I would say that that's the exact balance  
6 that we're trying to weigh. We are certainly exploring  
7 benchmarks and looking at -- you know, looking at what we  
8 think we should have in our benchmarks, you know, how  
9 expansive, all of those things. And I'll just call your  
10 attention to the -- to sort of the value factor is one of  
11 those things.

12           Value, there is a ton of academic literature that  
13 talks about how the value factor works. And our portfolio  
14 has a -- sort of a systematic exposure to value.

15           Candidly, for the past 12 years, and especially  
16 over the last two years, value has underperformed. So you  
17 have to just ask yourself the question has the world  
18 changed such that value will -- there will no longer be a  
19 return premium to the value factor or do we -- do we think  
20 that you'll get a -- you know, you'll get a reversal of  
21 this. And a lot of times those reversals happen are very  
22 quick and snapback fashion.

23           An that's one of the things we're looking at in  
24 our -- as we look at benchmarks is should we, rather than  
25 have it accrue as active performance, should we actually

1 have there be very -- various other factor inputs into the  
2 way we sort of harvest this equity risk premium that's  
3 different from the cap-weighted portfolio?

4 COMMITTEE MEMBER YEE: Okay. And then I wanted  
5 to look at -- I had a question around slide 20 also, which  
6 shows a large increase in the assets under management  
7 invested in the passive index funds or strategies. And it  
8 looked like a pretty sharp increase over a year. And I  
9 just wanted to get a sense of whether this was part of the  
10 shift to the factor-weighted segments or -- and then are  
11 we going to see a commensurate, I guess, reduction in  
12 investment costs as a result?

13 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
14 BIENVENUE: So the answer shortly is yes and yes.

15 COMMITTEE MEMBER YEE: Okay.

16 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
17 BIENVENUE: So the second segment is entirely index  
18 managed, so it's managed to replicate that index. And  
19 that has been the largest source of this shift in terms of  
20 more index and less active, because that came, in a lot of  
21 ways, from active strategies on the sort of the legacy  
22 cap-weighted segment.

23 In terms of the second question on the fees, and  
24 it speaks to the line of questions that Ms. Olivares was  
25 raising last month, you can see that the fees are still at



1 around that 9 basis points. That's actually due to some  
2 of the termination of legacy active managers. And then  
3 those fees crystallizing in this year. For next year, you  
4 should see a -- I'd -- you know, going from a place of 9,  
5 I would try to be careful not to characterize it as a --  
6 as a sharp drop in fees paid, but we would see that number  
7 coming down. And we would see that number coming down  
8 actually over the next, I would say, maybe 2 or 3 years.

9 COMMITTEE MEMBER YEE: Okay. Got it.

10 And then slide 27, I had a question regarding the  
11 external cost increase from 33 basis points to 41. And I  
12 wanted to get your sense of what the reasoning behind that  
13 is?

14 INTERIM CHIEF OPERATING INVESTMENT OFFICER

15 BIENVENUE: Yeah. And that's exactly what I was just  
16 referring to --

17 COMMITTEE MEMBER YEE: Okay.

18 INTERIM CHIEF OPERATING INVESTMENT OFFICER

19 BIENVENUE: -- was the fact that as we've terminated these  
20 managers --

21 COMMITTEE MEMBER YEE: Yeah.

22 INTERIM CHIEF OPERATING INVESTMENT OFFICER

23 BIENVENUE: -- their fees crystallize. And when their  
24 fees crystallize, we pay them. But those will be, you  
25 know, non-recurring costs, so to speak.

1           COMMITTEE MEMBER YEE: Okay. Good. I also want  
2 to echo Ms. Taylor's comments about the -- just the strong  
3 focus on the sustainability and governance issues. And  
4 with respect to the new executive comp pay for performance  
5 model. Can you describe, and maybe this is Simiso, but  
6 some of the inputs that are incorporated into that model?  
7 And I guess what I'm really wondering is whether CEO pay,  
8 ratio data is starting to get incorporated into some of  
9 our decisions on this front?

10           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
11 BIENVENUE: So, yeah, this is Simiso to dig into the  
12 details.

13           COMMITTEE MEMBER YEE: Okay.

14           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
15 BIENVENUE: I will just to -- you know, back to the  
16 previous line of questioning, this has been one of -- you  
17 know, we have lots of areas that we're trying to improve  
18 the -- you know, the -- these companies. But I would say  
19 our three most critical strategic areas of focus are  
20 around climate change --

21           COMMITTEE MEMBER YEE: Yeah.

22           INTERIM CHIEF OPERATING INVESTMENT OFFICER  
23 BIENVENUE: -- and specifically the Climate Action 100+,  
24 board diversity, and then this executive comp. And I'll  
25 ask Simiso to talk in through the -- sort of the updates

1 in the pay for performance and around our voting process.

2 COMMITTEE MEMBER YEE: That would be great.

3 Thank you.

4 INVESTMENT DIRECTOR NZIMA: Thank you for the  
5 question. Simiso Nzima, staff.

6 So in terms of the quantitative model that we  
7 use, which we introduced in March 2019, so there are two  
8 innovations that we did. Well, out -- maybe innovation is  
9 such a strong word, but -- so if you look at pay for  
10 performance and what's in the market, most people look at  
11 3-year period. So we actually decided to move to a 5-year  
12 period, because we think 3 years is not long enough period  
13 to assess pay and perform, especially when we talk about  
14 being a long-term investor.

15 Even 5 years is not really -- you know, but given  
16 the data -- so we actually went out and paid to get the  
17 data to be able to look over 5 years as opposed to 3  
18 years.

19 The second thing which we did again which, you  
20 know, not a lot of people are doing is to have this, what  
21 we call, the CalPERS realizable pay methodology. So a lot  
22 of what's actually -- what is actually disclosed by  
23 companies in their proxies, they disclose granted pay or  
24 realized pay, as opposed to realizable pay. So granted  
25 pay doesn't tell you anything about how pay moves with

1 performance. So we actually, you know, came out and  
2 developed our own realizable pay methodology, which  
3 actually shows us how pay scales to performance over a  
4 5-year period.

5 And that, again, sort of helped us in terms of  
6 from a quantitative perspective to be able to quickly  
7 identify instances where pay and performance are  
8 misaligned.

9 What we've also done, you know, which we  
10 introduced in August this year is, you know, what we call,  
11 the CEO financial outcomes versus the shareholder  
12 financial outcomes. So what we've done again, using our  
13 realizable pay methodology, is to compare the returns or  
14 the gain in the CEO pay from granted compared to the  
15 shareholder returns, you know, over the same period. So,  
16 for example, if a company where we see CEO pay has gained  
17 by 50 percent, where shareholders have only gained 2  
18 percent over a 5-year period, that tells us there's  
19 something either in the pay structure or leverage, and so  
20 forth.

21 But I think the -- one of the most important  
22 things, which we have done, is about transparency. And  
23 what we've actually done, we've posted a detailed  
24 explanation of our methodology to our public website. And  
25 the reason we're doing this is we want our industry, you

1 know, our portfolio companies to be able to go in and  
2 understand how we are actually assessing pay and  
3 performance.

4           We don't want this to be a black box sort of a  
5 situation. We want everyone to be able to do that.  
6 Companies can go in and look at that. Other investors can  
7 go in and look at that. They could give us feedback and  
8 say you guys you don't know what you're talking about or,  
9 you know, the can say, oh, this is a good approach and  
10 we'll adopt it.

11           So we've actually met that publicly available.  
12 Don't know any other investor who has actually met that  
13 publicly available. And we've made our model actually  
14 accessible to anyone. So it's hosted within the Equilar  
15 platform. And We've say anyone who has access to that  
16 platform can go in and look at our model and put a company  
17 name and actually see, you know, how the pay and  
18 performance, you know, is evaluated.

19           So again, total transparency, because we don't  
20 want this to be a black box. And we think the value of  
21 that is when we engage companies is we really say, well,  
22 this is what the figure is saying. This is how you  
23 performed, you know, and this is what you are paid, and  
24 these two things don't -- you know, they don't move in the  
25 same direction. They're not looking aligned. So that's

1 really what we've done in that.

2 COMMITTEE MEMBER YEE: Okay. That's terrific.  
3 Thank you for all the work on the model.

4 I just had a question with regard to whether the  
5 Sustainable Investments team will also have an opportunity  
6 to provide an annual review or whether we're going to hear  
7 that incorporated in each of the program reviews.

8 CHIEF INVESTMENT OFFICER MENG: The latter case,  
9 they'll be incorporated in the program review as is, not  
10 an asset class.

11 COMMITTEE MEMBER YEE: Uh-huh.

12 CHIEF INVESTMENT OFFICER MENG: So it does not  
13 warrant as a program -- asset class program review, but  
14 they are part of each of the asset classes.

15 COMMITTEE MEMBER YEE: Yeah, each of the asset  
16 classes. Okay. All right. And then I want -- I know  
17 we're going to be doing the reviews for the private asset  
18 classes in November, I believe.

19 CHIEF INVESTMENT OFFICER MENG: Yes.

20 COMMITTEE MEMBER YEE: So I just wanted to, Mr.  
21 Chairman request, if we could, maybe have a similar report  
22 with respect to how we're doing with regard to Board  
23 diversity as it relates to the private asset classes as  
24 well. I know, there's generally not a lot of attention  
25 with respect to diversity in those asset classes. But I

1 think we're making such progress -- great progress on the  
2 public side, that I was really heartened to see that  
3 Equilar and our 3D database, which we've spun off to  
4 Equilar, we now have close to 20 percent women represented  
5 on the Russell 3000 boards. And that growth has actually  
6 been pretty -- pretty significant over the last 2 years,  
7 so tremendous progress.

8 But I'd like to also start to focus on that issue  
9 the private side as well. So if we could just have a  
10 report on what we're doing with regard to those asset  
11 classes and what further strategies we may be looking to  
12 in the future

13 And then I guess the question after this  
14 presentation is just really a question about confidence  
15 and how confident you are about the ability of this  
16 portfolio to withstand potential market shocks, which, of  
17 course, is like asking you to read into a crystal ball,  
18 but given what you're seeing in terms of the performance?

19 CHIEF INVESTMENT OFFICER MENG: So you're looking  
20 for answer now or in November --

21 COMMITTEE MEMBER YEE: Actually --

22 CHIEF INVESTMENT OFFICER MENG: -- in terms of  
23 drawdown?

24 COMMITTEE MEMBER YEE: Yes, please.

25 CHIEF INVESTMENT OFFICER MENG: So in drawdown we

1 consider is probably that was the single most important  
2 question on each one of our mind --

3 COMMITTEE MEMBER YEE: Yeah.

4 CHIEF INVESTMENT OFFICER MENG: -- of any waking  
5 moment of our time. We keep on working on that and we try  
6 to get ourself as ready as we can as fast as possible.

7 And also, as you know, that there are so many  
8 sources of uncertainty out there in the world, and we try  
9 to be prepared for most of the scenarios. But even the  
10 first task to get our complete set of potential scenarios.  
11 But given the uncertainty, the unorthogonal events, or  
12 potential events, out there. So that's definitely pose a  
13 challenge to us. But you can rest assured, as I said,  
14 that that's the single most important question on the top  
15 of our mind.

16 COMMITTEE MEMBER YEE: Okay. Thank you.

17 INTERIM CHIEF OPERATING INVESTMENT OFFICER  
18 BIENVENUE: Yeah. I mean, the only thing that I would add  
19 is that, you know, the equity holdings will get hurt. In  
20 the case of an equity drawdown, equity holdings will get  
21 hurt. But as Ben says, this has been a critical area of  
22 focus for Ben certainly with focusing on our liquidity,  
23 focusing on driving this total fund perspective around the  
24 four utilities with drawdown being one of them.

25 And I would also say it's been a focus of the



1 teams for a while. You know, the segment work that we  
2 went through getting to these asset segments in the 2017,  
3 I think it was, asset liability management work -- you  
4 know, work, getting an explicit treasury segment, getting  
5 a second segment of equity that's focused on mitigating  
6 severe drawdown. You know, this has been an -- this has  
7 been an area of focus for the staff.

8           But while recognizing that in order to achieve  
9 the kind of expected returns we have, we have to take  
10 equity risk, and knowing that when we get that equity,  
11 that -- you know, it's a when not an if we will get an  
12 equity drawdown. And when we get that drawdown, the  
13 portfolio will suffer. The idea is to -- is to be sure we  
14 can not only - you know, to use Ben's terminology - first,  
15 survive, but then secondly thrive. And that's -- you  
16 know, that's been a major area of focus certainly for Ben  
17 and for the whole team.

18           COMMITTEE MEMBER YEE: Yeah, I appreciate that.  
19 Thank you. And then just one last question, because I  
20 think for some of the newer Board members, we had adopted  
21 the 5-year ESG strategic plan. And obviously, in the  
22 process of implementing that, it seems to me some of that  
23 has kind of moved around a little bit. And so I don't  
24 know if we're going to kind of get an update. But in  
25 terms of what your two priorities for the next -- top

1 priorities for the next fiscal year is going to be. I  
2 suspect it's going to continue to be obviously some of the  
3 climate related issues and then comp. But any other  
4 thoughts about priorities?

5 INTERIM CHIEF OPERATING INVESTMENT OFFICER

6 BIENVENUE: Correct. I would say that within global  
7 equity, the focus will continue to be those three areas,  
8 executive comp, board diversity, and Climate Action 100+.

9 COMMITTEE MEMBER YEE: Okay.

10 INTERIM CHIEF OPERATING INVESTMENT OFFICER

11 BIENVENUE: It is the case that we are continuing to  
12 execute on the ESG strategic plan, which also includes  
13 things like manager expectations --

14 COMMITTEE MEMBER YEE: Right.

15 INTERIM CHIEF OPERATING INVESTMENT OFFICER

16 BIENVENUE: -- and making sure that all of our managers  
17 have -- you know, are incorporating ESG into their  
18 decision-making processes. We've got, you know, a couple  
19 more years left on the plan and we're continuing to  
20 execute.

21 COMMITTEE MEMBER YEE: Okay.

22 MANAGING INVESTMENT DIRECTOR RICHTMAN: Just the  
23 only additional thing I'd add is that we are on track for  
24 this year's goals, one of which is -- oh, Beth Richtman,  
25 CalPERS staff -- which is to deliver a real assets carbon

1 footprint.

2 As you know, we have a climate risk report that  
3 we're mandated to do --

4 COMMITTEE MEMBER YEE: Yes.

5 MANAGING INVESTMENT DIRECTOR RICHTMAN: -- by SB  
6 964. And that footprint will be included in it. So that  
7 is one of the key goals that wasn't in the strategic plan,  
8 but is a very important stream of work for our investment  
9 office right now --

10 COMMITTEE MEMBER YEE: Right.

11 MANAGING INVESTMENT DIRECTOR RICHTMAN: -- in  
12 terms of sustainable investment, is doing a total fund  
13 climate risk report.

14 COMMITTEE MEMBER YEE: Okay. And I guess what I  
15 would ask is that maybe at the beginning of next year, we  
16 could just kind of tie all those pieces together so we  
17 have a better way of just kind of tracking the remaining  
18 implementation of the plan.

19 MANAGING INVESTMENT DIRECTOR RICHTMAN: Yeah.

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

22 CHAIRPERSON FECKNER: Thank you.

23 Mr. Perez.

24 COMMITTEE MEMBER PEREZ: No, sir. I'm good.

25 CHAIRPERSON FECKNER: Ms. Ma.

1 COMMITTEE MEMBER MA: Thank you very much.

2 And just to follow up on Ms. Taylor, SB 826  
3 passed last year, signed by the Governor that requires at  
4 least one woman on a corporate board by the end of this  
5 year. And, you know, my office has been tracking. And as  
6 of 2019, there were 16 -- about 17 percent of California  
7 headquartered companies that still do not have a woman on  
8 the Board. So I'm glad that you all are also looking, you  
9 know, globally at the asset -- assets that we are invested  
10 in.

11 But to follow up on Ms. Yee, and market shocks,  
12 and Mr. Meng on many uncertainties in the world, someone  
13 did ask me how much we actually invest in California,  
14 whether it's California headquartered companies,  
15 California real estate, so that we hopefully can weather  
16 whatever comes our way? And I'm not asking for an answer  
17 right now. But perhaps at the next meeting, if you are  
18 tracking that type of data, it would be helpful. Because  
19 I think as we are all preparing for the future, we want to  
20 make sure that California remains the 5th largest economy  
21 in the world. So not for today, but maybe at the next  
22 meeting, you can touch upon what our breakdown is for our  
23 different asset classes, if you have.

24 INTERIM CHIEF OPERATING INVESTMENT OFFICER

25 BIENVENUE: So we do an annual report on CalPERS

1 investments in California. And we are -- would be happy  
2 to recirculate that to the Board --

3 COMMITTEE MEMBER MA: Okay.

4 INTERIM CHIEF OPERATING INVESTMENT OFFICER

5 BIENVENUE: -- and get it out there, because it's actually  
6 a very comprehensive report on our investments in  
7 California.

