

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, DECEMBER 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,
Mr. Matthew Saha

Ms. Lisa Middleton

Mr. David Miller

Ms. Stacie Olivares

Ms. Eraina Ortega

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. Danny Brown, Chief, Legislative Affairs Division

Ms. Kit Crocker, Investment Director

Ms. Carrie Douglas-Fong, Associate Investment Manager

Mr. Matt Flynn, Acting Interim Chief Operating Investment
Officer

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 Mouchakkaa, Managing Investment Director

Ms. Beth Richtman, Managing Investment Director

Mr. Greg Ruiz, Managing Investment Director

Ms. Anne Simpson, Investment Director

ALSO PRESENT:

Ms. Sandy Emerson, Fossil Free California

Mr. Andrew Gaitan, Service Employees International Union,
United Service Workers West

Ms. Tina Gallier, Fossil Free California

Dr. Robert Girling, California Emeritus and Retired
Faculty and Staff Association

Mr. Alan Hanson, United Food and Commercial Workers, Local
400

Mr. Steve Hartt, Meketa Investment Group

Mr. Von Hughes, PAAMCO Prisma

Mr. Daniel Ingram, Wilshire Associates

Mr. Andrew Junkin, Wilshire Associates

Ms. Michelle Le, United Food and Commercial Workers, Local
400

Mr. Derick Lennox, Association of California School
Administrators

Mr. Steve McCourt, Meketa Investment Group

Mr. Michael Ring, Service Employees International Union

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

ALSO PRESENT:

Ms. Carolina Rocha, Service Employees International Union,
United Service Workers West

Ms. Deborah Silvey, Fossil Free California

Ms. Sara Theiss, Fossil Free California

Ms. Vanessa Warheit, Fossil Free California

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P R O C E E D I N G S

1
2 CHAIRPERSON FECKNER: Good morning. We'd like to
3 call the Investment Committee meeting to order. The first
4 order of business will be to call the roll.

5 COMMITTEE SECRETARY JENSEN: Rob Feckner?

6 CHAIRPERSON FECKNER: Good morning.

7 COMMITTEE SECRETARY JENSEN: Theresa Taylor?

8 VICE CHAIRPERSON TAYLOR: Here.

9 COMMITTEE SECRETARY JENSEN: Margaret Brown?

10 COMMITTEE MEMBER BROWN: Here.

11 COMMITTEE SECRETARY JENSEN: Henry Jones?

12 COMMITTEE MEMBER JONES: Here.

13 COMMITTEE SECRETARY JENSEN: Fiona Ma represented
14 by Frank Ruffino?

15 CHAIRPERSON FECKNER: Nobody yet.

16 COMMITTEE SECRETARY JENSEN: Lisa Middleton?

17 COMMITTEE MEMBER MIDDLETON: Present.

18 COMMITTEE SECRETARY JENSEN: David Miller?

19 COMMITTEE MEMBER MILLER: Here.

20 COMMITTEE SECRETARY JENSEN: Stacie Olivares?

21 COMMITTEE MEMBER OLIVARES: Here.

22 COMMITTEE SECRETARY JENSEN: Eraina Ortega?

23 COMMITTEE MEMBER ORTEGA: Here.

24 COMMITTEE SECRETARY JENSEN: Jason Perez?

25 COMMITTEE MEMBER PEREZ: Here.

1 COMMITTEE SECRETARY JENSEN: Mona Pasquil Rogers?

2 CHAIRPERSON FECKNER: Excused.

3 COMMITTEE SECRETARY JENSEN: Ramon Rubalcava?

4 COMMITTEE MEMBER RUBALCAVA: Here.

5 COMMITTEE SECRETARY JENSEN: Betty Yee?

6 COMMITTEE MEMBER YEE: Here.

7 CHAIRPERSON FECKNER: Thank you.

8 Item 2 is the approval of the December 16th timed
9 agenda. What's the pleasure of the Committee?

10 VICE CHAIRPERSON TAYLOR: Move approval.

11 CHAIRPERSON FECKNER: Moved by Taylor.

12 COMMITTEE MEMBER MILLER: Second.

13 CHAIRPERSON FECKNER: Seconded by Miller.

14 Any discussion on the motion?

15 Seeing none.

16 All in favor say aye?

17 (Ayes.)

18 CHAIRPERSON FECKNER: Opposed, no?

19 Motion carries.

20 Item 3, Pledge of Allegiance. I've asked Board
21 Member Miller to plead lead us in the pledge.

22 BOARD MEMBER MILLER: Please stand and face the
23 colors. Hand over heart.

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

1 CHAIRPERSON FECKNER: Thank you.

2 And please show Mr. Ruffino has now joined us.

3 Item -- before we go to Item 4, I do want to say
4 Item 6i and 6j, the climate change report and the
5 Responsible Contractor Policy are being pulled off the
6 consent calendar and we will have discussion on those.

7 That brings us to Item 4, Executive Report, Mr.
8 Meng.

9 CHIEF INVESTMENT OFFICER MENG: Good morning, Mr.
10 Chair, members of the Investment Committee. So today this
11 morning in open session, we have a relatively light
12 agenda. So Item 6, we have ten information consent items.
13 And as you just pointed out, the last two of the ten, 6i
14 and 6j, are being pulled. And Item 7 is the second
15 reading of the Investment Policy revision for private
16 asset classes. And Item 8 is the consultant's review
17 report of CalPERS divestment.

18 And Item 9 is the continuation of the Board
19 education workshop. So this will be the last of the four.
20 So if you recall, the first one we had was in May on the
21 return -- risk and return basics of the total fund. So
22 that's first education workshop by CFA Institute. It was
23 in May. And then in June, we had the second workshop on
24 global fixed income. And then in August, the third
25 workshop on global equity. And then today is the last

1 workshop on private markets. So with that, I'm turning
2 back to you, Mr. Chair.

3 CHAIRPERSON FECKNER: Thank you.

4 That brings us to Agenda Item 5, the approval of
5 the November 18th meeting minutes. What's the pleasure of
6 the Committee.

7 VICE CHAIRPERSON TAYLOR: Move it.

8 CHAIRPERSON FECKNER: Moved by Taylor.

9 COMMITTEE MEMBER OLIVARES: Second.

10 CHAIRPERSON FECKNER: Seconded by Olivares.

11 Any discussion on the motion?

12 Seeing none.

13 All in favor say aye?

14 (Ayes.)

15 CHAIRPERSON FECKNER: Opposed, no?

16 Motion carries.

17 Item 6, the information consent items. We've
18 pulled off Item 6i and 6j. So let's start with 6i, the
19 climate related financial risk.

20 Mr. Meng.

21 CHIEF INVESTMENT OFFICER MENG: Yes. I'm just
22 waiting for my colleague to come up to the --

23 CHAIRPERSON FECKNER: Very good. Thank you.

24 And this we pulled -- was pulled off as a request
25 of a number Board members who thought it was important we

1 have an open dialogue, so that everybody understands, both
2 the audience and the Board, rather than just being in
3 written form.

4 Thank you.

5 CHIEF INVESTMENT OFFICER MENG: Yes, we
6 appreciate that.

7 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Good
8 morning, Mr. Chair and Committee members. Danny Brown,
9 CalPERS team member. This item is our initial draft of
10 the public report required by SB 964, a bill that was
11 passed by the Legislature and signed by Governor Brown in
12 2018. The bill requires CalPERS to publicly report on the
13 climate related financial risk of our public market
14 portfolio, including alignment with Paris Agreement on
15 Climate Change and the California Climate Policy.

16 This first report is due on January 1st, 2020,
17 and then we'll issue a report every three years until
18 January 1st, 2035. The Investment Office has put a lot of
19 time and effort into this very informative report. And
20 then I'm going to turn it over to Anne Simpson now who
21 will kind of briefly summarize the report.

22 INVESTMENT DIRECTOR SIMPSON: Thank you very
23 much, Danny. I'm joined here by Beth Richtman, who leads
24 our Sustainable Investment Integration team in the
25 Investment Office. But I do want to acknowledge that many

1 people from different sides of the organization have
2 contributed to this first effort under this important
3 piece of legislation from our Legal department, our Public
4 Affairs, our Legislative Affairs, and, of course, the
5 Investment team across the total fund including the asset
6 classes as well.

7 Let me just highlight for you briefly how we've
8 structured the report. And then Beth will be here to
9 answer any questions that you might have around the way
10 that we've gathered the data.

11 The first part of the report really focuses on
12 the history of CalPERS understanding of climate change as
13 a risk and as an opportunity. So in the report, we recap
14 the important work that was done back in 2012 to review
15 evidence through the Sustainable Investment Research
16 Initiative. Then the feed -- the way that fed into
17 CalPERS Investment Beliefs, where both in the
18 understanding of value creation, climate change is called
19 out. But also in our understanding of risk being
20 multi-faceted, climate change is specifically highlighted.
21 So we have it called out in two of the Investment Beliefs,
22 if you'd like, on both risk and return.

23 The second important area of work for CalPERS on
24 climate change was how this understanding of the issue fed
25 into the development of a strategic plan on Sustainable

1 Investment, which the Board adopted in 2016. And this has
2 climate change as one of six priorities for this five-year
3 plan, which has got time-bound KPIs. And the focus in
4 that work is to ensure that we are using our influence as
5 an owner of companies to bring down emissions.

6 And you'll recall in our work under the Montreal
7 Pledge, CalPERS found that a hundred or so companies in
8 our 10,000 plus portfolio were responsible for the bulk of
9 the emissions in some extraordinary work done by Divya
10 Mankikar who's here today.

11 What that meant was that we could form a
12 partnership with other large investors with the goal of
13 bringing those emissions down. That's Climate Action
14 100+, which now has over \$35 trillion in assets under
15 management signed up.

16 So in the report, we give examples of how that
17 work is having a real impact on our engagement strategy.
18 We've also highlighted what we're doing on advocacy. I
19 would say that Divya has just come back from the COP
20 meetings in Madrid. So CalPERS has had a presence right
21 from the beginning with the Paris signing in 2015. We're
22 also working hard on issues like carbon pricing coming out
23 of a Vatican dialogue, which Betty Yee attended this year,
24 along with other investors alongside CalPERS.

25 And then vitally important in the strategy is

1 integration. And this is the work that Beth leads, which
2 is where we're using very imperfect data sets to
3 understand where risk resides and where there is
4 opportunity. So this call in the Legislation for us to
5 report on our climate risk is something that we welcome,
6 because CalPERS has a track record of commitment on this
7 issue of understanding how it affects risk and return.
8 But we're also very humble, because the data that we're
9 working with are thin and frail. Just on carbon emissions
10 alone, less than half of the companies we invest in in
11 public markets give us any sort of reporting.

12 Now, it's not all doom and gloom. Another of our
13 priorities in the strategic plan is around improving data
14 in corporate reporting. And last week, we were just
15 delighted to see that the International Financial
16 Reporting Standards body has issued guidance on how
17 climate risk should be integrated into the financials. So
18 this is just a tremendous development and we're really
19 thrilled.

20 We've also been working through groups like SASB
21 and through our support for the TCFD, which is an almost
22 correct acronym for the Task Force on Climate-Related
23 Financial Disclosure. Through these voluntary measures,
24 we've also been trying to get better data.

25 So finally in the report, we look ahead. We talk

1 about things that are coming up, which include a
2 commitment to produce our own first asset-owner TCFD
3 report, which will be a great challenge, but it's
4 something that CalPERS is committed to. We have a
5 roundtable on carbon pricing with Notre Dame University
6 and the Vatican coming up in June. And we highlight a
7 number of other activities ahead as well.

8 I also just want to say that Brad Pacheco drew to
9 my attention this morning that a Chief Investment Officer
10 magazine has just nominated -- not just nominated but
11 agreed that our Chief Investment Officer has won an award
12 for innovation in this space, which I think is a great
13 credit to Ben's commitment on this issue. And also an
14 op-ed on the issue of climate risk by Marcie Frost, our
15 Chief Executive Officer, is published today in CalMatters.

16 So CalPERS' presence in this area, I think is
17 very strong. However, I would say two things. We have
18 ambition, but we also have humility. So this first
19 working draft we're presenting to you really to get
20 feedback. We presented it to the stakeholder group on
21 Thursday and they had some interesting ideas for us. But
22 we look forward very much to your thoughts and suggestions
23 on how we can improve this before it's filed with the
24 Legislature.

25 So thank you.

1 CHIEF INVESTMENT OFFICER MENG: Mr. Chair, so
2 first of all, I would like to say thank you for the good
3 work. This is truly an example teamwork. It represents
4 the collaboration between the CEO's office, Danny Brown,
5 and Anne Simpson and the Investment Office with Beth,
6 myself, and the asset team.

7 And for the teamwork, I really want to highlight
8 one, which is Anne Simpson. I really want to thank you
9 for -- thank her for her deep knowledge and her clear
10 thinking and clear writing style, so which has proven to
11 be very useful to this task force.

12 And the award of winning the ESG award from the
13 CIO magazine, I have to say on the record when they
14 interviewed me, I do not deserve any award. I'm fully
15 committed to it. I'm -- I am receiving the award not
16 because what I have done. It's because what you have
17 done. And it just -- I happened -- I'm the person who in
18 this seat, so I'm receiving this award, but on behalf of
19 this organization, which I'm very proud of. And to the
20 question I'm very committed to climate action and
21 sustainable investing.

22 So to put on the record, I do not deserve any
23 award. I'm here receiving the ward on behalf of what you
24 have done.

25 CHAIRPERSON FECKNER: Thank you. Appreciate

1 that. And nice report.

2 I do have a couple of requests from Board
3 members.

4 Ms. Yee.

5 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.
6 Thank you for the report and congratulations on the award.
7 And I also want to add my thanks to Anne for her deep
8 knowledge and really the long-standing work that was
9 really spearheaded by her here at CalPERS. And if there's
10 anything I would say about the report, I think it actually
11 understates some of the work that we've done.

12 And a couple things I wanted to highlight, if I
13 could. The proxy vote section I thought was a bit vague.
14 But there's been so much intense work done in that arena,
15 that I really would like to see that elevated some more.
16 We -- I think we're probably a leading voice in so much of
17 this for so many periods of years that I'd like to see
18 that expressed a little bit more forcefully.

19 And then also, I thought the engagement section
20 was a little condensed. Obviously, engagement is
21 something that we take very seriously. It's really what
22 has guided us with respect to our actions on the more
23 global initiatives that we're a part of. And so I would
24 hope that we could expand on that a little bit.

25 What I didn't understand and maybe you can

1 explain a little bit more, but -- in terms of looking
2 forward about CalPERS in 2020, publishing a TCFD-aligned
3 asset owner climate risk report. So does that mean we
4 ourselves are going to report with respect to CalPERS
5 along the four pillars of the TCFD framework?

6 INVESTMENT DIRECTOR SIMPSON: Exactly.

7 BOARD MEMBER YEE: Okay.

8 INVESTMENT DIRECTOR SIMPSON: It's called leading
9 by example.

10 COMMITTEE MEMBER YEE: Okay.

11 INVESTMENT DIRECTOR SIMPSON: We're calling on
12 all these companies to do this type of reporting. And as
13 you know, on their website, Marcie Frost, our Chief
14 Executive Officer, is there with a public statement of
15 support for TCFD. So, of course, then the question is,
16 well, what are you going to do?

17 However, Beth has been doing preparatory work on
18 this. And I think she'll attest to the fact that this is
19 not a simple thing.

20 BOARD MEMBER YEE: Right.

21 INVESTMENT DIRECTOR SIMPSON: So we're looking at
22 the first quarter of 2020 for pulling that together. But
23 again, it will be certainly something where we'll be
24 learning as we go.

25 MANAGING INVESTMENT DIRECTOR RICHTMAN: Beth

1 Richtman, Sustainable Investments. Just a few things I
2 would add to that are that we are looking across our total
3 fund for that report. Whereas, this focused in response
4 to the SB 964 mandate to focus on the public sector.

5 COMMITTEE MEMBER YEE: Okay. All right. That
6 makes sense. But that also would be dependent on, I
7 guess, a company's own TCFD reporting as well, right? So
8 can you talk a little bit about whether you're seeing
9 progress with respect to companies on adopting the
10 framework and actually putting forth information that
11 could then guide our own report?

12 MANAGING INVESTMENT DIRECTOR RICHTMAN: Excuse
13 me, do you mean related to the privates or do you mean
14 just across the board?

15 COMMITTEE MEMBER YEE: Across the board.

16 MANAGING INVESTMENT DIRECTOR RICHTMAN: Across
17 the board.

18 COMMITTEE MEMBER YEE: Yeah.

19 MANAGING INVESTMENT DIRECTOR RICHTMAN: I think
20 on the public side, a lot of the analysis that we sort
21 of -- you can see the seeds of planted here related to
22 sort of the physical risk, and also, you know, the
23 transition risk, some of that is reported by the company,
24 some of that comes from just analysis we've been able to
25 do internally and through, you know, reviewing a lot of

1 research from industry and academic research as well to
2 get to our own sort of risk analysis over our very large
3 portfolio.

4 For the privates, we've -- we've actually been
5 going through portfolio holdings, sort of almost one by
6 one to sort of do some assessment of their various climate
7 risks.

8 COMMITTEE MEMBER YEE: Okay. And then I thought
9 the report, maybe because we are viewed as a leader in
10 this area, might benefit from maybe a concluding section
11 about -- not recommendations, but maybe some direction
12 setting with respect to what are some of the things that
13 can be beneficial that we could be doing going forward
14 that would help with the transition and protecting our
15 investments. And it could be things like advocating for
16 carbon pricing - and certainly, we're going to be very
17 heavily involved with that - additional climate reporting.

18 But I just think with all of the global kinds of
19 initiatives that we're a part of, that having a section
20 like that might be helpful in terms of just a future
21 direction setting kind of framework.

22 And then my last question has to do with at what
23 point do you think - this is kind of the \$64 million
24 question - are we going to be able to include Scope 3
25 reporting in the carbon footprint? And maybe explain what

1 Scope 3 is for those that don't know.

2 MANAGING INVESTMENT DIRECTOR RICHTMAN: Okay. So
3 -- Beth Richtman, Sustainable Investments.

4 Scope 3 emissions are what you can think of
5 indirect emissions of a company. So this is upstream
6 emissions through a supply chain for a company or
7 downstream emissions through sort of use of a company's
8 products. So it's -- you know, it's a pretty broad
9 landscape of types of emissions, if you think about it,
10 with a 10,000 company portfolio related to Scope 3. So
11 there is a challenge there.

12 I guess there are a couple things I want to say
13 about Scope 3 to answer your question. One, Scope 3
14 matters. It absolutely matters to us. We need to be
15 thinking about it. It's a large source of emissions. And
16 it's something that we actually did analyze as part of
17 this. And it was included in the analysis that our two
18 consultants provided.

19 But at this stage, there are very few companies
20 that are actually reporting their Scope 3 emissions. And
21 even ones that do, they're not audited. There's quality
22 issues. And so we do have -- I could give you a range of
23 where we are in terms of what the consultants provided,
24 which is a range of between 58 and 68 million tons of CO2
25 per year based on the 2018 year.

1 Now, that's a very large number. And if you look
2 at our report, you'll see that for our global equity
3 portfolio for Scope 1 and Scope 2 was only about 23
4 million. So you might wonder why is that so large?

5 And there are a couple things I would say about
6 that. One, you know, the -- again, the data quality is
7 something that we're concerned about, because, in fact,
8 both ISS and MSCI, which were the two consultants we used,
9 basically said that they found the numbers to not be
10 reliable. So that's one thing. I mean, they both had
11 that.

12 And also, when you think about a portfolio as
13 complicated as CalPERS and as many industries, you've also
14 got to think that when you're doing Scope 3 analysis,
15 you're going to have not only double counting, but perhaps
16 triple counting, maybe quadruple counting. And just to
17 give a basic example. So, you know, a company in our
18 portfolio, let's take an auto manufacturer, like a GM or a
19 Ford. Let's take GM.

20 So GM, when customers buy those cars from GM and
21 they drive those cars, they are creating Scope 3 emissions
22 for G.E.[SIC]. Okay. So they're driving them. But let's
23 say they fill up their GM cars at an Exxon gas station.
24 Well, then they are now driving the GM car creating Scope
25 3 emissions for GM in our portfolio, but also Scope 3

1 emissions for Exxon in our portfolio. So that's just two
2 layers. So that's a double counting.

3 But then imagine that that is a fleet of GM
4 trucks that is then owned by another company in our
5 portfolio, that would be another company's Scope 3
6 emissions. So quickly we get to triple counting. And so
7 that's the something that it's not easy with a 10,000
8 company portfolio to ease out to really get to good data.

9 So we -- we can report Scope 3. But at this
10 point -- and we, again, think it's very important that
11 companies analyze this and report on it, because we want
12 them to manage this. We want GM to think about the Scope
13 3 emissions and manage the efficiency that vehicle fleet.
14 But for us as an asset owner, it's -- those numbers are,
15 you know, difficult to have a lot of confidence in just
16 because of the multiple double countings that would be
17 going on.

18 INVESTMENT DIRECTOR SIMPSON: Let me -- let me
19 just add to what Beth says, and she's quite right, it's
20 fiendishly complicated. However, just because something
21 is difficult doesn't mean you shouldn't make an effort.
22 So we take the point very well. And the point here I
23 think is that we are asking companies to report on Scope
24 1, Scope 2, Scope 3. So Shell is one of the companies in
25 Climate Action 100 that's agreed to take responsibility

1 for all of its emissions. So when oil is being drilled,
2 there's emissions. And when oil is being refined, there's
3 electricity used that's Scope 2. Scope 3 is when you and
4 I go and fill up our car, if we're using petrol or gas and
5 burn that product. So Scope 3 is where most of the
6 emissions lie.

7 But as Beth says, it's a very, very tricky area
8 to get good numbers. So I think what we'd like to do is
9 take this back in the final drafting, and see what we can
10 introduce, so that we're not underestimating, because I
11 think it's better to be in a range of approximation,
12 rather than very precisely underestimating what the
13 emissions are in the portfolio.

14 And then we continue to work with the standard
15 setters, because really the only way this will get fixed
16 is when the reporting requirements become mandatory. And
17 that's very clearly CalPERS position. And as I said,
18 we've just had a big opportunity open up with IFRS, which
19 is outside the U.S., the main accounting framework
20 worldwide. So things are moving.

21 COMMITTEE MEMBER YEE: Okay. Great. And then
22 just lastly, the two areas that I raised with respect to
23 the proxy voting section. I think just an explanation or
24 a flavor of what some of the proxy issues were.

25 And then with respect to the --

1 CHIEF INVESTMENT OFFICER MENG: We're looking for
2 our colleague.

3 COMMITTEE MEMBER YE: And not for mere. I mean,
4 I think for the report itself. Yeah. And then on the --

5 INVESTMENT DIRECTOR SIMPSON: That's the good
6 work of Simiso Nzima --

7 COMMITTEE MEMBER YEE: Yes, exactly.

8 INVESTMENT DIRECTOR SIMPSON: -- who's in the
9 back.

10 COMMITTEE MEMBER YEE: And then on the engagement
11 section, what we have done CalPERS solely, and then
12 certainly what we've done in terms of being lead engager
13 in Climate Action 100+.

14 Okay. Thank you.

15 CHAIRPERSON FECKNER: Thank you.

16 Ms. Taylor.

17 VICE CHAIRPERSON TAYLOR: Yes. Thank you, Mr.
18 Chair.

19 To sort of piggyback on Controller Yee's
20 comments, when I asked Anne and Ben to have this pulled, I
21 also was concerned about Scope 3. So I want to encourage
22 you, even if we're double reporting, it's better to have
23 it overreported, like you said, than to -- to try to get
24 it so analyzed that you're actually underreporting. So I
25 would -- I think it should go in our final copy before we

1 turn it over for Scope 3 emissions.

2 I also -- the report is great. And I
3 congratulate you on all of the hard work it takes to go
4 into this report. I know it all got dumped on your lap
5 with the legislation. So, you know, Beth, thank you so
6 much for all this work that you've done, and I really
7 appreciate it.

8 Woops. I lost my little thing I was working on
9 here.

10 So I wanted to also ask -- there's a couple of
11 things. There was -- in the very beginning, it talked
12 about the lack of data, and you have expanded upon that.
13 But my thinking is -- and I know we've got all kinds of
14 different measuring -- we've got TCFD. We've got like you
15 said MSCI, ISSN. I'm wondering -- and I know that we --
16 that's not standardized yet, but I'm wondering does -- as
17 we're taking into account how it impacts the financial
18 industry, we need to take the science of climate change
19 itself, and the actual facts behind that, because that's
20 all settled science. So I think that needs to be -- I
21 don't know if you want to put a paragraph in there, that
22 we accept the settled science. We know it impacts our
23 portfolio. That it is, you know, a material risk as --
24 and you kind of said that here, but you didn't direct --
25 directly link it to that.

1 So I'm wondering if maybe we could do that,
2 because I kind of go by the science. Since we don't have
3 anyway to measure it otherwise, that's kind of my thing.
4 Let's say that the science is there.

