

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

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
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SACRAMENTO, CALIFORNIA

WEDNESDAY, FEBRUARY 19, 2020

8:45 A.M.

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

A P P E A R A N C E S

BOARD MEMBERS:

Mr. Henry Jones, President

Ms. Theresa Taylor, Vice President

Ms. Margaret Brown

Mr. Rob Feckner

Ms. Fiona Ma, represented by Mr. Frank Ruffino

Ms. Lisa Middleton

Mr. David Miller

Ms. Stacie Olivares

Ms. Eraina Ortega

Mr. Jason Perez

Mr. Ramon Rubalcava

Ms. Shawnda Westly

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Michael Cohen, Chief Financial Officer

Mr. Christian Farland, Chief Information Officer

Mr. Douglas Hoffner, Chief Operating Officer

Mr. Matthew Jacobs, General Counsel

Dr. Yu (Ben) Meng, Chief Investment Officer

Dr. Donald Moulds, Chief Health Director

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

STAFF:

Mr. Brad Pacheco, Deputy Executive Officer, Communications & Stakeholder Relations

Mr. Anthony Suine, Deputy Executive Officer, Customer Services & Support

Mr. Scott Terando, Chief Actuary

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

Mr. Danny Brown, Chief, Legislative Affairs Division

Ms. Kara Buchanan, Board Secretary

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

Ms. Heather Sison, Associate Investment Manager

ALSO PRESENT:

Mr. Jim Baker, Private Equity Stakeholder Project

Mr. Tim Behrens, California State Retirees

Mr. Al Darby, Retired Public Employees Association

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

Mr. J.J. Jelincic

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

I N D E X

	PAGE
1. Call to Order and Roll Call	1
2. Approval of the February 19, 2020 Board of Administration Timed Agenda	2
3. Pledge of Allegiance - Henry Jones	2
4. Board President's Report - Henry Jones	2
5. Chief Executive Officer's Report (Oral) - Marcie Frost	6
6. Action Consent Items - Henry Jones	12
a. Approval of the December 18, 2019 Board of Administration Meeting Minutes	
b. Board Travel Approvals	
7. Information Consent Items - Henry Jones	12
a. Board Meeting Calendar	
b. Draft Agenda for the March 18, 2020 Board of Administration Meeting	
c. General Counsel's Report	
d. Communications and Stakeholder Relations	
8. Committee Reports and Actions	
a. Investment Committee (Oral)	13
b. Pension & Health Benefits Committee (Oral)	13
c. Finance & Administration Committee (Oral)	13
d. Performance, Compensation & Talent Management Committee (Oral)	26
e. Risk & Audit Committee (Oral)	28
f. Board Governance Committee (Oral)	29
9. Action Agenda Items	
a. Proposed Decisions of Administrative Law Judges - Henry Jones	30
1. Esmeralda Mondragon	
2. Eddie A. McDonald	
3. Andrew C. Sisk	
4. Mongi B. Yacoubi	
5. Sheldon K. Scarber	
6. Won B. Baek	
7. John A. Serrano	
8. Kristoffer L. Barton	
9. Duane J. Whitcomb	
10. Mark R. Dana	

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

PAGE

11. Raymond C. Leblanc	
12. Curt Hawker	
13. Anastasia (Stacey) Conley-Van Hook (Reginald Van Hook, dec.)	
14. Dave Murphy (Bonnie Murphy, dec.)	
15. Mario U. Manansala, Jr.	
16. David E. Jaffe	
17. Kerry S. Danis	
b. Petitions for Reconsideration - Henry Jones	31
1. Dina D. Bitton (Philip S. Ryan, dec.)	
2. Lillie B. Sample	
c. Request for Precedential Decision	31
1. Dudley J. Lang	
d. State Legislative Proposal: Technical Amendments to the Public Employees' Retirement Law - Danny Brown	32
e. State Legislative Proposal: Disclosure of Private Debt - Danny Brown	35
10. Information Agenda Items	
a. Enterprise Performance Reporting - Second Quarter Update - Sabrina Hutchins	60
b. State and Federal Legislation Update - Danny Brown	70
c. Summary of Board Direction - Marcie Frost	74
d. Public Comment	74
Adjournment	70
Reporter's Certificate	80

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

2 PRESIDENT JONES: I'd like to call the CalPERS
3 Board of Administration meeting to order. And the first
4 order of business is roll call, please.