8 COMMITTEE MEMBER MA: Okay. Great. Thank you.

9 CHAIRPERSON FECKNER: Mr. Jones.

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

12 Yeah, to Mrs. Ma's request on the impact --  
13 economic impact of CalPERS's investments and payments to  
14 its retirees in California, as staff mentioned, there is a  
15 report. Rather than just providing it to the Board, I  
16 think it would behoove you to make a presentation to one  
17 of the committees somewhere along the line about that  
18 report, because I think it's a very powerful report.

19 CHAIRPERSON FECKNER: It was waiting if he has a  
20 comment.

21 CHIEF INVESTMENT OFFICER MENG: Yes, we'll bring  
22 that back to you.

23 CHAIRPERSON FECKNER: Very good. Thank you.

24 Seeing no other requests.

25 Anything else on Item 8a?

1 INTERIM CHIEF OPERATING INVESTMENT OFFICER

2 BIENVENUE: That's all we've got for 8a, and we can move  
3 to 8b.

4 CHAIRPERSON FECKNER: All right. So 8b is the  
5 Wilshire Associates summary.

6 MR. FORESTI: Good morning. Steve Foresti from  
7 Wilshire Consulting.

8 CHAIRPERSON FECKNER: Good morning.

9 MR. FORESTI: I'm going to reference some of the  
10 material in the letter around the program review that we  
11 provided. I believe that's -- begins on page 303 of the  
12 PDF in your packet.

13 And some of what I was going to review, you've  
14 just discussed, so I'll try to be brief in those areas.  
15 But I thought it would be helpful to quickly go through  
16 the process that we follow within the program review,  
17 touch on the portfolio strategy, construction, recent  
18 performance, which you did spend a little bit of time on,  
19 and then finally touch on some of the commentary within  
20 our scoring model, which is part of the letter that we  
21 provided.

22 There was some questions about that when my  
23 colleagues were here last month. It's the same model we  
24 used there. So I'll hopefully provide a bit of clarity on  
25 the construct of that model.

1           But starting with the process, the letter that we  
2 provided really culminates in some onsite meetings that  
3 Wilshire has here with senior members of staff. We  
4 conduct interviews. It's on a variety of topics,  
5 including the research model that's followed, portfolio  
6 construction, implementation, attribution. But those  
7 onsite meetings really just build off of recurring  
8 conversations that we're having throughout the course of  
9 the year with the global equity team.

10           And those calls essentially follow an agenda that  
11 let's us keep track of any strategic changes so that when  
12 we're onsite at the end of the year doing the review  
13 around the fiscal year-end, there really are no surprises.  
14 We're in constant touch with the team that covers issues  
15 like staffing, again strategy, portfolio changes, et  
16 cetera.

17           Dan mentioned the Affiliate Investment Programs.  
18 And while those are multi-asset in nature, they are part  
19 of the global equity program. So that's covered in the  
20 review that we did as well.

21           And then final comment on process. And I  
22 mentioned the research model that we go through. It's the  
23 standard Wilshire manager research model that we would use  
24 when we're Meeting with external money managers. So we  
25 run the team through the same sort of due diligence

1 process we would, if it were an external asset management  
2 firm.

3           So with that, I'll just touch a bit on the  
4 portfolio construction and strategy is Dan mentioned the  
5 mandate of the Global Equity Program is to deliver global  
6 equity risk premia to the total fund. And then hopefully  
7 add some incremental return on top of that by taking  
8 modest levels of relative risk. And by modest, that's set  
9 to be between 0 and 50 basis points, or half a percent of  
10 tracking error annually. So that's a modest amount of  
11 risk taking. And the goal obviously is to convert that  
12 relative risk into positive excess return.

13           Obviously, the big -- one of the big initiatives  
14 through the last fiscal year was transitioning the  
15 portfolio from its previous benchmark of fully cap  
16 weighted and moving into a segmented approach where 70  
17 percent of the portfolio is cap weighted and 30 percent is  
18 factor weighted.

19           And just to put some perspective around that 30  
20 percent, with the size of the CalPERS portfolio, that  
21 translates to about \$55 billion. So that was a massive,  
22 massive undertaking, a huge transition of assets. I think  
23 it was very prudently spread across the year. It was  
24 coordinated with the other asset allocation transitions  
25 that were happening. So it involved not just the global



1 equity team, but the members of the team across the  
2 Investment Office, and kind of quarter-backed by the  
3 total -- the TLPM team.

4           So I'll touch quickly on performance, because I  
5 know you spoke about that a bit in the earlier item. But  
6 as Dan mentioned, excess returns in recent times have been  
7 under benchmark. So for last year, it was about 0.2 under  
8 the benchmark and that continues through to 3 and 5 years.  
9 As you stretch it out to 10 years, it's actually a  
10 positive excess return.

11           Incidentally, in the letter that I reference, if  
12 you look at page three, we have some of these return  
13 targets. And then I think importantly on page four, we  
14 show a rolling history on a 3-year roll of what both the  
15 returns look like, the excess returns, but importantly, we  
16 show rolling risk. And that would be the solid blue line  
17 in that Exhibit 2.

18           And you can see that with regard to risk taking,  
19 that that blue line has stayed very well within that 50  
20 basis points of tracking error, and has actually come down  
21 a bit, which I think is very consistent with some of the  
22 portfolio construction changes that the -- Dan and team  
23 just described.

24           In terms of portfolio construction, again, this  
25 is something that you just spoke of Ms. Yee. You were

1 asking questions about how much of the portfolio is  
2 managed internally, index-oriented strategies. There's  
3 certainly been a move to increase the amount of internally  
4 managed assets. That's very helpful in terms of  
5 maintaining the fee structure of the portfolio. And then  
6 index oriented, which would be, by definition, strategies  
7 that take very modest, under 50 basis points again, level  
8 of risk.

9           Those increases in the portfolio have been funded  
10 by reduced levels of exposure to traditional active  
11 management, as well as to alternative beta. And I think  
12 the reduction in alternative beta is probably very  
13 consistent, if you think about the shift of some of the  
14 factor-weighted approaches, that 30 percent of the  
15 portfolio that I mentioned, where there's been a little  
16 bit of a transition from. Where in the past, staff used  
17 some of the excess risk that they had within their policy  
18 to lean in some of those directions, now that's been, and  
19 I think very prudently, done at a higher level with the  
20 Investment Committee's input and decision making to set  
21 the strategic asset allocation process.

22           I did want to make one comment, because I think  
23 it's lost in the return numbers that I touched on for the  
24 past year. So we're one fiscal year into the transition  
25 to the these factor-weighted portfolios, and we see that

1 that negative excess return that I mentioned of just under  
2 20 basis points for the year.

3           What's lost in that is the impact of that 30  
4 percent allocation. And to be clear, it wasn't 30 percent  
5 for the entire fiscal year. There was that transition  
6 into that allocation that I mentioned. But if you look at  
7 I think one year into the Board's implementation of that  
8 segmented approach, there's some very good news around the  
9 way that segment has behaved and the role it's played  
10 within the portfolio.

11           And specifically, if you look at the two  
12 components, the cap-weighted component, the portfolio's  
13 index in that portfolio was just over a 5 percent return  
14 in fiscal 2019, the factor-weighted portfolio was well  
15 over 10 percent. So it shows you a buffer. And the point  
16 I want to make is I think Ben at the last Investment  
17 Committee meeting, you know, mentioned in regard to this  
18 kind of strong and very positive looking performance, that  
19 there will be periods of time where that segment  
20 underperforms.

21           But that's different than saying it's betting  
22 against the market. And I think the numbers that I just  
23 revealed kind of demonstrate that, that this segment of  
24 the portfolio can perform and it can perform well across a  
25 market cycle. And while it will have periods of

1 underperformance, the goal is to make sure that in periods  
2 of sell-off it can hold up kind of nice -- if you zoom in  
3 on the 4th quarter of calendar 2018, that was a perfect  
4 demonstration of how that might play out, where the  
5 cap-weighted segment of the portfolio was off, I think the  
6 number is down about just over 11 percent. And the  
7 factor-weighted segment, it was down, but down just a  
8 little over 7 percent. So you can see that's a bit of the  
9 protection that can happen in some of those market  
10 sell-offs.

11 Finally, I just want to touch on some of the  
12 scoring. And this would be on page six of our letter that  
13 just shows the model. And before getting into commentary  
14 about the various components, I would just draw your  
15 attention to the very bottom of the exhibit on page six,  
16 which kind of has a coloring scheme around the scoring  
17 process.

18 And as my colleagues Ali and Rose discussed when  
19 providing summary on the program reviews for Opportunistic  
20 Strategies and TLPM last month, it's the same scoring  
21 model. The 1 through 10 are tiers or deciles. If you  
22 think about if we scored every asset manager that's out  
23 there, you would expect to see essentially an even  
24 distribution across the component scores. So 1/10 would  
25 have a 1, 1/10 would have a 2, et cetera, et cetera.

1           We simply attach letter grades to those numbers  
2 just to try to move a little bit away from the granularity  
3 that a 1 through 10 scale suggests, and kind of collapse  
4 it down to if you kind of think about a 1 and a 2 as an A,  
5 to bring it again to letter grades, a 3 and a 4 a B, so on  
6 and so forth. So every grouping of two tiers would  
7 essentially move you down a letter grade. 5 and 6 being  
8 essentially median in the middle type of score.

9           So with that framework in mind, we go through the  
10 scoring model that Wilshire employs, which looks at  
11 scoring organization, information. Forecasting has that  
12 information built into forecasts. Portfolio construction,  
13 how are those forecasts put into a portfolio.  
14 Implementation, how is that paper portfolio implemented  
15 and traded. And then finally, a really important part,  
16 which is attribution, how does the process learn from  
17 itself, what's the feedback loop, how does the -- how does  
18 the process learn from previous investments, and how does  
19 that feed the go-forward investment strategy.

20           So stepping through that, I won't go through each  
21 component, but I will draw attention to a couple of the  
22 things that we commented on in the letter.

23           As far as the organizational lever, we did push  
24 the score up. And the organization score has two  
25 components. One is organization-wide. Think about that

1 across the whole Investment Office. And then there's a  
2 team component.

3           So organization-wide, no change to what Ali and  
4 Rose shared last month. That score was pushed up a bit  
5 and that's, in fact, because we brought it down the  
6 previous year. When we put the score together, that's  
7 when the then CIO was leaving. There was uncertainty  
8 about that position. That's obviously been filled with  
9 Ben, so that pushed the score up, even against the issues  
10 with the departure of the COIO.

11           But that lead -- that brings me to the team, and  
12 I'm happy that it came up in the previous session, and we  
13 commented on this in the letter. The global equity team  
14 is very deeply resourced. There's folks that have been  
15 with the organization for quite a while, very seasoned,  
16 very experienced team. And I think that played very well  
17 into the Investment Office being able to tap into the team  
18 and Dan's role in moving in and being able to fill the  
19 interim COIO role.

20           And that really became -- that flexibility I  
21 think is a testament to the team. And then Dan being able  
22 to -- I think he's talked about the hours he's put in.  
23 But I don't think that's possible without him being able  
24 to rely on a really experienced team that is -- you know,  
25 we've talked about this not only this year, but in

1 previous letters. There are redundancies built into the  
2 process. So every person on the team, it -- not to say  
3 this in a pejorative way, but is replaceable and has  
4 redundancies. And I think that's -- I think that's a  
5 really important risk control and the organization has  
6 benefited from it in certainly this calendar year.

7           Other strengths of the program, for sure  
8 construction and attribution. I mentioned the importance  
9 of those. The very robust risk tools that are not only  
10 available to the team, but they've demonstrated that  
11 they're using very extensively. They understand the  
12 positions that are in the portfolio. They understand why  
13 the excess returns are negative. So there's -- I think  
14 there's very little surprise in the return pattern. But,  
15 of course, that doesn't guarantee that the excess return  
16 is always positive. But it's a well constructed, well  
17 thought out, well understood risk portfolio.

18           The other strengths, just within the -- and you  
19 talked a bit about corporate governance. And the team  
20 that's -- the process that Simiso leads, fully integrated  
21 corporate governance team that can just integrate and be  
22 independent in terms of proxy voting and shareholder  
23 engagement. That's a huge benefit. I know you talked a  
24 moment ago about program reviews around some of those  
25 functions as well as sustainable investing.

1           Just as reminder to the Committee, that's  
2 a pro -- it may not be a program, but it's been a review  
3 that Wilshire has conducted. My colleague, Daniel Ingram,  
4 for the last 2 years has provided an overview and a review  
5 of the sustainable investing program. And that's  
6 something we're prepared to do in whatever format makes  
7 sense for the Committee.

8           Finally, I'll touch on a couple of areas where  
9 our score did come down a little bit. One would be  
10 forecasting. And I think that's not because we have any  
11 significant concerns about the forecasting process, but  
12 it's just a natural response to when you do see over the  
13 short term some of the relative return numbers moving from  
14 black and into the red in trailing the benchmark. That's  
15 just a signal that it's an area that we -- we're keeping  
16 an eye on and in the interim lowering the score a bit.

17           Again, I mentioned the portfolio construction and  
18 kind of understanding the nature of that negative return.  
19 But nonetheless, it does bring some questions around the  
20 sustainability of those insights. And I think the way Dan  
21 responded to your question is the same way we would think  
22 about it, which was a very, I think, humble and sober  
23 response about, you know, trying to understand has the  
24 world changed? Is it -- is this something that comes back  
25 in terms of delivering the sorts of relative returns that



1 it has historically.

2           Finally, the other place we'd lowered the return  
3 was in implementation. Implementation is a strength of  
4 the program. We simply reduced that, because in this 30  
5 percent factor-weighted component, there is reduced  
6 liquidity in terms of trading that segment of the  
7 portfolio.

8           You know, staff read into that when they were  
9 transitioning into the portfolio. They are completely not  
10 only aware of that issue, but have actually taking --  
11 taken steps. There was an internal project. They  
12 provided us with transparency in terms of the nature of  
13 that project, what problem it was attempting to solve.  
14 And this is probably an example of what you talked about  
15 earlier in terms of what constitutes materiality around a  
16 benchmark change.

17           This is a perfect example I think in practice of  
18 one of those cases where staff came to Wilshire,  
19 identified what they were working on, again gave us  
20 transparency into that process, and allowed us, as your  
21 independent consultant, to opine on whether we agreed that  
22 those were ministerial changes in nature. That, in  
23 essence, that factor-weighted component is still  
24 delivering the risk characteristics that it was intended  
25 to do.

1           And I would expect that our implementation score  
2 in next year's review, provided we see that the  
3 implementation of these changes have been successfully --  
4 they get at the problem they're trying to address, I would  
5 expect to see that mild reduction in score move back up  
6 next year.

7           So it was probably a little longer than what you  
8 were looking for, but I'd be happy to answer any questions  
9 you may have.

10           CHAIRPERSON FECKNER: Thank you.

11           Ms. Taylor.

12           VICE CHAIRPERSON TAYLOR: Yes. Thank you.

13           Thank you for your report. And you kind of  
14 touched on what some of the things I was going to ask  
15 about. Organizationally, the score I know you said is the  
16 same as last time. But I wanted to kind of dive into that  
17 a little bit. I thought last time the score was kind of  
18 low because we had some, what do you call it, disruption  
19 in our -- in our -- having our CIO leave, et cetera.

20           So what are you seeing as a problem now that  
21 keeps the score low for organization for the firm part --  
22 not the team part, the firm part?

23           MR. FORESTI: Yeah. So the score -- the score  
24 actually did come up a bit from last year. So we lowered  
25 it last year. And I apologize, I -- I'm legally blind.

1 If I'm not pointing at you, I couldn't --

2 VICE CHAIRPERSON TAYLOR: That's okay.

3 MR. FORESTI: -- tell where the question was  
4 coming from, but -- so we did increase the score this  
5 year. The reason it stays essentially where it is are  
6 based on comments that we've provided in the past. And  
7 again, the -- I think more on the micro level just there  
8 still is at the senior level uncertainty. And that would  
9 be around the COIO role, which is -- which is now being  
10 filled in an interim basis.

11 Again, I kind of told you the positives around  
12 that in terms of the flexibility that the organization  
13 has. But at its -- at its core, that -- that helped, you  
14 know, dampen the score a bit for sure, albeit against a  
15 big positive of filling the CIO role. But I think CalPERS  
16 just as an organization, just has the -- just the  
17 impediment of competing for talent in an industry where  
18 ownership and incentive packages, just more tools  
19 available in the private sector.

20 And that in no way - and I commented on this last  
21 year - no way impugns the talent level of the staff. But  
22 I think it does -- it provides just a little bit less kind  
23 of retention certainty around some key individuals. And,  
24 you know, we've just -- we've just seen some of that  
25 turnover at senior levels in recent careers. So that --

1 that I think keeps a lid on that overall score, but it is  
2 up from last year a little bit.