5 And then finally -- hold on. I've got to get to
6 it. Again congratulations on the CIO award. That's
7 amazing. That is -- I know when we went to PRI how much
8 of a forward thinker we are. We are in California though,
9 so our stakeholders expect so much from us. And I don't
10 expect us to be perfect at this, especially our first
11 round. But I hope to see our next report in 2020 that you
12 guys -- I think -- what was it called, the Carbon
13 Emissions Data Report for 2020? Did I write that down
14 incorrectly?

15 INVESTMENT DIRECTOR SIMPSON: We're working with
16 some of the wonderful people in the new Research Strategy
17 Group, Nelson Da Conceicao and Lauren Rosborough Watts to
18 really get our arms around this data. And they're going
19 to be sitting working with Divya Mankikar and just give
20 this our absolute full attention and best shot, so that we
21 can do a TCFD report. As Beth says, that will be for the
22 total fund. It will be grappling with 1, 2, and 3.

23 We'll get -- navigate our way through all the
24 acronyms in the alphabet soup, but it's very ambitious for
25 us to commit to do that, but it's the right thing, because

1 we should not be saying one thing to others and not be
2 willing to do it ourselves.

3 That's part of our credibility when we talk to
4 companies, I feel, so --

5 VICE CHAIRPERSON TAYLOR: Right.

6 INVESTMENT DIRECTOR SIMPSON: -- we expect first
7 quarter 2020, and the work has already begun.

8 VICE CHAIRPERSON TAYLOR: I'm -- so much
9 appreciate all of that. And I think because we are so
10 good at this and so forward thinking at this, that -- and
11 starting Climate Action 100+ and Net-Zero Alliance, that
12 people sometimes forget that we set the standard for this.
13 The problem is we have to bring the rest of the industries
14 dragging, kicking, and screaming behind us.

15 And I think the financial industry isn't --
16 hasn't been real helpful with this either, in terms of
17 agreeing to report. So the advocacy that you guys were
18 talking about behind making sure these -- the reporting
19 gets done, I don't know how well we'll be able to do any
20 kind of federal legislation for a while. But I appreciate
21 that you guys are talking talking about it and moving that
22 needle a little bit.

23 And again, I just want to congratulate you on the
24 report. If we could make sure we get some of this into
25 the report, like Ms. Yee was talking about, the Scope 3.

1 Even if we're overestimating for now, at least it will be
2 there. If we're asking our companies in Climate Action
3 100 to do it, then we probably should do it. So thank you
4 very much.

5 CHAIRPERSON FECKNER: Thank you.

6 Ms. Olivares.

7 COMMITTEE MEMBER OLIVARES: Thank you.

8 This is a very helpful report. And I appreciate
9 all the work that goes into it, particularly since the
10 accuracy and quality of the information isn't always
11 there. I think going forward, it would be helpful to see
12 how this translates, especially the transition and
13 physical risks to stranded asset risk, and then how the
14 stranded asset risk could then impact our portfolio.

15 Thank you.

16 INVESTMENT DIRECTOR SIMPSON: Thank you. That's
17 a very timely and important issue. And it's something the
18 financial analysts are beginning to comment on. There's a
19 group that's feeding into Climate Action 100 called Carbon
20 Tracker, which is analyzing stranded assets sector by
21 sector. So we've got some analysis for oil and gas.
22 They're looking at transport. We have other major sectors
23 coming through. So I think this is one of those issues
24 where we're going to have to take it one piece at a time,
25 being aware that all these pieces hang together and each

1 sector affects the other. They're not, you know, being
2 affected individually.

3 There's also an initiative that's just been
4 launched at PRI called the Inevitable Policy Response,
5 which I encourage you to take a look at online, because
6 they've actually done some very nice scoping work and
7 scenarios on how different policy measures could lead to
8 assets being stranded. So that's another broader
9 discussion that might be helpful.

10 COMMITTEE MEMBER OLIVARES: Thank you.

11 MANAGING INVESTMENT DIRECTOR RICHTMAN: One
12 additional thing I'll just add just to make sure it's
13 clear -- oh, Beth Richtman -- is that around the
14 Investment Office, even when we're not reporting, this is
15 something that our investment analysts are looking at, and
16 trying to understand, and underwriting new investment say
17 for our Infrastructure or Real Estate Program in, you
18 know, working to understand credit, and -- you know, this
19 is something that is not just about reporting. It's
20 something that's real that we're thinking about as
21 investors. So I just want to make sure that you
22 understand that as well and our stakeholders.

23 CHAIRPERSON FECKNER: Thank you.

24 Ms. Taylor.

25 VICE CHAIRPERSON TAYLOR: Sorry I forgot one more

1 thing. And, Beth, I do get that. I do get that.

2 And I do want to thank you guys. And I know we
3 are leaders. And one thing I really wanted to call out
4 and I forgot to was that I really appreciate that in the
5 report that you're looking at, and I'm going to quote
6 this. "The physical risk to investor's portfolio from
7 climate change policy should be designed to avoid
8 exacerbating economic inequality and its associated
9 geopolitical risks. And policies should be designed to
10 provide incentives for carbon sequestration, including
11 through natural methods, such as ecosystems, protections,
12 and restoration".

13 And what I'm taking that to mean is that you're
14 looking at just transition here. And I wanted to call
15 that out and thank for putting that forward. In terms of
16 advocacy, where are you going -- where is CalPERS going to
17 advocate that -- for that? And is that within Climate
18 Action 100, Net-Zero Alliance? Is it with the federal
19 government, like I said earlier? So I just wanted to ask
20 that question that I didn't ask before.

21 INVESTMENT DIRECTOR SIMPSON: No. Thank you very
22 much for the question. The just transition is an integral
23 part -- as a concept, an integral part of the Paris
24 Agreement. If you read the preamble, it doesn't just talk
25 about workers, but communities, vulnerable communities,

1 the impact on migration from climate change, a whole range
2 of issues.

3 And I think that in order for making progress on
4 the policy front, keeping social cohesion, keeping support
5 for policy measures rests upon making sure that we don't
6 see a backlash -- an economic backlash. And I think the
7 yellow vests in France are understood to be an example of
8 how disadvantaged communities can be hit by measures that
9 look good and green, but actually they're going to cause
10 political protest, if they're not handled carefully.

11 So where do we go with that idea, because it's so
12 big and it's actually a public policy issue and we're an
13 investor. So we need to be very thoughtful about, well,
14 what's our role in thinking this through.

15 So the place it sits at the moment is, first of
16 all, in our engagement work with Climate Action 100+. So
17 we're asking companies to put forward their plans as part
18 of their strategy. Now, in Europe, this is a more common
19 area. But I do want to call out big companies like NRG,
20 Big Texas Utility, and ConocoPhillips as examples of
21 companies, which are building in the worker transition and
22 impact on communities into their plan.

23 In terms of how the just transition is financed,
24 because these projects take money, the framing for the
25 roundtable on carbon pricing by Notre Dame and the Vatican

1 is carbon pricing for a just transition. And there have
2 been some ideas floated on both Republican and Democratic
3 sides bipartisan spirit to be thinking about what would
4 happen with the revenues of a carbon tax?

5 And again, we're not policymakers. We're
6 investors, but it's encouraging if we can get to the point
7 where companies can be talking to policymakers about what
8 will facilitate the transition, rather than what will
9 cause, to coin a phrase, roadblocks.

10 So I hope that's -- I hope that's helpful.

11 VICE CHAIRPERSON TAYLOR: All right. I do
12 appreciate it. I think -- I think it's important that --
13 you know, in the conversation we include workers, so that
14 we're seeing them being included, whether that's through
15 transitioning them to the greener jobs, whatever that
16 means.

17 The problem I see, if -- I know we're investors,
18 but if CalPERS isn't in the conversation, we're not --
19 we're not helping move it. And I think it's important
20 that our voice moves that conversation as well, because we
21 don't have a cohesive government -- except in California,
22 governmental message for a just transition.

23 It's worldwide. And I've talked to many
24 investors all over the world in Europe, Australia that are
25 working very hard to make sure that the just transition is

1 included in the green economy. So I appreciate it.

2 Thank you.

3 CHAIRPERSON FECKNER: Thank you.

4 No requests from the Board. I do have a number
5 of requests from the audience that wishes to comment.
6 You'll have up to three minutes for your comments. I'll
7 call you down two at a time. Sandy Emerson and Tina
8 Gallier.

9 MS. EMERSON: Good morning. My name is Sandy
10 Emerson, and I'm the Board President of Fossil Free
11 California. Thank you for the opportunity to comment on
12 this first report for the SB 964 legislation.

13 One effective and timely way to mitigate risks
14 posed by fossil fuel investments would be to decrease such
15 investments. A recent IPCC report states that \$200
16 billion per year must be disinvested from fossil fuel
17 extraction and production and 100 billion per year must be
18 disinvested from fossil fuel electricity.

19 Every share that remains invested in the most
20 polluting companies that are identified by your Climate
21 Action 100+ research is an obstacle to the kind of
22 investment we need to limit global warming.

23 The SB 964 report could have, and looks like
24 will, disclose the risk of PERS fossil fuel investments on
25 a company-by-company basis. It should have included

1 reports of Scope 3 emissions. The carbon disclosure
2 project made well-qualified data available on company's
3 Scope 1, 2, and 3 emissions for your Climate Action 100+
4 initiative. CalPERS used this data to identify the most
5 polluting companies for its list.

6 The initial 100 focus companies leverage up to 66
7 percent of global emissions. As the lead investigator for
8 22 of these companies, CalPERS is in a good position to
9 disclose the climate risk of these investments clearly and
10 specifically.

11 Companies with carbon reserves pose the greatest
12 risks. These primary producers, such as BP, Chevron,
13 Exxon, and Shell are even now increasing their reserves,
14 even though we already have more than six times the amount
15 of carbon reserves that we can safely burn. These
16 companies leverage the Scope 3 emissions that this report
17 should disclose.

18 With more than \$8.7 billion invested in primary
19 fossil fuel producers and over \$28 billion invested in the
20 energy sector overall, CalPERS is carrying great risk.
21 And CalPERS still has over \$3 billion invested in the
22 thermal coal category, defined by the Global Coal Exit
23 Database.

24 I urge you to start somewhere. Disclose what you
25 already know and continue the important discussion that

1 this report deserves.

2 Thank you.

3 CHAIRPERSON FECKNER: Thank you.

4 MS. GALLIER: Good morning. My name is Tina
5 Gallier. I'm a member of Fossil Free California. And
6 thank you for the opportunity to comment.

7 Fossil fuels are not going away literally
8 tomorrow, but there are strong indications that the market
9 for them is softening, enough to create reasonable doubt
10 that they necessarily good investments. Late this year,
11 the Wall Street Journal and Reuters reported that Chevron
12 and Schlumberger wrote down 10 billion and 12.7 billion
13 dollars in assets respectively due to a glut of oil and
14 gas on the market, investor concerns about the long-term
15 future of fossil fuels, and a slow down in shale drilling.

16 And we have seen that coal, once the bedrock of
17 an industrial economy for about 200 years, has been pushed
18 out by natural gas. This year, the \$70 billion UC pension
19 system announced it will divest its fossil fuel holdings.
20 So the fact that the Chief Investment Officer for the UC
21 system and the Chairman of the UC Board of Regents
22 Investment Committee considered it safe to do so should be
23 taken into account in CalPERS investment planning.

24 There is reasonable doubt that fossil fuels are
25 good investments. Therefore, we feel CalPERS should

1 consider the possibility of moving these investments to
2 more sustainable sectors of the economy.

3 Thank you.

4 CHAIRPERSON FECKNER: Thank you.

5 Next two, Sara Theiss and Sheila Thorne.

6 MS. THEISS: Thank you. My name is Sara Theiss.

7 And I am a CalPERS retiree and on the Board of Fossil Free
8 California. I appreciate the opportunity to comment on
9 the report. I'm going to talk about transition risks.

10 And specifically, the first row of the chart on
11 Attachment A, the report on page seven, which states,
12 "Policy market and technology changes may result in the
13 loss of value and/or stranding of long-lived and
14 carbon-intense energy assets in our portfolio".

15 I would say that "are resulting" is a more
16 accurate way to phrase it. As the Wall Street Journal
17 noted this month, oil companies have struggled to reap the
18 profits of old and are falling out of favor with investors
19 amid fears that electric vehicles and renewable energy,
20 along with government regulations, to address a warming
21 planet will constrain their futures.

22 As my colleague mentioned, Chevron wrote down 11
23 billion in assets this quarter. According to the Wall
24 Street Journal again, this admission could force others to
25 publicly reassess the value of their holdings in the face

1 of the supply glut and growing investor concerns about the
2 long-term future of fossil fuels.

3 And in a press release Chevron stated that it's
4 considering alternatives for its gas-related assets,
5 including divestment. It's ironic, isn't it, that in the
6 light of the perfect storm facing the fossil fuel sector,
7 Chevron is considering divestment, while apparently
8 CalPERS is not.

9 As Tina mentioned, other oil majors are taking
10 similar actions, in addition to Schlumberger, BP, and
11 Repsol also wrote-down billions. And according to figures
12 I have access to, CalPERS has almost one billion invested
13 in these four companies.

14 It's not surprising that in light of these
15 problems, Moody's just adjusted ExxonMobil's AAA credit
16 rating from stable to negative, raising the prospect of
17 the company being downgraded in 2020. Exxon had a
18 negative cash flow this year, and Moody's expects the same
19 in 2020 and 2021. And Moody's also cited transition
20 risks, in terms of its action, specifically emerging
21 threat to oil and gas companies, profitability, and cash
22 flow, the growing effort by many nations to mitigate the
23 impacts of climate change through tax and regulatory
24 policies.

25 So I guess my take-home point from this is one

1 made by Ms. Olivares, and I think others, which is that I
2 personally would like to see, and I think it makes sense
3 to see, more of a link between the science and the actual
4 investment decisions that this Board makes, not just in
5 terms of reporting, but actual investment decisions.

6 Thank you.

7 CHAIRPERSON FECKNER: Thank you.

8 MR. THORNE: Good morning. My name is Sheila
9 Thorne. And I'm a member of CalPERS and I'm very, very
10 grateful for the benefits I receive. Very grateful.

11 But I also am very worried about the risks to
12 those benefits that are posed by your continued
13 investments in fossil fuels. Not only are fossil fuels
14 losing money right now, as has been pointed out, but there
15 are so many -- so many risks, which I think that have been
16 underestimated in the report.

17 There are stranded asset risks, which you
18 recognize are not adequately analyzed. There are
19 litigation risks, which are already numerous, and will
20 increase with the recent decision by the Philippine
21 Commission on Human Rights that Carbon Majors can be held
22 accountable.

23 There are regulatory risks, which you don't
24 address, such as the EI/TI rules and amendments to EU
25 directives, and constant new laws and ordinances passed by

1 U.S. states and cities despite the current administration.

2 For instance, Colorado passed a law this year
3 bolstering local control of fossil fuel development to
4 prioritize public health and safety. Berkeley has passed
5 an ordinance banning natural gas in all new constructions.
6 And other cities are looking into similar measures.

7 And inside Climate News Reports that a November
8 federal court ruling has suspended BLM oil and gas leases
9 in hundreds of thousands of acres throughout the west for
10 ignoring climate impact. Energy companies had bought
11 those leases. So those are stranded assets.

12 These actions will continue and regulation will
13 be pursued. And as more and more countries, states, and
14 cities transition, a tipping point will eventually occur,
15 the Carbon Tracking Initiative predicts between 2020 and
16 2027, and most likely by 2023, and investors in fossil
17 fuels will lose a whole lot of money.

18 So I ask you considering all these risks, why do
19 you continue to invest in fossil fuels?

20 CHAIRPERSON FECKNER: Thank you.

21 The next two are Deborah Silvey and Vanessa
22 Warheit.

23 MS. SILVEY: Good morning, Board members. Thank
24 you for allowing me to speak. I'm Deborah Silvey, a
25 CalPERS retiree and co-founder of Fossil Free California.

1 In September 2013, I came for the first time to
2 speak to the Board in support of the CalPERS Investment
3 Beliefs number 4 and number 9, which reference the
4 investment risk of climate change. We were pleased that
5 you passed those beliefs. But here we are six years later
6 and the urgency to act on climate risk is far greater than
7 any of us imagined back in 2013.

8 Scientists consistently report that climate
9 threats are coming much earlier than they had thought.
10 Per the United Nations Environmental Program, UNEP, if
11 what countries have planned for fossil fuel production in
12 the coming decades go as planned, the world will blow past
13 two degrees limit -- the two degrees limit outlined in the
14 Paris Accord. They'll blow past that before 2030.

15 So a sense of urgency should pervade the entire
16 SB 964 report. Unfortunately, so far, it does not.
17 First, it does leave out the analysis that the biggest
18 source of emissions in the portfolio, as you've heard, the
19 Scope 3 data. It's too late to wait for perfect data.
20 Scope 3 includes about 80 to 90 percent of fossil fuel
21 company emissions. And that -- and you have about eight
22 percent of those fossil fuel companies in your portfolio,
23 so you -- it really should not be left out.

24 Second, there seems no sense of urgency about
25 what's to be done going forward. CalPERS points to their

1 gradual approach of engagement, proven fruitless in
2 dealing with fossil fuel companies. Yet, CalPERS has --
3 as a lead actor with Climate 100+ can act on that data to
4 protect our members' pension funds from the harm -- from
5 harm in the not so distant future.

6 And what's coming in the not-so-distant-future,
7 as you're hearing -- well, what's coming is a collapsing
8 demand and that's the biggest threat to the fossil fuel
9 sector. Once concerned with about peak oil supply, now is
10 peak oil demand, which may occur as early as 2025.

11 In writing the Board last June, Tom Sanzillo,
12 Director of Finance for the Institute of Energy Economics
13 and Financial Analysis said, "This new legal requirement
14 comes during a time of broad financial changes in the
15 fossil fuel sector. SB 964 is not merely a legal exercise
16 in compliance, but a more fundamental call for an
17 increased level of prudence and care". So we call for a
18 deeper examination of climate risk, including Scope 3
19 data.

20 Thank you so much.

21 CHAIRPERSON FECKNER: Thank you.

22 MS. WARHEIT: Hi. Thank you for hearing us
23 today. My name is Vanessa Warheit. I'm the Executive
24 Director of Fossil Free California. Our organization
25 represents over 1,100 CalPERS members, which include my

1 own mother.

2 And I'm here to express our profound
3 disappointment with your CalPERS approach to addressing
4 Climate Change Risk Report, as mandated by Senate Bill
5 964. And we're very happy to hear that you're going to be
6 revising it.

7 Many of my colleagues have already spoken about
8 the massive write-downs and mounting climate liability
9 lawsuits that are facing the fossil fuel industry today.
10 So it is disheartening, to say the least, that CalPERS has
11 not taken this opportunity to do the kind of robust
12 reporting necessary to protect our members from
13 climate-related financial risk to their portfolio.

14 Specifically, we are alarmed at the omission of
15 Scope 3 greenhouse gas emissions data in the analysis of
16 the fund's holdings, and their impacts on the climate
17 crisis. And I would like to add some estimates put it
18 anywhere from six to nine times, not double, but many,
19 many times the Scope 1 and 2 emissions.

20 We are also outraged at PERS' failure to name the
21 companies that put our public funds at risk. As
22 co-sponsors of Senate Bill 964, we believe that these
23 glaring omissions render this report both inadequate and
24 unacceptable.

25 Why is robust reporting critical this year? The

1 bill's author accepted an amendment making the report
2 triennial, instead of annual. At a time when the window
3 of opportunity to avert global disaster is now measured in
4 years, the 2019 report needs to provide direction for
5 CalPERS' risk-based investment decisions between now and
6 the end of 2022. And it sets the standard for future
7 reports and for reporting by other funds who look to
8 CalPERS for leadership and essential models. This report,
9 as written, fails to provide either of those.

10 Staff and my colleagues have addressed the
11 report's shocking lack of readily available and crucially
12 important Scope 3 emissions data. I would like to briefly
13 address the report's lack of specificity in attributing
14 risk to industries and companies within the portfolio.

15 In drafting SB 964, the Legislature intended for
16 CalPERS to report on the climate-related financial risk of
17 its public market portfolio, which the authors of the bill
18 understood to include discussion of specific holdings by
19 name as well as specific industries.

20 As we stated in our letter to you of June 25th of
21 this year, there is precedent for this discussion in both
22 CalSTRS and CalPERS reports on compliance with SB 185,
23 which requires the funds to divest from thermal coal
24 companies that meet a certain threshold.

25 CalPERS' SB 964 report, however, contains no such

1 discussion of the fund's holdings, making it impossible to
2 accurately assess where and how climate related risk is
3 distributed.

4 So I urge you, in your revisions, to include, at
5 a bare minimum, industry specificity, but really you
6 should be including company specificity, so that we know
7 where that risk lies.

8 Thank you.

9 CHAIRPERSON FECKNER: Thank you.

10 Mr. Perez.

11 COMMITTEE MEMBER PEREZ: Thank you. I have a
12 question for Ben.

13 Sorry. Thanks.

14 CHIEF INVESTMENT OFFICER MENG: Yes.

15 COMMITTEE MEMBER PEREZ: The -- let's -- just for
16 sake of argument, let's pretend that you suspended all
17 of -- al of the advocacy and the way we are investing
18 currently. Knowing that that seven percent discount rate
19 is difficult target for us to reach, if we suspended this
20 program -- not program, this -- one of the Beliefs that we
21 have, would that help our returns in the short term?

22 CHIEF INVESTMENT OFFICER MENG: That's a very
23 complex question. Let me put it this way, as I said last
24 month in the open session in my opening remarks, about
25 11 -- Item 11b, the unique challenge we face, we are a

1 long-term investor. Long-term risk matters a lot to us,
2 including sustainability ESG factors, but we also have a
3 short-term challenge. The short-term, for one, the
4 challenge every year, we need to pay out about \$24 billion
5 benefit to the policemen, firefighters, and public workers
6 who have dedicated their entire life to public service.

7 And also, as you said, that in the near -- we
8 also need to be mindful of the survivability of our fund
9 in the short term. Without surviving the fund in the
10 short term, there's no long term to speak to.

11 So I hope that answer your question. It is a
12 very tough balance. We need to balance basically, the
13 long-term survivability and the short-term survivability.

14 COMMITTEE MEMBER PEREZ: Thanks, Ben. And I -- I
15 hate to put you on the spot, and you kind of answered it,
16 but not really. So I'm hearing, yes, that if we suspended
17 this stuff, we should do better in the short term?

18 CHIEF INVESTMENT OFFICER MENG: No, that's not
19 what I said. Sorry.

20 COMMITTEE MEMBER PEREZ: Oh.

21 CHIEF INVESTMENT OFFICER MENG: I said it's a
22 complex question. I cannot give you a straight yes and no
23 answer. All I need -- I would like to highlight the
24 additional challenge we face, when we compare to our
25 global peers, who some of them does not, you know, have

1 current liability structure, let alone we need to pay out
2 \$24 billion a year. Many of them, they do not have
3 assumed rate of return at seven percent.

4 But given all this together, we view the pension
5 liability as a shared responsibility among CalPERS
6 employers and employees. So without causing additional
7 stress, financial stress, on the employer and employee,
8 the Investment Office what we can do is really focus on
9 delivering the seven percent return.

10 COMMITTEE MEMBER PEREZ: Yes, sir. My concern is
11 that we are so focused on engagement and talks of
12 divestment, that we are going -- we're putting too much
13 pressure on the contract agencies, the cities and the
14 counties, that contract us with CalPERS -- for CalPERS for
15 their pensions.

16 CHIEF INVESTMENT OFFICER MENG: That's true. If
17 we cannot deliver the required rate of return from the
18 investment portfolio, unfortunately we will be putting on
19 more pressure on the employer and the employee

20 COMMITTEE MEMBER PEREZ: Thank you.

21 CHAIRPERSON FECKNER: All right. Thank you.

22 CHIEF INVESTMENT OFFICER MENG: Thank you.

23 CHAIRPERSON FECKNER: All right. Thank you.

24 Nothing else on Item 6i.

25 Move to 6j, the Responsible Contractor Policy.

1 CHIEF INVESTMENT OFFICER MENG: So, Mr. Chair, I
2 forgot to mention, if I may, there is one correction in
3 eye 6f.

4 CHAIRPERSON FECKNER: 6f?

5 CHIEF INVESTMENT OFFICER MENG: The alternative
6 fee reporting. With that, I would like to introduce my
7 colleague Matt Flynn who's the Acting Interim COIO today.
8 Our Interim COIO, Dan Bienvenue, is out of the country, so
9 Matt Flynn has kindly offered to step up as the Acting
10 Interim COIO today and who will cover the correction in
11 Item 6F

12 ACTING INTERIM CHIEF OPERATING INVESTMENT OFFICER
13 FLYNN: Good morning. Matt Flynn, CalPERS team member.

14 Item 6f, which is our AB 2833 report contained in
15 attachment number 1, page number one, there was an error
16 in the formation in the formatting of the table that
17 resulted in some inaccurate information. And the most
18 critical piece of it is in the cash profit received
19 column. It is incorrectly stated as printed. However, it
20 will be corrected on the online posting. It is -- it
21 should have read \$24 million in cash profits received for
22 our Absolute Return Strategies Program and not a negative
23 760 million as stated. So again, the correction will be
24 online. And it's just currently an issue in the printed
25 version.

