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
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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 Pellicia, 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

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

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

P R O C E E D I N G S

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

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

COMMITTEE SECRETARY JENSEN: Rob Feckner.

CHAIRPERSON FECKNER: Good morning.

COMMITTEE SECRETARY JENSEN: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY JENSEN: Margaret Brown?

COMMITTEE MEMBER BROWN: Good morning.

COMMITTEE SECRETARY JENSEN: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY JENSEN: Fiona Ma?

CHAIRPERSON FECKNER: Represented by Frank Ruffino?

COMMITTEE SECRETARY JENSEN: Represented by Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: Present.

COMMITTEE SECRETARY JENSEN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY JENSEN: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY JENSEN: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY JENSEN: Eraina Ortega represented by Michelle Mitchell?

ACTING COMMITTEE MEMBER MITCHELL: Here.

COMMITTEE SECRETARY JENSEN: Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY JENSEN: Mona Pasquil Rogers?

COMMITTEE MEMBER PASQUIL ROGERS: Here.

COMMITTEE SECRETARY JENSEN: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

COMMITTEE SECRETARY JENSEN: Betty Yee?

COMMITTEE MEMBER YEE: Here.

CHAIRPERSON FECKNER: Thank you.

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

What's the pleasure of the Committee?

VICE CHAIRPERSON TAYLOR: Move approval.

CHAIRPERSON FECKNER: Moved by Taylor.

COMMITTEE MEMBER MILLER: Second.

CHAIRPERSON FECKNER: Seconded by Miller.

Any discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

CHAIRPERSON FECKNER: All opposed, no?

Thank you. Motion carries.

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

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

CHAIRPERSON FECKNER: Thank you.

Agenda Item 4, Executive Report, Chief Investment Officer.

Mr. Meng.

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

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

Then in Item 8, as you may recall, that last month we started an annual program review. We started with two Total Fund Level Program with the Trust Level Portfolio Management, the TLPM program, and as well as the Opportunities Strategy, the OS program.

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

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

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

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

CHAIRPERSON FECKNER: Seeing none.

CHIEF INVESTMENT OFFICER MENG: Thank you.
So now we move to back to you, Item 5.
CHAIRPERSON FECKNER: Item 5, action consent items. This is the approval of the minutes for August 19th and August 20th. I would recommend making that in one motion.
What's the pleasure of the Committee?
COMMITTEE MEMBER JONES: Move it.
VICE CHAIRPERSON TAYLOR: Second.
CHAIRPERSON FECKNER: Moved by Jones, seconded by Taylor.
Any discussion on the motion?
Seeing none.
All in favor say aye?
(Ayes.)
CHAIRPERSON FECKNER: Opposed, no?
Motion carries.
Agenda Item 6, information consent items. Having no request to remove anything for further discussion.
That brings us to Item 7. Mr. Meng.
CHIEF INVESTMENT OFFICER MENG: Thank you.
So before I turn it over to my colleague Dan Bienvenue, I just would like to make one remarks. As I mentioned to you in July, from our perspective, as we move to the total fund approach, there are four quote unquote

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

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

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

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

CHAIRPERSON FECKNER: Thank you.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Thanks, Ben.

As Ben mentioned -- Dan Bienvenue, Acting COIO.

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

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

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

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

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

So since this is a second reading, we are looking for action from the Committee and approval of this. But I'll pause there and take any questions and also see if you want to hear from either Meketa and/or Wilshire to comment.

CHAIRPERSON FECKNER: Thank you.

Mr. Jones.

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

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

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

As far as how we make sure that we don't have excess leverage in any one of the subasset classes, that language is staying in your -- what we're currently calling our IPGs, which is our -- that's the level that doesn't come to the Board in policy, but it comes to your consultants for review. So we have sort of desktop procedures, then we have our IPGs, and then we have our total fund -- our fund policies.

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

COMMITTEE MEMBER JONES: And IPG is?

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

(Laughter.)

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: And our excessive use of acronyms. We're trying to stay clear.

(Laughter.)

COMMITTEE MEMBER JONES: Okay.

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

Andrew Junkin with Wilshire.

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

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

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

So if there is a - I'm just going to make up a number - a 40 percent cap on leverage for real assets right now, and staff says we want to take that to 20 or we want to take it to 60 - it could go either way - we'd say that's now a decision that the Investment Committee should make and we should bring it as an item for them.

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

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

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

Okay. Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

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

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

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

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

COMMITTEE MEMBER YEE: It would. Okay.

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

COMMITTEE MEMBER YEE: Okay. Okay.

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

COMMITTEE MEMBER YEE: All right.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: This is the timeline we expect, for example, the segment work.

COMMITTEE MEMBER YEE: Yes.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: If we -- if -- you know, if the segment work wound up taking 2 years and we expected it to take one year, we would certainly have come back.

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

CHAIRPERSON FECKNER: Very good.

Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

Actually, Ms. Yee asked my question.

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

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

CHAIRPERSON FECKNER: They're looking.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Yes. I think we're -- We can take any -- anything around Item 7A.

COMMITTEE MEMBER BROWN: Perfect.

CHAIRPERSON FECKNER: Very good.

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

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

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

Thank you, Mr. Meng. That was funny.

(Laughter.)

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

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

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

COMMITTEE MEMBER BROWN: Mr. Junkin, thanks.

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

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

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

MR. JUNKIN: We are.

COMMITTEE MEMBER BROWN: Okay.

MR. JUNKIN: So we're essentially stepping into your shoes, in that case, and saying, you know, on behalf of the Investment Committee, this is significant enough that they need to make the final decision, rather than it being a ministerial change.

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

MR. JUNKIN: Correct.

COMMITTEE MEMBER BROWN: Do you agree with that statement?

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

COMMITTEE MEMBER BROWN: Great.

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

Now, it looks like we're changing the co-investments under 200 million. It used to be -- some of those used to say require to now it's at MID discretion. And I just want to be -- I know we're trying to be helpful, so the staff doesn't -- we don't slow you done, right? I think that was the complaint I heard that -- having to come -- to get the prudent person opinion takes awhile and you may not be able to act on the co-investment. So why don't you tell me if that's correct.

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

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

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

MR. JUNKIN: I don't think that's in there. I'm looking around for Meketa, because I think they probably know all of the PPO requirements in the private asset classes, since they are the private asset class consultant.

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

MR. JUNKIN: 200 million?

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

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

COMMITTEE MEMBER BROWN: Okay.

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

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON FECKNER: Thank you.

Mr. Jones.

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

Yea, Mr. Chair, since our roles and responsibilities of our board self-evaluation, we talked about having our consultants chime in on these issues, so I would like to ask that you ask Meketa to see whether or not they have any comments or observations on this item, and also respond to Ms. Brown's question about the PPO.

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

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

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

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

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

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

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

COMMITTEE MEMBER JONES: Thank you.

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

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

You were on, Henry. You turned it off.

COMMITTEE MEMBER JONES: I'm done.

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

Ms. Brown, push your button, please.

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON FECKNER: Go ahead.

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

INVESTMENT DIRECTOR CROCKER: It is not in writing in the policy that I'm aware, but it's simply a -- it follows from the fact that if -- of course, if staff isn't proposing we do something, we don't bring it to the Board.

COMMITTEE MEMBER BROWN: Right.

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

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

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

Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Olivares.

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

Sorry. Can you hear me?

Sorry.

CHAIRPERSON FECKNER: Yeah, you're on.

COMMITTEE MEMBER OLIVARES: Sorry.

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Ms. Olivares, what page are you referring to, please?

COMMITTEE MEMBER OLIVARES: I'm on page 13.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: And so the question is if CMOs were held in the portfolio and were to become highly illiquid, what's the -- what's the plan is that -- I just want to make sure I'm clarifying the question.

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Correct.