5 BOARD SECRETARY BUCHANAN: Good morning.
6 Henry Jones?

7 PRESIDENT JONES: Here.

8 BOARD SECRETARY BUCHANAN: Theresa Taylor?

9 VICE PRESIDENT TAYLOR: Good morning.

10 BOARD SECRETARY BUCHANAN: Margaret Brown?

11 BOARD MEMBER BROWN: Here.

12 BOARD SECRETARY BUCHANAN: Rob Feckner?

13 BOARD MEMBER FECKNER: Good morning.

14 BOARD SECRETARY BUCHANAN: Frank Ruffino for
15 Treasurer Ma?

16 ACTING BOARD MEMBER RUFFINO: Present.

17 BOARD SECRETARY BUCHANAN: Lisa Middleton?

18 BOARD MEMBER MIDDLETON: Present.

19 BOARD SECRETARY BUCHANAN: David Miller?

20 BOARD MEMBER MILLER: Here.

21 BOARD SECRETARY BUCHANAN: Stacie Olivares?

22 BOARD MEMBER OLIVARES: Here.

23 BOARD SECRETARY BUCHANAN: Eraina Ortega?

24 BOARD MEMBER ORTEGA: Here.

25 BOARD SECRETARY BUCHANAN: Jason Perez?

1 BOARD MEMBER PEREZ: Here.

2 BOARD SECRETARY BUCHANAN: Ramon Rubalcava?

3 BOARD MEMBER RUBALCAVA: Here.

4 BOARD SECRETARY BUCHANAN: Shawnda Westly?

5 BOARD MEMBER WESTLY: Present.

6 BOARD SECRETARY BUCHANAN: And Lynn Paquin for
7 Betty Yee?

8 ACTING BOARD MEMBER PAQUIN: Here.

9 PRESIDENT JONES: Okay. Thank you. The next
10 item is approval of the Board Administration timed agenda.

11 Do I have a motion?

12 VICE PRESIDENT TAYLOR: So moved.

13 PRESIDENT JONES: Moved by Ms. Taylor.

14 BOARD MEMBER MILLER: Second.

15 PRESIDENT JONES: Second by Mr. Miller.

16 All those in favor say aye?

17 (Ayes.)

18 PRESIDENT JONES: Opposed?

19 Hearing none. The item passes.

20 The net item is Pledge of Allegiance. And I've
21 asked Mr. Perez to lead us in the pledge.

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

24 PRESIDENT JONES: The next item on the agenda is
25 the President's report.

1 Good morning. And on behalf of the Board, I want
2 to officially welcome and introduce our newest Board
3 member Shawnda Westly. She was appointed to our Board by
4 the State Personnel Board to serve as its representative
5 to CalPERS. Shawnda has served on the SPB Board since
6 2018 and was recently reelected to serve as SPB's Vice
7 President.

8 Shawnda is the President of her own consulting
9 firm that focuses on political, policy, and legislative
10 consulting, including issue advocacy, political strategy,
11 and donor management. Her current focus is support of
12 criminal justice reform policies, efforts with the Smart
13 Justice California and consulting for the California
14 Professional Firefighters.

15 She previously served as Senior Strategist and
16 Executive Director of the California Democratic Party from
17 2009 through 2018. She began her career in 1994 with the
18 State Senate under the leadership of then President --
19 Senate President Pro Tem Bill Lockyer.

20 Shawnda, welcome to the Board and the CalPERS
21 family. We look forward to working with you.

22 And I'd like to also, at this time, congratulate
23 the chairs and vice chairs who were recently elected to
24 their positions this week. So we appreciate your
25 leadership and commitment to these important roles.

1 BOARD MEMBER WESTLY: Thank you.

2 PRESIDENT JONES: It is with heavy --

3 (Applause.)

4 PRESIDENT JONES: Yeah.

5 It is with heavy hearts that we learned of the
6 untimely passing of a well-respected State retiree
7 director, Sam Davis. Sam passed away on February 8th at
8 the age of 61. He was a retired firefighter and served
9 CalFire for 29 years. For the past five years, he was a
10 frequent participant at our stakeholder and Board
11 meetings. We knew him well, and he was a very familiar
12 face to many team members, stakeholders, and Board
13 members.

14 He was a particularly strong advocate on specific
15 issues impacting individual retired firefighters. He
16 worked tirelessly to get them in touch with the right
17 people in CalPERS, whether it was related to their
18 pensions or their health care. He was genuinely a kind
19 man and a real pleasure to work with. He always had a
20 smile and a joke ready to go, even during tough
21 conversations.

22 On behalf of the Board and the entire CalPERS
23 family, we want to express our sincere condolences to his
24 family, friends, and the firefighters family.

25 Also, I wanted to acknowledge that February is

1 Black History Month. It is an annual celebration of
2 achievements by African-Americans and a time for
3 recognizing the central role of blacks in U.S. history.
4 Whether as inventors, intellectuals, public employees, or
5 entrepreneurs, the contributions of African-Americans to
6 the fabric of our state and our country are profound and
7 worthy of recognition, not just during February, but for
8 the entire year.