1 CHAIRPERSON FECKNER: Very good. Thank you.
2 Mr. Jones.

3 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
4 Chair. We did receive an updated report. Is that
5 correct, the updated report we received subsequently to
6 the printing of the agenda?

7 ACTING INTERIM CHIEF OPERATING INVESTMENT OFFICER
8 FLYNN: I believe there was an error in -- earlier in the
9 week that is contained in the updated report that you
10 received. The information we're talking about here this
11 morning was discovered late on Friday afternoon --

12 COMMITTEE MEMBER JONES: So it's not the updated
13 report.

14 ACTING INTERIM CHIEF OPERATING INVESTMENT OFFICER
15 FLYNN: -- and I do not believe you've received that yet.

16 COMMITTEE MEMBER JONES: Okay. Thank you.

17 CHAIRPERSON FECKNER: Very good. Thank you.
18 Item 6j, Responsible Contractor Policy. Mr.
19 Meng.

20 CHIEF INVESTMENT OFFICER MENG: Thank you, Mr.
21 Chair. So with that I call on my colleagues.

22 INVESTMENT DIRECTOR SIMPSON: Thank you. Thank
23 you very much, Chair. Anne Simpson. I'm joined here by
24 Carrie Douglas-Fong and also Paul Mouchakkaa. And it's my
25 pleasure to introduce this item, which is an annual report

1 on the Responsible Contractor Program.

2 However, it's also painful that I have the task
3 of saying unfortunately there was a mistake in one of the
4 tables that was sent to you, which we will correct online.
5 The mistake is in Attachment 2 under what's called
6 Non-Core. And the mistake is a transposition, if you'd
7 like. Hines-Green in the fourth and fifth column should
8 be zero. And we do apologize for this. What this means
9 is reducing the sums of contracts under the Responsible
10 Contract Policy by \$2.5 million. So there's a knock-on
11 effect on the totals shown in the presentation and in the
12 attachment, and we'll be putting that right in the online
13 version.

14 So thank you for your understanding on that.

15 CHIEF INVESTMENT OFFICER MENG: So on that note,
16 we would like to say that on behalf of the Investment
17 Office, we realize that there have been a couple errors in
18 the materials presented to the Committee. We're looking
19 into it -- to the route cause of the errors. But
20 regardless, we apologize for the errors and we'll do our
21 best to make sure it doesn't happen again in the future.

22 CHAIRPERSON FECKNER: Thank you.

23 INVESTMENT DIRECTOR SIMPSON: Thank you, Ben.
24 Absolutely. Let me now turn to Carrie Douglas-Fong, who
25 has a presentation to explain the history of this policy

1 and the program attached to it. And Paul Mouchakkaa,
2 who's the Managing Investment Director for Real Assets,
3 will be here to help answer any questions that you might
4 have.

5 Thank you.

6 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG:

7 Good morning. Carrie Douglas-Fong, CalPERS team
8 member.

9 (Thereupon an overhead presentation was
10 Presented as follows.)

11 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG:

12 Today, I'm going to provide you with information
13 on thre RCP Policy, including overview, history, summary
14 results, communication and engagement, and compliance and
15 total contracting.

16 Next slide.

17 --o0o--

18 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: The
19 RCP Policy applies to domestic real estate and
20 infrastructure assets where CalPERS holds greater than 50
21 percent interest on contracts of a hundred thousand
22 dollars or more.

23 Next slide, please.

24 --o0o--

25 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: The

1 first mention of the policy was in 1992.

2 Thank you.

3 The RCP Policy was carefully drafted by CalPERS
4 external managers, labor, fiduciary counsel, and the
5 Board's consultant, Pension Consulting Alliance, which is
6 now part of Meketa, and staff. We worked together to
7 create the RCP Policy for external real estate managers to
8 hire responsible contractors and subcontractors, based on
9 local market conditions, all the while, maintaining a
10 competitive bidding process that enables an appropriate
11 risk-adjusted return.

12 In 1996, the CalPERS Investment Committee
13 approved and established the policy. Over the years, it
14 has evolved. There were two periods of extensive review
15 and revision. The first between 2010 and 2013 and the
16 second between 2014 and 2015.

17 Over this five-year period, the Investment
18 Committee, so you, asked staff to spend significant
19 resources reviewing and revising the policy. At the
20 Investment Committee's request, staff initiated engagement
21 with labor stakeholders and investment managers on the RCP
22 Policy. Each review included multiple discussions and
23 written communication with all sides.

24 Staff, PCA, and fiduciary counsel worked with
25 managers to make sure that real assets could continue to

1 encourage fair wages and benefits based on local market
2 conditions.

3 The policy requires managers and contracts to
4 consider responsible wages and benefits in the contracting
5 process. And all winning bids are required to sign a
6 certification saying they are a responsible contractor.

7 In closing, the policy has been replicated by
8 many other public pension funds and investors. And it
9 sets a standard in the marketplace in which we invest, not
10 just for ourselves, but for other investors as well.

11 The RCP Policy was developed to provide a
12 framework for responsible contracting on CalPERS'
13 investments by the CalPERS Board. The goal being to have
14 flexibility in the framework to contract responsibly while
15 still ensuring a competitive risk-adjusted return.

16 And with that, I'll go back to Anne.

17 INVESTMENT DIRECTOR SIMPSON: Thank you.

18 CHAIRPERSON FECKNER: Ms. Taylor.

19 VICE CHAIRPERSON TAYLOR: Yes. Thank you, Mr.
20 Chair. Thank you, Carrie.

21 I really appreciate the report. I'm the one that
22 keeps pulling these things out. I'm sorry, but it's just
23 I think that we need to highlight that we, again, are a
24 leader in this. And I don't think we tell that story well
25 enough. And I want to make sure that the report got

1 brought to the public's attention, rather than sitting
2 back in the information consent items, that was number
3 one. Because we have such great compliance on our RCP
4 program, I think that -- and that we are -- we set
5 standard. I hear that often from other folks in the
6 industry.

7 I just do want to caution us, the only thing I
8 have is I want to caution us as we respond to like a labor
9 request as they come in. I want to -- I'm trying -- so
10 that we're not letting things drop through the cracks, I'm
11 hoping that -- for example, I'll give a specific.

12 So, for example, if -- if a labor contractor
13 applies, it's an expensive process to do a State
14 application. It takes a lot of time. It takes a lot of
15 making sure that you have all the right requirements,
16 right, to -- as a contractor for building.

17 So I'm -- I think I'm a little concerned in that
18 possess, because I'm hearing that a lot of unionized labor
19 contractors that are applying. And it's not necessarily
20 just CalPERS. It's perhaps -- and I haven't heard
21 specifics of it -- is CalPERS. But that sometimes it's
22 not even worth them applying, because they don't --
23 other -- other contractors that are contractors that
24 aren't compliant, but have like gone out of business,
25 started a new business, so that they are no longer on that

1 list of noncompliant companies. We -- we're -- those
2 companies are getting it, they're underbidding, or how --
3 because they don't have to pay the benefits that union
4 labor has to pay.

5 So I'm just concerned that maybe the listing of
6 these companies that are not compliant or have violated
7 regulations in building, et cetera, et cetera. Do -- do
8 we have that listing and is that something that we refer
9 to when we're looking at who we -- or who -- maybe not us,
10 but whoever our company is, like that we use for building?

11 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: So
12 each manager keeps a list of both responsible contractors
13 and, you know, non-responsible contractors. If there's a
14 specific instance, it would be helpful for me to
15 understand what specifically the issue was. I know there
16 was one instance with a manager that CalPERS does use,
17 where an accusation was made that they did exactly what
18 you're saying. I did look into that issue and CalPERS is
19 not anyway invested in the property.

20 We've had other issues like that that have been
21 brought to our attention. And I can assure you that we --
22 you know, very -- we take them very seriously, and we, as
23 quickly as possible, look into the concerns of labor
24 leaders. So anyone who has concerns like that, I would
25 encourage them to reach out directly to us. I'm unaware

1 of any situation where we were not able to resolve it upon
2 talking to both labor and the manager.

3 VICE CHAIRPERSON TAYLOR: And I appreciate that.
4 I do know you do listen to that. Thank you very much.
5 I -- it seemed like it's something that we can mitigate it
6 before that, because these -- these companies -- these
7 buildings companies, unfortunately, a lot of times are in
8 violation of a lot of our requirements and sometimes even
9 worse, right? Sometimes, even just labor law in general
10 or safety laws -- health and safety laws.

11 And like I said, they either stopped doing
12 business under that name, started up under another name,
13 or -- somehow or another, they get their recertification
14 under RCP. And I don't know how that happens. I'm just
15 wondering if we have a way to mitigate that as we --
16 moving forward.

17 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: We
18 have a 24-month look-back, which is part of our
19 certification. And it does specifically speak not just to
20 the company, but also to the officers. In one instance,
21 there was a company that labor leaders let us know there
22 was a violation. There was actually more than one company
23 that they claimed there were violations.

24 In one of them, we found there to be no --
25 thoroughly research it, we did not find there to be any

1 violations and the manager moved forward.

2 On the other one, there was approximately a
3 million dollars in fines and back wages. And the manager
4 found that to not be a responsible contractor. And they
5 lied on their certification and they did not move forward
6 with that --

7 VICE CHAIRPERSON TAYLOR: With that manager.

8 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG:

9 -- particular manager.

10 So, you know, as I said, any of these particular
11 instances, we're happy to handle them. Sometimes in
12 looking at them thoroughly, we find that there's
13 credibility, and that the evidence that the contractor is
14 not responsible. In other instances, they are.

15 VICE CHAIRPERSON TAYLOR: It's not. Yeah. Yeah.
16 Okay. Great.

17 Again, Ms. Fong, Ms. Simpson, Mr. Mouchakkaa, Mr.
18 Meng, thank you for pulling these out for us and letting
19 us highlight these. And again, great report. Thank you
20 so much.

21 CHAIRPERSON FECKNER: Thank you.

22 Ms. Olivares.

23 COMMITTEE MEMBER OLIVARES: Thank you, Carrie. I
24 had a quick question for you. I'm trying to understand
25 how the RCP impacts risk mitigation and value retention

1 within our portfolio?

2 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG:

3 That's a great question. I think that, you know,
4 as early as 1992, the Board made it clear that we didn't
5 want to be using substandard labor. And there are --
6 there are real estate investors who pull people off street
7 corners. We felt it was important to be using responsible
8 labor, both because that ensures that you've got a good
9 product. And in terms of services, it ensures that the
10 service personnel in your building are providing
11 appropriate services. One specific example I'll give is
12 that when we move to neutrality with services, we found
13 that janitorial service -- the people who -- the janitors
14 were staying longer than they had under the prior system.

15 So, you know, a very specific example is we make
16 a change in the policy. The wages for janitors go up
17 slightly at our properties, and they discover that in
18 that -- doing that, the janitors are staying. Instead of
19 six months, they're staying a year, 18 months.

20 And the -- what they found in doing that is that
21 the tenants were actually much happier with the
22 janitorial services they were receiving. So that would be
23 a very specific example of how the policy had benefited.
24 And, Paul, do you have anything to add?

25 MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Good

1 morning. Paul Mouchakkaa, CalPERS staff.

2 Yeah. Our core real estate portfolio is circa
3 \$29 billion of equity. And much like you would -- and we
4 look to hold those assets over a long period of time
5 through a business cycle at least. And much like you
6 would protect the value of your own home by hiring, you
7 know, an appropriate contractor to do whatever work, it
8 applies that same type of principle that you want the best
9 possible labor or the best quality of work, but being
10 mindful of your bottom line.

11 And what the Responsible Contractor Policy does,
12 I don't think only attempts to do, but really has been
13 proven out in its history, is to really find that balance
14 between managing the bottom line, and at the same time
15 protecting the assets for the long term, and ensuring that
16 we're applying appropriate labor practices, hiring
17 high-quality laborers to do the work that's necessary, and
18 really to protect the asset for the long term.

19 COMMITTEE MEMBER OLIVARES: Thank you.

20 CHAIRPERSON FECKNER: Mr. Jones.

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

23 Yeah, Ms. Douglas-Fong, I just wanted to thank
24 you for your work in regard to the RCP Policy, because I
25 know a decade ago, we were getting some complaints. And

1 you were very -- working on it expeditiously, responding
2 to those complaints, and ironing out their concerns, and
3 bringing the -- the eight -- the firms into compliance.
4 And so just looking at the data, 14 out of the 15
5 companies are 100 percent in compliance and I think that's
6 a good reflection of what has occurred. And also, in
7 terms of the value of our portfolio during that same
8 decade has gone up over \$10 billion. So there is a
9 correlation to good practices and growth in value. So I
10 just wanted to appreciate -- let you know that we
11 appreciate the work you've done in this regard.

12 CHAIRPERSON FECKNER: Thank you.

13 I do have some requests to speak from the
14 audience. Three of you. I'll call you all down.

15 Michael Ring, Carolina Rocha, and Andrew Gaitan.
16 You'll have up to three minutes for your comments. And
17 please identify yourself for the record.

18 MR. RING: Good morning, Mr. Chairman, members of
19 the Committee. Happy Holidays. Michael Ring with Service
20 Employees International Union. I'm here today with SEIU
21 USWW member Carolina Rocha, SEIU USWW Vice President
22 Andrew Gross Gaitan behind me. And two more USWW members,
23 Julia Velez and Maria Elena Delgado. Julia and Maria
24 Elena have cleaned the CalPERS headquarters for many
25 years. In Maria Elena's case for 17 years she's kept this

1 building running and clean.

2 We wanted to share some brief comments with you
3 today with regard to the Responsible Contractor Program
4 and also share some details about newly passed legislation
5 this fall, AB 547.

6 And we believe -- AB 547 is legislation, which
7 calls for important changes in the process of ensuring
8 that all janitors in the State of California receive
9 adequate training to prevent sexual harassment and sexual
10 violence in the janitorial industry in California, which
11 we believe is a critical risk mitigation factor for
12 CalPERS in its portfolio.

13 Carolina and Andrew will share the details around
14 AB 547. So let me focus my comments on the Responsible
15 Contractor Program. And first of all, let me join Mr.
16 Jones in thanking Ms. Douglas-Fong for her excellent work.
17 She puts up with me and lot of other folks in the labor
18 community in working with us to ensure that your buildings
19 are both built in a responsible manner, and serviced, and
20 cleaned, and securitized in a manner that is to the
21 benefit of all CalPERS Beneficiaries and to the workforce
22 that ensures the building's value over the long haul.

23 As an organization that represents over 200,000
24 members in the CalPERS system and tens of thousands of
25 workers across North America who provide first class

1 service, both janitorial and security, and other services
2 in buildings across the continent, SEIU sees this as a
3 model program and has always understood that CalPERS was a
4 leader in the investment industry in understanding that
5 responsible contracting is critical to human capital
6 management risk. Excuse me.

7 We appreciate CalPERS' leadership in this regard.
8 And we believe that it facilitates a long-term sustainable
9 business model that works for workers and investors. So
10 thank you very much for the opportunity to address the
11 Committee.

12 And with that, I will turn it over to Carolina.
13 And just a logistical issue for you to note, Mr. Chair, is
14 that Carolina will be speaking in Spanish, so Andrew will
15 be translating for her.

16 Thank you very much.

17 MS. ROCHA(through interpreter): Good morning.
18 My name is Carolina Rocha. I've been working in the
19 janitorial industry for 21 years. I'm part of the
20 Executive Board of SEIU United Service Workers West, which
21 represents some 25,000 janitors statewide. I've also been
22 trained in sexual harassment violence prevention at the Ya
23 Basta Center.

24 A hundred of my co-workers and myself have
25 completed over 80 hours of training to be able to receive

1 our certificate as sexual harassment trainers in order to
2 be able to train our co-workers in the janitorial industry
3 about sexual abuse and sexual harassment. We worked very
4 hard to get AB 547 passed this year. That's a law which
5 will allow us to begin to change the culture in this
6 industry.

7 Under that law, janitors who are survivors of
8 sexual assault will be able to be trained as teachers to
9 be able to train our co-workers about this issue. And
10 that way we're the center of the solution to this problem
11 in helping our co-workers understand the rights and how to
12 report what happens.

13 We want to thank CalPERS for being an owner in
14 the industry that is helping to change this issue. Your
15 belief in the power of the janitors has helped us to take
16 measures to combat sexual assault in the buildings. By
17 supporting these programs, like the responsible
18 contracting, CalPERS is sending a message that sexual
19 violence will not be tolerated in its buildings. And
20 together, we can work to make sure that the buildings will
21 be dignified workplaces where sexual violence will not be
22 tolerated.

23 Thank you.

24 CHAIRPERSON FECKNER: Thank you very much.

25 Andrew, did you have anything you wanted to add?

1 MR. GAITAN: Yes, I did.

2 CHAIRPERSON FECKNER: Okay.

3 MR. GAITAN: So as Michael said, I'm the Regional
4 Vice President for SEIU United Service Workers West. We
5 do represent some 25,000 unionized janitors in California.
6 Our mission has never been just to improve the conditions
7 for the workers with the union. There are over 130,000
8 workers in California whose employers at least report
9 payroll taxes to EDD. There's an untold number who are
10 working in the underground economy, who are paid in cash.
11 And it is also an industry that's rife with human
12 trafficking.

13 So what we have done as a union, and CalPERS has
14 over the years been very supportive, is try to look at
15 changing the legislative situation for the entire
16 industry, beginning with the issue of wage theft, which
17 is -- the janitorial industry is one of the worst in the
18 State, if not the country, for wage theft.

19 And what I mean by that is workers who come to
20 work and not paid -- are not paid for all the hours they
21 work, who work through their lunches and breaks, who work
22 overtime and are simply told that overtime is not allowed,
23 or who come to the buildings with their family and perhaps
24 one person might be on payroll, but the children who are
25 coming are not.

1 What we have done to deal with the very issue
2 that Ms. Taylor referenced is -- it's well known in this
3 industry when employers finally get judgments against them
4 for wage theft, they simply change names and enter into
5 the market as a new employer.

6 What we have done in SB 588, which was passed in
7 2015 is to make sure that the liability for wage theft
8 follows not only the janitorial contractor and the
9 individual owners of those companies, but also the owners
10 of the buildings whose -- whose -- whose offices the
11 janitors are cleaning. And when we speak to the issue of
12 financial responsibility and the importance of the
13 responsible contracting standard, it is currently
14 California law that the owners of real estate in
15 California can be held joint and severally liable for wage
16 theft in their buildings.

17 Sexual harassment and sexual violence is also
18 endemic in this industry. If you haven't seen it, I'd
19 encourage all of you to take a look at the PBS Frontline
20 special called *Rape on the Night Shift*, which features
21 countless women who have been subject to sexual violence
22 in the industry. It's a -- it's a perfect set-up for
23 sexual violence. It's a heavily immigrant industry,
24 primarily male supervisors, primarily women workers, and
25 generally working alone at night where there's no one to

1 see what happens.

2 We also know it's an industry that has a
3 tremendous number of undocumented workers who are subject
4 to all kinds of intimidation, because of their immigration
5 status.

6 And what we have found in terms of CalPERS' role
7 and the impact of the Responsible Contracting Policy, as
8 we've organized this industry in California over the last
9 30 years, we've been able to bring health care as a norm,
10 at least among the 25,000 who are unionized. So there are
11 literally hundreds of thousands of children in California
12 who have health care, because of the rippled effect of
13 CalPERS' policies.

14 To have an institutional investor of CalPERS size
15 be the role model for all the major real estate entities
16 in whom you invest and state that the quality of life and
17 respect for human rights of the workers who clean their
18 buildings is a substantial investment priority, has had an
19 effect, which as I said, has been able to bring health
20 care to hundreds of thousands of children in California.

21 And, you know, the impact on longevity --

22 CHAIRPERSON FECKNER: Your time is up.

23 MR. GAITAN: -- is very clear. CalPERS in 2003
24 when the janitors strike --

25 CHAIRPERSON FECKNER: Can you please come to an

1 end. Your time is up.

2 MR. GAITAN: Okay. When the janitors in
3 Sacramento struck, CalPERS was an essential ally in
4 telling the real estate owners that it did matter that
5 they used responsible contractors. Carolina was one of
6 those strikers and has been in the industry for 21 years.
7 And she has any number of colleagues here in this city who
8 have stayed in the industry for 15, 20, 25 years, because
9 of the health care.

10 So I would like to express our appreciation to
11 CalPERS for taking this leadership role. There are many
12 other industries affected by the -- your contracting
13 policies, but the janitorial industry is certainly one of
14 the industries that has benefited the most, not only the
15 workers in the buildings, but also their families.

16 So thank you.

17 CHAIRPERSON FECKNER: Thank you very much. Thank
18 you all for being here today.

19 That brings us to Item 7, Mr. Meng.

20 CHIEF INVESTMENT OFFICER MENG: Yes. Mr. Chair,
21 Item 7 is action item, which is the second reading of the
22 Investment Policy revision of our private assets.

23 So with that, I'll turn it over to my colleague
24 Kit.

25 INVESTMENT DIRECTOR CROCKER: Thank you and good

1 morning. Kit Crocker, CalPERS staff.

2 Item 7a is a second reading of staff's proposed
3 updates to the Private Equity and Real Assets Program
4 policies arising out of this year's annual review.

5 For private equity, we're proposing refinements
6 to the definition of customized investment account to
7 afford staff sufficient latitude in selecting the best
8 partner for these specialized accounts.

9 For real assets, the two primary changes are
10 expressing the Managing Investment Director's fiscal year
11 limits at the program, that is to say real assets level
12 instead of at the portfolio level, and also relocating the
13 program-specific leverage constraints to the policy
14 related procedures.

15 And this is consistent with the centralization of
16 leverage management at the total fund level that has been
17 discussed here numerous times before.

18 Since the first reading in November, the only
19 change you'll see today is a proposed rewording of the new
20 definition of customized investment account in response to
21 Board feedback at the November Investment Committee
22 meeting.

23 And just as a reminder, regarding two of the
24 proposed strike-outs, the duty to report policy violations
25 to this Committee is now contained in one overarching

1 all-encompassing statement in the Total Fund Investment
2 Policy.

3 So since this is a second reading, we're seeking
4 action by the Committee. And I'll pause there and ask if
5 there are any questions or comments and also invite
6 Wilshire and Meketa to comment.

7 Thank you.

8 CHAIRPERSON FECKNER: Thank you.

9 Ms. Yee.

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

11 I guess I'm still troubled by this and I'm just trying to
12 understand this a little bit better. And so the
13 customized investment account definition. And the
14 revision is intended to hopefully give us more flexibility
15 and to provide a larger pool of potential private equity
16 investments. I get the goal.

17 But I guess I'm curious as to how you would weigh
18 a general partner's track record under the proposed
19 revisions. So if there's a disagreement, let's say,
20 between staff and the consultant providing a prudent
21 person opinion on the customized investment account, how
22 would that get resolved? I am still kind of just trying
23 to see this in practice and how this would work.

24 INVESTMENT DIRECTOR CROCKER: Okay. And I may
25 want to invite someone from private equity up or perhaps

1 from Wilshire. But it's my understanding that we simply
2 don't want to tie staff's hands, since the prior
3 definition was too limited in terms of the factors staff
4 could take into account. And track record is necessarily
5 backwards looking not forward looking. And there could be
6 other factors in -- that would dictate a different -- a
7 different answer than if you're narrowly bound by that
8 former definition.

9 COMMITTEE MEMBER YEE: Okay. I understand that.
10 And I guess with respect to private equity, I would
11 imagine that we're going to be engaging with probably a
12 number of new managers, since I'm -- I guess I just found
13 that -- the definition to be, I guess, weakened rather
14 than strengthened, even though I understand what the goal
15 is. So that's -- I'm having a hard time reconciling.

16 INVESTMENT DIRECTOR CROCKER: Yeah. And the goal
17 is certainly not to weaken it. It is to give staff the
18 latitude that they need to make the correct decision,
19 because picking the best partner is perhaps a more subtle
20 decision than was reflected in the prior definition.

21 COMMITTEE MEMBER YEE: Okay. So I guess maybe
22 back to the question of how -- if there is a conflict or
23 disagreement between staff and the consultant providing
24 the prudent person opinion on a customized investment
25 account, how would that get resolved.

1 INVESTMENT DIRECTOR CROCKER: I would say
2 typically we don't proceed, but, Ben.

3 CHIEF INVESTMENT OFFICER MENG: If I may.

4 COMMITTEE MEMBER YEE: Yeah.

5 INVESTMENT DIRECTOR CROCKER: So I see two
6 questions in your question. For one, in terms of the
7 historical performance track record, it is known that in
8 private markets that depending on which database you use
9 and which time period, you can get quite different
10 results. So when you're looking at the -- and also when
11 you look at the past performance, the reason the past
12 performance may be relevant is only in the sense that it
13 may help us to predict the future performance.