COMMITTEE MEMBER OLIVARES: So if there's illiquidity in the mortgage market, what happens? Because -- they are a derivative. I mean, that's what they are, right? But we saw in the housing crisis when there was no secondary market for those securities. So what's our plan if there is no liquidity?

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

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: No, we're treating them as the assets that they are.

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: But correct, not as derivatives. Similar to the -- we said, you know, we don't own convertible securities, but similar to convertible securities, similar to, you know, Spot FX you could argue is a derivative. What we're saying is that from the derivative limits that we're using, we're not considering CMOs derivatives.

COMMITTEE MEMBER OLIVARES: What's our exposure?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: I'll ask Arnie to speak to that one.

COMMITTEE MEMBER OLIVARES: Thank you.

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

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

COMMITTEE MEMBER OLIVARES: What's almost no?

MANAGING INVESTMENT DIRECTOR PHILLIPS: I didn't want to say zero. I think it's pretty close to zero. We have thousands of holdings in the mortgage portfolio, so I wouldn't want to put it at zero, but it's closer to zero than 10 percent.

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

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

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

COMMITTEE MEMBER OLIVARES: Thank you.

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: I would say in the past, it's been around 10 percent. There -- and again, it goes to how you define leverage. But we -- we do own some CLOs. And then we have those overlaid with -- historically, with equity assets. Now, they're being overlaid with treasury assets. We call that leverage, because of the fact that the CLOs aren't technically cash. And then there's some leverage elsewhere in the -- sort of the Real Asset Program and others. But in aggregate, it's still -- it's still well below the 20 percent limit to Andrew's point. We have -- we're not looking to lever the plan up. We'll come back to you as we -- you know, as we explore that and try to achieve 7 percent. But right now, the leverage is, I would say, south of 10 percent at the plan level.

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

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

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

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

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

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

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

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

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

INVESTMENT DIRECTOR CROCKER: Kit Crocker, CalPERS staff. Just to -- we have, in a sense, kept them intentionally separate because one is a compliance exercise that's actually handled under my group. And so an example would be the Iran/Sudan divestment legislation. It was put in place in 2011. And we have -- you know, the Legislature has mandated that consistent with our fiduciary duties we undertake certain analysis and divest if certain companies meet the threshold requirements for divestment, subject to -- again to the fiduciary duties.

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

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

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

I wanted to move on to page 28 and this is appendix 1 reporting to the Investment Committee. I wanted to talk through the frequency of reporting. So the first item, number 1, the total fund all programs. So as I'm reading, and I want to make sure I understand this, if there's some policy exceptions or other issues with the total fund, the report to the Investment Committee would be at the next Committee meeting or sooner, if deemed necessary. If we're going to quarterly Investment meetings, I'm concerned that the Board might not have the information as soon as they need it.

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

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

COMMITTEE MEMBER OLIVARES: Yes.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: -- and look at the Insight Tool and how to -- and how to make sure that we get the Committee the information as quickly as they need, while not -- and, of course, we always have the ability to schedule a -- you know, a one-off meeting. That can always -- a meeting can always be called with 10 days notice, if it's something that we do think that the Board needs to see ASAP. But we'll look at how to use the Insight Tool also.

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

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

COMMITTEE MEMBER OLIVARES: Yes, exactly.

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

COMMITTEE MEMBER OLIVARES: Thank you.

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

So I think one way to look at the policy exception reporting process is it's a way to keep staff honest and make sure that, you know, the Board is aware if we're not staying within our Board directed guardrails.

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

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

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: The idea would be -- would be monthly. It certainly would not be real-time. The idea would be monthly, recalling, of course, that on the private assets, to your point, those valuations are -- are lagged three months and then they're stale for three months, right, because we only value those quarterly.

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

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

COMMITTEE MEMBER OLIVARES: Fun. Thank you.

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

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

COMMITTEE MEMBER OLIVARES: Thank you.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: But certainly, if the Committee were to ask for it -- the Committee directs it, then we would, of course -- of course do that.

COMMITTEE MEMBER OLIVARES: Okay. Thank you.

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: I apologize, Ms. Olivares. Can you please repeat the question?

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: And are you referring to private equity specifically?

COMMITTEE MEMBER OLIVARES: Yes.

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

INVESTMENT DIRECTOR CORR: Sarah Corr, Investment Office.

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

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

INVESTMENT DIRECTOR CORR: At least 20 years.

COMMITTEE MEMBER OLIVARES: Okay. Thank you.

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

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: You know, the lega -- benchmarking the private assets is a challenge. And if you look at the history of our benchmarks in private equity, there was a period where we used a peer universe type comparison. Where we've ultimately settled is that private equity is held as a alternate -- as another way to harvest the equity risk premium, but as an illiquid alternative to public equity.

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

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

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

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

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

COMMITTEE MEMBER OLIVARES: For those with that --

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

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

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

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

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

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

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

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

MR. JUNKIN: Can I -- can I jump in on that one, because I think we've -- with our breadth of clients, I can answer the one pretty easily. The answer is most pension funds use public equity plus premium. And if you pay particular attention to this page, this is what rolls up into the total fund benchmark. So you can't roll up an IRR and time-weighted rates of return. So in the -- in the private equity annual review, Meketa provides a whole host of comparative data. Staff does as well.

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

COMMITTEE MEMBER OLIVARES: Right.

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

COMMITTEE MEMBER OLIVARES: Is it the same premium?

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

COMMITTEE MEMBER OLIVARES: Um-hmm.

MR. JUNKIN: -- and how tilted it is towards venture, or buyout, or geography. But I would say it used to be -- what used to be standard was probably S&P 500 plus 5. And then starting about 10 years ago, it started moving down. I would say the number these days is probably something like plus 250 or 300 in most cases. And this is lower, which speaks to Ben's comment about deploying 10 percent of $375 billion --

COMMITTEE MEMBER OLIVARES: Um-hmm.

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

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

COMMITTEE MEMBER OLIVARES: Um-hmm.

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

COMMITTEE MEMBER OLIVARES: Right.

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

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

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

COMMITTEE MEMBER OLIVARES: Um-hmm.

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

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

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

COMMITTEE MEMBER OLIVARES: Um-hmm.

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

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

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

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

COMMITTEE MEMBER OLIVARES: Yeah, but I think --

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

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

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

CHAIRPERSON FECKNER: Thank you.

Ms. Mitchell.

Oh hold on. Go ahead.

ACTING COMMITTEE MEMBER MITCHELL: Thank you.

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

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

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

ACTING COMMITTEE MEMBER MITCHELL: Thank you.

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

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

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

It's a little hard to tell. We don't have the data from their portfolio to see. But thinking of other similarly sized programs, that's kind of where we might come out.

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

ACTING COMMITTEE MEMBER MITCHELL: Thank you.

CHAIRPERSON FECKNER: Mr. Jones.

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

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

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

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

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

CHAIRPERSON FECKNER: Thank you.

Seeing no other requests, anything else on this item?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: So this is an action item.

CHAIRPERSON FECKNER: All right.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: And we would look to -- we would look to the Committee for approval.

COMMITTEE MEMBER JONES: Move the item.

VICE CHAIRPERSON TAYLOR: Second.

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

Any discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

CHAIRPERSON FECKNER: Opposed, no?

Motion carries.

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

Mr. Meng.

(Thereupon an overhead presentation was presented as follows.)

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

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

CHAIRPERSON FECKNER: Thank you.

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

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

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

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

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

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INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Okay. I figured I'd call your attention to a handful of the major accomplishments that we're achieved in global equity in fiscal year 18-19.

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

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

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

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INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: For the upcoming fiscal year, really, the focus is in another handful of areas. First, continuing to reduce complexity and to execute on our ESG 5-year strategic plan.

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

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

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

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

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

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

CHAIRPERSON FECKNER: Thank you.

Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Well, I'd like to think the only way they conflict candidly is from a time standpoint. And it's been busy, right? The days have been long.