3 VICE CHAIRPERSON TAYLOR: Okay. So the -- and  
4 that's what you meant here by our inability to provide  
5 employees direct and indirect ownership opportunities,  
6 correct?

7 MR. FORESTI: Absolutely.

8 VICE CHAIRPERSON TAYLOR: And then onto the team  
9 score, which is unchanged. Turnover is mitigated through  
10 positive intellectually-challenging work environment. So  
11 here it sort of translate when we're looking at the  
12 positions underneath the senior management, you're saying  
13 that we have a better handle on how to retain those folks  
14 basically?

15 MR. FORESTI: Just through -- through an  
16 interesting collaborative environment. So I didn't touch  
17 on the structure of the decision-making process, but it is  
18 very much a committee-driven approach. So that's not to  
19 say that decision making of the portfolios is democratic  
20 in any way, but it's democratic in terms of opinions being  
21 raised, people having ownership for different elements of  
22 the portfolio, and very inclusive decision-making  
23 framework. And I think that keeps people engaged. And  
24 that serves as a really important, I think, retention  
25 tool.

1 I mean, if people are interested in the work  
2 they're doing, they feel like their contributions are  
3 meaningful, then, you know, outside of the monetary  
4 compensation that one receives for the work that they do,  
5 doing meaningful work I think is important. So that's the  
6 nature of the comments that you just read were designed to  
7 kind of try to call that out, because I do think it's an  
8 important part of what goes on within the global equity  
9 team.

10 VICE CHAIRPERSON TAYLOR: Okay. Thank you.

11 Also, when did you guys do this review just  
12 curious?

13 MR. FORESTI: So we were onsite in mid-July. But  
14 as I mentioned, we have calls, at a minimum, every 2  
15 months with the staff and more often than that when  
16 needed. You know, I gave you the example of the  
17 factor-weighted. That happened outside of these recurring  
18 calls. And that's just if something material is going on,  
19 then we'll get on the phone. But the 2-day onsite was in  
20 mid-July.

21 VICE CHAIRPERSON TAYLOR: And I guess why I'm  
22 asking is because we've got the new CIO -- and I know you  
23 said -- you raised the core, but it didn't raise it enough  
24 to get us up there to a B. So -- and then we hired the  
25 PE, Private Equity Director -- Managing Director and Fixed

1 Income. So was that included in this score?

2 MR. FORESTI: So everything that would be -- so  
3 keep in mind, also the score is based on fiscal year '19.  
4 So it would be inclusive of the things, you know, based  
5 off of that -- so we're scoring the fiscal -- the program  
6 as of -- through that fiscal year. But, yeah, it would  
7 be -- it would be including all information, you know,  
8 including what we're aware of as we're doing the review.

9 CHIEF INVESTMENT OFFICER MENG: The timeline is  
10 fair to say, both Greg Ruiz an Arnie Phillips was named as  
11 MID after the fiscal year.

12 VICE CHAIRPERSON TAYLOR: That's what I was  
13 trying to figure out. Okay.

14 MR. FORESTI: Right. But Arnie was in the  
15 role -- right, so the scoring would have represented, you  
16 know, Arnie -- in the case of Fixed Income, Arnie being in  
17 that role. But the --

18 VICE CHAIRPERSON TAYLOR: As Acting though.

19 MR. FORESTI: Yeah.

20 VICE CHAIRPERSON TAYLOR: Okay. All right.

21 Thank you.

22 MR. FORESTI: You bet

23 CHAIRPERSON FECKNER: Mr. Perez.

24 COMMITTEE MEMBER PEREZ: Thank you.

25 Following up on Ms. Taylor's questions. Under

1 the firm, there's three criteria that you have listed,  
2 quality, and stability, and then quality of the  
3 organization, and then ownership and incentives. To what  
4 extent at all did the ownership and incentives affect our  
5 score?

6 MR. FORESTI: That's a big -- that's a big  
7 component. So the quality of the staff I think is very  
8 strong and can compete with, you know, best in class  
9 organizations in the industry. So the main impact on the  
10 score, and again it's because it -- what these scores  
11 reflect is not necessarily a problem, but a risk. And the  
12 issues that we address in the area of retention and  
13 compensation is a risk.

14 You have a very talented Investment staff. But  
15 that just -- it's just a risk that there could be  
16 disruption because of those aspects. Now --

17 COMMITTEE MEMBER PEREZ: I asked a goofy  
18 question. I'm sorry. I meant specifically for the  
19 ownership and the incentives, what did -- how did that  
20 affect our score?

21 MR. FORESTI: That's the reason it's -- other  
22 than the specific turnover, but the risks around that is  
23 the reason it's low.

24 MS. DEAN: Rose Dean, Wilshire.

25 COMMITTEE MEMBER PASQUIL ROGERS: Turn your mic

1 on.

2 MS. DEAN: The ownership and incentives is about  
3 40 percent of the total organization score. It's 30, 30,  
4 40.

5 CHAIRPERSON FECKNER: Please identify yourself  
6 for the record again, please?

7 MS. DEAN: Rose Dean, Wilshire Associates.

8 CHAIRPERSON FECKNER: Thank you.

9 COMMITTEE MEMBER PEREZ: Thank you.

10 CHAIRPERSON FECKNER: Ms. Olivares.

11 COMMITTEE MEMBER OLIVARES: Thank you.

12 MR. FORESTI: But it's that 40 percent that  
13 really brought down the --

14 CHAIRPERSON FECKNER: Your microphone, Steve.  
15 There you go.

16 MR. FORESTI: I thought it was on.

17 Yeah, I was just commenting on it's -- so  
18 that's -- tangibly it gives you the weight, but the score  
19 to that component is -- with that 40 percent and a low  
20 score to that component is what brought the overall org  
21 score to where it is.

22 CHIEF INVESTMENT OFFICER MENG: Mr. Perez, I may  
23 have an opportunity later this afternoon in closed session  
24 to address ownership and incentive question.

25 CHAIRPERSON FECKNER: Ms. Olivares.



1 COMMITTEE MEMBER OLIVARES: Thank you.

2 I'm used to seeing a higher weighting for  
3 organization, usually because that -- in the private  
4 sector, which I know this isn't, that's the secret sauce,  
5 right? You compete based upon your talents, based upon  
6 the performance of your organization. But I've seen that  
7 also with some other states and their pensions, as well as  
8 some counties. Why is the weighting 20 percent for the  
9 organization level?

10 MR. FORESTI: So let me talk a little -- so the  
11 weighting that we use actually is a bit dynamic. So the  
12 20 percent reflects when the score is median or above.  
13 And completely agree with the sentiment that you're  
14 raising, which is all of this -- all of the other  
15 components can be as high as you like. But if there's --  
16 if there's a low score at the organization level, how does  
17 that trickle through to the overall score in a way that's  
18 appropriate for that concern?

19 The way we do this -- and by the way, we do the  
20 same thing on the forecasting score, because I would -- I  
21 would also argue that you could be best in class in  
22 portfolio construction. But if your forecasting is really  
23 subpar, there's no portfolio construction in the world  
24 that's going to fix the problem with forecasting.

25 So we have a dynamic score. And the way it

1 works -- without getting, you know, too into the weeds, if  
2 the organization score overall is 5 or above, meaning, you  
3 know, median or above, then it's 20 percent. That score  
4 starts to become a bigger and bigger component of the  
5 overall total score as it deteriorates. And I don't have  
6 all the details in front of me. But essentially, it goes  
7 from 20 to 30 and go all the way up to, I believe, 70  
8 percent of the overall score, if that score comes really  
9 low.

10           So it -- it kicks in almost if you think about it  
11 as a circuit breaker. So when the score is median or  
12 above, 20 percent seems appropriate. When it starts to  
13 deteriorate, then it should I think importantly have an  
14 impact on the overall score. So that's the way we've  
15 designed it to make sure that it does serve as a circuit  
16 breaker and a warning that there's something that other  
17 components just simply cannot make up for.

18           MS. DEAN: And just to add -- Rose Dean, Wilshire  
19 Consulting -- if, for example, a material event happens to  
20 the organizational structure, in terms of ownership, et  
21 cetera, or to the team where a key member of the team is  
22 leaving the firm or leaving that team, then that score  
23 would come down, in which case that would kick it to the  
24 dynamic portion that Steve mentioned, so that we can  
25 properly reflect that in the overall score of the

1 strategy.

2 COMMITTEE MEMBER OLIVARES: Thank you. And then  
3 I see that we've looked at the quality of the team. And I  
4 know we've talked about compensation packages for  
5 executives. Are we also looking at compensation for the  
6 investment Officers that do a lot of the work, so that we  
7 can increase the pool of talent that we have feeding into  
8 executive positions?

9 CHIEF INVESTMENT OFFICER MENG: So in terms of  
10 incentive compensation, some of the Investment Officers  
11 are included, not all of them.

12 COMMITTEE MEMBER OLIVARES: Yes. Are we -- are  
13 we looking at changing the compensation structure for all  
14 the Investment Officers?

15 CHIEF INVESTMENT OFFICER MENG: So we're looking  
16 to change the compensation structure for some of the  
17 Investment Officer currently who are eligible for  
18 incentive compensation.

19 CHAIRPERSON FECKNER: Ms. Taylor.

20 VICE CHAIRPERSON TAYLOR: So you may not know,  
21 that's rank and file.

22 COMMITTEE MEMBER OLIVARES: I do.

23 VICE CHAIRPERSON TAYLOR: Okay. So then the  
24 compensation is being discussed or has been discussed at  
25 bargaining. So that's -- and then this extra bonus that

1 they're talking about --

2 COMMITTEE MEMBER OLIVARES: Yeah.

3 VICE CHAIRPERSON TAYLOR: -- I think is something  
4 we did at bargaining recently.

5 COMMITTEE MEMBER OLIVARES: Okay.

6 CHIEF EXECUTIVE OFFICER FROST: And, Ms.  
7 Olivares, I can give you a full background on some of the  
8 work that the Board has done to extend the compensation  
9 ranges for the positions of which you have the control to  
10 set pay.

11 COMMITTEE MEMBER OLIVARES: Um-hmm.

12 CHIEF EXECUTIVE OFFICER FROST: And then I can  
13 also give you an update on where negotiation is on more of  
14 the line-level Investment Officer positions.

15 COMMITTEE MEMBER OLIVARES: Thank you.

16 CHIEF EXECUTIVE OFFICER FROST: Yeah.

17 CHAIRPERSON FECKNER: Anything else, Ms.  
18 Olivares?

19 COMMITTEE MEMBER OLIVARES: No, thank you.

20 CHAIRPERSON FECKNER: Ms. Middleton.

21 COMMITTEE MEMBER MIDDLETON: Okay. Thank you,  
22 Mr. Chair.

23 I'm looking at this report and I see a number of  
24 areas where the scores are extremely high and very  
25 successful. Moving forward, what is it that you think

1 needs to be done to have the success we're having in these  
2 areas translate into organization and firm success?

3 MR. FORESTI: With regard to our evaluation  
4 process, I would think some of the -- some of the  
5 conversations that Ben alluded to, that are happening. To  
6 us, it's about the risk of stability in process and team.  
7 And, you know, I mentioned the attribution part being  
8 critical to learning. That learning erodes when similar  
9 lessons, for example, might need to be learned again,  
10 because there's been turnover.

11 Now, you have -- you've not seen that in recent  
12 years in the global equity team. There's been good  
13 stability at senior levels within the global equity team.  
14 But I think that -- that stability is critical to the  
15 attribution loop of an investment process leading to  
16 positive results, rather than kind of giving ground and  
17 having to go back and retest things that were attempted,  
18 and -- in the past.

19 But I don't -- in terms of our scoring, I don't  
20 think there's anything that we would draw a lot of  
21 attention to or a lot of concern around. We just note the  
22 issues that are there. But the biggest one is around  
23 those organizational issues. And it -- you know, not  
24 throwing that in your lap is if it's something that's  
25 easily solved. It's just pointing out a potential risk

1 that's in place. And it's been a -- you know, a common  
2 point in our letter for years.

3 COMMITTEE MEMBER MIDDLETON: All right. Thank  
4 you.

5 MS. DEAN: I would just add, we have reflected  
6 some of this in this year's review, but there has been  
7 improvements that have been put in place in terms of  
8 taking a more centralized view and getting rid of any  
9 inefficiencies and redundancies across different asset  
10 class silos. And as those plans get implemented, we  
11 believe that would be actually a positive improvement  
12 going forward.

13 COMMITTEE MEMBER MIDDLETON: All right. Thank  
14 you.

15 CHAIRPERSON FECKNER: Mr. Perez.

16 COMMITTEE MEMBER PEREZ: By and large, I'm happy  
17 with our -- with our grades. And thank you for the  
18 evaluation.

19 This next question is probably -- well, do any of  
20 the other firms you -- or bodies you represent, do they  
21 include some kind of evaluation or scoring for the Board,  
22 because we are a team? The Board and the CalPERS staff is  
23 a team. And I'd like to see where we can improve.

24 MR. FORESTI: We -- to my knowledge, we have  
25 not -- I'm not aware that we've done any sort of project

1 like that, other than we provide, you know, feedback in  
2 terms of -- you know, Andrew earlier was able to share  
3 perspective around a benchmark question that came up,  
4 because of just the, you know, kind of the broad set of  
5 clients we work with and kind of identifying best  
6 practices and common uses.

7 I think, you know, we could provide that same  
8 sort of, you know, high-level insight just in terms of  
9 different approaches that various boards use. But in  
10 terms of a formal scoring model, it's just not something  
11 that we've done. I'm sure there's organizations out there  
12 that perform that sort of task, but it's not something  
13 that we've done or we have an off-the-shelf scoring model  
14 for.

15 MS. DEAN: I mean, just to add to that, we are  
16 your consultants. So if there's any feedback that we  
17 believe you need, that would happen obviously on an  
18 ongoing basis as we interact with the Board through  
19 education or informal feedback.

20 COMMITTEE MEMBER PEREZ: No doubt. You guys are  
21 excellent and very responsive. If I wanted to know that  
22 we are on the same wavelength as the team and going  
23 forward together, not networking against, in any fashion,  
24 is there anyway to quantify that?

25 MS. DEAN: Quantify, do you mean relative to

1 other boards?

2 COMMITTEE MEMBER PEREZ: Give us a grade.

3 (Laughter.)

4 MR. FORESTI: I feel like you're more in the  
5 position to grade us than the other way around. But I  
6 think it's -- to Rose's point, it's just -- it's feedback.  
7 We'd be happy to share feedback. I don't know what the  
8 best format to do that in. You know, the comment I made  
9 is that we don't have a formal model like I just stepped  
10 through in terms of doing the investment process. But, I  
11 mean, that would be something that would be interesting to  
12 kind of consider.

13 I just don't know what the best format could be.  
14 But we certainly could be helpful in terms of sharing what  
15 we see that works particularly well or sometimes doesn't  
16 work well in certain organizations. I just don't know  
17 what the best format is to provide that feedback.

18 CHAIRPERSON FECKNER: Anything else, Mr. Perez?

19 COMMITTEE MEMBER PEREZ: No.

20 CHAIRPERSON FECKNER: Thank you.

21 Mr. Miller.

22 COMMITTEE MEMBER MILLER: Yeah, I think kind of  
23 to follow on to Mr. Perez's question, it seems that, you  
24 know, we've got a Board evaluation process that we do with  
25 NACD, and a result in recommendations, some changes that



1 we're working on, some workstreams to improve our  
2 effectiveness and performance. And so perhaps that's an  
3 area that, as our consultants, you could give us some  
4 feedback about how that -- how that -- how well that's  
5 serving us in the -- in terms of, you know, those  
6 workstreams, that work, that approach, and also how we  
7 could better kind of integrate that with the information  
8 we're getting via the work you're doing, vis-à-vis the  
9 organization and staffing and everything to try to make  
10 the whole thing a little more seamless.

11 CHAIRPERSON FECKNER: All right. Seeing no other  
12 requests -- oh, Ms. Yee.

13 COMMITTEE MEMBER YEE: Sorry. I just wanted to  
14 weigh in on this last point. Thank you, Mr. Chairman.  
15 This is the question Mr. Perez is posing is exactly kind  
16 of the capability I'd like to see on our Insight Tool  
17 being developed in terms of communication between our  
18 consultants and the Board. And that was kind of the  
19 parallel, I guess, platform that I want to see built, so  
20 that we could have, you know, more ongoing sharing of  
21 information from our consultants.

22 Thank you.

23 CHAIRPERSON FECKNER: Thank you. Seeing no other  
24 requests, anything else on this item?

25 Steve, anything else? No?

1 MR. FORESTI: No.

2 CHAIRPERSON FECKNER: We're good.

3 MR. FORESTI: Good. Thank you.

4 CHAIRPERSON FECKNER: Very good.

5 All right. With that, before we move on to Item  
6 8c, we're going to take a 10-minute break for the court  
7 reporter.