14 So instead of just looking at the numbers, which
15 is imperfect, because we don't have all the -- no one --
16 no index provider has all the data, like in the public
17 market. When the team underwrite managers, we'll look for
18 what are the driving factors behind the past performance,
19 is that the people, or investment philosophy, or their
20 investment processes, or the better alignment of interest,
21 so we can go beyond the past performance because of the
22 limitation of past performance.

23 And the more important you ask is whether these
24 people, the same people, same skills still preside with
25 the firm. And then you ask the question are they still

1 the right skills for the future? It could be the right
2 people, right skill for the past to be successful. So
3 it's much more than just looking at the past performance.
4 So that's the first question.

5 The second one you're asking if there's a
6 difference between the staff and consultants? For one, we
7 try to resolve all the difference between the staff and
8 the consultants. And for that, I'm very happy to report
9 that the staff has very constructive working relationship
10 with the private equity -- private asset consultants, as
11 well as the general pension consultants.

12 And it -- in my recollection, it did happen in
13 the past. There were rare occasions the staff and the
14 prudent person opinion disagreed. And I believe in that
15 case, we brought all the case to the Board, to this body,
16 and we have a full discussion and then make a decision
17 together.

18 So it's not -- how do you say? It's not required
19 for the consultant staff to be on the same page all the
20 time.

21 COMMITTEE MEMBER YEE: Right.

22 CHIEF INVESTMENT OFFICER MENG: We challenge each
23 other all the time. We learn from each other all the
24 time. But when there's a disagreement, definitely brings
25 to this Investment Committee.

1 COMMITTEE MEMBER YEE: Okay. All right. So that
2 process wouldn't change. So potentially, we could see
3 some of those disagreements come before us, should it
4 arise in the future?

5 CHIEF INVESTMENT OFFICER MENG: Correct. That's
6 my understanding.

7 INVESTMENT DIRECTOR CROCKER: Correct, that
8 process would not change.

9 COMMITTEE MEMBER YEE: Okay. And that's helpful
10 with respect to looking at track record, because I think
11 in my own head, I was thinking about -- if we're talking
12 about existing managers, the fact that we have a lot of
13 dry powder out there, you know, just like what are the
14 considerations? And so obviously, I mean, I don't want to
15 hamper staff's flexibility. But at the same time, I want
16 to be sure that what we're looking at relative to track
17 record is something that will be helpful.

18 CHIEF INVESTMENT OFFICER MENG: Correct.
19 Exactly. We are trying to look beyond the track record,
20 because of the limitation of the track record.

21 COMMITTEE MEMBER YEE: Okay. Thank you.

22 CHAIRPERSON FECKNER: Mr. Ruiz, anything you want
23 to add?

24 MANAGING INVESTMENT DIRECTOR RUIZ: No.

25 CHAIRPERSON FECKNER: Okay. Ms. Brown.

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

2 I can't -- I have a question for you again on the
3 removal of the language in the specific sections and going
4 to the overall -- the overarching policy. I want to make
5 sure that, one, the wording has not changed at all. And
6 two, before when there was a violation, it would come to
7 the next meeting. But now those meetings are quarterly.
8 And so I'm wondering if the Board is going to be notified
9 in advance of that quarterly meeting or what if that
10 violation or issue was collected, will we hear about it at
11 all?

12 INVESTMENT DIRECTOR CROCKER: Well, to answer
13 that last question first, definitely. I mean, frequently,
14 these violations have been corrected, I would hope more
15 typically, by the time they get here.

16 COMMITTEE MEMBER BROWN: Right.

17 INVESTMENT DIRECTOR CROCKER: And we -- I had at
18 least assumed that they would be collected and presented
19 quarterly. That's certainly open to -- you know, we don't
20 have to do it that way. It's open to what the Board would
21 like -- would like to see done. Certainly, in open
22 meeting, we would have to do them quarterly, but there
23 might be another way to share them in the interim.

24 And then in terms of is it identical language? I
25 think so, except that we -- we -- the existing program

1 level language refers to problems, concerns, and policy
2 violations. And we collapsed -- we didn't see the
3 difference between problems and concerns. So we did
4 collapse that for the sake of some economy. And just in
5 the overarching statement in the total fund, it refers, I
6 believe, to just problems, instead of problems and
7 concerns.

8 COMMITTEE MEMBER BROWN: But they're the same to
9 us.

10 INVESTMENT DIRECTOR CROCKER: It is supposed to
11 be substantively identical.

12 COMMITTEE MEMBER BROWN: Great. Thank you.

13 INVESTMENT DIRECTOR CROCKER: You're welcome.

14 COMMITTEE MEMBER BROWN: And then I had a
15 question for -- I guess, maybe it's for Meketa. I was
16 reading the opinion that -- that's attached to this. And
17 what I read was -- I'm on 7A, attachment 7. I don't know
18 if I'm on the right page -- right spot. But one of the
19 Stevens wrote, "If adopted, the proposed changes to the
20 policy would provide staff with an expanded set of
21 potential CIA sponsors to choose from and thereby increase
22 staff's ability to select attractive appropriately
23 experienced managers to partner with".

24 So have we been -- are there specific examples of
25 when we haven't been able to partner with someone, because

1 they didn't meet the policy? Do you know of specific
2 examples? I mean, I know we might -- I don't want to go
3 into anything closed session, but just generally. Because
4 we're expanding this policy, so I want to make sure that
5 we were -- we're expanding it for a specific reason.

6 CHIEF INVESTMENT OFFICER MENG: I believe so.
7 But again, I do point out let me find out the names, and
8 then hopefully we can bring it back in closed session this
9 afternoon.

10 COMMITTEE MEMBER BROWN: Yeah, I just want to
11 make sure as we -- that there's a specific reason for
12 expanding and broadening this policy, especially when we
13 talk about the experience of the managers, because before
14 it said they had to have like specific experience. I
15 can't get -- can you help me with that terminology? Now,
16 we're saying appropriately experienced. I'm trying to
17 understand the difference between the two.

18 MR. HARTT: So what is specifically your
19 question, whether there's ever been --

20 COMMITTEE MEMBER BROWN: It's two parts.

21 MR. HARTT: And investment approved that was not
22 appropriate? I'm trying to understand exactly.

23 COMMITTEE MEMBER BROWN: No. Like, we had a
24 deal, but we couldn't -- we had a -- we had a potential,
25 but we couldn't do it because it didn't meet this

1 definition.

2 MR. HARTT: Well, recall -- so the answer is no.
3 And what was the situation previously, it had to be --
4 meet the top quartile definition. And that was a very
5 limited set of opportunities. And there's been relatively
6 few customized investment accounts over the last couple of
7 years.

8 COMMITTEE MEMBER BROWN: And then the second part
9 about the appropriately experienced. Are we changing the
10 definition of experience for those CIAs?

11 MR. HARTT: So that -- if I recall the
12 definition, at the November meeting, there was a
13 suggestion that the language that was provided in that --
14 in that draft was a little too loose.

15 COMMITTEE MEMBER BROWN: Liberal.

16 MR. HARTT: And that as a -- as a suggestion,
17 staff has proposed the word "appropriate", and trying to
18 capture some of the nuances there and having the staff --
19 having the manager have some connection to the strategy,
20 right? Trying to give some comfort there that the -- the
21 track record, the staff capabilities of the manager are
22 reflected of what this customized investment account would
23 be going forward to use the word "appropriate" was
24 selected to try to be the adjective to put on there.

25 COMMITTEE MEMBER BROWN: And as our consultant,

1 you agree that that's appropriate?

2 (Laughter.)

3 MR. HARTT: Yes, I think it's appropriate.

4 COMMITTEE MEMBER BROWN: Okay. Thank you.

5 CHAIRPERSON FECKNER: Than you.

6 Mr. Jones.

7 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
8 Chair. Yeah, a couple questions. On the prudent person
9 opinion, when there's a disagreement, you indicated that
10 it would be presented back to the Board. But I also would
11 like to not only have it presented to the Board, but also
12 the firm that's providing the prudent person opinion be
13 also before the Board to talk about their disagreements.
14 So if we could add that to the process, I think it would
15 be helpful.

16 The other comment is this -- just a second here.
17 Oh, the -- and maybe -- the way I'm reading it perhaps is
18 incorrect, but I would like for you to explain it,
19 where -- while I recognize that backwards looking does not
20 always predict success going forward. But here, you're
21 saying that the top quartile is almost like eliminated
22 from going forward. But you have to also always look and
23 see what happened in the past. So I'd just like you to
24 expand on your letter there, Meketa, about the backwards
25 looking at the top quartile.

1 MR. HARTT: Because the prior definition before
2 these amendments had the criteria that the manager had to
3 have a top quartile track record in order to be
4 considered, my point was that -- and I think the staff's
5 point is too is to have a more expanded set of
6 opportunities to look from. And that while track record
7 is a very important component to assessing the GP or the
8 manager's potential ability to deliver strong returns, it
9 shouldn't be the only one, because it -- it does elim --
10 it does restrict that set of opportunities.

11 And that by choosing a criteria that is backward
12 looking, that doesn't incorporate a number of the
13 considerations that Ben was talking about just a moment
14 ago, that -- with the idea of having a broader investment
15 set to choose from to not include that -- not to limit the
16 universe, because of backwards-looking criteria.

17 COMMITTEE MEMBER JONES: Okay. Thank you.

18 Mr. Chair, with that, I'll move approval of the
19 private equity class program policy revisions.

20 CHAIRPERSON FECKNER: All right. It's been moved
21 by Jones.

22 Is there a second?

23 VICE CHAIRPERSON TAYLOR: Second.

24 CHAIRPERSON FECKNER: Seconded by Taylor.

25 Ms. Olivares.

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

2 I had a question too of getting back to the
3 definition of customized investment account. It seems
4 like there's questions about the term "appropriate"
5 really, and what that means. And this is to Meketa. Are
6 there other adjectives we could consider there, such as
7 "leading" or something else that would speak to the
8 potential performance, so that -- because appropriate is
9 very vague.

10 MR. HARTT: As this item was being reviewed, and
11 we were discussing it with staff, we had some discussion
12 about what's the right adjective to use here. And we
13 thought that having an adjective that does tie the -- the
14 kind of experience that a manager has with what the
15 forward strategy of the custom investment -- customized
16 investment account makes sense. But again, with the idea
17 of trying to give staff as much latitude as possible to
18 look at things, and recognizing that staff will look to
19 try to get, you know, strong managers. That's what they
20 are looking to try to do as they're executing on the
21 program, as well as the PPO opinion being included as the
22 entire package. So having that additional set of eyes and
23 that that provider of the opinion would also be making
24 that fiduciary statement to go along with it.

25 I think as a package overall, it was -- it was --

1 it works for us. Could we spend a lot of time figuring
2 out other words and then not really understanding what in
3 practice it probably means, we could maybe spend some more
4 time on it. But I think that at the end of the day, it's
5 getting to the point where I think overall it's a package
6 that will hopefully provide a strong set of investment
7 opportunities for the CalPERS staff to choose from.

8 COMMITTEE MEMBER OLIVARES: Has the term
9 "appropriate" been defined anywhere in this language, such
10 as commensurate with the size and the obligations of the
11 fund and the performance targets, anything like that?

12 INVESTMENT DIRECTOR CROCKER: Actually, if I --
13 if I may. You know, the drafting choice we were faced
14 with was to either expand the list of characteristics of
15 experience -- types of experience that we see here and
16 then risk maybe omitting something that should have been
17 in the list, or to say basically appropriate to the
18 particular investment, because we cannot foresee exactly
19 what sort of investment opportunities we're going to be
20 looking at --

21 COMMITTEE MEMBER OLIVARES: Right, I understand
22 that.

23 INVESTMENT DIRECTOR CROCKER: -- with one of
24 these vehicles. So the choice of the word "appropriate",
25 I would urge that we just allow it to have its ordinary

1 English meaning, which means -- you know, and recognizing
2 that we're always looking to optimize returns. And
3 especially in this asset class, we have high expectations.
4 So it's really -- "appropriate" is not intended to
5 replace -- I think maybe we're focusing that as replacing
6 the top quartile return track record. And it's really the
7 whole basket of, you know, should we be looking to -- for
8 more expertise in terms of geographic -- geography of a
9 particular investment, or type of industry, or what other
10 bucket of experience might apply.

11 So that's why we settled on "appropriate" as
12 basically -- it was really meant to address the perceived
13 deficiencies, the comments we got in November, where we
14 had eliminated the specific attributes and not basically
15 said something that tied, however, the types of experience
16 to the particular investment opportunity. So
17 "appropriate" to me actually seems like the best -- the
18 best designed word to basically say this is something that
19 in light of this investment opportunity is what we want in
20 a manager.

21 COMMITTEE MEMBER OLIVARES: To my knowledge,
22 "appropriate" isn't a common financial term, so I'm just
23 not used to seeing it in this context. I'm used to seeing
24 something like "prudent". Although I don't know that
25 prudent and private equity always go hand-in-hand. And so

1 I'm just trying to understand how this term could be
2 interpreted, and if there was some type of definition
3 around that, or some -- about the meaning of this and then
4 intent of that word, I think that would be helpful,
5 because "appropriate" is pretty vague.

6 MR. HARTT: We could spend some time with staff
7 to try to come up with some additional definition. But I
8 think that, as Ben described, it's hard to foresee all of
9 the conditions that one might need to think about in the
10 future, and also as Ms. Crocker had mentioned, in some
11 cases, might look for someone's industry expertise, in
12 other cases it might be geographic --

13 COMMITTEE MEMBER OLIVARES: Sure.

14 MR. HARTT: -- and there's different sorts of
15 criteria that might be, at the end of the day, appropriate
16 for the particular customized investment account. So it's
17 a bit of a, you know, challenge. We're trying to make
18 sure that there is appropriate consideration done by staff
19 in coming up with the investment opportunity, but also,
20 that the PPO is there that eventually has a third party
21 that's saying that it is a prudent investment.

22 COMMITTEE MEMBER OLIVARES: There are terms like
23 "suitable". I mean, there are other things that have been
24 used. I'm just -- I'm just surprised that we're using
25 financial term -- this isn't typical financial

1 terminology, and it has a pretty big impact.

2 But I also had another question. And this was
3 about -- is this Attachment 1? And this was on the
4 reporting frequency. So it's 7a, Attachment 1, page four.
5 And it's on the monthly reporting on the investment
6 proposals received.

7 CHIEF INVESTMENT OFFICER MENG: Sorry. What was
8 the question?

9 COMMITTEE MEMBER OLIVARES: So it says staff
10 shall report regarding investment proposals it has
11 received on a monthly basis. Is -- that seems very
12 frequent. Is there a reason why we're not going to do
13 that quarterly to align with the Investment Committee
14 meetings?

15 CHIEF INVESTMENT OFFICER MENG: I would think
16 that's a typo. It should be quarterly, given that we're
17 moving to quarterly Investment Committee meeting next
18 year.

19 INVESTMENT DIRECTOR CROCKER: And now might
20 actually be a good time to point out that we are, in fact,
21 completing the integration of our investment policies.
22 We've sort of come full circle or rather completed the
23 journey almost to a total fund view. So the program
24 policies are actually a relic of a past sort of legacy,
25 when the -- you know, before we had the total one fund

1 view.

2 And now, going forward, we're going to be looking
3 to be integrate into one Total Fund Policy. So that, in
4 light of the new quarterly meetings, appreciate pointing
5 that out, because I think that should probably go to
6 quarterly.

7 COMMITTEE MEMBER OLIVARES: And on the item below
8 it on the consultant reporting, right now that's on -- no
9 less than annually in this document. Is that -- is it
10 possible for that to be made quarterly?

11 INVESTMENT DIRECTOR CROCKER: That certainly
12 could be quarterly.

13 COMMITTEE MEMBER OLIVARES: Thank you.

14 CHAIRPERSON FECKNER: Anything else, Ms.
15 Olivares?

16 COMMITTEE MEMBER OLIVARES: No, thank you.

17 CHAIRPERSON FECKNER: Ms. Taylor.

18 VICE CHAIRPERSON TAYLOR: Yeah. I'm wondering if
19 maybe we should make it a Chair request to review the
20 terminology that Ms. Olivares and Ms. Brown were talking
21 about. If it's not typical financial terminology, I don't
22 see a reason we can't change that. So I'm wondering if
23 the Chair would like to make a stance on that.

24 CHAIRPERSON FECKNER: That's fine with me. I'd
25 be happy to look at it with staff. I also don't want us

1 to get too deep into the weeds on just wording. I mean,
2 we certainly employ our staff to do a job. And I think
3 that we can rely on you to do so. But again, if we find
4 some words that are more compatible, I think it's
5 appropriate.

6 Come on. Come on. It was good.

7 (Laughter.)

8 INVESTMENT DIRECTOR CROCKER: Thank yo.

9 CHIEF INVESTMENT OFFICER MENG: So Kit and I was
10 talking. Actually, the word "suitable" is appropriate for
11 this purpose.

12 (Laughter.)

13 CHAIRPERSON FECKNER: All right. Any other
14 discussion on the motion?

15 Motion being before you.

16 All in favor say aye?

17 (Ayes.)

18 CHAIRPERSON FECKNER: Opposed, no?

19 Motion carries. Thank you.

20 Bring us to Agenda Item 8, the information item,
21 consultant review of the investments.

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

24 CHIEF INVESTMENT OFFICER MENG: Yes. So, yeah,
25 this is consultant review on CalPERS divestments. And it

1 will be by our consultant Wilshire.

2 MR. INGRAM: I'm sorry. I'm pressing the wrong
3 one there. Good morning. Daniel --

4 CHAIRPERSON FECKNER: Before you begin. I just
5 noticed that we're almost to the court reporter's break.
6 So let's take ten minutes and then we'll be begin at
7 11:05.

8 (Off record: 10:56 a.m.)

9 (Thereupon a recess was taken.)

10 (On record: 11:06 a.m.)

11 CHAIRPERSON FECKNER: If we'd all please take our
12 seats. We'd like to get back to our agenda.

13 All right. We're back on Item 8a. Wilshire,
14 please.

15 MR. INGRAM: Good morning. Daniel Ingram from
16 Wilshire Consulting, here to present Wilshire's annual
17 analysis of the CalPERS active divestment activities
18 through to June 30, 2019. For the benefit of some of the
19 newer members of the Committee, we thought it might be
20 helpful just to provide a bit of context to our divestment
21 analysis. There was a bit of discussion in March about
22 what the scope of this analysis is. And we just thought
23 it would be important to reiterate this is really just
24 about understanding the financial impact, the gains and
25 losses from CalPERS' divestment programs. It doesn't

1 represent a judgment of whether to remain divested or not.
2 That happens now on a five-year cycle, when each
3 divestment program is reaffirmed. That's a much deeper
4 dive into each of the different divestment programs.

5 This is really an annual exercise, sort of a
6 forensic measurement, as it were of the different
7 programs. So by way of reminder the six divestment
8 programs, tobacco, firearms, coal, Iran/Sudan, and
9 emerging market principles.

10 We include the two inactive programs, South
11 Africa and emerging market countries, just to illustrate
12 what the present value of the impact of those programs is.
13 They're not impacting the PERF today.

14 So really we just wanted to step you through as
15 we did in March.

16 --o0o--

17 MR. INGRAM: We thought it would be helpful to
18 look at the next slide, which is an illustrative example
19 of the methodology we use. I won't go into this in too
20 much detail, because I think most of you were there when
21 Steve Foresti updated you on this.

22 But really the idea is just to show you -- you
23 know, to be able to track the divested dollars. And so
24 you can see from this illustrative example how divested
25 assets are reinvested elsewhere in the portfolio. So you

1 see a very simple portfolio here for securities, security
2 A, B, C, and then the restricted security. That could be
3 in any one of the divested programs.

4 The four securities here A, \$45, \$27 in security
5 B, \$18 in C, and 10 in D. And as we work across, the idea
6 is to show you when we look at the unconstrained
7 benchmark, that's the benchmark with the restricted or
8 divested securities in the benchmark, we then divest from
9 the restricted security. So if you track that on the
10 bottom line, you track the restricted security, there is a
11 cost from divesting from that security in the form of a
12 trading cost.

13 And then the key point here is you follow further
14 along to the constrained benchmark. This is the divested
15 portfolio. The key point here to note is that the
16 divested security is redistributed equal to the weighting
17 of securities A, B, and C in the portfolio. I think we
18 spent some time on that last time. But I think it is
19 important to note that that's where the divested security
20 goes into the sort of relative weights of the other
21 securities in the portfolio.

22 I don't want spend too much time on this top
23 chart hopefully. But I can take you through it, if you
24 would find it helpful. With the specific numbers, I think
25 it's interesting probably more to look at the bottom

1 table, which shows the impact on -- in terms of dollars on
2 the portfolio.

3 So this is the returns of the constrained
4 portfolio. Over the period, you can see we've used a
5 hypothetical example 10.08 percent compared to the
6 unconstrained portfolio 10.02 percent. So in this
7 particular case, the divested portfolio outperforms by six
8 basis points. And then we take that across. There's a
9 little bit of rounding here. So rather than \$6, it comes
10 out as \$5.75 in terms of the dollar impact. So I think
11 the other key point that we wanted to make for the
12 example, which is very relevant to the -- how the
13 divestment programs have performed in this financial year,
14 is that as you bring forward the cumulative impact of the
15 divestment gains and losses, even if that divested
16 portfolio, or the constrained portfolio, is positive -- it
17 yields a positive return, the cumulative impact, like in
18 this example, can actually still be negative.

19 And that's actually the case when you look at
20 some of the inactive programs, which aren't impacting the
21 PERF today. As you bring them forward, they will
22 accumulate in line with the performance of the PERF. So
23 you can see that on the next slide.

24 So actually let me just pause there on the
25 example. I sort of rushed through it a little bit, but I

1 know some of you have heard this before. I don't know
2 whether it's more useful just to go into the specific
3 numbers of the divestment programs or whether it's helpful
4 to continue to talk about the hypothetical example.

5 CHAIRPERSON FECKNER: We have a couple of
6 questions. Let's see what we have.

7 Mr. Perez.

8 COMMITTEE MEMBER PEREZ: I had turned it off, but
9 I just wanted to make sure that these are -- A, B, and C
10 are just examples. They're not specific to stuff that we
11 actually have.

12 MR. INGRAM: That's right. Just any -- any
13 security A, B, C.

14 COMMITTEE MEMBER PEREZ: Okay.

15 CHAIRPERSON FECKNER: Thank you.

16 Ms. Taylor.

17 VICE CHAIRPERSON TAYLOR: And he can finish.

18 CHAIRPERSON FECKNER: She said go ahead and
19 finish.

20 --o0o--

21 MR. INGRAM: Okay. Good. So we present two main
22 slides. And then the appendix we include for information,
23 which is the longer back history of the different -- each
24 of the individual divestment programs. So there are two
25 slides here. The first is since the last affirmation, how

1 have each of the different divestment programs performed.
2 You can see here that just over \$2 billion of gain or 0.6
3 percent of the total PERF from the six divestment programs
4 since affirmation. Last year, this was about 1.5 billion,
5 or 0.4 percent, of the PERF for these six different
6 divestment programs.

7 --o0o--

8 MR. INGRAM: And this is the chart of the
9 divestment programs since inception, so it's a longer
10 history, particularly for tobacco, where the divestment
11 was initiated in 2001. So here for the active total, we
12 see a loss of \$2.269 billion, or 0.6 percent of the PERF.
13 So two different ways of presenting the financial impact,
14 gains and losses, of the different divestment programs.

15 And then as I said, the appendix contains just
16 each of the different divestment programs that -- their
17 back history and their cumulative impact.

18 CHAIRPERSON FECKNER: Thank you.

19 Ms. Taylor.

20 VICE CHAIRPERSON TAYLOR: Yes. Thank you, Mr.
21 Chair. Daniel, I don't usually see you for this part.
22 Aren't you our ESG guy?

23 MR. INGRAM: I'd like to think so. That's a good
24 way to be known.

25 (Laughter.)

1 VICE CHAIRPERSON TAYLOR: So I just wanted to go
2 back to the -- your little example, which I appreciate,
3 because it does help it explain it. I think we all get a
4 little confused. So when we take money out of whatever it
5 is, firearms, coal, tobacco, we invest it in the public
6 equities portfolio-wide, right? We just -- do we pick
7 like the top tier investments to put that money? How do
8 we -- how do we do that?

9 MR. INGRAM: There's no active security selection
10 choice made. There's a rebalancing or --

11 VICE CHAIRPERSON TAYLOR: So there's no money
12 weighted to go into, I don't know, Google or something
13 like that.

14 MR. INGRAM: Depending on the weighting of that
15 particular security in the benchmark. It would be
16 weighted. So if Google has a higher weighting in the
17 benchmark, then the higher proportion of that divested
18 security will be invested in that security --

19 VICE CHAIRPERSON TAYLOR: And we have --

20 MR. INGRAM: -- will be reinvested in that
21 security.

22 VICE CHAIRPERSON TAYLOR: We have 10,000
23 investments. And so we take however much money this was.
24 And I don't know how much money we're talking about. Say,
25 it's the -- I think you had -- is it 100 million here?