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

COMMITTEE MEMBER BROWN: Um-hmm.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: In June of this year, we actually migrated all of those things that are more sort of compliance type activities actually from the Investment Office over into Enterprise, under ECOM, really allowing the entire staff of the Investment Office to be focused on the portfolio management outcome.

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

CHIEF INVESTMENT OFFICER MENG: And also if I may say something. Before we name -- named Dan Bienvenue as the Interim CIO, we thought about these potential conflicts. And if you recall, as we explained to the full Board twice in the past, when we announced Dan becoming the Interim COIO, we moved the potential area of conflict to be under Eric Baggesen. And that was the solution for the first half of the year. And then as Dan mentioned, that since June this year, part of that function had been permanently moved to the ECOM area out of the Investment Office.

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

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

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

CHIEF INVESTMENT OFFICER MENG: The personnel discussion I'm not allowed to discuss in public, but --

COMMITTEE MEMBER BROWN: Oh, thank you.

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

COMMITTEE MEMBER BROWN: Great. Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

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

I absolutely agree with that, but it is the board's strategy to implement the ESG strategy across our portfolio. So I just -- I'm glad to see all of this work that you guys have been doing in our global equities on our ESG strategies.

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

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

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

I don't know if you want, Beth, to speak to this or not. But it was -- what I'm trying to figure out is when there have not had positive outcomes, what are some of our solutions as we're engaging with those companies?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: And I'll ask Simiso to come up and answer that question.

VICE CHAIRPERSON TAYLOR: Oh, Simiso.

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

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

I have made this comment several times. It has only been the fact that the two teams, both the COIO's office and the global equity, the senior leadership and the whole teams were as strong -- are as strong as they are that one could do both jobs for an 8-month period or -- and we'll see how much longer it is. It's only been a function of how great those teams are. And so I really want to underscore that comment, so -- but Simiso, with that long preamble, I'll let you answer the question around board diversity review.

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

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

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

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

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

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

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

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

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

So there are a lot of tools that we are actually using in terms of trying to address this issue.

VICE CHAIRPERSON TAYLOR: Thank you.

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

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

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

And when we engage companies, we actually are clear to them that the identification criteria may have been gender, but we're looking at all forms of diversity and not just gender. And, you know, we are working with talking to different affinity groups, for example. What we've sort of suggested to them is that those that have -- if they could encourage their membership to self-identify in terms of race, and ethnicity, and so forth when they actually, you know, list in some of these databases, that would actually help in terms of getting the information available.

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

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

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

INVESTMENT DIRECTOR NZIMA: So as part of our principles update, one of the things that we've actually identified and put in the principles is actually to encourage companies to report that data. Because when you think about it, if the EEO data is already out -- it's already reported by companies, not even an issue of -- you know, companies will say, well, it's costly to -- you know, to collect this data and make it available. It's already reported under federal regulations.

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

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

MANAGING INVESTMENT DIRECTOR RICHTMAN: Beth Richtman, CalPERS staff.

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

So basically, you know, for our private equity or our real assets, are they looking at these criteria when they're selecting members for their portfolio company boards, which is important, because board experience at the -- even the private company level can lead to the type of skill set that then would allow someone to be on a public company board as well.

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

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

VICE CHAIRPERSON TAYLOR: Right.

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

VICE CHAIRPERSON TAYLOR: Right. Right.

MANAGING INVESTMENT DIRECTOR RICHTMAN: So it is -- as we think about it, this is an international level. We do have to be --

VICE CHAIRPERSON TAYLOR: It's almost all U.S. Okay. Thank you.

MANAGING INVESTMENT DIRECTOR RICHTMAN: Yes.

CHAIRPERSON FECKNER: Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. First, thanks to Dan for wearing multiple hats and really doing a great job on both. Really appreciate the work.

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

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Thank you for the question and for the comment. Your performance always has to weigh in to how you -- you know, you're ongoing evaluation. And one of the -- one of the simultaneously most challenging but also most interesting parts of investment management is striking that balance between being humble enough to feel like you maybe you missed something and you can learn from it, and always be learning, but also maintaining the strength of your convictions as a long-term investor.

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

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

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

An that's one of the things we're looking at in our -- as we look at benchmarks is should we, rather than have it accrue as active performance, should we actually have there be very -- various other factor inputs into the way we sort of harvest this equity risk premium that's different from the cap-weighted portfolio?

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

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

COMMITTEE MEMBER YEE: Okay.

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

In terms of the second question on the fees, and it speaks to the line of questions that Ms. Olivares was raising last month, you can see that the fees are still at around that 9 basis points. That's actually due to some of the termination of legacy active managers. And then those fees crystallizing in this year. For next year, you should see a -- I'd -- you know, going from a place of 9, I would try to be careful not to characterize it as a -- as a sharp drop in fees paid, but we would see that number coming down. And we would see that number coming down actually over the next, I would say, maybe 2 or 3 years.

COMMITTEE MEMBER YEE: Okay. Got it.

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Yeah. And that's exactly what I was just referring to --

COMMITTEE MEMBER YEE: Okay.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: -- was the fact that as we've terminated these managers --

COMMITTEE MEMBER YEE: Yeah.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: -- their fees crystallize. And when their fees crystallize, we pay them. But those will be, you know, non-recurring costs, so to speak.

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

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

COMMITTEE MEMBER YEE: Okay.

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

COMMITTEE MEMBER YEE: Yeah.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: -- and specifically the Climate Action 100+, board diversity, and then this executive comp. And I'll ask Simiso to talk in through the -- sort of the updates in the pay for performance and around our voting process.

COMMITTEE MEMBER YEE: That would be great. Thank you.

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

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

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

The second thing which we did again which, you know, not a lot of people are doing is to have this, what we call, the CalPERS realizable pay methodology. So a lot of what's actually -- what is actually disclosed by companies in their proxies, they disclose granted pay or realized pay, as opposed to realizable pay. So granted pay doesn't tell you anything about how pay moves with performance. So we actually, you know, came out and developed our own realizable pay methodology, which actually shows us how pay scales to performance over a 5-year period.

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

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

But I think the -- one of the most important things, which we have done, is about transparency. And what we've actually done, we've posted a detailed explanation of our methodology to our public website. And the reason we're doing this is we want our industry, you know, our portfolio companies to be able to go in and understand how we are actually assessing pay and performance.

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

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

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

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

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

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

COMMITTEE MEMBER YEE: Uh-huh.

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

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

CHIEF INVESTMENT OFFICER MENG: Yes.

COMMITTEE MEMBER YEE: So I just wanted to, Mr. Chairman request, if we could, maybe have a similar report with respect to how we're doing with regard to Board diversity as it relates to the private asset classes as well. I know, there's generally not a lot of attention with respect to diversity in those asset classes. But I think we're making such progress -- great progress on the public side, that I was really heartened to see that Equilar and our 3D database, which we've spun off to Equilar, we now have close to 20 percent women represented on the Russell 3000 boards. And that growth has actually been pretty -- pretty significant over the last 2 years, so tremendous progress.

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

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

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

COMMITTEE MEMBER YEE: Actually --

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

COMMITTEE MEMBER YEE: Yes, please.

CHIEF INVESTMENT OFFICER MENG: So in drawdown we consider is probably that was the single most important question on each one of our mind --

COMMITTEE MEMBER YEE: Yeah.

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

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

COMMITTEE MEMBER YEE: Okay. Thank you.

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

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

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

COMMITTEE MEMBER YEE: Yeah, I appreciate that. Thank you. And then just one last question, because I think for some of the newer Board members, we had adopted the 5-year ESG strategic plan. And obviously, in the process of implementing that, it seems to me some of that has kind of moved around a little bit. And so I don't know if we're going to kind of get an update. But in terms of what your two priorities for the next -- top priorities for the next fiscal year is going to be. I suspect it's going to continue to be obviously some of the climate related issues and then comp. But any other thoughts about priorities?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Correct. I would say that within global equity, the focus will continue to be those three areas, executive comp, board diversity, and Climate Action 100+.