8 (Off record: 11:09 a.m.)

9 (Thereupon a recess was taken.)

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

11 CHAIRPERSON FECKNER: Please take our seats.

12 We'd like to reconvene the open session.

13 Item 8c, Mr. Meng.

14 CHIEF INVESTMENT OFFICER MENG: Thank you, Mr.  
15 Chair.

16 So Item 8c is the continuation of annual program  
17 review on global fixed income. So with that, I will call  
18 my colleague Arnie Phillips.

19 (Thereupon an overhead presentation was

20 Presented as follows.)

21 MANAGING INVESTMENT DIRECTOR PHILLIPS: Good  
22 morning. Arnie Phillips, Managing Investment Director,  
23 global fixed income.

24 Here today to review fixed income for the last  
25 fiscal year. I'm going to use the intro in the format of

1 Ben's 4 Ps. I think it fits really well with how we've  
2 transitioned from sort of a siloed asset class to much  
3 more total fund focused. So just remind you, the 4 Ps are  
4 portfolio, processes, people, and performance.

5 Now, given the past year was very strong both  
6 absolute and relative return environment for global fixed  
7 income, the natural tendency might be to just want to jump  
8 to the 4th P, performance.

9 But I actually think it's really important to  
10 look at the first 3 Ps, in the sense that, that really  
11 shows our transformation from a siloed group to a much  
12 more total fund group. I also think most things in life,  
13 the journey is often just as important as the destination.  
14 For most of us, the destination is performance, but how we  
15 get there is important.

16 And the reality for global fixed income, as it is  
17 for all the asset classes, is we don't take this journey  
18 alone. And when I look back on the last year, in addition  
19 to the strong performance, I see a continued total fund  
20 focus out of the global fixed income group.

21 As it relates to portfolio, it's really how does  
22 global fixed income fit into the total fund, and it's  
23 really about the role of fixed income. Our first purpose,  
24 it's in the name income, is to provide income. We're also  
25 intended to be a steady source of liquidity, and very

1 importantly in our current funded status to be a shock  
2 absorber to global equity.

3           We've made improvements in the role within the  
4 last year. We've worked collectively with Eric Baggesen's  
5 trust level group, with the Wilshire team to break the  
6 traditional global fixed income group into three segments,  
7 a long U.S. treasury segment, a long spread segment, and a  
8 high yield segment. Each of those segments has refined  
9 purpose and role, which collectively I think are much  
10 stronger than the original single role for global fixed  
11 income, and again, coming at it from a total fund focus.

12           From a processes standpoint, which is Ben's  
13 second P, the segment's implementation was actually a lot  
14 of work, and it crossed not only fixed income, but over  
15 into Dan's global equity group. Collectively, in fixed  
16 income, we traded about \$55 billion in global fixed income  
17 assets in the last year related to the segment's work.

18           We didn't do that alone. We used Kevin Winter's  
19 opportunistic and centralized trading team. And anybody  
20 internally that does a trade, once we make the decision,  
21 make the trade, it doesn't stop. Somebody actually has to  
22 work with the other side of the trade, with the custody  
23 bank. So, Dan's COIO office -- middle and back office  
24 were also heavily involved in this process.

25           We also, in the last year, had 6 global fixed

1 income members working with Beth Richtman's Sustainable  
2 Investments team researching and analyzing topics like  
3 disruptive technology, water issues, and ESG factors.

4           The third P, probably goes without saying, but  
5 it's really hard to be successful without great people.  
6 And they -- you know, our staff is our biggest asset. You  
7 know, we don't really have plant equipment and things like  
8 that. I was very fortunate to inherit a very strong and  
9 very professional staff, which, with the model we have in  
10 fixed income, is extremely important, because we manage 96  
11 percent of our assets internally.

12           Finally, the destination, the performance. The  
13 last year, which is on page six -- right there -- the last  
14 year continues a long history of very strong fixed income  
15 performance. It's really broken up, as Dan alluded to,  
16 there's an absolute return. Just what did we actually  
17 return? That's the 9.61 percent 1-year number at the  
18 bottom there.

19           That's really a function of our role. It's a  
20 by-product of the strategic asset allocation. It's our  
21 role to be a shock absorber to equities. The reason we  
22 got those high returns is because we have a lot of  
23 interest rate sensitivity in our portfolio, and that is by  
24 design. The -- Eric Baggesen's group and the strategic  
25 asset allocation work with you guys, that's the model

1 we've put in place to protect against equity drawdown  
2 risk.

3           In the last year, we had a very substantial drop  
4 in interest rates. When interest rates goes down, fixed  
5 income asset prices go up. That's really -- the 9.6  
6 percent that you got was a total fund effort, you know,  
7 staff and Board, much less fixed income. Our job is  
8 simply to implement the role.

9           The relative returns is where I think the fixed  
10 income staff views as their day job. This is different  
11 than just implementing somebody else's strategy. We are  
12 actively managed for the most part. We are trying to  
13 outperform the benchmark.

14           And when you look on page six, the -- each of the  
15 1-year, 3-year, and 5-year has a net return, which is the  
16 absolute return, then it has excess basis points. You can  
17 see we've outperformed on an excess basis each of these  
18 periods. If the 10-year was here, it would be even a  
19 larger number. To put those in dollar terms, the basis  
20 points they're kind of hard to conceptualize, over the  
21 last 5 years, the excess return is worth about \$1.7  
22 billion. Given the size of our staff, it's about \$40  
23 million per global fixed income employee.

24           So that's really the kind of overview of the last  
25 year through Ben's 4 Ps framework. I think I'll stop

1 there and take any questions you might have.

2 CHAIRPERSON FECKNER: Thank you.

3 Ms. Taylor.

4 VICE CHAIRPERSON TAYLOR: Yes, Mr. Phillips, I  
5 wanted to thank you and congratulate you on your position.

6 MANAGING INVESTMENT DIRECTOR PHILLIPS: Thank  
7 you.

8 VICE CHAIRPERSON TAYLOR: I haven't had a chance  
9 to do that yet. But also, I really appreciate the report  
10 and the performance of fixed income. I think you guys did  
11 an amazing job this year. I wanted to also congratulate  
12 you on the good work with your sustainability and Beth's  
13 office. I was amazed. There was a couple of things I  
14 was -- I didn't even know. I actually found out at PRI  
15 that -- about that dam break. I didn't even know about  
16 it. But I'm so glad to see that we were out of it. I was  
17 thinking about that when I saw it, because I even showed a  
18 video of it. And I was like, when did that happen? So I  
19 am very glad that we are out of that.

20 I'm happy to see that we're reducing our exposure  
21 to Duke Energy. They've always been a poor partner. And  
22 also, we reduced our exposure to Edison. And it looks  
23 like it's based on wildfire issues. Do we have exposure  
24 to PG&E?

25 MANAGING INVESTMENT DIRECTOR PHILLIPS: Lou

1 Zahorak who heads up our credit group.

2 VICE CHAIRPERSON TAYLOR: Okay.

3 There you go.

4 INVESTMENT DIRECTOR ZAHORAK: Lou Zahorak,  
5 Investment Director.

6 At one point, PG&E was in the portfolio -- in the  
7 core portfolio I manage. We had actually been underweight  
8 the name even prior to the wildfires and all of the issues  
9 they had. And in last fiscal year, it was one of our  
10 larger outperformers on a relative basis because of that  
11 underweight.

12 When it -- when we saw it was going to be exiting  
13 our index, we got a little ahead of that and exited out of  
14 our entire exposure to that also. So we have no exposure  
15 right now to PG&E.

16 VICE CHAIRPERSON TAYLOR: Okay. That's what I  
17 was concerned about. But again, I want to thank you all  
18 for your hard work on all of this, as well as on the  
19 sustainability information here that you've got -- taken  
20 very deep dive and really decided, okay, these are things  
21 we need to either reduce our exposure or get into. And  
22 I'm really appreciative of that.

23 MANAGING INVESTMENT DIRECTOR PHILLIPS: Two  
24 thoughts on that. One is the ESG sustainable effort has  
25 really become part of our just day-to-day operations now.



1 It's very -- it's just what we do. Probably couldn't have  
2 said that 5 years ago.

3 But also I think the decisions even around your  
4 PG&E question reflect the people, because we could have  
5 easily just said, well, we'll just be benchmark neutral.  
6 But through our investment and research staff and given  
7 the moving dynamic environment we're in, we made a  
8 decision to get ahead of it. And I think that again  
9 reflects the quality of the people and you --

10 VICE CHAIRPERSON TAYLOR: That's a wise decision.

11 MANAGING INVESTMENT DIRECTOR PHILLIPS: -- you  
12 know, again we're only as good as our people.

13 CHIEF INVESTMENT OFFICER MENG: If I may say  
14 something. That is a perfect example of the total fund  
15 approach we are moving to. So as the story or the  
16 development of PG&E unfold, the Investment Office, not  
17 just global equity, global -- not just global fixed  
18 income, plus global equity, private equity, real estate,  
19 we all got together to see what -- collectively, what is  
20 the total fund exposure to the development of PG&E and  
21 what are the right actions to take from the total fund  
22 perspective?

23 So the PG&E is one of the examples as we move to  
24 the total fund direction.

25 VICE CHAIRPERSON TAYLOR: Well, that's excellent.

1 So I'm glad to hear that, because our exposure to possible  
2 bankruptcy and monetary damages would be horrendous. So  
3 thank you.

4 CHAIRPERSON FECKNER: Ms. Olivares.

5 COMMITTEE MEMBER OLIVARES: Thank you.

6 So I'm looking at our exposure and thinking about  
7 mitigating downside risk, especially when it comes to  
8 mortgage exposure, credits. On the credit side, I see  
9 it's 19 percent of our fixed income. Does any of that  
10 include credit enhancements, guarantees, things like that?

11 MANAGING INVESTMENT DIRECTOR PHILLIPS: So we  
12 have a dormant credit enhancement program. It has no  
13 assets in it right now. So, no, we do not have that  
14 within the general credit portfolio.

15 INVESTMENT DIRECTOR ZAHORAK: The -- what's  
16 referred to as credit here is benchmarked against a long  
17 liability corporate bond index that has ratings from AAA  
18 down to BBB split rated. And so it's primarily corporate  
19 bonds issuance that's greater than 300 million as you  
20 would a normal index.

21 COMMITTEE MEMBER OLIVARES: So as we go into --  
22 deeper into uncertain economic time, especially with the  
23 10-year what it is, how do we think this is going to  
24 change? I mean, it seems like there aren't that many  
25 places to escape to, given that long-term treasuries don't

1 look too good.

2           MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah, I  
3 would agree. Again, in these times of uncertainty, I  
4 always come back to what's the role of fixed income? And  
5 Mr. Jones remembers this conversation, but I don't  
6 remember the exact period. It was somewhere probably  
7 7-ish years ago. There was a conversation about, wow,  
8 rates look really low and, you know, maybe we should  
9 shorten our duration, which in a downturn in equities  
10 probably we would provide us less protection.

11           The Board had a very lively discussion and  
12 ultimately kept it where it was. And that was a very good  
13 decision, because rates are substantially lower today.

14           Duration calls on interest rates that are  
15 definitely not something we profess to have any ability to  
16 do. My thought process around that question though,  
17 because I do share very similar concerns when you look  
18 around the world depending on when you look at the day, we  
19 have somewhere between 13 and 17 trillion of assets  
20 trading at a negative rate where you're literally paying  
21 somebody to hold your cash. That doesn't really sound  
22 like investing. You're really counting on the next person  
23 willing to pay you more than you paid for it.

24           But given where our rates are out today, we still  
25 have the ability. The 10-year from a 150 -- we're

1 actually a little bit higher in rate today to 0 still had  
2 about 15 percent of upside, a 30-year had about 45 percent  
3 of price appreciation. So the ability to still act as a  
4 shock absorber is there.

5 But as we drift closer to 0, I think we will have  
6 to reassess that some of the assumptions that go into our  
7 strategic asset allocation go into everybody's strategic  
8 asset allocation, not just CalPERS, how those may or may  
9 not play out. I tend to be a person that looks at the  
10 world from an upside/downside perspective. And clearly,  
11 the closer you get to 0, the lot less upside we're going  
12 to have and the downside is still there. So it is a  
13 legitimate concern.

14 I think the creation -- not speaking for Ben.  
15 But the creation of our centralize research group is  
16 really designed to look at all these issues and take them  
17 out of any individual asset class and look at it from a  
18 total fund top-down portfolio construction standpoint, I  
19 think that is a huge improvement over the historical way  
20 the investment office has worked, and will be extremely  
21 important as we get into these uncharted territories.

22 COMMITTEE MEMBER OLIVARES: Thank you.

23 CHAIRPERSON FECKNER: Anything else, Ms.

24 Olivares?

25 COMMITTEE MEMBER OLIVARES: No, thank you.

1 CHAIRPERSON FECKNER: Ms. Yee.

2 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman,  
3 and congratulations, Mr. Phillips.

4 MANAGING INVESTMENT DIRECTOR PHILLIPS: Thank  
5 you.

6 COMMITTEE MEMBER YEE: Thank you for the  
7 presentation. On slide 4, you do talk about the research  
8 work with sustainable investments. And just wondering at  
9 this juncture whether you have any insights to share  
10 relative to some of that research? And is this going to  
11 be research that's feeding into the portfolio carbon  
12 footprint as well in part?

13 MANAGING INVESTMENT DIRECTOR PHILLIPS: There's  
14 certainly people that can speak about this better than I  
15 can.

16 COMMITTEE MEMBER YEE: Okay.

17 MANAGING INVESTMENT DIRECTOR PHILLIPS: It's been  
18 an impressive amount of work. The interesting -- and  
19 probably -- I don't know if it's surprising, but when Beth  
20 sent out the request for -- you know, we've got these  
21 couple topics we're going to talk on, we actually had more  
22 hands go up than actual spots that could be used.

23 COMMITTEE MEMBER YEE: Um-hmm.

24 MANAGING INVESTMENT DIRECTOR PHILLIPS: So I  
25 think that shows the interest not only in global fixed

1 income, but all of Investments to look at some of these,  
2 you know, big potentially life-changing issues and what  
3 they mean personally, but also to the portfolio.

4 Paul Kramer is here. Paul is our kind of main  
5 kind of ESG lead point person on a day-to-day basis, both  
6 Lou and Paul both, but working closely with Beth and her  
7 team. And so, Paul, do you want to...

8 INVESTMENT MANAGER KRAMER: Hello, ladies and  
9 gentlemen. Paul Kramer, Investment Manager. Thanks for  
10 the question on the sustainable investments research. I  
11 can give you a few highlights from the water research  
12 project.

13 So the goal of that was really to identify the  
14 fund exposure to water scarcity risk. And we defined that  
15 risk as a function of two factors, the water intensity of  
16 the operations and the degree of water stress in the  
17 locations where those assets are. And so we screened the  
18 fund. The result was that 5 percent of the fund was  
19 exposed to high water stress risk. Although, our active  
20 exposure was 1 percent, and that's because the fund is  
21 underweight a number of the higher risk sectors, such as  
22 food, and beverage, and mining, and the like.

23 Much of the exposure was in the private asset  
24 classes as it turns out. Fixed income has been really  
25 underweight some of the higher risk areas. You know,

1 water tends to be local. Corporate credits tend to be,  
2 you know, sort of large, diversified operation. So I  
3 think that's kind of some of the driver there.

4 MANAGING INVESTMENT DIRECTOR PHILLIPS: Ms. Yee,  
5 I'd also add not probably in the scope of the initial work  
6 that's been done. But Ms. Olivares mentioned our mortgage  
7 holdings. Ninety percent of that number you see there is  
8 guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. So  
9 it's more of a timing issue.

10 COMMITTEE MEMBER YEE: Yeah.

11 MANAGING INVESTMENT DIRECTOR PHILLIPS: But in a  
12 bigger picture thinking about mortgages and somebody's  
13 ability to -- you know, you pay for house, you assume  
14 you -- when you turn the tap on, the water is going to be  
15 there or you're not going to be under 20 foot of water in  
16 a different scenario.

17 But part of that process requires you to get  
18 insurance to get a mortgage. To the extent we see climate  
19 change impacts over time that either you turn the tap on  
20 there's no water, or worse, every other year you're under  
21 10 feet of water, you know, the availability of insurance  
22 will drive the pricing of not only how -- commercial -- or  
23 residential housing, but commercial also.

24 COMMITTEE MEMBER YEE: Right.

25 MANAGING INVESTMENT DIRECTOR PHILLIPS: And

1 Beth's team has been trying to look at -- with the  
2 partnership with external partners, you know, let's look  
3 at where our holdings are at. All things being equal, if  
4 we can hold two properties that we think are very similar,  
5 they're priced very similar, but one is in a high risk  
6 area and the other is not, well, then we want to  
7 gravitate --

8 COMMITTEE MEMBER YEE: Sure.

9 MANAGING INVESTMENT DIRECTOR PHILLIPS: -- to the  
10 less risky one. So there's a lot of work there. It's  
11 pretty fascinating work. And I think we made a ton of  
12 progress in a year, but I also think we've just scratched  
13 the surface of trying to figure out how it fits into all  
14 the massive amount of holdings we have here at CalPERS.