1 Yeah, \$100 million.

2 MR. INGRAM: This particular example I've --
3 Yeah, I think we said \$10,000 here.

4 VICE CHAIRPERSON TAYLOR: Is it?

5 MR. INGRAM: Much smaller than the AUM of --

6 VICE CHAIRPERSON TAYLOR: Oh, 10,000.

7 MR. INGRAM: -- of the PERF. We just used it as
8 an example.

9 VICE CHAIRPERSON TAYLOR: Right, which would be
10 really difficult to spread out all over the fund. So
11 that's what I was trying to figure out. So we're just
12 taking it out of one particular investment, spreading it
13 all over the fund. So we're not replacing it with
14 anything.

15 And then my other, I think, statement on this is
16 that for example tobacco, we are now losing money in.
17 It's been a 20-year divestment. It's awfully hard for us
18 to look at -- to me, it just seems silly to look at this
19 as a loss. I mean, I get what we're doing here. We're
20 saying, okay, these are the things we pulled out of. This
21 is how much money they've made every year that we could
22 have made, but we're already out of it. So I think it's
23 just -- it seems ridiculous to me to keep doing this.

24 But -- now the one that I -- or the one, two,
25 three, four EM principles, Sudan/Iran, firearms pending.

1 What is -- so you guys are still looking at the program
2 for affirmation. Is that what that means?

3 MR. INGRAM: Yeah. So I don't know whether Ben,
4 or Kit, or others want to comment on the cycle of
5 reaffirming. But you can see on that slide three that the
6 last affirmation was before my time was -- for tobacco
7 was -- I think that was December 2016. And then that
8 discussion -- and then it got sort of officially
9 reaffirmed Q1, 2017. So there's a --

10 VICE CHAIRPERSON TAYLOR: Okay. So we haven't
11 done these since the dates over here on the fourth
12 column --

13 MR. INGRAM: Right.

14 VICE CHAIRPERSON TAYLOR: -- is that correct?

15 MR. INGRAM: I think there's a discussion about
16 what the timetable for that is going forward.

17 CHIEF INVESTMENT OFFICER MENG: All right. So
18 Daniel's recollection was right. The last time it was
19 reaffirmed by this body was in 2016. At that time, we --
20 this Committee decided in five years, which is 2021, we'll
21 come back, do another deep dive of this topic.

22 But also, at the same time, in 2016, this
23 Committee decided that every year we come back with you a
24 high-level review, such as what Wilshire is doing now
25 today. But then every five years -- but in five years,

1 which is 2021, we do another deep dive of this topic.

2 VICE CHAIRPERSON TAYLOR: Okay. So it's -- so
3 what is EM principles? I don't even know what that is.

4 COMMITTEE MEMBER MILLER: Emerging markets.

5 VICE CHAIRPERSON TAYLOR: Oh, the emerging
6 markets. It says first quart -- estimates begin in
7 calendar quarter and it said first quarter 2008. So we
8 haven't looked at that since then?

9 CHAIRPERSON FECKNER: We haven't affirmed it
10 since then

11 VICE CHAIRPERSON TAYLOR: I mean -- that's what I
12 mean, affirmed it since then.

13 CHIEF INVESTMENT OFFICER MENG: You were
14 referring to EM principle?

15 VICE CHAIRPERSON TAYLOR: Yeah. It seems like a
16 long time ago.

17 CHIEF INVESTMENT OFFICER MENG: Yeah. So I would
18 leave it --

19 INVESTMENT DIRECTOR CROCKER: Yeah. I believe
20 that's the commencement of the program. And it was
21 initially E -- emerging markets countries. And then it
22 was -- it became emerging markets principles. And that is
23 correct, none of these -- we had originally debated -- you
24 may recall doing the deep dive five-year review on a
25 staggered basis. But then it was decided it was really

1 more efficient to tackle all of them in the same year.
2 And really the earliest -- it does take a big time
3 commitment from staff. So the earliest we figured we
4 could do that would be 2021.

5 VICE CHAIRPERSON TAYLOR: Okay. Okay. I just
6 was confused. It seemed so long ago. So that explains
7 the rest. We're trying to get on the same cycle.

8 INVESTMENT DIRECTOR CROCKER: Exactly.

9 VICE CHAIRPERSON TAYLOR: Okay. And then
10 finally, does -- do other pension plans do the same thing
11 with any divestments, they review this annually and/or
12 longer?

13 MR. INGRAM: So, again, I think before my time.
14 But certainly when I arrived, Steve and the team had done
15 a quick-fire survey of, I don't know, Steve 20 -- 20 or so
16 other asset owners to see to what extent they are
17 monitoring the financial gains/losses of their divestment
18 programs. I think -- we were a bit surprised that the --
19 sort of the governance around that was probably a bit
20 weaker than we would have expected. Not that many conduct
21 this kind of an exercise. I think we picked out one or
22 two examples here and in Europe.

23 I think -- as Wilshire, we do conduct this
24 analysis for some of the mandated divestments, like
25 divest -- like Iran and Sudan for some of our clients.

1 So, you know, this kind of divestment analysis does go on,
2 but perhaps not on an annual basis.

3 VICE CHAIRPERSON TAYLOR: It's not on an annual
4 basis. Okay. I guess I was -- I was wondering if we
5 were -- so we're not or we are outside of what pension
6 funds are normally doing. I guess that's what I was
7 trying to figure out.

8 MR. INGRAM: Yeah, I mean, you know, the idea
9 behind this is really sort of to help inform, review, kind
10 of get a better handle on an annual basis. You know, you
11 look at tobacco in this particular year, you've had a gain
12 from not being invested in tobacco. But in previous
13 years, you've had losses from not being investment --
14 invested in tobacco. So I think this will help to inform
15 the deeper dive discussion you have scheduled for 2021.

16 So I haven't got a grasp on -- maybe we'll have
17 another look at kind of across the U.S. sort of, you know,
18 how divestment is analyzed by different pension funds. It
19 could be worth having another look at. But I would say,
20 you know, we've got a fair few examples of other asset
21 owners doing this type of exercise.

22 VICE CHAIRPERSON TAYLOR: So -- and if we have a
23 customized benchmark, then it's not necessarily -- is it
24 something that has to be reviewed on an annual -- annual
25 or five-year basis or whatever. I mean, we have a

1 customized benchmark anyway, so we have things that we
2 have in our portfolio and things that we don't for various
3 reasons. I know these are direct divestments, either by
4 order of the Legislature or by the Board. So is that --
5 is that -- is it the verbiage that makes the difference?

6 MR. INGRAM: I don't know whether staff wants to
7 make a comment on that?

8 INVESTMENT DIRECTOR CROCKER: Yeah. I could say
9 that I believe when the Board voted to include this in the
10 Divestment Policy, it was really out of a desire to just
11 be supportive of the fiduciary duties the Board is under
12 to monitor, since it is an active decision on the part of
13 the Board and/or the Legislature.

14 VICE CHAIRPERSON TAYLOR: Okay. Thank you.

15 CHAIRPERSON FECKNER: Thank you.

16 Mr. Perez.

17 COMMITTEE MEMBER PEREZ: Keeping in the thought
18 process that we're a long-term investor, we can't really
19 just look at last year, saying that we would have not lost
20 as much money, and over the long term, we would have been
21 a lot more healthy.

22 I don't know if this is -- because I know this is
23 an information item -- action -- no, information item. I
24 don't know if it's appropriate to ask the Board to vote to
25 lift divestments or if we can put it on for another

1 meeting.

2 CHAIRPERSON FECKNER: My recommendation would be
3 if we wanted to do that, we should put it on a future
4 agenda item.

5 COMMITTEE MEMBER PEREZ: Can we do that soon-ish?

6 CHAIRPERSON FECKNER: We can do that.

7 COMMITTEE MEMBER PEREZ: And I know I'm a broken
8 record about that. But as part of -- as part of the
9 fiduciary duty that every time this comes up, I have to
10 say it.

11 VICE CHAIRPERSON TAYLOR: Do we need to vote on
12 that?

13 CHAIRPERSON FECKNER: You need to vote on what?
14 What he was -- a different agenda item at a
15 different time.

16 VICE CHAIRPERSON TAYLOR: Oh, he wants a -- I'm
17 sorry.

18 CHAIRPERSON FECKNER: Not today. Right.
19 Correct.

20 Anything else, Mr. Perez?

21 COMMITTEE MEMBER PEREZ: No, thank you.

22 CHAIRPERSON FECKNER: Thank you.

23 Ms. Yee.

24 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.
25 I'm going to sound like a broken record, because

1 I keep asking for this. And I don't know if there's a
2 proxy for this, but whether it's now just looking at kind
3 of the review and our duty to monitor this or the deeper
4 dive that we're going to be doing probably surrounding Mr.
5 Perez's question, I'm still trying to get a handle on how
6 we look at any potential benefit that CalPERS derived from
7 the reinvestment of the divested funds.

8 And I know Ms. Taylor's question really spoke to
9 like what did we do with that money? And, you know, how
10 do we allocate it -- reallocate it, how do we reinvest it?

11 An so is there a way to get a handle on that? I
12 know it's really -- because I feel like it's a little bit
13 of an incomplete analysis otherwise?

14 CHIEF INVESTMENT OFFICER MENG: If I may. So for
15 every dollar we divest, we use that dollar to reinvest
16 back into the global equity portfolio on a pro rata basis.
17 So whatever in the 10,000 -- as Ms. Taylor pointed out, we
18 have around 10,000 securities in our global equity
19 portfolio. So for every \$1 we divest it, for example,
20 from tobacco, we, pro rata, put it back in the rest of the
21 portfolio.

22 So this \$1 is the opportunity of invest of that
23 \$1 -- or that divested \$1 is not lost. We but pack in the
24 global equity portfolio.

25 CHAIRPERSON FECKNER: Hold on your microphone is

1 off.

2 Go ahead.

3 COMMITTEE MEMBER YEE: So in terms of any benefit
4 we derive, is it appropriate -- and I don't know the
5 answer to this. Is it appropriate then to track the -- I
6 mean, it's impossible, because you -- I mean, that's the
7 entire global equities portfolio, right?

8 CHIEF INVESTMENT OFFICER MENG: Right. So in a
9 way -- sorry. So these numbers are based on this
10 methodology, so every \$1 divested we put back into the
11 portfolio pro rata.

12 MR. JUNKIN: Ms. Yee, maybe I can try that. This
13 is Andrew Junking with Wilshire.

14 COMMITTEE MEMBER YEE: Okay.

15 MR. JUNKIN: And I came up, because I've
16 presented this report for 15 years now.

17 Think of this as really the opportunity cost. So
18 you have taken money out of something. You have
19 reinvested it in this case. And we're comparing those two
20 portfolios, one that happens to be your actual portfolio
21 without tobacco and one that is the hypothetical portfolio
22 where it was reinvested in tobacco. But the dollars that
23 come out of tobacco are spread right across the rest of
24 the global equity portfolio. We take into consideration
25 rebalancing at the total fund level. We take into

1 consideration the size of the internally managed
2 portfolio, which is where the restriction actually
3 exists --

4 COMMITTEE MEMBER YEE: Right.

5 MR. JUNKIN: -- and not on the external manager.
6 So this is as close as we can make it apples to apples to
7 the kind of comparison that I think that you're looking
8 for without -- without, you know, sort of review mirror
9 kind of driving, well, maybe we should have put it into
10 more, I don't know, technology or whatever. It's just --
11 we just literally eliminated tobacco and everything else
12 gets prorated up by its existing weight.

13 COMMITTEE MEMBER YEE: Okay. All right. And
14 maybe before we do the deep dive around Mr. Perez's
15 question, I may want to revisit kind of what should go
16 into the analysis of our decision around that, because I
17 just want to be clear that -- I mean, obviously, there are
18 costs and there are benefits, and so just how to
19 appropriately weigh all of that --

20 MR. JUNKIN: Yes.

21 COMMITTEE MEMBER YEE: -- into the economic
22 analysis and financial analysis.

23 Thank you.

24 CHAIRPERSON FECKNER: Ms. Middleton.

25 COMMITTEE MEMBER MIDDLETON: Okay. Thank you,

1 Mr. Chair. And I am somewhat new to this conversation,
2 but it's one that gets an incredible amount of attention.
3 And I think it behooves us to have metrics that are easily
4 explainable to the general public, because there is, in my
5 time on this Board already, a considerable amount of, I
6 think, misinformation and even greater misunderstanding as
7 to what we have here.

8 So I'm going to follow up on Ms. Taylor and Ms.
9 Yee. If we divest X dollars from a industry, then there
10 is a restrain on what you are able to invest. But you are
11 taking that money, whatever it was, less the cost of the
12 transactions to get out of that industry, and putting it
13 in the general portfolio.

14 MR. JUNKIN: (Nods head.)

15 COMMITTEE MEMBER MIDDLETON: It seems to me the
16 fundamental question is the general portfolio
17 outperforming or underperforming against what this
18 industry was that we divested from. And that should be a
19 fairly straightforward delta question. We took \$10
20 million out of tobacco, as an example, and I'm using rough
21 numbers, and over the course of one year, five years, 20
22 years, tobacco returned an investment of a number, and the
23 general portfolio produced another number. What's the
24 difference in those?

25 That still leaves all of the political, social

1 questions that drive divestment decisions and drive
2 interest on those. But we should be at least be able to
3 get down to what's that fundamental number. And as I'm
4 going through these reports here, I'm -- I can't get to
5 that simple number that I could take and go to my
6 constituents and say this is what divestment has produced
7 in terms of a result.

8 MR. JUNKIN: That's -- that is effectively, with
9 slightly more complicated math to represent the fact that
10 the portfolio is fully diversified, exactly what we've
11 done, if you'll go one forward -- one page forward.

12 And if you wanted to present to constituents the
13 benefit or the decrement to the dollar value of the return
14 of the plan, of the divestments, it's on this page. So
15 tobacco, since inception, has cost three and a half
16 billion dollars to the plan. The plan would have three
17 and a half billion more dollars today had you not
18 divested.

19 COMMITTEE MEMBER MIDDLETON: Right. Three and a
20 half billion more, accounting for what the general
21 portfolio has produced?

22 MR. JUNKIN: Yes.

23 COMMITTEE MEMBER MIDDLETON: All right.

24 MR. JUNKIN: Yeah. The one point I do want to
25 make, because I think there's one number on this page that

1 is -- it's bothersome to me, and that is the magnitude of
2 the South African divestment. At this point, that
3 divestment has not been active for 25 years.

4 COMMITTEE MEMBER MIDDLETON: Right.

5 MR. JUNKIN: And so long as the plan has positive
6 returns, the value of that divestment, the decrement to
7 the dollars that are available to pay benefits will
8 continue to increase to infinity. It could end up in some
9 really, really bizarre -- you know, a hundred years from
10 now, CalPERS is down to its last ten beneficiaries. I
11 don't know. I'm just making up a scenario.

12 COMMITTEE MEMBER MIDDLETON: Um-hmm.

13 MR. JUNKIN: And you might say, well, South
14 Africa cost us \$78 billion, but we've only got \$14 left.
15 I mean, there is a scenario -- so that number is accurate.
16 I would argue it is -- at this point after 25 years, it's
17 meaningless.

18 COMMITTEE MEMBER MIDDLETON: And that begs the
19 question at what point do we say that the impact of
20 divestment is no longer something that's relevant for us
21 to count?

22 MR. JUNKIN: Yeah, if it were me, I would put
23 a -- sort of a terminal period.

24 COMMITTEE MEMBER MIDDLETON: Um-hmm.

25 MR. JUNKIN: Once a divestment is closed out, so

1 you divest and you reinvest, and that reinvestment closes
2 it out. I would say we're going to measure it for another
3 ten years and then it's just done, because otherwise you
4 will end up with some numbers that, while accurate, are
5 completely meaningless.

6 COMMITTEE MEMBER MIDDLETON: All right.

7 CHAIRPERSON FECKNER: Thank you.

8 Ms. Olivares.

9 COMMITTEE MEMBER OLIVARES: Thank you.

10 So I think these are great questions about the
11 comparative performance of those securities from which
12 we've divested versus the overall performance of the
13 portfolio. I think it would be very helpful to see this
14 laid out a little bit differently, so that we could see
15 the actual back-tested value of those securities from
16 which we divested, right, over the same like five-,
17 ten-year time period, or from whenever that divestment
18 became active versus the historical performance of the
19 portfolio, and then at the same time going forward. It's
20 just the way this is laid out is very -- it's difficult to
21 understand. So that's one comment I want to make.

22 When we get to what other pension plans are
23 doing, I would like to see that -- there are some peer
24 groups that are doing this and that would be the insurance
25 industry has done this. And because they are highly

1 regulated, they've had to report on an annual basis. I am
2 not making that recommendation. In fact, I would say that
3 once there's a decision to divest and there are no new
4 divestments -- or, sorry, no new investments into that
5 particular category, then I would think reporting doesn't
6 need to be as frequent.

7 These investments are typically of long duration,
8 sometimes ten years or more. And so I'm just trying to
9 make sure that as we look at what CalPERS is doing, that
10 we're also looking at what other peers are doing in this
11 space, in terms of reporting and then monitoring our
12 investment performance related to those divestments.

13 MR. JUNKIN: I agree that -- I'm now answering a
14 question that was maybe five minutes ago from Ms. Taylor,
15 which is, you know, should we be doing this, should we
16 doing this as often as we are?

17 I'm certainly not your fiduciary counsel, but I
18 believe it's your duty as fiduciaries to the plan to
19 monitor this on a regular basis, because it is, whether
20 it's forced upon you or whether it's your choice, it's an
21 active decision. And you can change, in some cases, your
22 mind. You can't on Iran and Sudan, but you could reinvest
23 in tobacco. The Board chose not to do that two years ago.

24 Weighing all of the evidence at hand -- and so
25 I'm not rendering a judgment on that. I'm just saying I

1 think that's the kind of process -- as painful and as long
2 as that process was on a single divestment, that quite
3 frankly is the process that you need to go through on all
4 of these on a regular basis to reaffirm, yes, we want to
5 stay out of that.

6 In terms of presenting things more simply, I'm
7 all for that feedback. This used to be about a 23-page
8 Word report that we tried to simplify about three years
9 ago and think we got better. But happy to take feedback
10 on how it can be more useful to you or to the general
11 public. There is absolutely no pride of authorship here.
12 We just need to present accurate numbers to you.

13 COMMITTEE MEMBER OLIVARES: Thank you.

14 And then on South Africa, so the active dates for
15 that divestment was up until, what Q4 '94. I'm trying to
16 understand how we are calculating the loss here or the
17 comparative performance relative to the PERF. I don't
18 even know the durations on these investments, so it's
19 possible that some of these could have had a ten-year
20 duration or less. And so I don't know how we would
21 project out that comparative performance.

22 MR. JUNKIN: So pretty simple. You divest -- you
23 divested of South Africa --

24 COMMITTEE MEMBER OLIVARES: Um-hmm.

25 MR. JUNKIN: -- during apartheid. Apartheid

1 fell. You reinvested. You lost money while you were out.
2 That opportunity cost compounds at the rate of growth of
3 the total plan.

4 COMMITTEE MEMBER OLIVARES: So you're just
5 carrying it forward.

6 MR. JUNKIN: Just carrying it forward.

7 COMMITTEE MEMBER OLIVARES: You're not looking at
8 how the actual investment is doing now or if it's -- okay.

9 MR. JUNKIN: Right. Right. Which is why that --
10 to me, it's -- I understand the magnitude of the number,
11 but it -- that's a decision that was originally made - I'm
12 going to have to do math and this is not my strong suit -
13 31 years ago --

14 COMMITTEE MEMBER OLIVARES: Yeah.

15 MR. JUNKIN: -- and finished 25 years ago.

16 And --

17 CHIEF INVESTMENT OFFICER MENG: That was pretty
18 good on the fly.

19 MR. JUNKIN: Thank you.

20 (Laughter.)

21 MR. JUNKIN: Let the record reflect.

22 (Laughter.)

23 MR. JUNKIN: So, yeah, it -- but that is
24 exactly -- and if you look at some of these tables, these
25 are the -- these are the open investments. You can kind

1 of dig in and see, all right, here's global equity X
2 tobacco. I'm on page six. Global equity actual. And so
3 the net difference -- and then we just sort of multiply on
4 a monthly or quarterly basis what was the value of the
5 portfolio, what was the value -- the difference in the
6 value of those returns? What does that turn into in
7 dollars? And then we come -- cumulatively calculate that
8 over time.

9 But then it's also scaled -- the closed ones are
10 skill for the total fund return. We also -- in the old
11 analysis. And this is one of the reasons it was 25 years
12 pages, we did it by CPI, but that wasn't a real number --

13 COMMITTEE MEMBER OLIVARES: Um-hmm.

14 MR. JUNKIN: -- because the opportunity cost
15 actually lost at the total fund level. We also did it at
16 the global equity level and then the numbers were wrong,
17 but too big, because global equity obviously had been the
18 best performing asset class in the portfolio over that
19 time period. So it was growing at too fast a rate.

20 COMMITTEE MEMBER OLIVARES: Yeah. I think it
21 would helpful to get - I mean, again, if we have another
22 conversation on this - more clarity around this process.
23 As -- you know, there's not perfect information here at
24 all. So I see that a lot of assumptions have been made.
25 But I could also see how this could create a very high

1 divestment cost, particularly when it comes to South
2 Africa. That's not bases on what the actual numbers would
3 have been.

4 MR. JUNKIN: Did you look up the actual numbers
5 before we came back up?

6 MR. INGRAM: I did -- I'll have to pull that you.

7 MR. JUNKIN: Yeah. We've the actual closed cost
8 of South Africa --

9 COMMITTEE MEMBER OLIVARES: Okay.

10 MR. JUNKIN: -- that doesn't continue to grow for
11 25 more years.

12 COMMITTEE MEMBER OLIVARES: Okay.

13 MR. JUNKIN: So we could bring that back.

14 COMMITTEE MEMBER OLIVARES: Thank you.

15 CHAIRPERSON FECKNER: Mr. Jones.

16 COMMITTEE MEMBER JONES: Yeah, thank you, Mr.
17 Chair. Yeah, I think you kind of answered my question in
18 responding to Ms. Olivares question. But looking at
19 tobacco, for example, the 3.5 billion -- \$3.6 billion.
20 When we divested, that was say a number, a hundred million
21 dollars. And just like the Africa, the South Africa has
22 tended to grow. As the PERF fund grows, the tobacco is
23 going to grow. That hundred million is growing based on
24 the growth of our total portfolio, is that correct?

25 MR. JUNKIN: Well, tobacco is still open. And so

1 the gap narrowed. If you look at this page, in fact, in
2 the cumulative present value impact, the next to the last
3 column on the right and you follow across 2017, it was 3.9
4 billion just two years ago. And because the portfolio --
5 because essentially tobacco underperformed the rest of the
6 portfolio and you didn't own it, you benefited by not
7 owning it over the past two years or year and a half. And
8 so that gap narrowed from 3.9 billion to 3.6 billion.

9 So that's -- you know, that's one of the issues,
10 and you see it more with some of the shorter term
11 divestments. Let me -- where is coal?

12 MR. INGRAM: Coal is in the back.

13 MR. JUNKIN: You know, coal. It could go either
14 way. You're either right or you're wrong by divesting of
15 an industry. And it could actually add to the returns or
16 it could, as has been the case, detract, at least in
17 tobacco. You know, this also goes to CalPERS Investment
18 Beliefs about engagement over divestment. You can't
19 engage with a company that you don't own. You've lost
20 your vote, right? You've lost your seat at the table.

21 CHIEF INVESTMENT OFFICER MENG: Mr. Chair, if I
22 may say something. So this is related to -- this is a
23 deeper question, a little bit philosophical. So we focus
24 on the outcome. We made an investment decision. Let it
25 be divestment in tobacco, or this morning, you know, to

1 Controller Yee's question, you know, the Private Market
2 Investment Policy, what is the top quartile? Top quartile
3 is based on the past performance again.

4 In the course of our professional life, we make a
5 number of investment decisions, some of them turn out to
6 be good, some turn out to be quote unquote bad, if you
7 only just charge on the outcome. But if you recall in my
8 January off-site presentation, I -- you know, I took --
9 you know, discuss about the skill and luck component.

10 So in hindsight, to chart investment decision
11 purely on better investment outcome, it's not really a
12 fair game for the investment professionals. What we
13 really should be looking at is when we made this active
14 investment decision, what was our belief? We believed in
15 A, B, and C. And because we believed in A, B, and C, we
16 thought tobacco would underperform financially. And now
17 fast forward after 20 years or ten years -- you know, for
18 the past two years period, it seems like divestment in
19 tobacco paid off. But look at the entire period, it
20 didn't payoff. But again, we are still focusing on
21 outcome only.