COMMITTEE MEMBER YEE: Okay.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: It is the case that we are continuing to execute on the ESG strategic plan, which also includes things like manager expectations --

COMMITTEE MEMBER YEE: Right.

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

COMMITTEE MEMBER YEE: Okay.

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

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

COMMITTEE MEMBER YEE: Yes.

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

COMMITTEE MEMBER YEE: Right.

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

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

MANAGING INVESTMENT DIRECTOR RICHTMAN: Yeah.

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

CHAIRPERSON FECKNER: Thank you.

Mr. Perez.

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

CHAIRPERSON FECKNER: Ms. Ma.

COMMITTEE MEMBER MA: Thank you very much.

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

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

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: So we do an annual report on CalPERS investments in California. And we are -- would be happy to recirculate that to the Board --

COMMITTEE MEMBER MA: Okay.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: -- and get it out there, because it's actually a very comprehensive report on our investments in California.

COMMITTEE MEMBER MA: Okay. Great. Thank you.

CHAIRPERSON FECKNER: Mr. Jones.

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

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

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

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

CHAIRPERSON FECKNER: Very good. Thank you.

Seeing no other requests.

Anything else on Item 8a?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: That's all we've got for 8a, and we can move to 8b.

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

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

CHAIRPERSON FECKNER: Good morning.

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

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

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

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

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

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

And then final comment on process. And I mentioned the research model that we go through. It's the standard Wilshire manager research model that we would use when we're Meeting with external money managers. So we run the team through the same sort of due diligence process we would, if it were an external asset management firm.

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

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

And just to put some perspective around that 30 percent, with the size of the CalPERS portfolio, that translates to about $55 billion. So that was a massive, massive undertaking, a huge transition of assets. I think it was very prudently spread across the year. It was coordinated with the other asset allocation transitions that were happening. So it involved not just the global equity team, but the members of the team across the Investment Office, and kind of quarter-backed by the total -- the TLPM team.

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

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

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

In terms of portfolio construction, again, this is something that you just spoke of Ms. Yee. You were asking questions about how much of the portfolio is managed internally, index-oriented strategies. There's certainly been a move to increase the amount of internally managed assets. That's very helpful in terms of maintaining the fee structure of the portfolio. And then index oriented, which would be, by definition, strategies that take very modest, under 50 basis points again, level of risk.

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

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

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

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

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

But that's different than saying it's betting against the market. And I think the numbers that I just revealed kind of demonstrate that, that this segment of the portfolio can perform and it can perform well across a market cycle. And while it will have periods of underperformance, the goal is to make sure that in periods of sell-off it can hold up kind of nice -- if you zoom in on the 4th quarter of calendar 2018, that was a perfect demonstration of how that might play out, where the cap-weighted segment of the portfolio was off, I think the number is down about just over 11 percent. And the factor-weighted segment, it was down, but down just a little over 7 percent. So you can see that's a bit of the protection that can happen in some of those market sell-offs.

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

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

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

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

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

As far as the organizational lever, we did push the score up. And the organization score has two components. One is organization-wide. Think about that across the whole Investment Office. And then there's a team component.

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

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

And that really became -- that flexibility I think is a testament to the team. And then Dan being able to -- I think he's talked about the hours he's put in. But I don't think that's possible without him being able to rely on a really experienced team that is -- you know, we've talked about this not only this year, but in previous letters. There are redundancies built into the process. So every person on the team, it -- not to say this in a pejorative way, but is replaceable and has redundancies. And I think that's -- I think that's a really important risk control and the organization has benefited from it in certainly this calendar year.

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

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

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

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

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

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

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

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

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

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

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Yes. Thank you.

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

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

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

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

VICE CHAIRPERSON TAYLOR: That's okay.

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

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

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

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

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

MR. FORESTI: Absolutely.

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

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

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

VICE CHAIRPERSON TAYLOR: Okay. Thank you.

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

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

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

Income. So was that included in this score?

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

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

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

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

VICE CHAIRPERSON TAYLOR: As Acting though.

MR. FORESTI: Yeah.

VICE CHAIRPERSON TAYLOR: Okay. All right. Thank you.

MR. FORESTI: You bet

CHAIRPERSON FECKNER: Mr. Perez.

COMMITTEE MEMBER PEREZ: Thank you.

Following up on Ms. Taylor's questions. Under the firm, there's three criteria that you have listed, quality, and stability, and then quality of the organization, and then ownership and incentives. To what extent at all did the ownership and incentives affect our score?

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

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

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

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

MS. DEAN: Rose Dean, Wilshire.

COMMITTEE MEMBER PASQUIL ROGERS: Turn your mic on.

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

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

MS. DEAN: Rose Dean, Wilshire Associates.

CHAIRPERSON FECKNER: Thank you.

COMMITTEE MEMBER PEREZ: Thank you.

CHAIRPERSON FECKNER: Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Thank you.

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

CHAIRPERSON FECKNER: Your microphone, Steve.

There you go.

MR. FORESTI: I thought it was on.

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

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

CHAIRPERSON FECKNER: Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Thank you.

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

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

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

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

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

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

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

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

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

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

CHAIRPERSON FECKNER: Ms. Taylor.

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

COMMITTEE MEMBER OLIVARES: I do.

VICE CHAIRPERSON TAYLOR: Okay. So then the compensation is being discussed or has been discussed at bargaining. So that's -- and then this extra bonus that they're talking about --

COMMITTEE MEMBER OLIVARES: Yeah.

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

COMMITTEE MEMBER OLIVARES: Okay.

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

COMMITTEE MEMBER OLIVARES: Um-hmm.

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

COMMITTEE MEMBER OLIVARES: Thank you.

CHIEF EXECUTIVE OFFICER FROST: Yeah.

CHAIRPERSON FECKNER: Anything else, Ms. Olivares?

COMMITTEE MEMBER OLIVARES: No, thank you.

CHAIRPERSON FECKNER: Ms. Middleton.

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

I'm looking at this report and I see a number of areas where the scores are extremely high and very successful. Moving forward, what is it that you think needs to be done to have the success we're having in these areas translate into organization and firm success?

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

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

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

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

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

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

CHAIRPERSON FECKNER: Mr. Perez.

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

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

MR. FORESTI: We -- to my knowledge, we have not -- I'm not aware that we've done any sort of project like that, other than we provide, you know, feedback in terms of -- you know, Andrew earlier was able to share perspective around a benchmark question that came up, because of just the, you know, kind of the broad set of clients we work with and kind of identifying best practices and common uses.

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

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

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

MS. DEAN: Quantify, do you mean relative to other boards?

COMMITTEE MEMBER PEREZ: Give us a grade.

(Laughter.)

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

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

CHAIRPERSON FECKNER: Anything else, Mr. Perez?

COMMITTEE MEMBER PEREZ: No.

CHAIRPERSON FECKNER: Thank you.

Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah, I think kind of to follow on to Mr. Perez's question, it seems that, you know, we've got a Board evaluation process that we do with NACD, and a result in recommendations, some changes that we're working on, some workstreams to improve our effectiveness and performance. And so perhaps that's an area that, as our consultants, you could give us some feedback about how that -- how that -- how well that's serving us in the -- in terms of, you know, those workstreams, that work, that approach, and also how we could better kind of integrate that with the information we're getting via the work you're doing, vis-à-vis the organization and staffing and everything to try to make the whole thing a little more seamless.

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

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

Thank you.

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

Steve, anything else? No?

MR. FORESTI: No.

CHAIRPERSON FECKNER: We're good.

MR. FORESTI: Good. Thank you.

CHAIRPERSON FECKNER: Very good.

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

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

(Thereupon a recess was taken.)

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

CHAIRPERSON FECKNER: Please take our seats. We'd like to reconvene the open session.

Item 8c, Mr. Meng.