15 COMMITTEE MEMBER YEE: Yeah, I appreciate that.  
16 And I would suspect that a lot of these impacts are  
17 probably going to be felt in this portfolio pretty  
18 immediately. So thank you for your sustained work there.

19 On page five, you talk about one of the major  
20 initiatives advancing the capital allocation framework  
21 through trust level liquidity and leveraged management.  
22 And I just wanted to see if you could just comment about  
23 how you are approaching trust level liquidity and leverage  
24 management issues.

25 MANAGING INVESTMENT DIRECTOR PHILLIPS: Sure.



1 Again, I'll put words in Ben's mouth, but I think it's his  
2 highest priority at the moment.

3 COMMITTEE MEMBER YEE: Yeah.

4 MANAGING INVESTMENT DIRECTOR PHILLIPS: He talks  
5 about, you know, having too much liquidity is expensive,  
6 not having enough is deadly.

7 COMMITTEE MEMBER YEE: Right.

8 MANAGING INVESTMENT DIRECTOR PHILLIPS: As we try  
9 to reposition this portfolio from a top-down standpoint,  
10 it's paramount we know pretty much dynamically where we  
11 stand. So we have a pretty large group running a process  
12 to quantify our liquidity and also ultimately, when we're  
13 comfortable with that, one of the potential solutions, as  
14 we try to get to the actuarial rate, is the use of  
15 leverage at the right time. And you have to be able to  
16 quantify where you're at at the current time before you  
17 can figure out where you want to go. But you have to do  
18 that in conjunction with understanding your liquidity.

19 And so the -- I don't know, Ben, is -- there's --  
20 other than a lot of the private equity effort, I'm not  
21 sure we have a more important project we're working on  
22 right now, because we view it as a launching point to be  
23 able to accomplish the things we need to do going forward.

24 So the good news is we're in a very strong  
25 liquidity position right now. The real question is what

1 do we want to do with it going forward?

2 COMMITTEE MEMBER YEE: And you feel well  
3 resourced in terms of all that's on your plate here?

4 MANAGING INVESTMENT DIRECTOR PHILLIPS: (Nods  
5 head.)

6 COMMITTEE MEMBER YEE: And I was particularly  
7 impressed, Ms. Taylor's line of questions with respect to  
8 the holdings in companies that were listed on slide 12  
9 that much of that review is being done internally, rather  
10 than relying on index provider's assessment, so -- but  
11 just obviously it's a lot of capabilities that are in this  
12 area.

13 MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah.  
14 The -- I do feel appropriately resourced I think at the  
15 moment. And a lot of that has to do with the quality of  
16 the staff we have. You know, if we were to lose people, I  
17 might have a different answer. But are -- we do have a  
18 very senior group that's very good at what they do. But  
19 we're also -- with the creation of the centralized  
20 research group, we're trying to get some synergies across  
21 asset classes and get -- you know, we're always trying to  
22 get more information up front before we make a decision.  
23 And to the extent we include other asset classes in that  
24 process, we anticipate not only within fixed income, but  
25 the full fund, that we'll make better decisions. So I --

1 I feel comfortable where we're at right now.

2 COMMITTEE MEMBER YEE: Great. Thank you.

3 Mr. Chairman, I just wanted to give a shout-out  
4 to Beth Richtman, her team as well. I mean, we're really  
5 seeing just kind of the penetration on a lot of these  
6 efforts across the asset classes. And I think the beauty  
7 of that is that we hopefully will be able to identify  
8 risks appropriately as we're making our decisions at the  
9 earliest point possible. So really appreciate the great  
10 work across the fund.

11 Thank you.

12 CHAIRPERSON FECKNER: Thank you.

13 Ms. Olivares.

14 COMMITTEE MEMBER OLIVARES: Thank you. I'm  
15 looking at page 23, the program expenses.

16 MANAGING INVESTMENT DIRECTOR PHILLIPS: Yes.

17 COMMITTEE MEMBER OLIVARES: And so I think it's  
18 great that so much is in-house. That's wonderful. I'm  
19 wondering if that's going to continue to be the trend in  
20 terms of how fixed income is managed.

21 MANAGING INVESTMENT DIRECTOR PHILLIPS: So the 96  
22 percent number I think was 92 or 93 last year. Part of  
23 that was strategic decision around the international fixed  
24 income area. That was largely externally managed. For  
25 us, it's really about identifying the right assets to be

1 in and then it's just an implementation decision of  
2 whether it's internal/external. We always prefer to do it  
3 internally. I feel the governance is a lot better  
4 internally. I know exactly who's doing what as opposed to  
5 a little bit arm's reach and certainly cheaper to do it  
6 internally.

7 But it also comes down to capabilities. And  
8 there will be potentially asset classes that we just feel,  
9 from an implementation side, it's better to do externally.  
10 But the goal is always to do more internally than  
11 externally, if we have the capabilities.

12 COMMITTEE MEMBER OLIVARES: With our external  
13 managers, I've seen that the fees have increased just from  
14 2017 to 2018 -- I mean 2018 to 2019. So the fees have  
15 increased even though we're managing more internally.  
16 We've gone from 92, 93 to 96 percent. Can you explain  
17 why?

18 MANAGING INVESTMENT DIRECTOR PHILLIPS: Yes. So  
19 the 96 percent is sort of as of today.

20 COMMITTEE MEMBER OLIVARES: Yes.

21 MANAGING INVESTMENT DIRECTOR PHILLIPS: Within  
22 the last handful of months, we unwound some external  
23 international managers who actually did very well. So  
24 they did get some incentive fees in there too. I would  
25 expect that number to likely go down next year. It will

1 really be primarily our high yield venture we have, both  
2 internal and external. They have slightly different  
3 strategies, but that will be the extent of most of our  
4 external exposure at the current time.

5 COMMITTEE MEMBER OLIVARES: Thank you.

6 CHAIRPERSON FECKNER: All right. Seeing no other  
7 requests.

8 Anything else on this item?

9 All right. Very good. That brings to us Item  
10 8d, the Global Fixed Income Review. Wilshire, please.

11 MR. TOTH: Good almost afternoon. Tom Toth with  
12 Wilshire Associates. The review process that we underwent  
13 with the global fixed income team broadly mirrors the  
14 process that Steve elaborated on earlier with global  
15 equity, so I won't belabor those points.

16 Suffice to say that while we bring forward this  
17 review and discuss this process once a year with the  
18 Investment Committee, this really is a culmination of work  
19 that we do throughout the year with regular discussions  
20 with the team.

21 So I'll start with the headline, which is that we  
22 continue to believe the global fixed income program is  
23 managed in an effective and risk conscious manner.  
24 Critically, the investment approach is consistent with the  
25 strategic objectives of the global fixed income portfolio

1 within the total plan, that being one of income,  
2 stability, liquidity, and critically from a total  
3 portfolio context, equity risk diversification.

4           So I thought it would be useful just to highlight  
5 some of the changes to the scores, or even in those places  
6 where the scores remained unchanged from a year ago just  
7 to talk a little bit about why.

8           And I'll start with the team and the  
9 organization. The high level organization comments. We  
10 had a very robust discussion and those comments hold for  
11 this report as well from earlier today. So I'll focus on  
12 the team. The score did increase somewhat with the  
13 permanent appointment of Arnie as the MID, and for two  
14 critical reasons, which we laid out in our write-up. And  
15 that -- one it's an indication that the organization is  
16 adept at cultivating and retaining talent at the highest  
17 levels. And Arnie is a great example of that, someone who  
18 has been here for a substantial period of time.

19           And that also plays into that second critical  
20 point, and that this is a -- shows consistency, and we can  
21 have some -- a sense that the investment process going  
22 forward that has been very successful is likely to  
23 continue in that same vein going forward.

24           Now, that is tempered somewhat, and I want to be  
25 very transparent about that, with some concerns about

1 potential turnover, given relatively structured career  
2 path and some compensation constraints, which we've talked  
3 a bit about.

4           But very importantly, staff, both within GFI, but  
5 also at the higher levels are very cognizant of this risk.  
6 And there are ongoing discussions about how to mitigate it  
7 to the extent possible.

8           Moving on to the information component of the  
9 score, that score remains very high, but was just  
10 marginally reduced. It didn't hit a break point. But we  
11 reduced that because the global fixed income team is  
12 losing a few dedicated resources as they move to a  
13 centralized research area. And while I think in aggregate  
14 that could end up being a very positive move for the total  
15 fund, we wanted to reflect a slight negative here to  
16 observe how it works in practice with the idea that we can  
17 go back and revisit that when we see that it's working in  
18 the manner which it's designed and importantly is  
19 delivering the results that are expected.

20           The forecasting score remains unchanged. As you  
21 noted, the global fixed income team has done an  
22 outstanding job adding value over and above the index.  
23 Over the last fiscal year, just about every underlying  
24 strategy within the global fixed income portfolio  
25 outperformed relative to the index. And as Arnie alluded

1 to, that was real. Those basis points over and above the  
2 index are real dollars for the total plan.

3 The portfolio construction score also remained  
4 unchanged, but I wanted to make just a couple of comments  
5 here as we look forward and set expectations for what the  
6 risk profile of the global fixed income portfolio is  
7 likely to look like.

8 The segmentation approach, which we've talked  
9 about at length across the portfolio is likely to reduce  
10 the level of active risk within global fixed income,  
11 driven by macro level shifts between segments. So between  
12 treasuries, between spread-oriented products, and between  
13 high yield.

14 The active risk that's introduced in the  
15 portfolio is likely to be within segments as they look to  
16 add value -- looking for relative value opportunities  
17 within corporate bonds just to use the example that we are  
18 speaking about earlier with Lou's comments.

19 So given this level -- this declining level of  
20 active risk, there actually is a slide -- a chart in our  
21 write-up that shows the active risk -- the realized active  
22 risk of the portfolio relative to its index. And it does  
23 exhibit what we would expect. With a declining level of  
24 active risk over time, we would -- we think that's likely  
25 to continue to be the case going forward.



1           From a total portfolio management standpoint,  
2 that's a very attractive profile, because it means the  
3 portfolio is doing what you want it to do from a strategic  
4 perspective.

5           And then the last two points there -- last two  
6 scoring categories, implementation and attribution, both  
7 of those are rated very highly and actually increased  
8 slightly from our scores last year. The implementation  
9 score was increased specifically because of the  
10 demonstrated success of the team in the shift towards a  
11 segmented approach and their work in the asset allocation  
12 process.

13           So there was a lot of trading involved, a lot of  
14 sourcing associated with that, and it was done in a very  
15 efficient manner and we wanted to reflect that positively  
16 in our score. And then in attribution, a slight increase  
17 there as well. As I think the team continues to build out  
18 systems to illustrate the drivers of risk and return  
19 within the portfolio and sharing that with us in our  
20 regular calls for discussions about not just what drove  
21 performance going backwards, but also their expectations  
22 for what's likely to drive performance going forward.

23           So when you combine all of those scores, that  
24 leads to an overall score here at third decile. That's  
25 the same score as last year, but it does reflect some

1 shifting compositions that I referred to in the comments  
2 about the underlying components.

3 We feel the score reflects the very strong team  
4 in place and the fact that the portfolio is managed in the  
5 manager you would expect it to and delivering on its  
6 strategic objectives.

7 And with that, I will stop and see if there are  
8 any questions from the Committee or the Board?

9 CHAIRPERSON FECKNER: Well, I'm looking for the  
10 third heart beat. I don't see any.

11 (Laughter.)

12 CHAIRPERSON FECKNER: So you must have done a  
13 good job. Thank you.

14 MR. TOTH: Thank you.

15 CHAIRPERSON FECKNER: Anything else on this, Mr.  
16 Meng?

17 CHIEF INVESTMENT OFFICER MENG: (Shakes head.)

18 CHAIRPERSON FECKNER: Before we move to item 9, I  
19 want to call on Mr. Rubalcava for a comment. Would you  
20 push your button, please, sir.

21 There you go.

22 COMMITTEE MEMBER RUBALCAVA: Thank you. Thank  
23 you, Mr. Chair.

24 Yes. I had the -- I was fortunate enough to  
25 attend last week NCPERS conference on pension funding.

1 And our own Dan here was one of the guest speakers, talked  
2 about mitigation -- risk mitigation. And there was a lot  
3 of questions about drawdowns, you know, from mature plans  
4 and what have you, and other -- he was able to explain how  
5 the actions this Board take -- the system took to make  
6 sure we're sustainable for the long term. I think it was  
7 very well received. I was very proud. So thank you for  
8 the good staff you have, and the CEO has. And thank you,  
9 Dan. Appreciate it.

10 Good job.

11 INTERIM CHIEF OPERATING INVESTMENT OFFICER

12 BIENVENUE: Thank you.

13 CHAIRPERSON FECKNER: Thank you, Mr. Rubalcava.

14 COMMITTEE MEMBER RUBALCAVA: Thank you.

15 CHAIRPERSON FECKNER: So that brings us to Item  
16 9, Policy and Delegation, Public Asset Class Program,  
17 first reading. Ms. Crocker.

18 You must have really practiced this. Everybody  
19 else's presentation was 5, 10, or 15 minutes. Yours is 9.

20 (Laughter.)

21 CHAIRPERSON FECKNER: So I don't know how you got  
22 so strategized there.

23 INVESTMENT DIRECTOR CROCKER: Oh, I think I can  
24 beat that anyway.

25 So Kit Crocker, CalPERS staff. And Item 9a is

1 the first reading of staff's proposed changes to the  
2 Global Fixed Income and Global Equities Program Policies  
3 arising out of this year's annual review.

4 So these are primarily the same segments-related  
5 changes as just discussed regarding the Total Fund Policy  
6 update. For GE, global equities, we're reflecting the  
7 split into cap-weighted and factor-weighted segments with  
8 a 0 to 50 basis points of tracking error that's currently  
9 permitted across the equities portfolio continuing to  
10 apply to each segment.

11 Similarly, the GFI Program Policy requires  
12 updating to reflect segmentation of the Global Fixed  
13 Income Program into treasuries, spread, and high yield.  
14 So this new language replaces the prior GFI language  
15 around dollar-denominated, international, and credit  
16 enhancement programs.

17 And since this is a first reading, we're just  
18 looking for the Committee's input at this time. And I'll  
19 pause there to ask if there are any questions and also  
20 invite Wilshire to comment.

21 CHAIRPERSON FECKNER: Thank you. I see no  
22 questions so far, so Wilshire can you please come forward  
23 and offer some input?

24 MR. FORESTI: Hello. Steve Foresti from  
25 Wilshire. I'll just comment very briefly on global

1 equity. We were completely comfortable with the changes  
2 that are proposed. They essentially just dealt with the  
3 segmentation that Kit just mentioned. The one comment  
4 that we've reflected within our opinion letter was just to  
5 note, as Kit mentioned, the 50 basis points of tracking  
6 error that I discussed earlier across the entire GE  
7 platform. That's now applied to each of the two segments.

8           If anything, the net result of that actually  
9 tightens the risk controls around the total fund, because  
10 if both those two separate risk levels are adhered to,  
11 that ensures that you're at that or a lower actually risk  
12 level across the entire portfolio.

13           So happy to take any questions, but we were  
14 completely comfortable with the proposed changes.

15           CHAIRPERSON FECKNER: Thank you.

16           Ms. Brown.

17           COMMITTEE MEMBER BROWN: Thank you.

18           I'm looking at 9a, attachment 2, page four of  
19 nine. And can you tell me why we're comfortable removing  
20 staff shall report concerns, problems, material changes,  
21 and all violations of the policies?

22           INVESTMENT DIRECTOR CROCKER: Yes. That language  
23 is not in fact being removed. We're proposing to relocate  
24 it to the Total Fund Policy. So this is simply to avoid  
25 having to repeat the same verbiage across all the program

1 policies. So now the Total Fund Policy, in fact, had a  
2 corresponding change to make it clear that all violations  
3 of all policies, not just total fund, but program policies  
4 must -- we must respond in these ways.

5 COMMITTEE MEMBER BROWN: And that's in the Total  
6 Fund Policy already?

7 INVESTMENT DIRECTOR CROCKER: Yes, it will --

8 COMMITTEE MEMBER BROWN: We're not going to  
9 remove it before we insert it, right?

10 INVESTMENT DIRECTOR CROCKER: We just inserted it  
11 in what was just approved an hour ago.

12 COMMITTEE MEMBER BROWN: Okay. Great.

13 INVESTMENT DIRECTOR CROCKER: Yes.

14 COMMITTEE MEMBER BROWN: Thank you.

15 INVESTMENT DIRECTOR CROCKER: You're welcome.

16 CHAIRPERSON FECKNER: Thank you.

17 Seeing no other requests. Anything else on this  
18 item?

19 Very good. Thank you.

20 That brings us to Item 10, the CalPERS Consultant  
21 Public Fund Universe Comparison Report. Wilshire, please.

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

24 MR. JUNKIN: Andrew Junkin with Wilshire.

25 I want to start by just commenting on what this

1 report is and what this report is not. This report is  
2 essentially a report card of how things have gone across a  
3 wide variety of peers for CalPERS, but CalPERS is the  
4 largest of all of the peers. So really, there's not a  
5 true peer for you in this comparison.