22 So if we went back to the reason we believe in
23 tobacco would underperform because, again, I just threw
24 something hypothetical out there, because we believe the
25 generation -- the generational trend or the younger

1 generation would not subject themself to the -- addiction
2 to tobacco, if that was a belief. And back then, we also
3 believe that the valuation back then has -- had not fully
4 reflected that belief we divested.

5 Now, ten or 20 years ago, we should analyze the
6 underlying thesis, why we believed that tobacco would
7 underperform. Were the reasons right or wrong or would
8 they still continue to be there? Otherwise, we keep on
9 going back to chasing the tail -- tail of looking to
10 outperform -- either the outperformance or
11 underperformance and try to use that outcome to judge the
12 investment decision previously. It's not constructive.
13 It's not fair to the investment professionals.

14 So I really encourage -- it's similar to the
15 discussion this morning top quartile selecting private
16 equity managers. The performance is the symptom not the
17 cause. We would like to understand the cause, the
18 underlying driving factors and are these factors still
19 here going forward or not. So that's my two cents of
20 caution, a little bit philosophical. I know the
21 performance -- the outcome -- you know, hindsight is
22 20/20. And the outcome performance black, white, and read
23 there. Either you outperform or underperform.

24 It's very convenient for us to grab onto that
25 number, right? But we really need to ask another question

1 later below the performance, what caused it, and more
2 importantly, what was our belief? Why did we make that
3 investment decision. This reason is still valid today and
4 going forward.

5 CHAIRPERSON FECKNER: Anything else, Mr. Jones?

6 COMMITTEE MEMBER JONES: No, I agree with Mr.
7 Meng.

8 CHAIRPERSON FECKNER: Thank you.

9 Ms. Ortega

10 COMMITTEE MEMBER ORTEGA: Thank you, Mr. Chair.

11 Mr. Meng made largely the point that I wanted to
12 make which, thankfully, because I'm sure he did it much
13 better than I would. I think this conversation is very
14 interesting and helpful in the context of the continued
15 discussion we have before the Board and the public comment
16 we get about fossil fuel divestment. And what I think
17 about is the sort of what I see as an overly simplistic
18 way of looking at divestment when we just look at this
19 outcome and not what was considered at the time.

20 And certainly what I feel like we're missing when
21 we talk about tobacco is at the time that the decision was
22 made, there was an analysis of risk of that investment
23 too. And so we don't -- we don't see the balance in the
24 discussion here. We just say, well, we divested and this
25 is the outcome. But at the moment, there was a belief

1 that there was a risk to continue to be in that -- in
2 those investments. And that's the way I think about the
3 fossil fuel issue.

4 And all of the risk we have in the portfolio
5 around climate is we might -- we may come to a point where
6 we're making investment decisions, but how do we get to
7 the appropriate analysis of the risk that we would be
8 considering. And the conversation that's come up -- the
9 words that have been used numerous time on opportunity
10 cost.

11 And so, again, we have this report where we talk
12 about these, you know, six categories of opportunity cost,
13 but every investment decision that's made is an
14 opportunity cost. And we don't -- we don't have a report
15 that lists every real estate investment choice and the
16 trade-offs. And, oh, if we had purchased this other
17 property instead, what would we have had? We're not
18 talking that same kind of look at every aspect of the
19 portfolio. And my sense of that is because we have policy
20 that guides those decisions.

21 We have direction to the staff about the
22 appropriate level of risk to take. The -- that -- the mix
23 of the portfolio that we have an expectation to have. So
24 we don't call that before us to do that level of review.

25 So again, going back to opportunity costs and

1 having policy that directs that, it goes back to what our
2 fiduciary duty is, which is to have appropriate process.
3 To be able to say that we used a process that considered
4 all of the risks and all of the information that we new at
5 the time, and connecting that back to the questions about
6 climate risk and some of the fossil fuel investments.

7 What I think we -- what I don't have a good sense
8 of right now is how this Board is going to have a process
9 going forward to analyze those risks, to take those
10 consideration into place. Notwithstanding, what we heard
11 from the earlier presentation related to the report to the
12 Legislature, it still feels to me that we're missing that.
13 How would we go about making decisions about addressing
14 that risk going forward?

15 Thank you.

16 CHAIRPERSON FECKNER: Mr. Miller.

17 COMMITTEE MEMBER MILLER: Yeah. I'm -- I think
18 Ms. Ortega really hit on a lot of what I wanted to talk
19 about. What I fear is that we kind of -- kind of devolve
20 into, as a Board, trying to micromanage individual
21 investment decisions and investments on a more frequent
22 scale than even we would have envisioned with our
23 five-year review of these divestment decisions seems to me
24 to be a good time frame. We're in the middle of that with
25 some of them, others are coming up.

1 That seems like a reasonable time frame to be
2 doing a look-back and see, not so much for purposes of
3 saying, oh, should we be jumping in and managing these
4 individual investments out of 10,000 of them? Because on
5 almost any one of them, oh, I might think, oh, we should
6 invest. We shouldn't have done this and we should have
7 done this. And instead of doing this with the money, we
8 should have done something else, but it's a diversified
9 portfolio.

10 We really -- even the Investment staff, that's
11 not what they're doing. And so it seems like this idea,
12 oh, let's jump in before the five-years up and start
13 revisiting these things on a different schedule, and
14 assigning staff to bring a bunch more stuff back, and have
15 a discussion about tobacco, rather than wait till we get
16 to the point where we had scheduled to review that, and
17 thinking about why are we reviewing it?

18 We're reviewing it so we understand the impact.
19 We're reviewing it so maybe where there's some lessons
20 learned for our decision-making process, our assumptions,
21 things we can learn going forward. But I wouldn't look at
22 it as we're reviewing it so that we can take this specific
23 investment and start micromanaging it at the Board level
24 now. And that's kind of the sense I'm kind of getting
25 that we could end up heading that direction the way we're

1 thinking about things sometimes.

2 And when it comes to this cumulative impact, I do
3 think we really should be thinking about how do we look at
4 that and what do we do, because, as you said, if there's
5 nothing but the cost of getting rid of something, and then
6 the next year we jump right back into it, that cumulative
7 loss is just going to keep on compounding. You know, it's
8 a limit at infinity over time, as was mentioned, and it's
9 not useful information. It's not anything you can use in
10 a practical way for decision making. It can only be used
11 if there's a misunderstanding about what it means and
12 people are thinking, oh, my God. Look how much we're
13 losing, because we've divested. We have to jump back into
14 that, when the reality of current performance and a
15 divested -- diverse portfolio doesn't indicate that at
16 all.

17 So I just caution us, as a Board, that if we want
18 more understanding and clarification of the impacts of
19 these things, that's great, but I don't want us to be
20 prematurely or more frequently second guessing our own
21 decisions.

22 CHAIRPERSON FECKNER: Thank you.

23 Mr. Perez.

24 COMMITTEE MEMBER PEREZ: I have to respectfully
25 disagree with Mr. Miller. We're not micromanaging. We

1 put this constraint on you. The last time this was
2 discussed in March, I had asked if the staff -- if the
3 Investment team wanted to be in it and they said, yes. I
4 don't know if that rings true today. And I'm not saying
5 that we just jump in and put one percent of the fund back
6 into it. I want the staff is to be able to develop a
7 strategy, and whether they think it's valuable to be in
8 it, then they should, and if not, then they don't.

9 All I want is to life the divestment. On the
10 other -- on the other divestments, when there's -- when we
11 get direction from the government -- from the Governor's
12 office, that's not -- I think I understand it correctly.
13 It doesn't say you shall at all costs divest. What does
14 it say? What is the spirit behind it?

15 CHIEF EXECUTIVE OFFICER FROST: Are you asking
16 about the Governor's Executive Order that he issued
17 recently to -- that would apply to CalPERS and CalSTRS?

18 COMMITTEE MEMBER PEREZ: (Nods head.)

19 CHIEF EXECUTIVE OFFICER FROST: No, he is not --
20 it's not an Executive Order to divest. He doesn't carry
21 the fiduciary duty that you all carry as the 13 members of
22 this Board, but it is a request to look into greener
23 investments than what we would have with fossil fuels. So
24 we will work with Department of Finance. We've already
25 had one meeting with them. We'll continue to, you know,

1 work with them on identifying a framework where we think
2 the Governor could have an impact for the State of
3 California, realizing that we need to continue to work
4 with this Board on our ESG five-year plan that's already
5 in place.

6 COMMITTEE MEMBER PEREZ: So if the State would
7 say, you know, go green, if the State would give us the
8 money that we projected to return, then I would say, okay,
9 because then that's a solid return. We're always going to
10 have that. But to say -- to say anything more is kind of
11 irresponsible. We do have a fiduciary duty.

12 And lastly, Mr. Chair, I would like, when we do
13 bring this back up, if we can have a prudent person
14 opinion on that the matter, please.

15 CHAIRPERSON FECKNER: All right. We'll add it to
16 notes.

17 COMMITTEE MEMBER PEREZ: Thank you.

18 CHIEF EXECUTIVE OFFICER FROST: And, Ms. Crocker,
19 could you -- I think you mentioned the 2021 date for the
20 full review of current divestments from the team.

21 INVESTMENT DIRECTOR CROCKER: Yeah, that's
22 correct.

23 CHIEF EXECUTIVE OFFICER FROST: Okay. And then
24 just one -- one other response to Ms. Ortega's question.
25 So at the time that a divestment decision is made, there's

1 a full analysis of long-term risk that is communicated
2 with the Board. We did that in December of 2016, and I
3 can get that analysis to you so you could see --
4 anticipate really what the team would be bringing back as
5 a part of this review.

6 CHAIRPERSON FECKNER: Ms. Olivares.

7 COMMITTEE MEMBER OLIVARES: Thank you.

8 I think it would be helpful to see the stranded
9 asset risk context around some of these divestments,
10 because I think that's behind the decision that would need
11 to divest or at least that would have -- that's my hope,
12 that that was considered. So the business model risk,
13 political risk, and legal risk. That way we understand
14 what the financial risks were at that time. So if we
15 could just even have a little bit of context in the
16 report, I think that would help us understand.

17 CHAIRPERSON FECKNER: Thank you.

18 Ms. Middleton.

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

21 As we get into a deeper dive into this subject,
22 one of the things that I particularly want to get more
23 information on is when organizations, such as ourselves,
24 divest from an industry, or divest from a certain
25 organization, or country, what is the impact on the

1 behavior of those organizations. If we get out of coal,
2 as an example, does that make any difference in terms of
3 how coal companies are operating their businesses? Are we
4 actually producing a positive impact by our investment --
5 divestment decisions or is -- are we not?

6 CHAIRPERSON FECKNER: Okay. Very good. Thank
7 you. Seeing no other requests to speak, I do have one
8 request from the audience.

9 Derick Lennox. You'll have up to three minutes
10 for your comments. Please identify yourself for the
11 record.

12 MR. LENNOX: Thank you, Chair and Members.
13 Derick Lennox on behalf of the Association of California
14 School Administrators. For those of you who don't know
15 ACSA. ACSA represents retired and active educators,
16 mostly active, from across the state, 18,000 members. I
17 say retired, of course, because I would say that's our
18 group that has the most to say about some of these social,
19 environmental, and governance issues that are addressed in
20 a lot of our divestment conversation, ESG conversation.

21 But on the other side, we represent folks who are
22 active members as well that expect to have their
23 retirement there when they get to that point, and that are
24 also our business partners here at CalPERS to make sure
25 that the contributions can be paid, and that the

1 contributions are manageable on that side. So I do
2 appreciate the report. And actually, the comments that
3 were made about some of what goes into it are really
4 interesting comments.

5 A lot of it looking retrospectively at the
6 divestments that have occurred already. The perspective
7 that I want to bring about why this report is so important
8 to us is that actually prospective. And the reason is
9 because, you know, with us being 68 percent funded on the
10 school side, when we have these conversations in the
11 Legislature and with policymakers about divestment, having
12 this information about the impacts to date is really
13 helpful.

14 And again, there's a nuance to it. But just to
15 show the overall impact really makes a big difference when
16 we're trying to explain that we have a larger priority
17 here, which is to protect the defined benefit system. And
18 so that any sort of micromanaging -- I mean, you know, you
19 guys are the Board. But to have people micromanaging from
20 outside of this building is not something that we want to
21 see as school employers and public agencies.

22 So I would just reiterate many of the comments
23 that you have all made, which is to focus on the
24 risk-adjusted returns, and to maximize those, and to take
25 into account the risks that you all are talking about here

1 today, including climate change, including fossil fuel
2 use, including governance issues, but to have that be a
3 staff and Board decision, not something that happens from
4 across the street.

5 So in that sense, it's a prospective concern that
6 this report raises. And it's very helpful as we have
7 these conversations during the legislative year.

8 Thank you.

9 CHAIRPERSON FECKNER: Thank you.

10 Another request from Dr. Robert Girling.

11 Again, you'll have up to three minutes for your
12 comments and identify yourself for the record, please.

13 DR. GIRLING: Good morning. My name is Robert
14 Girling. I'm a professor emeritus from the School of
15 Business at Sonoma State University. I'm also a member --
16 retired member of CalPERS. I'm the legislative
17 representative for the CSU Emeritus and Retired Faculty
18 and Staff Association.

19 So I wanted, first of all, to thank the Board for
20 their very thoughtful questions on this -- on the
21 last item. I thought that it really clarified things to
22 me in terms of your thinking. And, frankly, you know, the
23 report that was presented raised more questions in my mind
24 than it answered. And so the line of questioning that you
25 had was to ask for much more, a clearer report that

1 something that I can take back to my members. And that
2 would be very helpful.

3 In relation to that, one thought that I had was
4 this item draws in part on data from Item 6g, the 2019
5 California Public Divestment from Iran Act and Sudan Act
6 legislative report, which contained company-by-company
7 data on the risks associated with a wide range of
8 investments. So that's just a report right here.

9 And as you look through that, you'll see that it
10 discusses a number of specific companies. Now, what I --
11 my thought is that it would be quite helpful in the
12 revisions that the PERS staff does to the report on SB
13 964, that they might follow this kind of methodology in
14 examining and looking at the risks, especially the Scope 3
15 risks, associated with 80 major companies responsible for
16 50 percent of the greenhouse gas emissions.

17 So I think that that sort of granular data would
18 prove very helpful to the Committee -- the Board, excuse
19 me, in terms of making decisions that minimize risk. So
20 that's my thought on that.

21 Again, thank you for all that you do on behalf of
22 our members, and, you know, your work in terms of
23 balancing the short-term risks and the long-term risks.
24 And with regard to long-term risks, I just want to say one
25 thing, which is that climate risk is something that has

1 affected my campus severely. It was closed for a week.
2 The president of my university, her house burned down.
3 And when I went in to talk to her a couple months ago, she
4 spent an entire hour just talking to me about the effect
5 that that had on her family and her inability to perform
6 her duties to the best of her ability.

7 So I think that this issue of climate risk is
8 something that affects us all. You know, we lost power,
9 many people in my neighborhood did. And I appreciate the
10 fact that you're looking very carefully at these issues
11 and thoughtfully. And my association stands ready to help
12 in any way that we can, in terms of analysis or whatever.
13 So thank you again for all that you do.

14 CHAIRPERSON FECKNER: Thank you.

15 That brings us to Agenda Item 9, the Investment
16 Education Workshop.

17 Mr. Meng.

18 (Thereupon an overhead presentation was
19 presented as follows.)

20 CHIEF INVESTMENT OFFICER MENG: Yes, Mr. Chair.
21 As I said in the opening remarks, this is the last of the
22 four Board education series. So today, we have the honor
23 to have -- yes, my colleague Anne Simpson and then -- yes,
24 please. And we have -- as you know that in the past three
25 workshops, we have been working with the CFA Institute.

1 And for the last topic, unfortunately, CFA does not have a
2 readily available speaker. So instead, you know, we
3 have -- well, I will turn it over to Anne Simpson, who
4 will do a proper introduction of the speaker.

5 (Laughter.)

6 INVESTMENT DIRECTOR SIMPSON: Thank you very
7 much, Ben. Well a warm welcome to Von Hughes who's
8 joining us to round off this year's first program on
9 education for the Investment Committee.

10 I think the Board can feel very proud that some
11 wonderful work came out of the self-evaluation that you
12 completed with NACD and the workstream led by Theresa
13 Taylor and Mona Pasquil Rogers was focused on education
14 needs.

15 So as we were racing to get the complete
16 curriculum finished, as Ben said, CFA and CII, who've been
17 our partners, weren't able to pull people out of their
18 holiday celebrations, and boiling of Christmas puddings,
19 and things that keep people busy at this time of the year,
20 so they did recommend that we speak to Von, who we knew
21 already, because he's just published what I think is the
22 first handbook for U.S. public pension fund trustees.

23 So Von comes to us highly recommended, both
24 through his recent publication and also through our
25 friends at CFA and CII. He's also, I think, well

1 qualified to share his understanding of private markets,
2 because of a wide range of experience that he's had over
3 many years. And you can see it in his biography. But in
4 addition to his stellar experience and academic
5 achievement, he's also a trustee of Greenwich Roundtable,
6 which is a nonprofit organization that focuses on private
7 markets or what sometimes get called alternative
8 investments. But that suggests everything is an
9 alternative to the public markets and for CalPERS we're a
10 little more balanced. The public and the private markets
11 are both extremely important.

12 So we have time today for Von to go through the
13 slides. I'm also glad to say Ben will be here to give us
14 wise advice on how the issues for the private markets
15 rollout for CalPERS. And also we have the leaders from
16 CalPERS private asset classes here available to answer
17 questions as well. That's Greg Ruiz and Sarah Corr, from
18 private equity, Jean Hsu on private credit, and Paul
19 Mouchakkaa from our real assets private markets class.

20 So we encourage you as before to ask questions or
21 make comments as we go through. Hopefully, you've had a
22 chance to browse through the presentation, so you know
23 what's coming from one stage to the next.

24 But let me with that, give Von a very warm thanks
25 from everyone here for being willing to give up his time,

1 not just to be with us here today, to travel out from the
2 east coast, which is in itself time and effort, but also
3 for all the work that goes into preparing something like
4 this.

5 As the Board knows, all of this material will be
6 loaded up onto the new Insight Tool, which Tim Taylor and
7 friends are building as we speak, another workstream from
8 the Board Governance self-evaluation. So whatever Von is
9 able to share with us this morning will be something that
10 you can return to in the future, when you want to refresh
11 your thinking about the importance of private markets for
12 CalPERS ability to achieve its investment target returns.

13 So with that, Von, a warm welcome. And we're
14 looking forward very much to hearing what you're here to
15 share with us.

16 MR. HUGHES: Thank you. Well, again, my name is
17 Von Hughes. I'm a partner at PAAMCO Prisma. I've been at
18 the firm for about 16 years. I'm actually here in my own
19 capacity obviously. Some of the research from the book
20 driving the conversation here.

21 I head our firm's strategic advisory effort. And
22 I personally focus on public pension plan policy and
23 governance. My full bio, for those who are interested, is
24 on page two of the presentation. But before I begin, I
25 really wanted to thank the Board and the Investment staff

1 for inviting me to participate in this discussion on
2 private markets.

3 Now, to be fair, private markets is a very big
4 topic. Any one of the concepts that pop up today could
5 probably warrant their own educational session. So with
6 that in mind, I really just tried to provide a
7 presentation that provided a general overview of private
8 markets. And turning your attention specifically to page
9 three of the presentation.

10 --o0o--

11 MR. HUGHES: Yeah. I just wanted to go through
12 an overview of what I'll talk about. I'll talk about the
13 differences between public and private markets, really
14 highlighting the defining characteristics of the latter.
15 I'll talk about the benefits of investing in private
16 markets, why public pensions do it, what are the risks.
17 I'll also provide a snapshot of the global private
18 marketplace in aggregate. And then I'll finally delve
19 into some of the major private market segments, obviously
20 private equity, real assets, and private debt.

21 It's kind of funny -- a funny thing happens when
22 you write a 500 book about public pensions, people think
23 you know everything about public pensions and their
24 portfolios. However, I not. And I very much look forward
25 to leaning on the expertise of the staff that's in the

1 room today that live in these markets to answer any
2 questions that might specifically touch upon the CalPERS
3 portfolio.

4 Now, where my research might be helpful, is that
5 I've tried to really infuse this presentation with the
6 perspective of how public pensions in particular
7 participate in private markets, where the data was indeed
8 available. Any questions you have that I can't answer,
9 I'll work with Anne to make sure I can follow up and add
10 as an appendix for later reviewing.

11 So with that --

12 --o0o--

13 MR. HUGHES: -- turning to page five, to better
14 understand private markets, it's obviously good to touch
15 upon public markets. Public markets typically refer to a
16 market where the general public can buy, sell, or trade on
17 a public exchange. And there are about 60 major public
18 exchanges in the world managing about 69 trillion in
19 publicly-traded securities, New York Stock Exchange and
20 NASDAQ are great examples, the two largest exchange
21 globally.

22 Companies that choose to go public do so really
23 by registering with the financial authority, the SEC in
24 U.S. And by virtue of this, they're allowed to raise
25 capital from the general public. But in exchange, they

1 And it's really only these investors that
2 generally participate in private markets. A lot of
3 regulation. No need to get in here that are really
4 opening up the doors a little bit more. But suffice it to
5 say that that's probably the best way to look at it.

6 --o0o--

7 MR. HUGHES: Turning to page 7. Compared to
8 public markets, private markets have some defining
9 characteristics. The first is that private markets are
10 less heavily regulated than public markets. They are
11 regulated and they are regulated by financial
12 institutions, but they're just not subject to the same
13 degree of disclosure requirements and exchange specific
14 rules.

15 Second, private market reporting requirements are
16 limited. And this really has led to people to talk about
17 private markets as being more opaque or less transparent.
18 But we'll talk about that a little bit later, because
19 that's not always the case.

20 Third, private market valuation of securities are
21 established at a point in time, not continually --
22 continuously as in public markets, what's the plan and --
23 supply and demand.

24 And finally, public markets are illiquid. Hard
25 to sell, because there's not a market for ready buyers,

1 and any number of reasons, and -- sorry, private market,
2 securities are hard to sell or illiquid.

3 And the key concept here is that without a lack
4 of ready buyers, if you want to sell a private market
5 security, the price might be adversely affected. And
6 really because of this, investors in the private markets,
7 investors in illiquid securities have sought any
8 additional level of return. And this additional level of
9 return to compensate for the illiquidity risk is called
10 And illiquidity premium, which we'll come back to.

11 --o0o--

12 MR. HUGHES: Turning to page nine. So why invest
13 in private markets? The fundamental reason is to gain
14 return greater than can be found in public markets. And
15 for public pensions specifically, this must be read within
16 the context of the defined benefit liability gap. The
17 average public pension is about 70 percent funded and has
18 returned about 5.6 percent since 2000.

19 And, however, most assumed rate of returns
20 average somewhere between seven and a half to eight
21 percent. So long-term public pension liabilities are
22 increasing and public pensions are turning to private
23 markets to help close that gap.

24 A private market return can come from many
25 things, the illiquidity premium, which we talked about,

1 active management, investment focus, investment selection,
2 operational efficiencies generated primarily in private
3 equity, and just skill in structuring and negotiation.
4 There's also the GP/LP alignment with fee structures that
5 really do incentivize for GPs that generate performance
6 for their LPs.

7 But beyond performance, there are also a number
8 of reasons why to invest in private markets. There's a
9 risk reduction feature. Without the mark to market
10 requirements of public securities, private market,
11 including private market securities in a public pension
12 can lower volatility. I also think that in some cases,
13 private securities can offer more transparency and more
14 oversight into an investment, because an institutional
15 investor is usually one -- or only one of a few investors
16 in the security, and that's a unique position to be in.

17 In general, the characteristics of the private
18 market, the long-term horizon of investments is consistent
19 with the public plan's long-term goals. And something
20 that we'll talk about shortly. And that is with the rapid
21 increase in private markets in order for public pensions
22 to gain exposure to broadly diversified global growth,
23 accessing these private markets beyond the public markets
24 is actually important.

25 --o0o--

1 MR. HUGHES: Now, there's some things to
2 consider, when investing in private markets, and -- high
3 fees. It's and expensive -- it's an expensive place to
4 play. Management fee and performance fee can dilute from
5 performance. In fact, a 2018 study found that
6 specifically dealing with public pension expense ratios
7 for PE found it the highest at 136 bps, followed by real
8 estate at 89. And you actually can compare that to
9 domestic public equities at 21. So it is expensive. I
10 would argue that the most important thing is to focus on
11 net performance. And in that regards, many of these
12 assets still outperform.

13 Second, the market is illiquid. The flipside of
14 the illiquidity premium is the simple fact that if you
15 want to sell, you might not have a market of ready buyers,
16 and that could adversely affect selling or definitely
17 might require steep discounts in some of the assets. And
18 the GP alignment, although it's pretty much there for
19 performance, there are certain circumstances where GP and
20 LP interests can diverge, usually around the end of an
21 investment period. So that's something to be aware of
22 too.