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

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

(Thereupon an overhead presentation was Presented as follows.)

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

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

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

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

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

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

As it relates to portfolio, it's really how does global fixed income fit into the total fund, and it's really about the role of fixed income. Our first purpose, it's in the name income, is to provide income. We're also intended to be a steady source of liquidity, and very importantly in our current funded status to be a shock absorber to global equity.

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

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

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

We also, in the last year, had 6 global fixed income members working with Beth Richtman's Sustainable Investments team researching and analyzing topics like disruptive technology, water issues, and ESG factors.

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

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

That's really a function of our role. It's a by-product of the strategic asset allocation. It's our role to be a shock absorber to equities. The reason we got those high returns is because we have a lot of interest rate sensitivity in our portfolio, and that is by design. The -- Eric Baggesen's group and the strategic asset allocation work with you guys, that's the model we've put in place to protect against equity drawdown risk.

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

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

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

So that's really the kind of overview of the last year through Ben's 4 Ps framework. I think I'll stop there and take any questions you might have.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

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

MANAGING INVESTMENT DIRECTOR PHILLIPS: Thank you.

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

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

MANAGING INVESTMENT DIRECTOR PHILLIPS: Lou

Zahorak who heads up our credit group.

VICE CHAIRPERSON TAYLOR: Okay.

There you go.

INVESTMENT DIRECTOR ZAHORAK: Lou Zahorak, Investment Director.

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

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

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

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

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

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

VICE CHAIRPERSON TAYLOR: That's a wise decision.

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

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

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

VICE CHAIRPERSON TAYLOR: Well, that's excellent.

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

CHAIRPERSON FECKNER: Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Thank you.

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

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

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

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

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

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

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

But given where our rates are out today, we still have the ability. The 10-year from a 150 -- we're actually a little bit higher in rate today to 0 still had about 15 percent of upside, a 30-year had about 45 percent of price appreciation. So the ability to still act as a shock absorber is there.

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

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

COMMITTEE MEMBER OLIVARES: Thank you.

CHAIRPERSON FECKNER: Anything else, Ms. Olivares?

COMMITTEE MEMBER OLIVARES: No, thank you.

CHAIRPERSON FECKNER: Ms. Yee.

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

MANAGING INVESTMENT DIRECTOR PHILLIPS: Thank you.

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

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

COMMITTEE MEMBER YEE: Okay.

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

COMMITTEE MEMBER YEE: Um-hmm.

MANAGING INVESTMENT DIRECTOR PHILLIPS: So I think that shows the interest not only in global fixed income, but all of Investments to look at some of these, you know, big potentially life-changing issues and what they mean personally, but also to the portfolio.

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

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

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

Much of the exposure was in the private asset classes as it turns out. Fixed income has been really underweight some of the higher risk areas. You know, water tends to be local. Corporate credits tend to be, you know, sort of large, diversified operation. So I think that's kind of some of the driver there.

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

COMMITTEE MEMBER YEE: Yeah.

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

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

COMMITTEE MEMBER YEE: Right.

MANAGING INVESTMENT DIRECTOR PHILLIPS: And

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

COMMITTEE MEMBER YEE: Sure.

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

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

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

MANAGING INVESTMENT DIRECTOR PHILLIPS: Sure.

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

COMMITTEE MEMBER YEE: Yeah.

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

COMMITTEE MEMBER YEE: Right.

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

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

So the good news is we're in a very strong liquidity position right now. The real question is what do we want to do with it going forward?

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

MANAGING INVESTMENT DIRECTOR PHILLIPS: (Nods head.)

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

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

I feel comfortable where we're at right now.

COMMITTEE MEMBER YEE: Great. Thank you.

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

Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Olivares.

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

MANAGING INVESTMENT DIRECTOR PHILLIPS: Yes.

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

MANAGING INVESTMENT DIRECTOR PHILLIPS: So the 96 percent number I think was 92 or 93 last year. Part of that was strategic decision around the international fixed income area. That was largely externally managed. For us, it's really about identifying the right assets to be in and then it's just an implementation decision of whether it's internal/external. We always prefer to do it internally. I feel the governance is a lot better internally. I know exactly who's doing what as opposed to a little bit arm's reach and certainly cheaper to do it internally.

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

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

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

COMMITTEE MEMBER OLIVARES: Yes.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Within the last handful of months, we unwound some external international managers who actually did very well. So they did get some incentive fees in there too. I would expect that number to likely go down next year. It will really be primarily our high yield venture we have, both internal and external. They have slightly different strategies, but that will be the extent of most of our external exposure at the current time.

COMMITTEE MEMBER OLIVARES: Thank you.

CHAIRPERSON FECKNER: All right. Seeing no other requests.

Anything else on this item?

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

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

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

So I'll start with the headline, which is that we continue to believe the global fixed income program is managed in an effective and risk conscious manner. Critically, the investment approach is consistent with the strategic objectives of the global fixed income portfolio within the total plan, that being one of income, stability, liquidity, and critically from a total portfolio context, equity risk diversification.

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

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

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

Now, that is tempered somewhat, and I want to be very transparent about that, with some concerns about potential turnover, given relatively structured career path and some compensation constraints, which we've talked a bit about.

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

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

The forecasting score remains unchanged. As you noted, the global fixed income team has done an outstanding job adding value over and above the index. Over the last fiscal year, just about every underlying strategy within the global fixed income portfolio outperformed relative to the index. And as Arnie alluded to, that was real. Those basis points over and above the index are real dollars for the total plan.

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

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

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

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

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

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

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

So when you combine all of those scores, that leads to an overall score here at third decile. That's the same score as last year, but it does reflect some shifting compositions that I referred to in the comments about the underlying components.

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

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

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

(Laughter.)

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

MR. TOTH: Thank you.

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

CHIEF INVESTMENT OFFICER MENG: (Shakes head.)

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

There you go.

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

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

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

Good job.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Thank you.

CHAIRPERSON FECKNER: Thank you, Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you.

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

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

(Laughter.)

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

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

So Kit Crocker, CalPERS staff. And Item 9a is the first reading of staff's proposed changes to the Global Fixed Income and Global Equities Program Policies arising out of this year's annual review.

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

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

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

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

MR. FORESTI: Hello. Steve Foresti from Wilshire. I'll just comment very briefly on global equity. We were completely comfortable with the changes that are proposed. They essentially just dealt with the segmentation that Kit just mentioned. The one comment that we've reflected within our opinion letter was just to note, as Kit mentioned, the 50 basis points of tracking error that I discussed earlier across the entire GE platform. That's now applied to each of the two segments.

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

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

CHAIRPERSON FECKNER: Thank you.

Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

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

INVESTMENT DIRECTOR CROCKER: Yes. That language is not in fact being removed. We're proposing to relocate it to the Total Fund Policy. So this is simply to avoid having to repeat the same verbiage across all the program policies. So now the Total Fund Policy, in fact, had a corresponding change to make it clear that all violations of all policies, not just total fund, but program policies must -- we must respond in these ways.

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

INVESTMENT DIRECTOR CROCKER: Yes, it will --

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

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

COMMITTEE MEMBER BROWN: Okay. Great.

INVESTMENT DIRECTOR CROCKER: Yes.

COMMITTEE MEMBER BROWN: Thank you.

INVESTMENT DIRECTOR CROCKER: You're welcome.

CHAIRPERSON FECKNER: Thank you.

Seeing no other requests. Anything else on this item?

Very good. Thank you.

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

(Thereupon an overhead presentation was presented as follows.)

MR. JUNKIN: Andrew Junkin with Wilshire.

I want to start by just commenting on what this report is and what this report is not. This report is essentially a report card of how things have gone across a wide variety of peers for CalPERS, but CalPERS is the largest of all of the peers. So really, there's not a true peer for you in this comparison.