6 Asset allocations differ widely for these funds,  
7 as they should, because they have different funding  
8 policies. They have different funded status levels. They  
9 have different assumed rates of return. So the point is,  
10 there is some interesting information here. You should  
11 probably not use this as a way to drive policy. It's just  
12 a report card.

13 So with that caveat, which I think I try to make  
14 every time we do this, I'm going to roll through a few  
15 pages pretty quickly, but I want to cover how this page  
16 works. So the font is super small. I'm going to have to  
17 zoom in.

18 If you look at the 1-year column, which is the  
19 fourth column from the left, you can see down at the very  
20 bottom there are 49 plans in this peer group. That's the  
21 number of observations. The icon with the capital T - the  
22 graphics in this program are maybe a decade old - is the  
23 total plan. So that's CalPERS.

24 The Wilshire 5000 U.S. equities and then Barclays  
25 government credit is a representative of high quality

1 fixed income. So if you look at those numbers, you can  
2 see the return for the total plan over this one year, 6.77  
3 percent; Wilshire 5000, 9.1; Barclays government credit,  
4 8.52. The number in parentheses there, 45, means the  
5 total fund is in the 45th percentile of the universe. And  
6 that the Wilshire 5000, while not a member of the  
7 universe, would be in the first percentile. It would be  
8 the best performing fund, if it were a fund. Barclays  
9 government credit 11th percentile.

10           Here's another point that I try to make.  
11 Short-term universe comparisons are almost meaningless.  
12 So don't really focus on the 1-year. I know I just used  
13 the 1-year, but I wanted to use it, so I could make that  
14 point. So if you rollout to the, let's say, the 5-year  
15 and the 10-year, CalPERS actually has the exact same  
16 universe ranking in both of those periods, the 77th  
17 percentile.

18           So a fair question is why? And we're going to go  
19 through that. It could be a number of things. You could  
20 have particular programs that haven't performed well. It  
21 could be your asset allocation that's very different than  
22 your peers. So we're going to -- we're going to look at  
23 that as we go.

24           I'm going to go to page four.

25                           --o0o--



1 MR. JUNKIN: And it's really hard to see the T  
2 for the total fund here, but this is risk versus return.  
3 So the farther to the right you are, the more volatile the  
4 returns have been, the higher on the graph. Surprisingly,  
5 the higher the returns have been.

6 So the returns here are a little bit below median  
7 with similar volatility. If you look at the scale there,  
8 that's pretty close. It's not -- mathematically, it's a  
9 little bit more volatile, but it's pretty close. And you  
10 can see how most plans are kind of clustered between,  
11 let's call it, 4 and 7 percent volatility with CalPERS  
12 kind of right at 6.

13 --o0o--

14 MR. JUNKIN: This page, page five, is really I  
15 think one of the critical pages here. So this is not a  
16 return page. This is percent allocation. And so if you  
17 move from left to right, you can see U.S. equity, CalPERS  
18 having allocation of 27 and a half percent. That's right  
19 at the median compared to this peer group.

20 International equity, you actually have a much  
21 higher allocation relative to the peer group in the 14th  
22 percentile. So why is that?

23 You haven't really made a decision to allocate  
24 more to international equity. You have chosen to pursue  
25 equity exposure on a global basis.

1           Many of your peers end up doing something like  
2 60/40 U.S./non-U.S., 70/30. I'm not sure there's a great  
3 reason for that. You've chosen to eliminate the home  
4 country bias and go at it from a pure global equity  
5 standpoint as way to harvest the global equity risk  
6 premia.

7           But that means, relative to some of your peers,  
8 you have a higher exposure to international equity. As we  
9 look at returns over the last 10 years, in particular,  
10 international equity has lagged U.S. equity. So that's  
11 one of the drivers of the return differences just your --  
12 the size of your allocation to international equity.

13           Global fixed income, you now are near the --  
14 you're in the top quartile there. Real estate, kind of  
15 just on the line of the top quartile. Private equity,  
16 this is an interesting one. You can see people in many  
17 cases are really pouring into this. We talked about how  
18 hard it is for CalPERS to really get private equity  
19 exposure at your size. That's one of the things that's  
20 driving this.

21                           --o0o--

22           MR. JUNKIN: So page six, this is public equity.  
23 We used to show domestic equity and international equity.  
24 We've just combined it to show total public equity here  
25 relative to your peers. You can see over the past 5

1 years, you're in the 59th percent style; over the last 10  
2 years in the 70th percentile.

3 The underlying U.S. and non-U.S. pages typically  
4 show you to be median in kind of both cases, because of  
5 your indexed approach. So the difference there again is  
6 that higher weight to international equity over the past  
7 10 years.

8 --o0o--

9 MR. JUNKIN: Let's jump ahead to slide 8.  
10 There's no index listed on this page. This is private  
11 equity. This goes to the question we had from Ms.  
12 Olivares earlier, what's the right index?

13 So in answer to that, we've just removed the  
14 index and we're showing you relative to your peers. If  
15 you look at say 7 years you're in the 62nd percentile,  
16 just a little bit below median. Over the last 10 years,  
17 you're in the 29th percentile. I really wouldn't  
18 encourage you -- I'm sorry, 5 years, not 7 years. I  
19 wouldn't encourage you to look at anything shorter than 5  
20 years. I think it's -- even 5 years borders on kind of  
21 meaningless. Ten years is probably meaningful. Five  
22 years, there's probably some information in the direction.

23 --o0o--

24 MR. JUNKIN: Let me see where else I ended up.  
25 Fixed income. Since we just had the fixed income annual

1 review, we said that performance had been great. If you  
2 look over the last 10 years, you're in the 10th percentile  
3 of fixed income. So you beat 90 percent of your peers  
4 there, so returns have been really good.

5 --o0o--

6 MR. JUNKIN: Last, I've flipped too far ahead.  
7 Real estate. In this case, we spoke at the last meeting  
8 about some of the drivers of returns over the last year  
9 for real estate. So if you look at the 1-year  
10 peer-relative ranking, it's in the 91st percentile. We  
11 talked about the malls and the pricing, and that some of  
12 that was likely to be timing and to wash out.

13 But if you flip out to 10 years, you'll see it's  
14 the 99th percentile, so essentially dead last. Why is  
15 that? That first year in that 10-year cycle is 2009, when  
16 all the real estate write-downs came through, and you were  
17 particularly aggressive at writing down real estate into a  
18 legacy portfolio coming out of the Global Financial  
19 Crisis. So a year from now, that number won't reflect  
20 that final year of write-downs.

21 So those were the pages that I wanted to  
22 highlight. I'm happy to stop there and take any  
23 questions, if there are any.

24 CHAIRPERSON FECKNER: Thank you.

25 Ms. Olivares.

1 COMMITTEE MEMBER OLIVARES: Thank you. I just  
2 had a question about page 5. It seems like we have a lot  
3 of other. Just curious what that might be?

4 MR. JUNKIN: Other would be things like the  
5 remainder of the hedge fund portfolio. It would be --  
6 which is very small at this point. It would be some of  
7 the TLPM strategies that you have that are just hard to  
8 classify into --

9 COMMITTEE MEMBER OLIVARES: Um-hmm.

10 MR. JUNKIN: -- one of these others, which are  
11 really probably more purely expressed as betas.

12 So it's just a -- it's almost a residual of --

13 COMMITTEE MEMBER OLIVARES: Okay.

14 MR. JUNKIN: -- of things that don't fit in other  
15 places.

16 COMMITTEE MEMBER OLIVARES: Okay. Thanks.

17 CHAIRPERSON FECKNER: Mr. Jones.

18 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.  
19 Chair. Yeah. Mr. Junkin, where is infrastructure?

20 MR. JUNKIN: It would be under real estate.

21 COMMITTEE MEMBER JONES: Even though it's  
22 categorized in our portfolio as real assets, here, it's  
23 under real estate?

24 MR. JUNKIN: Let me confirm that.

25 COMMITTEE MEMBER JONES: Okay.

1 MR. JUNKIN: I'm think I'm 90 percent sure it's  
2 in real estate, but I'll --

3 COMMITTEE MEMBER JONES: Okay. Okay.

4 MR. JUNKIN: -- send around an email to verify  
5 that. It could be in other --

6 COMMITTEE MEMBER JONES: Okay.

7 MR. JUNKIN: -- which might help explain that  
8 number as well.

9 COMMITTEE MEMBER JONES: Okay. Thanks.

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

12 Thank you.

13 That brings us to Item 10b, Mr. Junkin and Mr.  
14 McCourt. Who's going to bring that one forward?

15 MR. JUNKIN: I guess I'm here first. Oh, Steve  
16 is here. Good. Welcome.

17 This item, we were requested to speak on how  
18 institutional asset owners treat information. Obviously,  
19 there are some parts of your role as a Board that require  
20 transparency. And there are some parts of your role,  
21 where your fiduciary duty really requires you to keep  
22 certain bits of information confidential, because it  
23 affects the performance of the fund.

24 And so I'm not here to speak about where that  
25 line is drawn, because I'm not an attorney. I don't think

1 that's the right thing. But what I would say is that in  
2 many cases, there's not a clear right answer. That's true  
3 of most things in investments, but it -- clearly, in this  
4 case, there's not a right answer that this piece of  
5 information fundamentally should be confidential. But I  
6 do want to give some examples of the power of information.  
7 And these are -- these are CalPERS-specific examples.

8           So one of the things that we talked about today  
9 in our global equity and global fixed income annual  
10 reviews was the new segmentation and the amount of dollars  
11 that flowed into particular segments. So in equity, the  
12 new factor portfolio is a little bit more expensive to  
13 trade than the cap-weighted portfolio. And when you're  
14 moving around \$55 billion, tipping off the market that  
15 you're coming can be costly. That's a lot -- that's a lot  
16 of money.

17           So one estimate -- and it's really hard to truly  
18 quantify these things. But one estimate is that trading  
19 cost, not commissions, but the actual impact in the market  
20 of people re-pricing things because they know that you're  
21 either buying or selling, could double based on the  
22 market's perception of the size of the trades.

23           And so the estimate that I had was just sort of a  
24 generic estimate from somebody that trades a lot of  
25 equities. But that doubling in trade costs on that factor

1 portfolio, that \$55 billion in transacted, the cost could  
2 have been an additional \$44 million had the market known  
3 you were coming. So it's a huge number. It's basis  
4 points, but basis points times \$55 million -- or \$55  
5 billion.

6 But much like the prior item, I want to give you  
7 as many caveats as I can. That's -- that's an estimate.  
8 It's pretty squishy. I think it's directionally correct  
9 and the magnitude is important.

10 For the high yield trade that was part of the  
11 fixed income side, market liquidity dries up very quickly,  
12 particularly post global financial crisis, where market  
13 makers aren't sitting on inventory in the face of volume.  
14 So again, it's hard to say with much precision -- and  
15 remember, that's a 3 percent allocation, which is much  
16 smaller than the size of the factor portfolio allocation  
17 in public equity. But if the impact doubled there, the  
18 cost would have potentially increased by \$60 million on a  
19 portfolio about a 5th the size. So high yield is already  
20 expensive to trade. Letting them now you're coming makes  
21 it much more expensive.

22 A couple of other examples really quickly. In  
23 real assets, there was a recent real assets sale that was  
24 conducted through an auction. The asset really wasn't a  
25 strategic fit with the CalPERS portfolio, so it made sense



1 for it to be sold. It was one of the legacy assets. And  
2 we worked with staff to stay in the loop and keep up to  
3 speed, but we did it confidentially.

4 As it turns out, as the sale progressed, there  
5 was only one bidder. And so there was a moment where,  
6 through the process, there was an initial bid, and then a  
7 final bid. The change from the initial bid to the final  
8 bid was plus \$100 million.

9 Had they known, had this auction been conducted  
10 publicly, they're not going to raise their price. It's  
11 probably going to go the other way. So, you know, these  
12 are big numbers that we're talking about, the value of  
13 confidential information.

14 And then the last example, and this one I can't  
15 put a number to, and this is a case where I believe  
16 transparency probably was warranted given the nature of  
17 CalPERS as an organization. Pillar 4, private equity, the  
18 enduring assets, something that you've talked about the  
19 new private equity structure for a very long time. Well,  
20 there's a large asset manager that's now started a fund  
21 that focuses on kind of Pillar 4 assets, seeded by a  
22 number of your peers, a number of people that were just in  
23 that last presentation.

24 And so it is in competition with you now. They  
25 lifted out a team from an appropriate location and they

1 started a fund, not necessarily because they knew your  
2 plans, I think, but because they sensed there was a market  
3 opportunity. And clearly, you talking about it indicated  
4 there was at least some demand for it.

5 So you may have changed the pace of their  
6 process. You may have affected your own ability to  
7 acquire a team. And certainly, they're going to be  
8 bidding against you in future private equity deals.

9 So those are -- I really wanted to bring this  
10 sort of to a more concrete level by coming up with  
11 examples. Again, I don't have the right answer in terms  
12 of what has to be transparent. And I think there's  
13 clearly things written into the law that have to be  
14 transparent. But the value of keeping things confidential  
15 when it's at CalPERS scale, and you translate some of  
16 those numbers that I talked about into an average pension  
17 benefit of call it \$30,000 a year, you're talking about  
18 thousands of pension benefits that you could have easily  
19 funded or not been able to fund, depending on that -- the  
20 confidential nature of that information.

21 So I'm going to stop there and let Steve take  
22 over.

23 MR. McCOURT: Thanks. Steve McCourt, Meketa  
24 Investment Group.

25 I'm going to broaden this out a bit. And I think

1 it's a very interesting topic to think about in broad  
2 terms. Two reasons this is really interesting for you as  
3 a topic. One, information, because I would argue it's  
4 invisible, people have a hard time placing a value on it.  
5 And I'll get into some examples of that sort of extends  
6 well beyond the investment world.

7           Secondly, CalPERS has sort of a distinctive role  
8 as a public agency. You're public, your governmental, and  
9 appropriately you have an objective of transparency.  
10 You're also a huge investment asset owner that has access  
11 to significant amounts of information related to your  
12 investments.

13           At the end of the day, being transparent and  
14 being -- and managing your information appropriately to  
15 maximize value is a really challenging conflict to manage.  
16 Andrew spoke about some really good specific examples of  
17 how important information can be for CalPERS specifically  
18 or has been. I want to provide a couple of broader  
19 examples in our industry of how information is treated.

20           Within investments, I would argue the SEC, which  
21 obviously regulates investment advisors broadly and the  
22 delivery of investment services to investors is very much  
23 focused on information as it sees the information as  
24 enormous power in the investment world. It is -- it's --  
25 it kind of flows into kind of most obviously regulations

1 around insider trading, what people do for their own  
2 personal interest with respect to information they have  
3 access to; corporate insiders buying stock, based on  
4 information that is not publicly disseminated; investment  
5 advisors marketing to investors track records and  
6 performance information; and firms -- requiring firms to  
7 disclose appropriate information to investors to make  
8 prudent investment choices. That's a large part of what  
9 the SEC is designed to do. And it all revolves around the  
10 value of information.

11 But even outside the investment world,  
12 information is both very important, valuable. And I think  
13 we're only starting to grasp with how best to handle that.

14 Obviously, here in California, we're just a few  
15 miles from the epicenter of the technology world, which  
16 has largely been built on the value of information.  
17 Companies like Facebook are able to provide consumers with  
18 access to a platform free of charge in exchange for  
19 consumers providing them information that they in turn can  
20 use to sell to advertisers to make lots of money for  
21 themselves. And that model has been around forever, but  
22 it's been sort of perfected by Silicon Valley.

23 Companies like Amazon and Uber are valued at  
24 massive net worths for many reasons. But at the top of  
25 that list is their ability to collect information on

1 behavior and to use that information in the future to  
2 extract value for themselves and organizations they can  
3 sell that information to.

4           And I say it's sort of an interesting topic more  
5 broadly, because you now see sort of growing interest in  
6 regulating some of these information-based organizations.  
7 And all of our antitrust laws were kind of built 100 years  
8 ago before the information industry didn't exist certainly  
9 to the way it exists today.

10           So I think, to a certain extent, the whole topic  
11 of information is one that is interesting and growing in  
12 importance as economy continues to evolve.