23 And finally, private markets are highly, highly
24 talent dependent. The dispersion of returns from managers
25 within the private market compared to the public market is

1 just far wider. There is one Morningstar report that
2 looked at PE performance from 2013 to 2018 and saw manager
3 performance from down negative 30 to up -- to up 40
4 percent. And that study actually compared the return
5 dispersion of U.S. domestic equities and it was only
6 between 5 and 12 percent. So manager selection is
7 paramount in private markets.

8 --o0o--

9 MR. HUGHES: Turning to the next page. This is a
10 simple slide that just lists out the major private market
11 segments, PE, real estate, private debt. We're going to
12 talk a little bit more about the overall market, but then
13 we'll touch upon these segments by diving deeper.

14 --o0o--

15 MR. HUGHES: But turning to page 12, the total
16 size of global private markets is 5.8 trillion. The chart
17 on the left, it shows private market assets broken down by
18 market segment and geography. The chart on the right
19 shows the relative size of each major market segment to
20 the global market. And what strikes you immediately and
21 what you can take away from this is PE accounts for over
22 half of total private markets, 59 percent, representing
23 approximately 3.3 trillion; real assets accounts for 28
24 percent, or 1.6 trillion; and private debt accounts for 13
25 percent, or about 800 billion.

1 And in comparison, total public equities amounts
2 to about 70 trillion to give you a relative size of the
3 market that we're dealing with here. And total public
4 corporate debt is around 12 trillion.

5 --o0o--

6 MR. HUGHES: On page 13, private markets have
7 grown dramatically in recent years. Cumulative
8 fundraising has more than tripled since 2006. Fundraising
9 has grown steadily at 7.8 percent annually since 2013.
10 And this has really been driven by mega funds, your funds
11 five billion to ten billion. And they've accounted for
12 almost a third of all fundraising in 2008, which is
13 actually double what they accounted for three years ago.

14 Private equity drives private market growth at
15 seven percent annually. One thing I will mention is that
16 private equity is the only market segment that in the last
17 year has actually had a lower growth rate. Real estate,
18 with this four percent growth, that's a tiny bit
19 misleading, because it excludes direct investments,
20 separate accounts, and other open-ended funds that have
21 done well.

22 And I did want to mention one thing that stands
23 out. It's the recent growth of infrastructure at ten
24 percent annually since 2013 and 17.2 percent since 2017
25 and 2018.

1 McKinsey wrote a report recently that estimated
2 that nearly four trillion in annual infrastructure
3 investment will have to be made globally to keep up -- and
4 this is through 2035 to keep up with global growth. I
5 just want to highlight that what this represent is going
6 to be a persistent funding gap. And I do believe that
7 will provide some opportunities, particularly in
8 investment -- excuse me, in infrastructure investing going
9 forward.

10 --o0o--

11 MR. HUGHES: Turning to page 14, dry powder.
12 That's the capital available for GPs to deploy. In other
13 words, it's committed LP capital that remains uninvested.
14 And it's often looked at as a proxy for the health of the
15 market. The chart here shows the growth of dry powder in
16 private markets since 2000. And it's grown to a record
17 high of over two trillion in 2018.

18 It's grown at a strong 13.6 fundraising rate
19 since 2012. But you really have to step back and kind of
20 interpret what this really means. While on one hand, it
21 means a strong demand for exposure to private markets and
22 the likely continued growth of this marketplace. On the
23 other hand, it might represent that there's pressure in
24 the system. In fact, some people talk about a dry powder
25 problem, where GPs can raise a lot of money, but have

1 decrease in traditional equities, and for that matter,
2 fixed income, but mostly equities.

3 --o0o--

4 MR. HUGHES: And finally looking at public
5 pensions specifically, public pension demand for private
6 securities is likely to remain. As this chart points out,
7 on average, public pension allocations are under their
8 target weight across all private market segments. Public
9 pensions are closest to their target allocations in
10 private equity and real estate, but furthest from their
11 private allocations -- their target allocations in private
12 debt. So you really see this being behind the demand --
13 the continued demand for private markets by public
14 pensions.

15 So turning to page 19 --

16 --o0o--

17 MR. HUGHES: You know, maybe I'll pause here and
18 ask any questions about public markets in general, before
19 I delve into specifically the markets segment for a bit?

20 CHAIRPERSON FECKNER: Ms. Brown.

21 COMMITTEE MEMBER BROWN: Thank you. Let me go
22 back to my notes. Hold on. It was with your slide 9.

23 MR. HUGHES: Sure.

24 COMMITTEE MEMBER BROWN: So before I start out by
25 saying, admittedly I can't match your Ivy League

1 Education.

2 MR. HUGHES: Just a lot of school debt.

3 (Laughter.)

4 COMMITTEE MEMBER BROWN: And I have a UC
5 education and I have advanced degrees from the school of
6 hard knocks. And -- but it did draw my attention on a
7 slide when you said that private markets have risk
8 reduction. And you talked a little bit about more
9 transparency in the GP/LP framework. And we don't see
10 that. I don't think we see that. And more oversight. We
11 want more oversight. I don't know that we're getting more
12 oversight or more peeks into it.

13 So I'm just wondering since you're the Ph.D.
14 here, tell me what data you have that supports this risk
15 reduction in private markets.

16 MR. HUGHES: Well, it's -- well, I'll say it in
17 two ways. One, there's the mathematics behind the simple
18 fact that without having --

19 COMMITTEE MEMBER BROWN: I can do math.

20 MR. HUGHES: Right. Okay. Without having to
21 mark private securities as often as public securities, you
22 don't have a change in valuation, so that reduces
23 volatility, if those securities are in the portfolio.

24 But I think -- and this is something that gets
25 overlooked, is that because you're an only investor in the

1 security very often in the private market, you have an
2 insight on a direct access to a lot of information
3 directly from a company that you just would not get by
4 simply being a shareholder in a public entity.

5 And I think it's precisely with large public
6 plans that begin to build out their resources and have
7 staff to really engage with the companies that they're
8 investing, as will come up later, either with managers and
9 through commingled funds or directly, really have an
10 opportunity to take advantage of the information that is
11 actually out there that is well ahead of what could be
12 offered by simply buying shares in a company, for example.

13 COMMITTEE MEMBER BROWN: Yeah. Mr. Meng, how
14 many times are we the only investor?

15 CHIEF INVESTMENT OFFICER MENG: I don't know the
16 exact number. We are the only investor we -- in some of
17 the separate managed accounts --

18 COMMITTEE MEMBER BROWN: Real estate.

19 CHIEF INVESTMENT OFFICER MENG: -- so we are the
20 only investor in the account, but that account invests in
21 other companies in partnership with other investors.

22 What I would like to say something about the risk
23 reduction, as Mr. Hughes has said, that if you look at
24 private markets, the risk reduction comes -- in my mind
25 comes as two-fold -- two source of it. Exactly, as Mr.

1 Hughes just mentioned, that, you, know the manage
2 selection in private market is of paramount importance.
3 You have to have access to the top managers.

4 And why we have such a strong belief in the top
5 manager, because we believe in their active management
6 skills to generate with something we call alpha. Alpha
7 means on top of the market beta can give you.

8 So the alpha normally comes to us, what we call,
9 educe in credit risk. But if you build a portfolio of
10 different private equity deals, for example, the educe in
11 credit -- educe in credit risk comes with the additional
12 alpha. They're diversifiable. It means that the more
13 larger portfolio you build, the alpha component by
14 construction is orthogonal or not correlated with the beta
15 components, and not correlated with each other. So it
16 means that the fact of the portfolio diversification helps
17 you to reduce the educe in credit risk that the skilful
18 manager brings to the portfolio without sacrificing the
19 additional return. So that's one aspect of the risk
20 reduction from a private market.

21 And the other aspect, as Mr. Hughes point out
22 very elegantly that in private markets since it's that
23 private not traded on exchange, so they are marked -- they
24 are reporting less frequently. The valuation is really
25 based on a model valuation, not really a market

1 transaction. And many times the valuation is delayed. So
2 not timely valuation. So when there's not a timely
3 valuation it provides a time diversification as well.

4 So the risk reduction from private markets really
5 coming from two folds, one is the alpha components. It's
6 diversifiable, reduce in credit risk. And the other one is
7 on bet part. It's the valuation, the marking is less
8 frequent and is marked based on the model appraisal based,
9 not so much about in the market transaction based.

10 So that's the benefit of private market, you see
11 the higher return result the commensurable higher risk,
12 because the higher risk comes. It can be diversified
13 away, if you build large enough portfolio.

14 COMMITTEE MEMBER BROWN: Thank you for that
15 explanation. I would want to eventually have a
16 conversation with you about valuation in the private
17 markets. And since they get -- since the managers get
18 paid on that asset under management, it behooves them to
19 have greater valuation.

20 CHIEF INVESTMENT OFFICER MENG: Yeah. So for
21 that discussion --

22 COMMITTEE MEMBER BROWN: So I know we have ways
23 of checking on that, but we can have that conversation
24 later.

25 CHIEF INVESTMENT OFFICER MENG: For the

1 conversation, I may have to go back to school get another
2 Ph.D.

3 (Laughter.)

4 COMMITTEE MEMBER BROWN: Thank you.

5 CHAIRPERSON FECKNER: Mr. Rubalcava.

6 COMMITTEE MEMBER RUBALCAVA: Thank you.

7 I appreciate the discussion. My question was
8 also about the risk reduction, so appreciate the little
9 insights.

10 Thank you. I'm good. Thank you.

11 CHAIRPERSON FECKNER: Thank you.

12 Okay. Please continue on.

13 MR. HUGHES: Sure. So turning to the individual
14 market segments and these are major market segments, let's
15 first start talking about private equity. And I've
16 obviously touched upon many of these potential benefits
17 and risks when I talked about the broader private markets,
18 so I'll tread lightly. We discussed enhanced return
19 through a liquidity premium, through active management,
20 through GP/LP alignment. And we're going to talk
21 specifically about the performance of private equity
22 shortly.

23 We touched upon risk reduction I think for PE, in
24 particular provides equity correlation -- high equity
25 correlation, in fact, without the short-term volatility,

1 which we were discussing. There's diversification
2 alignment with public pension goals.

3 I did want to touch upon some of the risks.
4 Liquidity risk, again the flipside of the illiquidity
5 premium. I put funding risk here. It's a really GP
6 concern. But I think LPs still must be sensitive to the
7 impact of capital calls. Market risk, general and
8 specific, and capital risk.

9 --o0o--

10 MR. HUGHES: Turning to private equity returns.
11 It's clear private equity has been the best performing
12 asset class for public pensions. The chart on the left
13 shows that PE has generated an annual return of 10.2
14 percent over the last ten years, outperforming public
15 equities at 8.5, and fixed income at 4.8.

16 In fact, looking at the chart on the right,
17 private equity ha outperformed all public pension asset
18 classes from, I think, it's '98 to 2017, except for listed
19 REITs on a net basis. I did want to -- it's not in here,
20 but it's hard to talk about performance at PE or for that
21 matter, the private markets in general without at least
22 touching upon benchmarking.

23 Benchmarking for traditional asset classes is
24 done by comparing performance to some investable public
25 index that arguably accurately reflects the market segment

1 or the asset class. Given that public markets -- excuse
2 me, private markets strive to outperform public markets,
3 usually picking a public index for private markets, you
4 know, is insufficient. And, in fact, benchmarking for
5 private markets is very difficult.

6 Many investors will come up with custom
7 approaches to benchmarking as a way to deal with this. In
8 fact, some of the research on, in particular, public
9 pension PE benchmarks found that 60 percent of public
10 pensions use some general public equities benchmark, with
11 the majority of those then adding some premium to that.

12 And the research that I found saw that those
13 premiums range from one to five percent on top of a public
14 index, with the average being about, you know, three
15 percent. So I think with that regard, CalPERS' existing
16 custom benchmark is well within what's normally done by
17 public pensions.

18 --o0o--

19 MR. HUGHES: Turning to page 21, this page is
20 really meant to be a leave-behind, like many of the other
21 pages that look like this. It's obviously a little too
22 detailed. It highlights the major types of PE investment
23 styles. And I'll touch upon each briefly.

24 Buyout funds are the largest segment within PE.
25 And this is only likely to continue. A recent study of

1 public pensions by Prequin found that 70 percent of public
2 pensions plan on increasing their allocation. They're
3 actually investing in buyout funds in the next 12 months.

4 A buyout fund focuses on the acquisition of
5 controlling interest in companies. When a management
6 makes the acquisition, it's a management buyout. When
7 excessive amounts or extensive amounts of debt are used,
8 it's an LBO. And buyout funds typically target mature
9 companies -- or very mature companies.

10 Compared to growth or expansion funds, these
11 target mature companies as well. Usually, the companies
12 that are looking to build out operations in some way,
13 restructuring, acquisitions, entering a new market.
14 Buyout -- excuse me, growth and expansion funds do not
15 take majority stakes. They typically take minority
16 stakes, and they're targeting companies less capable of
17 raising money or debt, because of either existing debt
18 level or low earnings.

19 Credit related we'll talk about under private
20 debt.

21 Opportunistic are investing in assets where the
22 owners are motivated sellers and there are few willing
23 buyers. It's usually based on some kind of price
24 dislocation that has nothing to do with fundamental value.
25 And assets here can be bought at substantial discounts and

1 are often sometimes contrarian in their approach.

2 Venture capital invest in small emerging
3 companies, plain and simple, with no track record. And
4 the tradeoff for that is you're picking companies that you
5 think have a high growth potential. The goal is outsized
6 returns and ability to exit successfully.

7 --o0o--

8 MR. HUGHES: I did want to spend a little time on
9 the next two pages, because this is not only a proxy for
10 how you invest in private equity, but really how you
11 access private markets in generally from a structural
12 point of view. Again, this page was meant to be a
13 leave-behind, but I'll walk through it as well.

14 Commingled funds are the most common approach to
15 investing in private equity and private markets in
16 general. Commingled funds are funds that consist of
17 assets from various investors. LPs are limit partners and
18 are professionally managed by a GP, or general partner.

19 They're often called pooled investment vehicles,
20 because it's pooling all LP capital together. And each
21 LP's exposure is limited to the money they put into the
22 fund.

23 Separately managed accounts are typically for
24 much larger investments and it's an account owned by a
25 single investor overseen by a professional money manager

1 or subadvisor. Greater ability to customize. Greater
2 control, liquidity, and governance with these. Also,
3 higher fees, higher set of costs, and, in some sense, more
4 due diligence and active oversight are necessary.

5 CHIEF INVESTMENT OFFICER MENG: Generally
6 speaking, yes. So on separate management accounts, the
7 fee tends to be higher. The set-up fee definitely is
8 higher, because we are setting up a separate managed
9 account just for us. So we have to eat -- quote/unquote
10 eat all the set-up fee. In a commingled fund, the set-up
11 fee can be spread out by all the investors.

12 But in our experience, again because of our size
13 and brand, we haven't been able to set up some separate
14 managed accounts as the fee can be lower. So that's not
15 necessarily mean the fee has always be higher in separate
16 managed account.

17 MR. HUGHES: That's actually a very good point,
18 because the larger the investment gets, most managers are
19 willing to discount their fees. So you are dealing with
20 fees that could very often be substantially lower than
21 commingled fund investments.

22 CHIEF INVESTMENT OFFICER MENG: So it shows our
23 size advantage.

24 MR. HUGHES: Yeah. Turing to co-investments.
25 And co-investments, direct investments are actually pretty

1 interesting. A co-investment is an investment made into
2 an opportunity, an asset or a company, that's made
3 alongside a financial sponsor. The investor investing
4 alongside the financial sponsor is typically an LP in a
5 fund that the financial sponsor is already a GP. So it's
6 really this preexisting GP/LP relationship that
7 distinguishes co-investments from direct investments. The
8 rebenefit of co-investments is that the co-investor rarely
9 pays a management or performance fee for this individual
10 investment.

11 And co-investments can offer enhanced returns
12 that could also provide a cost effective way to scaling PE
13 allocations, added control over capital deployment, and
14 can also just create a stronger relationship with your GP.

15 What's interesting is because of the benefits of
16 co-investing, the demand for co-investing vastly outstrips
17 supply at this point. And that demand is so high, that
18 you now have fund of funds, secondary funds and even
19 dedicated co-investment funds beginning to play more in
20 this space.

21 Unfortunately, demand is so high that many people
22 are beginning to point to a time when fee-free
23 co-investments are going to become increasingly difficult
24 to find. And, in fact, it's definitely today that people
25 are beginning to -- managers are beginning to charge

1 smaller fees for co-investment opportunities.

2 --o0o--

3 MR. HUGHES: Turning to direct investments, these
4 are investments made directly into a company asset or a
5 firm, not through a fund, not side by side, a financial
6 sponsor. The institutional investor owns the deal, owns
7 all the benefit, and assumes all of the risk. It requires
8 the greatest amount of resource commitment, but that's in
9 exchange for potentially the highest amount of return.

10 I will also say that direct investments like
11 co-investments is a recent trend. With a lot of
12 institutional investors, and particularly public pension
13 plans, building internal staff to actually execute on
14 direct and co-investment strategies. The biggest
15 challenge facing public pensions are governance
16 constraints and resource constraints.

17 In order to do this well, and it happens more
18 often in real estate than private equity, you really have
19 to commit a substantial amount to talent, to governance,
20 and even the compensation, because you're now competing
21 for the private market and also competing with some of
22 your GPs for the talent. So that's something to consider.

23 Secondary funds, specialize in acquiring assets
24 and securities in the secondary markets. So many of these
25 funds are just assets purchased from other investors.

1 They offer some benefits. They can allow benefits to
2 acquire assets at a discount. They can also -- you can
3 also gain exposure to funds that have been closed, and
4 also you can get out of your -- you can get out of our
5 investments whenever you want prematurely. In the end, I
6 think it's a point emission that secondary funds really
7 have made accessing the private equity markets easier for
8 investors, and also have added a lot of liquidity, again,
9 something distinguishing the markets today from the
10 markets in 2007.

11 And very simply a fund of fund, which you're all
12 aware of, is a pooled vehicle, usually a multi-manager
13 vehicles. It offers broad diversification but comes with
14 higher levels of fees and other expenses.

15 --o0o--

16 MR. HUGHES: You've -- the Board's seen this
17 slide before. I just wanted to touch upon a few comments
18 about PE. It's a slow moving asset class. The results
19 you're seeing today are results based on decisions made
20 years ago. And the decisions you make today, they're not
21 going to be felt for years, until years to come. But
22 what's important for a successful program is a commitment
23 to the asset class, a clear investment strategy, steady
24 capital deployment through all years, and vintage year
25 diversification, which I know the Board been discussing

1 percent, but the dollar amount is only \$9 billion. And
2 what that we're -- we're trying to make a point last month
3 as well, for a smaller program, because manager selection
4 in private equity is of paramount importance, so -- and
5 also you want to build a diversified portfolio, the
6 manager want to have a diversified base of investors.

7 So if you run only \$9 billion fund, for example,
8 Ohio Public Pension Fund, they could concentrate on the --
9 if you think of the GP or the general manager as a
10 pyramid. So the top performance manager very small on the
11 top. So they could invest -- focus more on the top end of
12 it. But because we are larger, we're three times in
13 dollars size, three times of the number ten fund. We're
14 forced kind of down to the pyramid. So that's why here
15 our size is too our disadvantage.

16 MR. HUGHES: Good point. Turning to page 27 --

17 --o0o--

18 MR. HUGHES: -- to real assets. I'll only hit
19 this briefly, because we've already talked about this.
20 Enhanced returns, low correlation to public markets,
21 stable predictable cash yield, portfolio diversification,
22 typically away from equity risk in particular, and
23 inflation protection, in that many of these assets are
24 structured that enable inflationary costs to be passed on
25 to consumers.

1 high risk, targeting properties in need of some kind of
2 operational improvement or have some management issues.
3 And opportunistic, high risk return with properties that
4 require massive enhancement.

5 On the other hand, infrastructure involves
6 investing in basic physical structures, like
7 transportation facilities, telecommunication networks,
8 sewage, et cetera. The largest scale in infrastructure
9 investments, or infrastructure projects, usually are
10 produced by the public sector or some publicly-regulated
11 monopoly. These investments can Either be soft, hard, or
12 critical. Soft based on human capital. Hard, physical
13 systems, like roads and highways, are critical essentially
14 facilities like for public health.

15 --o0o--

16 MR. HUGHES: Page 29, the Board has seen as well.
17 It's a slide that highlights how CalPERS specifically
18 defines core, value-added, and opportunistic in terms of
19 return expectations and leverage. Core, investing in real
20 assets has historically been the predominant strategy for
21 investors including public pensions.

22 However, it's interesting to note that 2018 is
23 the first year that value-added has actually surpassed
24 core as the most attractive strategy. And again, I think
25 institutional investors, including public pensions, are

1 simply looking for return.

2 --o0o--

3 MR. HUGHES: Looking at public pension real
4 estate returns by style on page 30. Internally managed
5 real estate has consistently outperformed externally
6 managed assets. Opportunistic has been the best
7 performing externally managed real estate strategy. And
8 listed REITs have actually outperformed private markets.
9 In fact, as we saw on page 20, listed REITs have been the
10 best performing public pension investment on a net returns
11 basis since 1998.

12 However, they offer less diversification benefits
13 and much higher correlation to public markets. Return is
14 typically enhanced by leverage and a greater degree of
15 leverage than is used in private markets, so that's what
16 you see.

17 --o0o--

18 MR. HUGHES: Turning to page 31, this page lists
19 the top public pension investors in real estate. Again,
20 CalPERS is the largest by dollar volume. I think the 33.4
21 is real estate assets, whereas I think 42 billion is
22 probably a closer figure for the total real assets bucket.

23 Again, for comparison, the average public pension
24 real estate allocation is 8.2 percent. However, the
25 average large public pension allocation, again, I'm

1 talking about public pensions greater than ten billion, is
2 9.8. So CalPERS is still under that average.

3 --o0o--

4 MR. HUGHES: Moving to private debt, this is page
5 33. To oversimplify private debt, what we're really
6 talking about are loans made directly to companies outside
7 of the public market structured in any of a number of
8 ways. The credit exposure that you see in private debts
9 can either be corporate, when the repayment of the loan is
10 made from the cash flow of operations from operating
11 companies or it could be asset-backed, when the repayment
12 of a loan is made from cash generated for some physical
13 asset, like inventories or property.

14 When you look at the strategies on page 33, you
15 can really bucket these strategies into two categories.
16 Direct lending and mezzanine debt, typically referred to
17 as capital preservation strategies in general. Distressed
18 debt, special situations, and venture debt are return
19 maximizing strategies.

20 And I will -- sorry. Go ahead.

21 CHIEF INVESTMENT OFFICER MENG: Yeah. So this
22 afternoon in closed session in the investment strategy
23 discussion, we'll talk about private debt as well. As you
24 notice, the private debt currently, it's not an asset
25 class in our portfolio. And I think that's something we

1 overlooked in the past, particularly given the changes in
2 regulation after the Global Financial Crisis. Private
3 debt had grow -- has grown very rapidly.

4 So that's -- again, this afternoon, in the closed
5 session investment strategy discussion, we'll mention --
6 we'll have another discussion on private debt. So
7 currently, it's not in our portfolio. We think it should
8 be.

9 MR. HUGHES: Yeah. I would also just add to
10 that, that given the variety of public debt strategies,
11 you know, private debt can reside in any number of places
12 within a public pension portfolio. Capital preservation
13 strategies can typically be found in fixed income. And
14 the return maximizing strategies can most commonly be
15 found in private equity. So there's -- and I'm sure
16 you'll talk about that a little bit later as well.

17 Just touching very quickly upon this -- again,
18 this is meant to a leave-behind. But direct lending is
19 corporate debt, in which a lender, other than a bank,
20 makes a loan to a company straightforward. Borrowers are
21 often small mid-sized companies and tend to be senior
22 debt.

23 I wanted to make one comment here, and that is
24 since 2008, private credit funds have really filled the
25 financing void left by banks to small to mid-size

1 companies in particular post crisis, when new regulation
2 required that banks reduce illiquid securities on their
3 balance sheets.

4 So really a lot of people point to private credit
5 funds, particularly this direct lending, as really being
6 much of the genesis of the rapid growth in private markets
7 in general.

8 Mezzanine debt is subordinated debt, not senior
9 debt. And it includes embedded equity instruments. So
10 it's sort of a hybrid of both equity and debt
11 characteristics. It's often used in LBLs. Distressed
12 debt is the debt of companies or governments for that
13 matter that are undergoing some kind of financial
14 distress. You can pick these assets up at significant
15 discounts. And it's usually -- these purchases are made
16 in the secondary market as opposed to direct origination.

17 Special situations, it's just investments made
18 based upon some special situation. Now, that has nothing
19 to do with underlying fundamentals. It could be mergers
20 and acquisitions, spin-off, tenders offers, litigation, or
21 anything like that.

22 Special situation investments can be made in
23 secondary markets or as well as in direct markets.
24 Venture debt is just debt lent to venture capital-backed
25 companies, companies that don't have any other option to

1 raise capital. And it often, like mezzanine debt,
2 includes some kind of equity option, so you can capture
3 the upside additional return for the risk that you assume.