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

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

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

The Wilshire 5000 U.S. equities and then Barclays government credit is a representative of high quality fixed income. So if you look at those numbers, you can see the return for the total plan over this one year, 6.77 percent; Wilshire 5000, 9.1; Barclays government credit, 8.52. The number in parentheses there, 45, means the total fund is in the 45th percentile of the universe. And that the Wilshire 5000, while not a member of the universe, would be in the first percentile. It would be the best performing fund, if it were a fund. Barclays government credit 11th percentile.

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

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

I'm going to go to page four.

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

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

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

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

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

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

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

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

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MR. JUNKIN: So page six, this is public equity. We used to show domestic equity and international equity. We've just combined it to show total public equity here relative to your peers. You can see over the past 5 years, you're in the 59th percent style; over the last 10 years in the 70th percentile.

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

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

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

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MR. JUNKIN: Let me see where else I ended up. Fixed income. Since we just had the fixed income annual review, we said that performance had been great. If you look over the last 10 years, you're in the 10th percentile of fixed income. So you beat 90 percent of your peers there, so returns have been really good.

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

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

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

CHAIRPERSON FECKNER: Thank you.

Ms. Olivares.

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

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

COMMITTEE MEMBER OLIVARES: Um-hmm.

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

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

COMMITTEE MEMBER OLIVARES: Okay.

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

COMMITTEE MEMBER OLIVARES: Okay. Thanks.

CHAIRPERSON FECKNER: Mr. Jones.

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

MR. JUNKIN: It would be under real estate.

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

MR. JUNKIN: Let me confirm that.

COMMITTEE MEMBER JONES: Okay.

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

COMMITTEE MEMBER JONES: Okay. Okay.

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

COMMITTEE MEMBER JONES: Okay.

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

COMMITTEE MEMBER JONES: Okay. Thanks.

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

Thank you.

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

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

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

And so I'm not here to speak about where that line is drawn, because I'm not an attorney. I don't think that's the right thing. But what I would say is that in many cases, there's not a clear right answer. That's true of most things in investments, but it -- clearly, in this case, there's not a right answer that this piece of information fundamentally should be confidential. But I do want to give some examples of the power of information. And these are -- these are CalPERS-specific examples.

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

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

And so the estimate that I had was just sort of a generic estimate from somebody that trades a lot of equities. But that doubling in trade costs on that factor portfolio, that $55 billion in transacted, the cost could have been an additional $44 million had the market known you were coming. So it's a huge number. It's basis points, but basis points times $55 million -- or $55 billion.

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

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

A couple of other examples really quickly. In real assets, there was a recent real assets sale that was conducted through an auction. The asset really wasn't a strategic fit with the CalPERS portfolio, so it made sense for it to be sold. It was one of the legacy assets. And we worked with staff to stay in the loop and keep up to speed, but we did it confidentially.

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

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

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

And so it is in competition with you now. They lifted out a team from an appropriate location and they started a fund, not necessarily because they knew your plans, I think, but because they sensed there was a market opportunity. And clearly, you talking about it indicated there was at least some demand for it.

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

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

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

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

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

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

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

Within investments, I would argue the SEC, which obviously regulates investment advisors broadly and the delivery of investment services to investors is very much focused on information as it sees the information as enormous power in the investment world. It is -- it's -- it kind of flows into kind of most obviously regulations around insider trading, what people do for their own personal interest with respect to information they have access to; corporate insiders buying stock, based on information that is not publicly disseminated; investment advisors marketing to investors track records and performance information; and firms -- requiring firms to disclose appropriate information to investors to make prudent investment choices. That's a large part of what the SEC is designed to do. And it all revolves around the value of information.

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

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

Companies like Amazon and Uber are valued at massive net worths for many reasons. But at the top of that list is their ability to collect information on behavior and to use that information in the future to extract value for themselves and organizations they can sell that information to.

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

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

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

Interestingly, in reviewing that language, the information is referred to in the contract as an information asset, which I think is a very forward-looking way of thinking about information in today's world. Information is an asset. And various policies and practices that constrain staff's operating within the policies that you provide them also constrain them from divulging information that isn't necessary to divulge for the same reasons that you want them to value the information that they have access, and to use that in a way to maximize the value to CalPERS and not to others.

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

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

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

Mr. Meng.

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

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

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

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

And the last one I noted on is from Controller Yee. This was not IC Chair directive, but it's something our CEO Ms. Frost mentioned that the request from Controller Yee is to incorporate communication -- a way of communication between the Board and Board consultant, incorporate that into Insight Tool. And again, as Ms. Frost mentioned, that we're going to take a review or survey, or sit one-on-one with each one of you in the next month or so to ask for your asks or desired requirement for the Insight Tool. So that will be taken care of during that process.

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

CHAIRPERSON FECKNER: All right. Thank you.

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

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

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

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

The dimension I'm referring to specifically in Pillar 4 is that if this pillar were to have been kept secret, the members wouldn't have known the construct of that pillar. And the construct was was to give $100 million to whoever was going to run the GP. And this would have been objectionable and was objected to in many public comments about our -- by ourselves as many others were objecting.

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

Thank you.

CHAIRPERSON FECKNER: Thank you.

That brings us to agenda Item 12, public comment.

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

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

Is Susan Green here?

Can you please come down to the microphone?

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

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

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

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

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

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

CHAIRPERSON FECKNER: Time is up. Thank you.

Ms. Goldman.

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

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

There you go.

MS. GOLDMAN: Can you restart my time then?

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

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

Migrant Justice, as many you know.

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

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

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

So imagine what this is going to do to both companies longer term. So I'd also like to note that GEO Group is now also facing additional legal challenges with new forced labor allegations and a potential new class of plaintiffs that could include hundreds of thousands of current and former detainees.

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

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

CHAIRPERSON FECKNER: Thank you.

Ms. Green.

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

CalPERS is the financial steward for the pensions of millions of State employees, including my colleagues in the CSU system. In fact, CalPERS reputation is one of the reasons that I took a job in California and became a professor of history at Chico State. The promise of a venerated public pension system was a draw for me then and it will certainly be a draw for thousands in the future.

However, CalPERS veneer is cracked because of the continued investment in private prison operators. Certainly, I care about my retirement as do my colleagues, but at what cost?

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

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

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

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

CHAIRPERSON FECKNER: Your time is up. Thank you.

CHIEF TECHNOLOGIST GREEN: All right. The next three are Michelle Pellicia, Kevin Wehr and John Sarraille.

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

CHAIRPERSON FECKNER: Are they all on the list?

PUBLIC MEMBER: Yeah.

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

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

CHAIRPERSON FECKNER: Let's just do it.

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

Who's next?

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

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

During the past few months, you have heard from several my union siblings regarding our collective indignation over CalPERS continued investment on our pensions into CoreCivic and GEO Group, two of the largest private migrant detention operators in the country.

As an advocate on my campus for migrant rights, I am deeply committed to ensuring that my students, some of whom are undocumented or from mixed status families, have access to a proper education that will lay the groundwork for a meaningful future.

However, tell me how I can look them in the face when my own pension is being fueled to prop up companies that are responsible for the tearing apart of thousands of migrant families at our southern border. I talk to my students about calling out injustice when they see it, and acting to fight against it. But my very own pension is being used to perpetrate it.

The reality is that your investment of my money into these irresponsible companies makes me complicit in the criminalization, mistreatment, and dehumanization of people who want nothing more than a chance of a better life, something that any of us would want under similar dire circumstances.

CoreCivic and GEO Group need to be held accountable. It's time that you make the right decision and do your part to end the culture of cruelty that CoreCivic and GEO Group are propagating. I'm better than this. You're better than this. We all are better than this. And people coming to this country with the hope of fulfilling their dreams deserve better than this.

Please stop investing in private migrant detention. And just as I mentioned, we have --

CHAIRPERSON FECKNER: Your time is up. Thank you.

MS. PELLICIA: -- other Colleagues who have -- could not be here today, but we collected --

CHAIRPERSON FECKNER: Next, please.