9 Finally, I'd like to address some misinformation
10 that has been circulating in the media reports about our
11 investments in China and the role of our Chief Investment
12 Officer, Dr. Ben Meng, and those investments. We placed
13 some information on our website to correct the record.
14 And we will share that with stakeholders who may be
15 getting questions from our members.

16 In short, we invest in countries round the globe,
17 including China, like the majority of pension funds across
18 this nation. We do this through passive -- passively
19 managed index funds that track global markets, much like
20 an individual investing in the S&P 500 index.

21 At no time, did our Chief Investment Officer
22 direct investments in China. I speak on behalf of our
23 entire Board that Dr. Meng has our full and unwavering
24 support.

25 Dr. Meng is a globally respected financial

1 expert, who has worked for leading firms in the United
2 States, including Barclays, Lehman Brothers, and Morgan
3 Stanley. His commitment to California public servants is
4 extraordinary and his integrity above reproach.

5 So with that, that concludes my comments and I
6 will call on our Chief Executive Officer, Mrs. Frost.

7 CHIEF EXECUTIVE OFFICER FROST: Thank you,
8 President Jones and good morning.

9 I'd also like to take a moment to thank Ms.
10 Westly to the Board, representing the State Personnel
11 Board. And on behalf of CalPERS and the team here, we
12 really look forward to working with you as well.

13 And just real quickly, we also want to express
14 our condolences to the family of Sam Davis. We know that
15 he served Cal Fire with a deep commitment to protecting
16 the citizens of our state and was equally passionate about
17 protecting retirement benefits for members of his Local
18 Firefighters 2881.

19 We will miss seeing Sam in the Board meetings.
20 We'll miss seeing Sam in the stakeholder meetings. And I
21 know he made many friends here at CalPERS, as he was
22 working through many member issues directly with our team.

23 So on to other business.

24 Stakeholder Forum. I think the forum was quite
25 successful, based on the survey and the feedback that we

1 received through the survey. We did set out some clear
2 information about our priorities on our three primary
3 lines of business being pension, health and investments.

4 And through the survey process, I think the top
5 feedback that we had received is that the stakeholders
6 would like to be in the same room together. So we had
7 separated the stakeholders by the stakeholder type, so
8 active, member representatives, employer representatives,
9 and then retiree association representatives.

10 And so the feedback really was that we
11 restructure, so that the stakeholders could be together
12 throughout the sessions, while also maintaining the size
13 of the room, so that the discussion and the questions
14 could be done in an interactive manner.

15 So in meantime, that's just one way that we
16 interact with our stakeholders. Obviously, we have
17 several other means by which we do that, including
18 stakeholder phone calls. We have quarterly stakeholder
19 meetings with all three of these groups. And then we
20 certainly try to show up for as many meetings as we can to
21 explain what's happening here at CalPERS.

22 So before I go on to other business, I'd also
23 like to take an opportunity to recognize Kim Malm. Kim
24 was recently appointed to the Chief of the newly created
25 Strategic Health Operations Division in our Health Branch.

1 As you know, Kim has played an important leadership role
2 in the Health Program for several months, leading the
3 teams through health rate negotiations, and serving as the
4 Interim Chief -- Health Chief during our recruitment for
5 the position that Don Moulds is now in.

6 And for many years before that, Kim led the
7 Operations Support Services Division. And you'll get a
8 chance to see Kim operating in her new role when we meet
9 for Pension Health and Benefits Committee in March.

10 So turning now to some outreach activities.
11 There were several employer events. And typically, the
12 way that I put my -- place my time is in three areas that
13 we've identified as key risks to the system. The one is
14 around investment risk. The other is about employer
15 affordability, and the third is around climate risk.

16 So there were several employer events this last
17 month, and those were really intended to discuss the
18 priorities, and also address the questions that continue
19 to come in from many of our public employers who are
20 participating in the plan.

21 The 20-year look back continues to be the
22 predominant piece of information that the employers wish
23 to speak about. I think that has had the effect of doing
24 some myth busting about what happened to a fund that was
25 super funded at 128 percent, roughly 20 years ago, to the

1 fact that we're roughly 71 percent today.

2 And I think that chart does a really nice job of
3 explaining the events that have happened, not just
4 CalPERS' events, but events that have happened in the
5 market.

6 So the day after the last month's Stakeholder
7 Forum, I did visit with the League of California Cities
8 policy committee here in Sacramento, which was a new
9 opportunity for us. And there were about a hundred people
10 in attendance who represented a variety of roles from
11 either financial managers to elected officials. And this
12 group, again, was very interested in hearing about the
13 Risk Mitigation Policy, of which I know many of you have
14 expressed keen interest in understanding that policy, and
15 the fact that it came out of suspense and is back in
16 effect. So that will be on your -- I think it's the April
17 agenda for action.