13           Finally, I'll note that at CalPERS -- I've  
14 already said it obviously takes its information very  
15 seriously. Meketa's contract with CalPERS has many  
16 instances where we're prevented from disclosing  
17 information that's provided to us by CalPERS.

18           Interestingly, in reviewing that language, the  
19 information is referred to in the contract as an  
20 information asset, which I think is a very forward-looking  
21 way of thinking about information in today's world.  
22 Information is an asset. And various policies and  
23 practices that constrain staff's operating within the  
24 policies that you provide them also constrain them from  
25 divulging information that isn't necessary to divulge for

1 the same reasons that you want them to value the  
2 information that they have access, and to use that in a  
3 way to maximize the value to CalPERS and not to others.

4           So all that is to say information is a powerful  
5 thing. It has value. And you and every other public  
6 pension plan is sort of in a very interesting place of  
7 looking to kind of maximize the ideal of transparency and  
8 maximize the ideal of information management. And at the  
9 end of the day, those two don't really mix. They more or  
10 less collide. And it's a really interesting, challenging,  
11 and useful exercise to kind of think about where the right  
12 line is drawn between those two ideals. And I think I'll  
13 stop my comments there.

14           CHAIRPERSON FECKNER: All right. Thank you.  
15 Seeing no requests to speak. Thank you both.

16           That brings us to Agenda Item 11, summary of  
17 Committee direction.

18           Mr. Meng.

19           CHIEF INVESTMENT OFFICER MENG: Thank you, Mr.  
20 Chair. I noted four. The first one from Ms. Olivares  
21 about our CMO holdings. Just during the break, my  
22 colleague Arnie Phillips gave me the number. So in fixed  
23 income, we hold 38 -- about \$38 million of agency CMO. We  
24 use them mainly for duration curve play purpose. So these  
25 are conscious holding.

1           And then in global equity, we also have a legacy  
2 of 44 million for non-agency CMO. They're in the runoff  
3 mode. And they reason they are legacy, they were held  
4 long ago, more than 10 years ago during the global  
5 financial crisis, as part of the enhanced return program.  
6 So again, as I said, at least 44 million CMO is in the  
7 runoff mode. So that's the first question.

8           The second question from Controller Yee to  
9 incorporate Board diversity review as part of the private  
10 asset market review, so that what you'll see in November.

11           And the third one is from Treasurer Ma. She  
12 asked for a California -- CalPERS investment in California  
13 broken down by different asset classes. And that request  
14 was further buttressed by Mr. Jones asking for a  
15 presentation on CalPERS investment in California. And I  
16 want to stay that's coming back to you either in November  
17 or December. So I need to speak to the team to give you  
18 exact month of that presentation.

19           And the last one I noted on is from Controller  
20 Yee. This was not IC Chair directive, but it's something  
21 our CEO Ms. Frost mentioned that the request from  
22 Controller Yee is to incorporate communication -- a way of  
23 communication between the Board and Board consultant,  
24 incorporate that into Insight Tool. And again, as Ms.  
25 Frost mentioned, that we're going to take a review or

1 survey, or sit one-on-one with each one of you in the next  
2 month or so to ask for your asks or desired requirement  
3 for the Insight Tool. So that will be taken care of  
4 during that process.

5 So that's the four IC I noted on here.

6 CHAIRPERSON FECKNER: All right. Thank you.

7 We do have a request to speak on the last agenda  
8 item. But I am going to say for the record that due to  
9 the number of requests to speak today, we're going to  
10 limit to two minutes per person. We're over 25 people  
11 that have requested to speak. So we're certainly not  
12 going to three minutes.

13 So Mr. Darby, you wanted to speak on Item 10b.

14 MR. DARBY: Al Darby, President, Retired Public  
15 Employees Association.

16 Mr. Chair, Board, there's a different dimension  
17 in these issues related to secrecy or information about an  
18 asset. That dimension is that we may have a special  
19 interest in a particular segment of the membership of  
20 CalPERS that could be affected by this attempt to keep  
21 secret certain events.

22 The dimension I'm referring to specifically in  
23 Pillar 4 is that if this pillar were to have been kept  
24 secret, the members wouldn't have known the construct of  
25 that pillar. And the construct was was to give \$100



1 million to whoever was going to run the GP. And this  
2 would have been objectionable and was objected to in many  
3 public comments about our -- by ourselves as many others  
4 were objecting.

5           So keeping secret things has to be very carefully  
6 decided. There are members on this Board who are elected  
7 by constituencies within the membership of CalPERS. They  
8 have an obligation to that constituency to defend the  
9 members from very poor or bad decisions about how to  
10 construct a particular Investment Policy.

11           Thank you.

12           CHAIRPERSON FECKNER: Thank you.

13           That brings us to agenda Item 12, public comment.

14           Again, 2 minutes per person. And we'll call your  
15 name down. When I call you, please come down and sit.  
16 And the microphones will be turned on for you. Give your  
17 name and your affiliation for the record. And please,  
18 it's in all of our best interests, if we don't repeat each  
19 other's comments. Some of you, I understand may be just  
20 coming down to put your name in the record and offer  
21 support. We appreciate that.

22           The First is Ruth Ibarra followed by Emily Claire  
23 Goldman, followed by Susan Green. If you three could  
24 please come forward.

25           Is Susan Green here?

1           Can you please come down to the microphone?

2           All right. Ms. Ibarra, you're first.

3           MS. IBARRA: Thank you. Good afternoon. My name  
4 is Ruth Ibarra. And I'm here representing NorCal Resist,  
5 Coalition of Labor Union Women California Capital Chapter,  
6 LULAC west Sacramento, and the Sacramento Poor Peoples  
7 Campaign. I'm also a State employee for over 12 years and  
8 a CalPERS member.

9           I'm here today to demanding that CalPERS  
10 immediately stop investing our retirement contributions on  
11 companies that are profiting from concentration camps.  
12 These corporations are profiting from caging individuals  
13 who are legally seeking asylum, individuals that have been  
14 pushed out of their countries due to violence, political  
15 instability, deep poverty caused in part by our own  
16 foreign policies, or persecution for being LGBTQ, who have  
17 walked thousands of miles through dangerous terrains in  
18 hopes to reach the U.S. and get a chance at the American  
19 dream.

20           It's a shame CalPERS finds it perfectly okay to  
21 profit from their inhumane treatment. It's a shame that  
22 CalPERS knowingly invests in fascist, racist corporations  
23 that profit from the death of innocent vulnerable people.  
24 We know that at least 26 individuals, including children  
25 and trans folks have died, and thousands have reported

1 being sexually assaulted in these camps.

2 CalPERS needs to do what's morally right. Stop  
3 investing on for-profit prisons, companies such as GEO  
4 Corps and CoreCivic. By investing in them, CalPERS is  
5 being complicit with these heinous crimes against  
6 humanity. It's for CalPERS to put human life before  
7 profits. It's time for CalPERS to stop investing in  
8 companies that treat children as disposable. It's time  
9 for CalPERS to stop putting blood on the hands of its  
10 members.

11 Enough is enough. Stop investing in  
12 concentration camps. We cannot have one more death on our  
13 hands due to morally corrupt investments made by CalPERS.

14 CHAIRPERSON FECKNER: Time is up. Thank you.  
15 Ms. Goldman.

16 MS. GOLDMAN: Hi. My name is Emily Claire  
17 Goldman. I am the founder of --

18 CHAIRPERSON FECKNER: Just a second. We need  
19 your microphone on.

20 There you go.

21 MS. GOLDMAN: Can you restart my time then?

22 CHAIRPERSON FECKNER: We'll start -- we'll start  
23 the clock again, yes.

24 MS. GOLDMAN: Okay. My name is Emily Claire  
25 Goldman. I am the founder and director of Educators for

1 Migrant Justice, as many you know.

2           So bottom line, human rights abuses affect a  
3 company's bottom-line. That should be very clear at this  
4 point. And CoreCivic and GEO Group are the perfect case  
5 study for this. Nine months have passed since concerns  
6 about CalPERS investments in CoreCivic, GEO, General  
7 Dynamics, United Rentals were first brought to the Board's  
8 attention, and CalPERS has yet to provide stakeholders  
9 with a single update during that time period.

10           Conditions at CoreCivic and GEO Group facilities  
11 have not improved. While CalPERS drags its feet, children  
12 and families continue to be subjected to horrifically  
13 inhumane conditions in their facilities and both  
14 companies' financial outlook continues to deteriorate.  
15 The idea is not to wait until the floor completely drops  
16 out below these companies before you get out.

17           As many of you know, the California State  
18 Legislature just passed a bill to ban for-profit prisons  
19 like CoreCivic and GEO Group from operating within the  
20 State. And California is one of CoreCivic and GEO's most  
21 important markets and sources of revenue. And CoreCivic  
22 actually lost 31 million in revenue in the past six months  
23 alone due to the mere reduction in California's inmate  
24 population.

25           So imagine what this is going to do to both

1 companies longer term. So I'd also like to note that GEO  
2 Group is now also facing additional legal challenges with  
3 new forced labor allegations and a potential new class of  
4 plaintiffs that could include hundreds of thousands of  
5 current and former detainees.

6           Having saved an estimated \$47 million by using  
7 forced labor rather than hiring paid employees, GEO is now  
8 seeking to recover litigation expenses from the federal  
9 government from taxpayers, because they can't afford to do  
10 so.

11           These companies bottom line are not profitable or  
12 sustainable. And I would also just like to note, and I  
13 know I'm almost out of time, that I find it incredibly  
14 concerning that CalPERS is now retaliating against public  
15 participation by its members.

16           CHAIRPERSON FECKNER: Thank you.

17           Ms. Green.

18           MS. GREEN: Good afternoon. My name is Susan  
19 Green and I've been a CalPERS member since 1999. I'm  
20 proud to stand in solidarity with the California faculty  
21 association's 28,000 members and strongly urge you to stop  
22 investing immediately in CoreCivic and GEO Group.

23           CalPERS is the financial steward for the pensions  
24 of millions of State employees, including my colleagues in  
25 the CSU system. In fact, CalPERS reputation is one of the

1 reasons that I took a job in California and became a  
2 professor of history at Chico State. The promise of a  
3 venerated public pension system was a draw for me then and  
4 it will certainly be a draw for thousands in the future.

5           However, CalPERS veneer is cracked because of the  
6 continued investment in private prison operators.

7 Certainly, I care about my retirement as do my colleagues,  
8 but at what cost?

9           I simply cannot live with knowing that the money  
10 that I earn is being invested in companies like CoreCivic  
11 and GEO Group that have dreadful conditions at their  
12 facilities and have a reputation for inhumane treatment of  
13 their detainees.

14           Furthermore, the pension system will need more  
15 members to retain its solvency, but investments like this  
16 could deter people from coming to California and seek  
17 employment outside the State.

18           Under this scenario, CalPERS would lose out not  
19 only from financial support but also a brain drain of  
20 those people who could provide a top-notch affordable  
21 education in California to our students. We done have to  
22 go down this road. This is a small investment for  
23 CalPERS. It's 11.4 million out a total portfolio of 360  
24 billion. It's a paltry amount, but it's priceless to the  
25 victims of CoreCivic and GEO Group management, and to

1 people like me who bought into CalPERS and its reputation.

2 I come from Minnesota and I follow the Minnesota  
3 paper daily, and CoreCivic was just in the paper for  
4 striking a deal with ICE to use a private prison that it  
5 owns in Appleton, Minnesota as a migrant detention  
6 facility. Fortunately, State legislators mobilized  
7 quickly and did the same thing that the Legislature in  
8 California has. Please --

9 CHAIRPERSON FECKNER: Your time is up. Thank  
10 you.

11 CHIEF TECHNOLOGIST GREEN: All right. The next  
12 three are Michelle Pelliccia, Kevin Wehr and John  
13 Sarraille.

14 PUBLIC MEMBER: They're all doing me-toos. Can  
15 they just kind of come up in order?

16 CHAIRPERSON FECKNER: Are they all on the list?

17 PUBLIC MEMBER: Yeah.

18 CHAIRPERSON FECKNER: It seems like a lot more  
19 than 20 to me.

20 PUBLIC MEMBER: Or do you just really want them  
21 in that order? That's your call on that, because  
22 otherwise we can just go quicker.

23 CHAIRPERSON FECKNER: Let's just do it.

24 Somebody didn't sign up. I'll tell you that.

25 Who's next?

1 MS. PELLICIA: Good afternoon. My name is  
2 Michelle Ramos Pellicia. And I am here today in my  
3 capacity both as an Associate Professor of Spanish  
4 sociolinguistics at the California State University, San  
5 Marcos and as a member of the California Faculty  
6 Association. I have been a CalPERS member since 2011.

7 But I travel here today from San Diego, the  
8 borderlands, not to express my thanks for investing my  
9 pension wisely, but rather to underscore my disappointment  
10 for investing it immorally.

11 During the past few months, you have heard from  
12 several my union siblings regarding our collective  
13 indignation over CalPERS continued investment on our  
14 pensions into CoreCivic and GEO Group, two of the largest  
15 private migrant detention operators in the country.

16 As an advocate on my campus for migrant rights, I  
17 am deeply committed to ensuring that my students, some of  
18 whom are undocumented or from mixed status families, have  
19 access to a proper education that will lay the groundwork  
20 for a meaningful future.

21 However, tell me how I can look them in the face  
22 when my own pension is being fueled to prop up companies  
23 that are responsible for the tearing apart of thousands of  
24 migrant families at our southern border. I talk to my  
25 students about calling out injustice when they see it, and



1 acting to fight against it. But my very own pension is  
2 being used to perpetrate it.

3 The reality is that your investment of my money  
4 into these irresponsible companies makes me complicit in  
5 the criminalization, mistreatment, and dehumanization of  
6 people who want nothing more than a chance of a better  
7 life, something that any of us would want under similar  
8 dire circumstances.

9 CoreCivic and GEO Group need to be held  
10 accountable. It's time that you make the right decision  
11 and do your part to end the culture of cruelty that  
12 CoreCivic and GEO Group are propagating. I'm better than  
13 this. You're better than this. We all are better than  
14 this. And people coming to this country with the hope of  
15 fulfilling their dreams deserve better than this.

16 Please stop investing in private migrant  
17 detention. And just as I mentioned, we have --

18 CHAIRPERSON FECKNER: Your time is up. Thank  
19 you.

20 MS. PELLICIA: -- other Colleagues who have --  
21 could not be here today, but we collected --

22 CHAIRPERSON FECKNER: Next, please.

23 MS. PELLICIA: -- postcards. And I'm going to --

24 CHAIRPERSON FECKNER: Next, please.

25 MS. PELLICIA: -- leave them here.

1 DR. DE LA GARZA: Hi. My name is Dr. Antonio  
2 Tomas De La Garza. I'm a junior faculty member at  
3 California State University, San Marcos. And I've been a  
4 CalPERS member since 2016.

5 I'm here to support my colleagues and their call  
6 for CalPERS to stop investing in Core Group -- or  
7 CoreCivic and the GEO Group.

8 Thank you.

9 CHAIRPERSON FECKNER: Thank you.

10 MR. SANTILLANO: Yes. My name is Oscar  
11 Santillano. And I would also like to urge the Board to  
12 divest from CoreCivic And GEO, so me too.

13 CHAIRPERSON FECKNER: Thank you. Next three,  
14 please.

15 MR. WEHR: Kevin Wehr, Vice President of the  
16 California Faculty Association, and professor of sociology  
17 at Sacramento State. CalPERS members since 2003. I'm  
18 here to support the call from colleagues to drop CoreCivic  
19 and GEO Group as investments by CalPERS.

20 Thank you.

21 CHAIRPERSON FECKNER: Thank you.

22 MR. SARRAILLE: I'm John Sarraille. I'm a  
23 professor of computer science at CSU Stanislaus. I've  
24 been a member of CalPERS since 1986. I've come to support  
25 my CFA colleagues today, because I have educated myself

1 about CoreCivic and GEO Group. And I have concluded that  
2 it is intrinsically inhuman and immoral to invest in them.

3 CHAIRPERSON FECKNER: Thank you.

4 DR. BERTA AVILA: Good afternoon. My name is Dr.  
5 Margarita Berta-Avila. And I'm a professor of education  
6 at Sacramento State University. I have been a CalPERS  
7 member since 2001. I'm here in support of my colleagues  
8 to call on CalPERS to stop investing in CoreCivic and GEO  
9 Group.

10 And I wanted to just build on my colleague's  
11 comment that the postcards that you have in front of you  
12 are over 400 postcards representing over 20 -- over the 23  
13 campuses across the CSU system.

14 CHAIRPERSON FECKNER: Thank you.

15 MS. DOSCH: Hello. My name is Mya Dosch and I'm  
16 an assistant professor of art at California State  
17 University, Sacramento, where one of our learning --  
18 university learning outcomes that we hope all of our  
19 students leave the university with is quote, "ethical  
20 reasoning and action". I hope that you take our  
21 investments out of CoreCivic and GEO Group.