MS. PELLICIA: -- postcards. And I'm going to --

CHAIRPERSON FECKNER: Next, please.

MS. PELLICIA: -- leave them here.

DR. DE LA GARZA: Hi. My name is Dr. Antonio Tomas De La Garza. I'm a junior faculty member at California State University, San Marcos. And I've been a CalPERS member since 2016.

I'm here to support my colleagues and their call for CalPERS to stop investing in Core Group -- or CoreCivic and the GEO Group.

Thank you.

CHAIRPERSON FECKNER: Thank you.

MR. SANTILLANO: Yes. My name is Oscar Santillano. And I would also like to urge the Board to divest from CoreCivic And GEO, so me too.

CHAIRPERSON FECKNER: Thank you. Next three, please.

MR. WEHR: Kevin Wehr, Vice President of the California Faculty Association, and professor of sociology at Sacramento State. CalPERS members since 2003. I'm here to support the call from colleagues to drop CoreCivic and GEO Group as investments by CalPERS.

Thank you.

CHAIRPERSON FECKNER: Thank you.

MR. SARRAILLE: I'm John Sarraille. I'm a professor of computer science at CSU Stanislaus. I've been a member of CalPERS since 1986. I've come to support my CFA colleagues today, because I have educated myself about CoreCivic and GEO Group. And I have concluded that it is intrinsically inhuman and immoral to invest in them.

CHAIRPERSON FECKNER: Thank you.

DR. BERTA AVILA: Good afternoon. My name is Dr. Margarita Berta-Avila. And I'm a professor of education at Sacramento State University. I have been a CalPERS member since 2001. I'm here in support of my colleagues to call on CalPERS to stop investing in CoreCivic and GEO Group.

And I wanted to just build on my colleague's comment that the postcards that you have in front of you are over 400 postcards representing over 20 -- over the 23 campuses across the CSU system.

CHAIRPERSON FECKNER: Thank you.

MS. DOSCH: Hello. My name is Mya Dosch and I'm an assistant professor of art at California State University, Sacramento, where one of our learning -- university learning outcomes that we hope all of our students leave the university with is quote, "ethical reasoning and action". I hope that you take our investments out of CoreCivic and GEO Group.

CHAIRPERSON FECKNER: Thank you. Next three, please.

MS. LAWLESS: Hi. Good afternoon. My name is Jessica Lawless. I'm a CFA field rep for Sacramento State and Humboldt State University. And it's also important to say that my spouse is a cook in the dining halls at UC Berkeley and has been a member CalPERS since 2014.

I'm here in support of my colleagues to call on CalPERS to stop investing in CoreCivic and GEO Group.

Thank you.

CHAIRPERSON FECKNER: Thank you.

MS. VALDERAMA-WALLACE: Good afternoon. My name is Claire Valderama-Wallace. And I'm a faculty member in the Department of Nursing at Cal State East Bay. And I'm here also on behalf of my partner who's a campus Psychologist at Cal Maritime. I've been a member of CalPERS since 2015.

As nurse, as an educator, as a mother, and as a daughter of immigrants, I call on CalPERS to stop investing in CoreCivic and GEO Group.

CHAIRPERSON FECKNER: Thank you.

MS. STRYKER: My name is Rachael Stryker. And I'm a chapter president at CSU East Bay. And I've been a CalPERS member since 2012. I'm also on faculty at East Bay in the Department of Human Development and Women's Studies.

I have been asked by our 671 members on campus from CFA to come here specifically to this meeting to say that we are all in support of my colleagues to call on

CalPERS to stop investing in CoreCivic and GEO Group.

Thank you.

CHAIRPERSON FECKNER: Thank you.

Next three, please.

Go ahead.

MS. BARRETT: Thank you. My name is Eileen Barrett. I am a retired faculty member at Cal State East Bay, where I continue to teach courses in the English Department with an emphasis on social justice. So I am here to support my colleagues in asking that we disinvest, that we stop investing in CoreCivic and GEO Group. Enough is enough. We are all better than this.

CHAIRPERSON FECKNER: Thank you.

MR. LERNER: My name is Eric Lerner, California Faculty association. I'm here in solidarity with my colleagues. And we are asking that you stop investing in CoreCivic a GEO Corps. Thank you.

CHAIRPERSON FECKNER: Thank you.

MS. RODRIGUEZ: Hi. My name is Janeth Rodriguez with California Faculty Association. And I'm here just supporting my colleagues. Also want to reiterate that the Board stop investing in GEO Group and CoreCivic

CHAIRPERSON FECKNER: Thank you.

Next three, please.

MR. MARTEL: I think there's just me left.

CHAIRPERSON FECKNER: Okay.

MR. MARTEL: Hi. My name is James Martel. And I am a Chapter President at San Francisco State University representing 2,000 members of the California Faculty Association. And I've been a member of CalPERS since 2002. And I'm here to support my colleagues to call on CalPERS to stop investing in CoreCivic and GEO Group. And I just wanted to add that it affects each of us personally, because we're personally implicated in some -- in a really series of horrible things with gulags and children in cages. So I feel personally responsible for this now and I've -- really important for you guys to divest.

Thanks.

CHAIRPERSON FECKNER: Thank you.

MS. COUGHLIN: Hi. My name is Mimi Coughlin. I'm a faculty member at Sacramento State University. I'm in the College of Education. And I'm here to passionately support my colleagues and to request that you stop investing in CoreCivic and GEO Corps.

CHAIRPERSON FECKNER: Thank you.

Okay. I have more names on my list. Are there more of you that are coming forward?

MS. JOFFE-BLOCK: Not part of the faculty association. Allies.

CHAIRPERSON FECKNER: Okay. Well, I can't tell when the sheet is blank. So you'll have to come forward and give us your name.

Please reset the clock.

MS. JOFFE-BLOCK: Hi. Good afternoon. My name is Miriam Joffe-Block. I work in the State Treasurer's Office for CAEATFA. I'm here as an individual. I've been a member of CalPERS for about 5 years. I'm going to read a statement written by a young man living in Sacramento right now seeking asylum. And I'm not going to use his name, because his case is still pending.

"I'm a 26 year old man. I've been a victim of violence in my home country of Guatemala. In October of 2018, I had to come to the U.S. because I feared for my life after multiple physical beatings. When I arrived here, I was put in detention in the State of Texas at the Val Verde Correctional Facility for one month, and then at the Montgomery Processing Center for three months. Both facilities are operated by GEO Group. I was eventually moved to Livingston, Texas.

My experience in the GEO Group facilities were appalling because of the living conditions inside. The treatment and services are very concerning. Meals are served in our cells in the same area as our toilet. There is absolutely no privacy between the areas where we eat and the restroom. It's all one area. You have to wait 5 days after reporting a medical problem to receive any treatment, no matter how sick you are.

The temperature was frigid and they didn't provide us with sufficient blankets. They don't even give sweaters. Every night we were freezing. The water in the showers was so hot, we couldn't stand under it directly. We had splash it over our hands first. You could die inside there and no authorities would realize it.

The hardest part of being inside is to be completely locked up, getting only one hour outside to see daylight. Most weeks, we couldn't even take advantage of our one hour, because it was too cold to go outside. This is quote detention. We shouldn't be treated like criminals. We didn't commit any crimes to be treated inhumanely. In conclusion, I would not wish this experience with GEO Group on anyone".

So I'm here to urge CalPERS to divest from GEO Group and CoreCivic on behalf of this young man that I've had the privilege to know and everyone else who's here.

CHAIRPERSON FECKNER: Thank you.

MS. SOLOVITCH: Hi. My name is Syma Solovitch. I've been a CalPERS member since 2007. And I'm here in solidarity to urge the Board to divest from CoreCivic and GEO Group.

Thank you.

CHAIRPERSON FECKNER: Thank you.