4 --o0o--

5 MR. HUGHES: And again, here are all the
6 potential benefits and risks. The only real thing here
7 that's different than before is just the regular income
8 flow I think is significant for private debt, you know,
9 obviously through loan interest and repayment. Credit
10 default and restructuring risks, and liquidity we're now
11 dealing with loans.

12 Manager selection we know about and the quality
13 of collateral risk, which is obviously particularly
14 relevant for asset-backed exposures.

15 --o0o--

16 MR. HUGHES: This chart shows on page 35 the
17 historical performance of private debt. And you can take
18 a look at the returns here and the volatility as well.
19 But what clearly stands out is obviously return-maximizing
20 strategies to distressed debt, special sits, and venture
21 outperformed the capital preservation strategies, direct
22 lending and mezzanine, with distressed and special sits
23 being the highest returning private debt segments.

24 It's funny, I try to figure out what these pies
25 meant. And they -- and it's a little misleading. I

1 actually found someone to talk to at Preqin, because this
2 chart is a little misleading. These bubbles are not the
3 size of the private debt market segment. It's what I
4 thought they were. But rather, it's just the total AUM of
5 the managers in their database. So I don't want you to
6 use those as a proxy for the size of the markets, but at
7 least it gives you an indication of the data that they're
8 collecting and the returns.

9 CHIEF INVESTMENT OFFICER MENG: Just one thing I
10 would like to draw to your attention, the X axis starting
11 point is nine percent. So even the lowest risk, the
12 lowest return strategy within private debt asset class is
13 higher than nine percent historically speaking, according
14 to this study. I think this study a little bit more on
15 the generous side.

16 MR. HUGHES: I think so too.

17 CHIEF INVESTMENT OFFICER MENG: Yeah. So maybe a
18 little bit lower than nine percent. But my point is that,
19 as we'll discuss later, just, yeah, keeping in mind the X
20 axis starting on the nine percent.

21 MR. HUGHES: Just to that point, I also noticed
22 the bubble is small. So that means there are not a lot of
23 managers in that sample size. And this has no indication
24 of what kind of level -- levels of leverage that they
25 might be using as well, so...

1 --o0o--

2 MR. HUGHES: Now, and just -- and just finally,
3 page 36, this is a chart from Cambridge Associates that
4 really shows the attractiveness of various credit
5 strategies through the market cycles. You can see that
6 senior debt direct lending is really an all-weather
7 strategy. You can also see that distressed debt requires
8 some sort of distress. So it typically occurs in late
9 stage economic expansion or contraction. And that
10 mezzanine is most attractive in economic expansion when
11 companies are looking to finance their growth.

12 I think I sped through that, but if you have any
13 questions.

14 CHIEF INVESTMENT OFFICER MENG: Yeah. So this
15 chart basically breaks out the economic cycles into four
16 components -- of four phases. Then depending it's a
17 income-driven strategy or capital-appreciation strategy.
18 So different part of the cycle. For example, the later
19 part of the cycle probably you prefer more income-driven
20 strategy than capital-appreciation strategy.

21 But you can apply the same philosophy, the chart,
22 this is only for private debt. You can talk about private
23 equity, public equity, fixed income, real estate as well.
24 For example, our real estate is a core U.S. real estate.
25 Bulk of the expected return coming from income --

1 income-driven strategy.

2 So for any income-driven strategy, you can apply
3 for this kind of chart. Almost all-weather environment,
4 you need income. But for capital-appreciation driven
5 strategy, such as private equity and in debt -- distressed
6 debt strategy, you probably want to be early part of the
7 cycle, not later part of the cycle.

8 MR. HUGHES: Um-hmm.

9 CHIEF INVESTMENT OFFICER MENG: So the same
10 philosophy can apply to much broader sense of portfolio
11 construction.

12 MR. HUGHES: The only last page is a list of
13 sources. And so if anyone wants to do anything, any
14 additional information, I'm here to answer any questions

15 CHAIRPERSON FECKNER: Thank you.

16 Thank you for the presentation. We do have a few
17 requests.

18 Ms. Brown.

19 COMMITTEE MEMBER BROWN: I'll go ahead and pass.
20 Thank you.

21 CHAIRPERSON FECKNER: All right. Mr. Jones.

22 COMMITTEE MEMBER JONES: Thank you, Mr. Chair.
23 Thank you for a very comprehensive report on capital
24 markets. I really appreciated the information.

25 I do -- my question is probably driven from that

1 last chart that we looked at, because it talked about
2 economic expansion. But when you listen to a variety of
3 economists today, they're talking about a slow-growth
4 economy that's coming, if we're not already in it --

5 MR. HUGHES: Yep.

6 COMMITTEE MEMBER JONES: -- in the next year or
7 so. So what impact does it have on private debt in a
8 slow-growth economy, which most economists are predicting.

9 MR. HUGHES: Sure I'll take a stab at it then.
10 Well, it's a great question first of all. And I think the
11 big question you have to ask is how well are the private
12 markets positioned for a market downturn? And I tried to
13 highlight that they're better positioned today than they
14 were in, you know, 2007, primarily because the market is
15 just much more mature.

16 So I think you're not going to see some of the
17 behavior in managers fleeing the market as you saw back
18 then really depressing asset values. In fact, you might
19 even see a large number of investors looking forward to an
20 opportunity to pick up access at a discount.

21 So I think with this greater market maturity,
22 it's more liquid with approaches, including secondary
23 markets. And the conditions in the marketplace are just
24 better than they were then. So I think there's less
25 concern than in the past. And I think people believe that

1 the private markets are not only pretty well positioned
2 for a market downturn, but in some sense waiting for it.

3 CHIEF INVESTMENT OFFICER MENG: Yeah. So I see
4 two questions in your statement, Mr. Jones. For one is
5 say if we can form an opinion on where we are on economic
6 cycle, say, we're very late in the cycle, if we believe in
7 that. If we are able to identify we're late cycle, you
8 would like to move your portfolio higher up in capital
9 structure. It means more in debt instead in equity. And
10 you -- also, you would like to be more in private assets
11 than public assets, right. Provided that you have the
12 liquidity, you can sustain the illiquidity of private
13 assets.

14 The reason is that, as I mentioned earlier on,
15 the private markets, if you have access and you can find
16 the very skillful managers, they do generate alpha by
17 actively manage the portfolio. And alpha components is
18 uncorrelated with the market beta. So when market goes
19 down, the ability to generate additional alpha should not
20 be affected by the beta in theory.

21 So in private market, you can find that source of
22 alpha. And if we believe in later market, you want to be
23 higher up in capital structure, it means more in debt,
24 less in equity, you would like to be more in private --
25 more in private than in public, provided that you have the

1 liquidity and access to the top private manager.

2 So if I were running only a \$10 billion fund,
3 probably I -- if I were running a \$10 billion fund, and if
4 I were able to get to the point saying that, yes, we're in
5 late cycle now, I would move into private debt, right? I
6 want to be in debt. I want to be in private. So that
7 give me private debt.

8 So -- but the first part is can we really
9 formulate our -- formulate a view on the economic cycle.
10 That is -- I won't say \$380 billion question.

11 Just today, there's article in Wall Street
12 Journal talk about how the economists got it wrong for the
13 past ten years. In the past how many years we have been
14 saying that we're late cycle, late cycle, late cycle. The
15 economic cycle does not die of old age. So there are two
16 examples in front of us. We are in the longest cycle of
17 our own history already. In the U.S. history, we're in
18 the longest recovery cycle already.

19 We're ten careers into it now. That's only to
20 our history. But if we look globally, there are two
21 examples, one is 30 years expansion and still counting.
22 That's Australia, right. And the other extreme example is
23 Japan. It's 30 years, the growth has been low growth --
24 no growth to low growth for 30 years. It has not fully
25 recovered.

1 So that's a bi -- a binary scenario. One side is
2 Australia 30 years, the recovery still going, the other
3 side of 30 years has not fully really recovered from the
4 recession.

5 So calling where you are on economic cycle is
6 very difficult. But if we believed that we are late
7 cycle, and if we're running smaller fund, I would be
8 probably in private debt.

9 CHAIRPERSON FECKNER: Ms. Middleton.

10 COMMITTEE MEMBER MIDDLETON: Okay. Thank you,
11 Mr. Chair and thank you for a very interesting, very
12 helpful presentation.

13 There were a couple of slides that I wanted to
14 ask questions about. The first is on slide 20. And
15 what it -- it's showing median return --

16 MR. HUGHES: Yes.

17 COMMITTEE MEMBER MIDDLETON: -- private equity,
18 performing at 10.2, and public equity at 8.5. Would it be
19 fair to say that the range from poor performance to high
20 performance in private equity is much larger than it is in
21 public equity?

22 MR. HUGHES: Yes. And I'll just repeat the one
23 data point that I had on that that I probably said way too
24 quickly. Looking at returns over a five-year period from
25 2013 to 2018, there was a recent -- relatively recent

1 Morningstar report that showed the performance dispersion
2 between private equity funds really -- very large
3 performance dispersion from negative 30 to positive 40.

4 Over the same time period, public equities, as
5 measured by U.S. domestic mutual funds showed a return
6 dispersion of only between five and 12 percent, over the
7 same five year period. So the answer to your question is,
8 yes and it's very dramatic.

9 COMMITTEE MEMBER MIDDLETON: So the magnitude is
10 even greater than I suspected it might be.

11 MR. HUGHES: Yes.

12 COMMITTEE MEMBER MIDDLETON: So can you talk to
13 us about what are some of the attributes that those that
14 are the highest performing funds have in terms of how they
15 have managed their private equity?

16 CHIEF INVESTMENT OFFICER MENG: You mean, private
17 equity or private debt?

18 COMMITTEE MEMBER MIDDLETON: Yeah. Well, I'm
19 looking at a chart of private equity, but I'm thinking
20 broadly in terms of private markets.

21 CHIEF INVESTMENT OFFICER MENG: Right. So the
22 attribute I look at that we can have our private equity
23 expert come up as well. Basically, can you find capable
24 and aligned manager? If I reduce it really, first capable
25 and aligned.

1 I think that's -- nothing more than that.
2 Capable, and aligned, and also available. That's -- they
3 are willing to take our money. Not all the GPs are
4 willing. We don't have access to all the GPs.

5 MR. HUGHES: I would also argue that performance
6 persistency is key. And I think nowadays, given the
7 competition in the marketplace, it's a really focus not
8 only on individual managers, but individual managers
9 within the GPs. And you have money following those
10 individuals. It does speak to a little trend in the
11 private equity world, where, you know, you've got to hold
12 on to talent. But to your point, you know, it's really
13 focusing on the right managers, but it's really getting
14 down to focusing on the right individuals within the right
15 managers, so...

16 MANAGING INVESTMENT DIRECTOR RUIZ: Yeah. I
17 think it's a really good question and it's really what we
18 spend all our time trying to figure out. And what I would
19 say is fundamentally we look for managers who I would say
20 durably add value across all cycles. And that can come in
21 many different forms. It can come from specialized
22 sourcing expertise. It can come from finding situations
23 that have less competition and bind assets very well. It
24 can come from operating assets very well, both through
25 growing their revenues, also growing -- and also growing

1 earnings.

2 And in each of these things is very particularly
3 to a situation and each of them evolves over time. So the
4 question we're repeatedly asking ourselves is what is the
5 competitive differentiation of a manager and how durable
6 is that?

7 And you can see different market segments rise
8 and fall, and a manager can benefit or not benefit in
9 those situations. But what we're looking for is across
10 all cycles, someone who's going to continuously add that
11 value for us.

12 COMMITTEE MEMBER MIDDLETON: And the next slide I
13 wanted to speak to is slide 25, which looks at how we
14 compare to other organizations. And while our allocation
15 at eight percent is somewhat less, just in terms of actual
16 numbers at \$27.2 billion invested, we're significantly
17 larger than anyone else. And this is an industry, from
18 what I'm hearing now, talent makes all the difference in
19 the world. And with the size that we have, do we have the
20 capacity to attract, manage, monitor the talent that it's
21 going to take to be successful in this area?

22 MANAGING INVESTMENT DIRECTOR RUIZ: Yeah, I
23 believe we do and I would call out on this slide, this is
24 all U.S. public pension funds.

25 COMMITTEE MEMBER MIDDLETON: Right.

1 MANAGING INVESTMENT DIRECTOR RUIZ: It does not
2 include a number of other active asset allocators, who
3 would have both larger allocations and larger total
4 dollars invested in private equity. So I think there is
5 continued headroom for us.

6 Your question is a very relevant one. And I
7 would say, I think we will be able to grow our total
8 dollars invested and allocation with the team we have in
9 place today. There are certain strategies though that
10 will require additional expertise. And one that we've
11 spoken about previously is co-investing. That is one
12 where I would expect over time, for us to build kind of a
13 durable program and a scaled program, we may need to bring
14 in additional expertise.

15 COMMITTEE MEMBER MIDDLETON: Okay. My last
16 question is for Mr. Hughes. Looking back for the
17 responsibility that we have here as a Board, what are the
18 areas of oversight that you would recommend concentration
19 on?

20 MR. HUGHES: For investments in private markets
21 in general?

22 COMMITTEE MEMBER MIDDLETON: Um-hmm, or no
23 specifically to the private markets.

24 MR. HUGHES: It's a good question. I think, as I
25 mentioned before, the biggest challenges facing public

1 pensions really is on the resource side, giving staff the
2 needed resources to effectively invest and monitor these
3 assets. So that's the first thing and involves a
4 commitment from the Board level.

5 The second thing is governance. And I think
6 governance can extend very broadly, but it's how quickly
7 and effectively decisions can be made. I've talked to a
8 few public pensions and helped them think through the
9 governance behind co-investments. You need a much shorter
10 process and ways to do that effectively.

11 I also think to the degree, as Greg mentioned,
12 you want to now delve into some of these strategies that
13 have less fees, because you're not dealing with external
14 managers in the same way, be it co-investment or direct,
15 you need the talent and you've got to invest in the
16 talent. And you've got to invest in the talent in a way
17 where you can compete with the private market for that
18 talent.

19 And I think one of the issues facing public
20 pensions in general is as public pensions have become more
21 sophisticated in their investment approach and investment
22 goals, that many plans have this mismatch between great
23 goals, not enough a commitment to resources in the
24 governance structure. And I think the bigger public
25 pensions get and the more complex and sophisticated the

1 investment goals get, there's going to have to be a
2 realization that we need to match that with a resource
3 commitment, a staff commitment, and a governance
4 commitment.

5 CHIEF INVESTMENT OFFICER MENG: If I may. I just
6 second on what Greg and Von just said. It's absolutely
7 right that if we look globally, there are larger fund have
8 run private equity program much larger than ours, and
9 probably with higher return as well.

10 Currently, my assessment of our team, we don't --
11 there are still a lot of work for us to do in order to get
12 to what could be done. As you said, resources in terms
13 of, you know, budget, headcounts, governance is all the
14 issue. So we'll continue, you know, with -- Greg will
15 continue to work out -- work on each one of the challenge
16 and keep on coming back to this body when we need
17 headcount, budgeting, governance, and we can compare
18 ourself to the successful larger players. How do they do
19 it? How do they run the program larger than us and with
20 higher return?

21 COMMITTEE MEMBER MIDDLETON: Okay. Thank you.

22 CHAIRPERSON FECKNER: Thank you.

23 Ms. Olivares.

24 COMMITTEE MEMBER OLIVARES: Thank you, Mr.

25 Hughes. It's been a really interesting presentation. I

1 was wondering if you've looked at Senator Warren's SB 2155
2 and how that would affect public pension plans?

3 MR. HUGHES: I have not. My apologies.

4 COMMITTEE MEMBER OLIVARES: Okay. It's the
5 private equity bill.

6 MR. HUGHES: Oh, to consider how private equity
7 should be restructured in terms of investing.

8 It's an interesting idea. I think it would more
9 adequately put managers in a position of being responsible
10 for what actually happens with the underlying portfolio
11 management companies. But I think it does have potential
12 ripple effects that have not been thoroughly thought out,
13 nor have I thought them out myself. But it's an
14 interesting concept to make -- or add a little bit more of
15 accountability into the private equity investing. But
16 what would actually happen longer term, I couldn't say.

17 COMMITTEE MEMBER OLIVARES: Thank you.

18 CHAIRPERSON FECKNER: Okay. Seeing no other
19 requests. Thank you very much for your presentation.

20 Great information.

21 That brings us to Agenda Item 9 -- or Item 10,
22 Summary of Committee Direction. Mr. Meng.

23 CHIEF INVESTMENT OFFICER MENG: Yes, Mr. Chair.
24 I misspoke this morning. I thought it was going to be a
25 lighter session this morning.

1 (Laughter.)

2 CHIEF INVESTMENT OFFICER MENG: It's well into
3 the afternoon now. So I noted two follow-ups. Item 6j on
4 the climate risk report, there are requests from
5 Controller Yee's office and from other Board members to
6 expand on the -- on our achievement, proxy voting session,
7 as well as adding a conclusion section. And I noticed our
8 team, SI team, and Anne Simpson took detailed notes. So
9 that is one follow up.

10 The other one -- the -- on Item 7, the private
11 asset class program policy revision, second reading, we'll
12 work with you, the Chair of the Investment Committee, to
13 come -- to finalize the exact wording of that sentence.
14 These are the two follow-up that I noticed.

15 CHAIRPERSON FECKNER: Okay. Thank you.

16 The divestment, that's going to be a future
17 agenda item, yes. We have to figure out when, because
18 we're not meeting every month now.

19 CHIEF EXECUTIVE OFFICER FROST: It will be in
20 2021, unless the Board asks to have it sooner.

21 CHIEF INVESTMENT OFFICER MENG: The reason I
22 didn't put it, that wasn't part of staff follow-up, so
23 that's why I didn't put it.

24 CHAIRPERSON FECKNER: That's right. It was my
25 follow-up.

1 We have two requests from the audience under
2 public comment. We have Michelle Le and Alan hanson.

3 Please come down. You'll have up to three
4 minutes for your comments and identify yourself for the
5 record.

6 MR. HANSON: Can you switch --

7 CHAIRPERSON FECKNER: It's on.

8 MR. HANSON: Oh, it's on. Great.

9 Good afternoon. My name is Alan Hanson. I am
10 the Field Director of UFCW Local 400. We represent 35,000
11 grocery, retail, meat packing workers in the mid-Atlantic
12 from the Washington suburbs of Maryland all the way out to
13 Ohio, Kentucky, and Tennessee. I'm joined here by
14 Michelle Le, a Safeway member and a shop steward. I'm
15 also joined by Eileen O'Grady from the Private Equity
16 Stakeholder Project.

17 My remarks are going to be very brief, because I
18 definitely want you to hear from Michelle's experiences
19 working at Safeway, particularly since being acquired by
20 Cerberus.

21 But I'll just say that our immediate concern of
22 being here today is that, you know, frankly, we're
23 deadlocked in contract negotiations. And one of the
24 thorniest issues that we're dealing with is a
25 significantly underfunded pension, and, you know, making

1 sure that the companies that, you know, have made a
2 promise to provide retirement security to folks honor that
3 commitment.

4 But we have a larger concern here, and that is
5 that since being acquired by Cerberus, we have serious
6 concerns about the long-term financial health of this
7 company. That since 2015, private equity grocery -- seven
8 private equity owned grocery stores have declared
9 bankruptcy. And that -- those bankruptcies have impacted
10 125,000 workers.

11 And we see a very similar model in all of these
12 bankruptcies, that, you know, a private equity firm
13 purchases the company, grows the company significantly
14 through a series of high leveraged transactions, sells
15 assets, namely grocery stores, and leases those assets
16 back to pay down the debt, and then balances the book --
17 the books on the back of workers.

18 Those are serious concerns. Safeway alone has
19 275,000 employees, including a significant number of UFCW
20 employees, of Teamster employees, all of whom enjoy the
21 retirement security that unionized employees have long
22 enjoyed in this country.

23 And so we want to make sure that Safeway doesn't
24 go the same way that these other private equity owned
25 companies go. That Safeway makes sure that not only do

1 they honor their commitment to workers in the mid-Atlantic
2 and all across the country, but that they also make sure
3 that when they exit their investment in -- when Cerberus
4 exits their investment in Safeway, that they leave the
5 company healthy enough to sustain good jobs and provide
6 access to groceries in communities across the country.

7 And so with that -- I'm sorry. One more thing.
8 We shared a report with you that I see some folks reading.
9 I would encourage you all to take a look at that. It
10 elaborates on the comments that I made here.

11 And with that, I'll turn it over to Michelle Le
12 to talk to you about what it's like to work at Safeway.

13 CHAIRPERSON FECKNER: Thank you.

14 MS. LE: Good afternoon. It's a pleasure to be
15 here. My name is Michelle Le. I am a 32-year employee of
16 Safeway and a member of UFCW Local 400. Our union
17 represents over 6,000 Safeway, Albertsons workers in the
18 Washington D.C. metropolitan area.

19 In 2013, an investment group led by the private
20 equity firm Cerberus acquired Safeway. And since then,
21 working conditions and our customer's shopping experience
22 have gone down.

23 CalPERS is one of the investors in the fund that
24 acquired Safeway. Under Cerberus, Safeway has
25 dramatically cut hours leading to long waits at the deli

1 counter and at the cash register. Sometimes the lines are
2 10 to 15 people deep. Shelves are empty due to
3 understaffing and stores are not as clean, safe, or
4 maintained.

5 For example, the refrigerators in my store are
6 always breaking down. The coolers are not deep-cleaned
7 causing excessive dirt and mold buildup. We lose sales
8 every day, because we don't have enough staff in the
9 stores to keep the shelves stocked nor enough registers
10 open.

11 But that hasn't stopped Cerberus from making
12 money. Since 2013, Cerberus-led investment group has
13 taken over \$350 million in management fees and dividends
14 from the company. Now, Safeway tells us that we must take
15 concessions. They refuse to commit to adequately fund
16 future pension benefits placing my pension and the pension
17 of more than 50,000 current and retired Safeway employees
18 in the mid-Atlantic at risk.

19 They also want us to pay more for health care,
20 keep new hires in Washington D.C. Montgomery County,
21 Maryland at the minimum wage. And they want to maintain a
22 cap on hours, so that present part-time workers from --
23 will not qualify for health care.

24 Many of our members already rely on public
25 assistance to provide for themselves and their family.

1 Safeway Cerberus contract will likely force more of my
2 co-workers to defend -- to depend on taxpayers to make
3 ends meet. We have been negotiating with Safeway for more
4 than 14 weeks. During that time, we have shared our story
5 with other public pension funds with Cerberus investments,
6 including the Pennsylvania School Employees' Retirement
7 System.

8 We also joined with other retail workers to lobby
9 for federal legislation that would stop private equity
10 abusive and anti-workers practices.

11 Your Fourth Investment Belief states that
12 long-term value creation requires effective management of
13 three forms of capital, financial, physical, and human.
14 We are the human capital that makes Safeway successful.
15 We know our customer's names. We know their birthdays,
16 their favorite cut of meat, and how ripe they like their
17 avocados.

18 As an investor in this fund that owns Safeway, we
19 urge you to please meet with Cerberus and encourage them
20 to work with us to achieve a successful contract and
21 ensure that we share in that success. And if you don't,
22 we -- and if they don't, we ask that you please halt all
23 new investments with Cerberus until they do.

24 I thank CalPERS staff and trustees for your
25 attention in this very important matter.

1 CHAIRPERSON FECKNER: Thank you. And we thank
2 you for your comments and for your being here today and
3 sharing with us. This board takes very seriously the
4 responsibility of employers to do the right thing. I do
5 know that Mr. Baker from your organization has met with
6 our staff a number of times. I urge you have him continue
7 meeting with our staff, so we can keep an open dialogue.

8 Ms. Taylor.

9 VICE CHAIRPERSON TAYLOR: Yes. Thank you, Mr.
10 Chair. Thank you very much for talking to us today about
11 this. I will say this is something that Ms. Olivares
12 mentioned earlier, which is the reason we need the Warren
13 bill that's currently up at the Senate and the House,
14 because these companies -- one of the problems -- and I
15 didn't comment earlier. But one of the problems with
16 having private equity is that this is their common
17 practice.

18 I know we all have a need for private equity and
19 I understand that, but there has to be a way to stop the
20 debt loading that they do. \$350 million in management
21 fees. They bought the company. What do you mean
22 management fees?

23 I'm just appalled the fact that they would
24 undermine the defined benefit pension and try to --
25 grocery jobs used to be middle class jobs. This is

1 ridiculous. So thank you very much for bringing it to our
2 attention.

3 MS. LE: Thank you.

4 CHAIRPERSON FECKNER: Okay. Seeing nothing else
5 on our agenda, the open session of this Committee is
6 adjourned.

7 (Thereupon California Public Employees'
8 Retirement System, Investment Committee
9 meeting open session adjourned at 1:20 p.m.)

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

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

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

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

14 IN WITNESS WHEREOF, I have hereunto set my hand
15 this 18th day of December, 2019.

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22 JAMES F. PETERS, CSR
23 Certified Shorthand Reporter
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