22 CHAIRPERSON FECKNER: Thank you. Next three,  
23 please.

24 MS. LAWLESS: Hi. Good afternoon. My name is  
25 Jessica Lawless. I'm a CFA field rep for Sacramento State

1 and Humboldt State University. And it's also important to  
2 say that my spouse is a cook in the dining halls at UC  
3 Berkeley and has been a member CalPERS since 2014.

4 I'm here in support of my colleagues to call on  
5 CalPERS to stop investing in CoreCivic and GEO Group.

6 Thank you.

7 CHAIRPERSON FECKNER: Thank you.

8 MS. VALDERAMA-WALLACE: Good afternoon. My name  
9 is Claire Valderama-Wallace. And I'm a faculty member in  
10 the Department of Nursing at Cal State East Bay. And I'm  
11 here also on behalf of my partner who's a campus  
12 Psychologist at Cal Maritime. I've been a member of  
13 CalPERS since 2015.

14 As nurse, as an educator, as a mother, and as a  
15 daughter of immigrants, I call on CalPERS to stop  
16 investing in CoreCivic and GEO Group.

17 CHAIRPERSON FECKNER: Thank you.

18 MS. STRYKER: My name is Rachael Stryker. And  
19 I'm a chapter president at CSU East Bay. And I've been a  
20 CalPERS member since 2012. I'm also on faculty at East  
21 Bay in the Department of Human Development and Women's  
22 Studies.

23 I have been asked by our 671 members on campus  
24 from CFA to come here specifically to this meeting to say  
25 that we are all in support of my colleagues to call on

1 CalPERS to stop investing in CoreCivic and GEO Group.

2 Thank you.

3 CHAIRPERSON FECKNER: Thank you.

4 Next three, please.

5 Go ahead.

6 MS. BARRETT: Thank you. My name is Eileen  
7 Barrett. I am a retired faculty member at Cal State East  
8 Bay, where I continue to teach courses in the English  
9 Department with an emphasis on social justice. So I am  
10 here to support my colleagues in asking that we disinvest,  
11 that we stop investing in CoreCivic and GEO Group. Enough  
12 is enough. We are all better than this.

13 CHAIRPERSON FECKNER: Thank you.

14 MR. LERNER: My name is Eric Lerner, California  
15 Faculty association. I'm here in solidarity with my  
16 colleagues. And we are asking that you stop investing in  
17 CoreCivic a GEO Corps. Thank you.

18 CHAIRPERSON FECKNER: Thank you.

19 MS. RODRIGUEZ: Hi. My name is Janeth Rodriguez  
20 with California Faculty Association. And I'm here just  
21 supporting my colleagues. Also want to reiterate that the  
22 Board stop investing in GEO Group and CoreCivic

23 CHAIRPERSON FECKNER: Thank you.

24 Next three, please.

25 MR. MARTEL: I think there's just me left.

1 CHAIRPERSON FECKNER: Okay.

2 MR. MARTEL: Hi. My name is James Martel. And I  
3 am a Chapter President at San Francisco State University  
4 representing 2,000 members of the California Faculty  
5 Association. And I've been a member of CalPERS since  
6 2002. And I'm here to support my colleagues to call on  
7 CalPERS to stop investing in CoreCivic and GEO Group. And  
8 I just wanted to add that it affects each of us  
9 personally, because we're personally implicated in some --  
10 in a really series of horrible things with gulags and  
11 children in cages. So I feel personally responsible for  
12 this now and I've -- really important for you guys to  
13 divest.

14 Thanks.

15 CHAIRPERSON FECKNER: Thank you.

16 MS. COUGHLIN: Hi. My name is Mimi Coughlin.  
17 I'm a faculty member at Sacramento State University. I'm  
18 in the College of Education. And I'm here to passionately  
19 support my colleagues and to request that you stop  
20 investing in CoreCivic and GEO Corps.

21 CHAIRPERSON FECKNER: Thank you.

22 Okay. I have more names on my list. Are there  
23 more of you that are coming forward?

24 MS. JOFFE-BLOCK: Not part of the faculty  
25 association. Allies.

1 CHAIRPERSON FECKNER: Okay. Well, I can't tell  
2 when the sheet is blank. So you'll have to come forward  
3 and give us your name.

4 Please reset the clock.

5 MS. JOFFE-BLOCK: Hi. Good afternoon. My name  
6 is Miriam Joffe-Block. I work in the State Treasurer's  
7 Office for CAEATFA. I'm here as an individual. I've been  
8 a member of CalPERS for about 5 years. I'm going to read  
9 a statement written by a young man living in Sacramento  
10 right now seeking asylum. And I'm not going to use his  
11 name, because his case is still pending.

12 "I'm a 26 year old man. I've been a victim  
13 of violence in my home country of Guatemala. In  
14 October of 2018, I had to come to the U.S.  
15 because I feared for my life after multiple  
16 physical beatings. When I arrived here, I was  
17 put in detention in the State of Texas at the Val  
18 Verde Correctional Facility for one month, and  
19 then at the Montgomery Processing Center for  
20 three months. Both facilities are operated by  
21 GEO Group. I was eventually moved to Livingston,  
22 Texas.

23 My experience in the GEO Group facilities  
24 were appalling because of the living conditions  
25 inside. The treatment and services are very

1 concerning. Meals are served in our cells in the  
2 same area as our toilet. There is absolutely no  
3 privacy between the areas where we eat and the  
4 restroom. It's all one area. You have to wait 5  
5 days after reporting a medical problem to receive  
6 any treatment, no matter how sick you are.

7 The temperature was frigid and they didn't  
8 provide us with sufficient blankets. They don't  
9 even give sweaters. Every night we were  
10 freezing. The water in the showers was so hot,  
11 we couldn't stand under it directly. We had  
12 splash it over our hands first. You could die  
13 inside there and no authorities would realize it.

14 The hardest part of being inside is to be  
15 completely locked up, getting only one hour  
16 outside to see daylight. Most weeks, we couldn't  
17 even take advantage of our one hour, because it  
18 was too cold to go outside. This is quote  
19 detention. We shouldn't be treated like  
20 criminals. We didn't commit any crimes to be  
21 treated inhumanely. In conclusion, I would not  
22 wish this experience with GEO Group on anyone".

23 So I'm here to urge CalPERS to divest from GEO  
24 Group and CoreCivic on behalf of this young man that I've  
25 had the privilege to know and everyone else who's here.



1 CHAIRPERSON FECKNER: Thank you.

2 MS. SOLOVITCH: Hi. My name is Syma Solovitch.  
3 I've been a CalPERS member since 2007. And I'm here in  
4 solidarity to urge the Board to divest from CoreCivic and  
5 GEO Group.

6 Thank you.

7 CHAIRPERSON FECKNER: Thank you.

8 MR. EISENBERG: Hi. My name is Hal Eisenberg.  
9 I'm a retired State employee. I've been a member since  
10 the seventies. I'm here in support of the prior speakers  
11 that we divest in this type of business.

12 Thank you.

13 CHAIRPERSON FECKNER: Thank you.

14 Next. You must be Greg and Eva.

15 MR. BRUCKER: All right. Good morning. My name  
16 is Greg Brucker. I am a K-12 educator in Davis. I'm here  
17 as a CalSTRS member, number one. CalSTRS divested last  
18 year for these reasons that you're hearing today, because  
19 they saw the light and they understood that they didn't  
20 want to be complicit any further.

21 As a CalSTRS member, I'm asking that you do the  
22 same and fall in their footsteps. I'm also co-founder of  
23 Jewish Action NorCal sitting here with my co-founder. And  
24 we as Jews have seen this before. We have lived this  
25 before. And, you know, I'll tell you before getting into

1 a couple other points, we look at it from the perspective  
2 of the grandchildren of the Nazis. How many of them feel  
3 good about what their grandparents did, the choices their  
4 grandparents made.

5           Regardless of whether they did it because they  
6 felt they should or they were just following orders, which  
7 still let people in the Nuremberg trials be found guilty  
8 and was considered a war crime.

9           What are your grandchildren going to ask you  
10 about? What are your great grandchildren going to ask  
11 your children? What did you do when the horrible  
12 government was putting all these really wonderful people  
13 in camp simply because they were trying to find a better  
14 way of life? What is your kid going to say? What are you  
15 going -- what are you going to say to them?

16           Well, we wanted to make money, because that is  
17 what you're saying right now. That's more important to  
18 you. Don't you think you want to be able to tell your  
19 grandkids and great grandkids, you know, we thought this  
20 was wrong and we stopped this. We did something.

21           You know, just in the last couple days, someone  
22 from the Trump administration said we're not going to put  
23 the homeless in camps yet. Yet.

24           Who is going to be next? You? You? You? Me?  
25 The Jews? The muslims? They're already going into camps,

1 if they're considered a threat.

2 CHAIRPERSON FECKNER: Time is up. Thank you.

3 MR. BRUCKER: Thank you for your interest in  
4 divesting. We want it now.

5 MS. MROCZEK: My name is Eva Mroczek. I  
6 represent Jewish Action NorCal. I teach at UC Davis in  
7 Jewish studies. And I'm here in solidarity with my fellow  
8 educators. This is personal for me, because I have a  
9 brilliant graduate student in ancient history and ancient  
10 languages who is a political refugee from Afghanistan. He  
11 was picked up by ICE at his sister's house in Sacramento,  
12 while preparing an asylum case.

13 Of course, he could not stay in Afghanistan as  
14 he'd been a newspaper reporter there. He was told by ICE  
15 that he could be bailed out right away by his family, but  
16 instead he was put on a plane to Arizona, where she -- he  
17 was shackled with 30 other men and flown to a place and he  
18 wasn't told where they were taking him.

19 He stayed in a camp in Arizona with no  
20 information for two and a half months, with no privacy,  
21 being given two white bread and one slice of bologna  
22 sandwiches every day. He had never committed a crime.  
23 After two and a half months, once again without any  
24 information, he was flown back to Sacramento, where his  
25 bail was signed by a judge in five minutes.

1           There was no reason for my student, who had never  
2 committed a crime, to be in that camp. This cost  
3 taxpayers \$600 a day and lined the pockets of companies  
4 like GEO Group and CoreCivic. This is a profit motive.  
5 Much, much worse has happened to people in custody. All  
6 of the major banks have divested from concentration camp  
7 profiteers, who shackle, jail, and dehumanize people like  
8 my brilliant student.

9           The fact that CalPERS has not committed to doing  
10 so, and the fact that we all need to show up here, and  
11 trot out these stories of people we know, trot out these  
12 other people's tragedies is shameful and depressing.

13           CHAIRPERSON FECKNER: Thank you.

14           Next.

15           MS. ALCALA: We actually have our name on there.  
16 It's Carlos Alcala.

17           CHAIRPERSON FECKNER: I have Carlos and I have  
18 Duane Goff.

19           MS. ALCALA: Correct. I'm Norma Alcala. Thank  
20 you.

21           Okay. Carlos, go ahead.

22           MR. ALCALA: Hi. My name is Carlos Alcala, Madam  
23 Controller. I've never come before you before. But I  
24 come before you today because of the importance of this  
25 issue to us. I'm the Chair of the Chicano Latino Caucus

1 for the California Democratic Party. Of the parties 3,300  
2 delegates, 880 are Latino. This issue is a very important  
3 issue to us, because of the harm that has been done by  
4 private prisons.

5 I recognize the fact that you all have a  
6 fiduciary responsibility and that's a heavy burden. But  
7 recognize that there are groups before you that have  
8 addressed this same issue. In 2016, the federal  
9 government terminated -- announced it would terminate the  
10 use of private prisons for two reasons, because they were  
11 unsafe and inefficient.

12 That was not some prisons, not a few prisons, not  
13 just a few that you all are invested, all federal private  
14 prisons.

15 Less than a year later, an administration re --  
16 infamous I should -- I was going to say renowned. What a  
17 mistake. Infamous for poor decisions, in 2017 reversed  
18 that decision. And that's why we have federal private  
19 prison today. In those prisons, a prisoner is 28 percent  
20 more likely to be assaulted, a guard is 50 percent more  
21 likely to be attacked, the staff will receive much less  
22 training, they'll receive much less wages, the prison will  
23 capitalize profit over human dignity, over civil rights.

24 Sometimes we have a higher loyalty. And that  
25 fiduciary responsibility, not putting it down. It's

1 important. But remember, we have a higher loyalty to  
2 civil rights.

3 CHAIRPERSON FECKNER: Time is up. Thank you.

4 MS. ALCALA: Thank you. Norma Alcala. And I am  
5 the Vice Chair for the Chicano Latino Caucus of the  
6 California Democratic Party. I'm also a trustee for the  
7 Washington Unified School District in West Sacramento.  
8 And I serve on the executive board for the California  
9 Latino School Board Association. I just want to urge you  
10 again - you've heard some compelling testimony - and ask  
11 you to stop this insidious investment.

12 Thank you.

13 CHAIRPERSON FECKNER: Thank you.

14 Mr. Goff.

15 MR. GOFF: My name is Duane Goff. I'm with  
16 Veteranos Chicanos. We're an organization of Chicano  
17 combat veterans from Vietnam. Many of our members are  
18 also retired State employees. We put ourselves in danger  
19 for America, because we believed in the values of America,  
20 and we still do. But we also believe that corporations  
21 making a profit off of incarceration is not an American  
22 value. We believe that it's in the same classification as  
23 apartheid, Jim Crow law, the enslavement of the Native  
24 Americans and Mexicans that lived here when the country  
25 was expanding.

1           Many of our members are retired State employees,  
2 who feel that because you are investing these private  
3 companies, these private prisons, their retirement money  
4 is like blood money, and they are not happy with that.

5           The practice of investing in private prisons is  
6 immoral. It needs to be stopped and we ask you to divest  
7 all of your investments in private prison companies.

8           Thank you.

9           CHAIRPERSON FECKNER: Thank you.

10          MS. ALCALA: By the way, I'm also CalPERS. Thank  
11 you

12          CHAIRPERSON FECKNER: Thank you.

13          Ms. Taylor.

14          VICE CHAIRPERSON TAYLOR: Yes, I want to thank  
15 our members for coming and speaking today. All of those  
16 who had a story to tell, it was very compelling. I just  
17 want to let you know that we are looking this. We are  
18 working on this. I, myself, through my union, went and  
19 did a tour of two CoreCivic facilities. They were called  
20 family residential centers. I understand, and I hear your  
21 concerns, and we are looking into this.

22          So thank you very much.

23          CHAIRPERSON FECKNER: Thank you.

24          Ms. Middleton.

25          COMMITTEE MEMBER MIDDLETON: I want to second Ms.

1 Taylor's comments. Thank everyone who has come. The  
2 conditions in those camps are appalling. They are  
3 unconscionable and there is no question that we need to  
4 move on as quickly as we possibly can.

5 (Applause.)

6 CHAIRPERSON FECKNER: Mr. Miller.

7 Please, no outbursts.

8 COMMITTEE MEMBER MILLER: Yeah. What they said.

9 (Laughter.)

10 COMMITTEE MEMBER MILLER: Thank you for being  
11 here. I know it's frustrating. Sometimes, you know, it  
12 may feel like you're not being heard, because you don't  
13 see action happening right on the spot. But, you know,  
14 persevere. Keep speaking your truth. I and my colleagues  
15 we will keep listening. And -- and I think just stay  
16 tuned. Be patient. We're listening. We hear it. I've  
17 been on the record with some of my statements. So those  
18 of you who have followed it know how I feel about it. And  
19 I just thank you for persevering, and, you know, pushing.  
20 Keep on pushing.

21 CHAIRPERSON FECKNER: Thank you.

22 Ms. Olivares.

23 COMMITTEE MEMBER OLIVARES: I just really want to  
24 thank you. I understand what the conditions are. And  
25 it's not -- they're not easy to discuss, so thank you.



1 CHAIRPERSON FECKNER: Thank you.

2 Seeing no other requests.

3 I do want to say on behalf of the Committee,  
4 echoing my fell Board members, we hear you. We have heard  
5 you. We're working on it. And you'll know when we know.

6 So keep up the fight. We certainly understand  
7 your point of view. And we're certainly sympathetic to  
8 it. So thank you very much.

9 This meeting is adjourned.

10 (Thereupon California Public Employees'  
11 Retirement System, Investment Committee  
12 meeting open session adjourned at 12:56 p.m.)

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## 1 C E R T I F I C A T E O F R E P O R T E R

2 I, JAMES F. PETERS, a Certified Shorthand  
3 Reporter of the State of California, do hereby certify:

4 That I am a disinterested person herein; that the  
5 foregoing California Public Employees' Retirement System,  
6 Board of Administration, Investment Committee open session  
7 meeting was reported in shorthand by me, James F. Peters,  
8 a Certified Shorthand Reporter of the State of California,  
9 and was thereafter transcribed, under my direction, by  
10 computer-assisted transcription;

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

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

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22 JAMES F. PETERS, CSR  
23 Certified Shorthand Reporter  
24 License No. 10063  
25