MR. EISENBERG: Hi. My name is Hal Eisenberg. I'm a retired State employee. I've been a member since the seventies. I'm here in support of the prior speakers that we divest in this type of business.

Thank you.

CHAIRPERSON FECKNER: Thank you.

Next. You must be Greg and Eva.

MR. BRUCKER: All right. Good morning. My name is Greg Brucker. I am a K-12 educator in Davis. I'm here as a CalSTRS member, number one. CalSTRS divested last year for these reasons that you're hearing today, because they saw the light and they understood that they didn't want to be complicit any further.

As a CalSTRS member, I'm asking that you do the same and fall in their footsteps. I'm also co-founder of Jewish Action NorCal sitting here with my co-founder. And we as Jews have seen this before. We have lived this before. And, you know, I'll tell you before getting into a couple other points, we look at it from the perspective of the grandchildren of the Nazis. How many of them feel good about what their grandparents did, the choices their grandparents made.

Regardless of whether they did it because they felt they should or they were just following orders, which still let people in the Nuremberg trials be found guilty and was considered a war crime.

What are your grandchildren going to ask you about? What are your great grandchildren going to ask your children? What did you do when the horrible government was putting all these really wonderful people in camp simply because they were trying to find a better way of life? What is your kid going to say? What are you going -- what are you going to say to them?

Well, we wanted to make money, because that is what you're saying right now. That's more important to you. Don't you think you want to be able to tell your grandkids and great grandkids, you know, we thought this was wrong and we stopped this. We did something.

You know, just in the last couple days, someone from the Trump administration said we're not going to put the homeless in camps yet. Yet.

Who is going to be next? You? You? You? Me? The Jews? The muslims? They're already going into camps, if they're considered a threat.

CHAIRPERSON FECKNER: Time is up. Thank you.

MR. BRUCKER: Thank you for your interest in divesting. We want it now.

MS. MROCZEK: My name is Eva Mroczek. I represent Jewish Action NorCal. I teach at UC Davis in Jewish studies. And I'm here in solidarity with my fellow educators. This is personal for me, because I have a brilliant graduate student in ancient history and ancient languages who is a political refugee from Afghanistan. He was picked up by ICE at his sister's house in Sacramento, while preparing an asylum case.

Of course, he could not stay in Afghanistan as he'd been a newspaper reporter there. He was told by ICE that he could be bailed out right away by his family, but instead he was put on a plane to Arizona, where she -- he was shackled with 30 other men and flown to a place and he wasn't told where they were taking him.

He stayed in a camp in Arizona with no information for two and a half months, with no privacy, being given two white bread and one slice of bologna sandwiches every day. He had never committed a crime. After two and a half months, once again without any information, he was flown back to Sacramento, where his bail was signed by a judge in five minutes.

There was no reason for my student, who had never committed a crime, to be in that camp. This cost taxpayers $600 a day and lined the pockets of companies like GEO Group and CoreCivic. This is a profit motive. Much, much worse has happened to people in custody. All of the major banks have divested from concentration camp profiteers, who shackle, jail, and dehumanize people like my brilliant student.

The fact that CalPERS has not committed to doing so, and the fact that we all need to show up here, and trot out these stories of people we know, trot out these other people's tragedies is shameful and depressing.

CHAIRPERSON FECKNER: Thank you.

Next.

MS. ALCALA: We actually have our name on there. It's Carlos Alcala.

CHAIRPERSON FECKNER: I have Carlos and I have Duane Goff.

MS. ALCALA: Correct. I'm Norma Alcala. Thank you.

Okay. Carlos, go ahead.

MR. ALCALA: Hi. My name is Carlos Alcala, Madam Controller. I've never come before you before. But I come before you today because of the importance of this issue to us. I'm the Chair of the Chicano Latino Caucus for the California Democratic Party. Of the parties 3,300 delegates, 880 are Latino. This issue is a very important issue to us, because of the harm that has been done by private prisons.

I recognize the fact that you all have a fiduciary responsibility and that's a heavy burden. But recognize that there are groups before you that have addressed this same issue. In 2016, the federal government terminated -- announced it would terminate the use of private prisons for two reasons, because they were unsafe and inefficient.

That was not some prisons, not a few prisons, not just a few that you all are invested, all federal private prisons.

Less than a year later, an administration re -- infamous I should -- I was going to say renowned. What a mistake. Infamous for poor decisions, in 2017 reversed that decision. And that's why we have federal private prison today. In those prisons, a prisoner is 28 percent more likely to be assaulted, a guard is 50 percent more likely to be attacked, the staff will receive much less training, they'll receive much less wages, the prison will capitalize profit over human dignity, over civil rights.

Sometimes we have a higher loyalty. And that fiduciary responsibility, not putting it down. It's important. But remember, we have a higher loyalty to civil rights.

CHAIRPERSON FECKNER: Time is up. Thank you.

MS. ALCALA: Thank you. Norma Alcala. And I am the Vice Chair for the Chicano Latino Caucus of the California Democratic Party. I'm also a trustee for the Washington Unified School District in West Sacramento. And I serve on the executive board for the California Latino School Board Association. I just want to urge you again - you've heard some compelling testimony - and ask you to stop this insidious investment.

Thank you.

CHAIRPERSON FECKNER: Thank you.

Mr. Goff.

MR. GOFF: My name is Duane Goff. I'm with Veteranos Chicanos. We're an organization of Chicano combat veterans from Vietnam. Many of our members are also retired State employees. We put ourselves in danger for America, because we believed in the values of America, and we still do. But we also believe that corporations making a profit off of incarceration is not an American value. We believe that it's in the same classification as apartheid, Jim Crow law, the enslavement of the Native Americans and Mexicans that lived here when the country was expanding.

Many of our members are retired State employees, who feel that because you are investing these private companies, these private prisons, their retirement money is like blood money, and they are not happy with that.

The practice of investing in private prisons is immoral. It needs to be stopped and we ask you to divest all of your investments in private prison companies.

Thank you.

CHAIRPERSON FECKNER: Thank you.

MS. ALCALA: By the way, I'm also CalPERS. Thank you

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Yes, I want to thank our members for coming and speaking today. All of those who had a story to tell, it was very compelling. I just want to let you know that we are looking this. We are working on this. I, myself, through my union, went and did a tour of two CoreCivic facilities. They were called family residential centers. I understand, and I hear your concerns, and we are looking into this.

So thank you very much.

CHAIRPERSON FECKNER: Thank you.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: I want to second Ms.

Taylor's comments. Thank everyone who has come. The conditions in those camps are appalling. They are unconscionable and there is no question that we need to move on as quickly as we possibly can.

(Applause.)

CHAIRPERSON FECKNER: Mr. Miller.

Please, no outbursts.

COMMITTEE MEMBER MILLER: Yeah. What they said.

(Laughter.)

COMMITTEE MEMBER MILLER: Thank you for being here. I know it's frustrating. Sometimes, you know, it may feel like you're not being heard, because you don't see action happening right on the spot. But, you know, persevere. Keep speaking your truth. I and my colleagues we will keep listening. And -- and I think just stay tuned. Be patient. We're listening. We hear it. I've been on the record with some of my statements. So those of you who have followed it know how I feel about it. And I just thank you for persevering, and, you know, pushing. Keep on pushing.

CHAIRPERSON FECKNER: Thank you.

Ms. Olivares.

COMMITTEE MEMBER OLIVARES: I just really want to thank you. I understand what the conditions are. And it's not -- they're not easy to discuss, so thank you.

CHAIRPERSON FECKNER: Thank you.

Seeing no other requests.

I do want to say on behalf of the Committee, echoing my fell Board members, we hear you. We have heard you. We're working on it. And you'll know when we know.

So keep up the fight. We certainly understand your point of view. And we're certainly sympathetic to it. So thank you very much.

This meeting is adjourned.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 12:56 p.m.)

C E R T I F I C A T E OF R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Investment Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

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

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

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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