18 The following week, I had two engagements. The
19 first was here in Sacramento with Orange County members
20 fro the Association of California Cities. And they were
21 in town for their annual legislative day. These -- this
22 is a group of about 40 leaders primarily by elected
23 officials. And they were getting ready for their visits
24 with legislators. And CalPERS continues to be a topic of
25 much discussion for the employers. And we wanted to make

1 sure that they had understand -- understood all of the
2 work that had been done from the last 12 months that I had
3 met with them previously.

4 I did talk with them about what's been done to
5 continue to strengthen the fund, and strengthening the
6 fund meaning also getting accurate information out to be
7 discussed. And again, we'll continue to speak with these
8 groups, as long as the invitations continue to come in.

9 And then later that week, I spoke at the annual
10 conference for the California Society of Municipal Finance
11 Officers throughout the state. This is the fourth time
12 that I've had an opportunity to speak to this group. And
13 we had a number of our actuaries -- our actuaries are
14 quite popular with this group to really sit down and
15 explain to the employers the valuation reports, and what
16 those valuation reports mean to their contribution rates.

17 And it's a fairly complex system when we have --
18 you have the lowering of the discount rate that was done
19 in three phases, and then you ramp it in each one of those
20 steps over five years. It's very difficult for employers
21 to anticipate their rates ongoing, which is why we also
22 created the Pension Outlook Tool.

23 And we did have people there who were doing demos
24 of the Pension Outlook Tool. We had members of our
25 Employer Accounts Management Division, Renee, who was

1 there talking about independent contractor, which is
2 another item that has been coming up more frequently in
3 our visits.

4 So we'll continue to get out there as often as we
5 can to give good information to the employers who are
6 trying to make decisions about their budgets and about
7 their resources.

8 And then lastly, Board Member Middleton and I
9 were on a panel discussion for another League of
10 California Cities' event. This time there were about 500
11 city managers in attendance. And this is the second year
12 that we've had an opportunity to present together for the
13 League's members. And then that panel helps cover the
14 scope of the pension discussion from three perspectives:

15 One is the pension administrator, and how we
16 administer the benefits, and what the benefit programs
17 look like; how it impacts local governments, which Board
18 Member Middleton was able to talk about; as well as, the
19 role of the Board in making decisions that impact our
20 employer community.

21 And then there are a couple more engagements to
22 finish out the month and kick off March. At the end of
23 this month, I'll be headed to Washington D.C. for the
24 National Association of State Retirement Administrators'
25 annual conference. And I'll be doing congressional visits

1 while I'm out there talking about the topics of investing
2 in China, as President Jones mentioned in his report.

3 So I will close now with the investment
4 performance, year-to-date, as December 31st, 2019. The
5 2019 calendar year return is 17.3; the three-year return
6 is 9.4; the five-year return is 7.1; the ten-year return
7 is 8.4; and the 20-year return is 5.7, which includes the
8 08-09 financial crisis, which is why the ten-year return
9 is up over seven again.

10 And that does conclude my remarks, but I'm happy
11 to take questions.

12 PRESIDENT JONES: Okay. Seeing no questions.
13 Thank you, Ms. Frost. We will now move to the action
14 consent items. And note that you have an updated Board
15 travel request in your folders. So I'd entertain a
16 motion.

17 VICE PRESIDENT TAYLOR: Move.

18 PRESIDENT JONES: Moved by Ms. Taylor.

19 BOARD MEMBER MILLER: Second.

20 PRESIDENT JONES: Second by Mr. Miller.

21 All those in favor say aye?

22 (Ayes.)

23 PRESIDENT JONES: Item is approved.

24 Information consent items. I have been asked by
25 Ms. Brown to pull 7b, so we will move that down to the

1 agenda right before we do summary of Board directions.

2 And otherwise, we will move the rest of those as
3 information consent items.

4 The Committee reports. There was no Investment
5 Committee meetings this month. There was no Pension and
6 Health Benefit Committee meeting this month.

7 So the first on the agenda report for a report is
8 Finance and Administration Committee. For that, I call on
9 the Chair, Ms. Taylor. And before we vote on that, we do
10 have a request from the public to speak on that item. So
11 before I call for the vote after Ms. Taylor's
12 presentation, I will call on the public member to speak.

13 Ms. Taylor.

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

15 Excuse me.

16 The Finance and Administration Committee meeting
17 met on February 18th, 2020.

18 The Committee recommends and I move the Board
19 approve the following:

20 I'm going to do this one at a time. Agenda Item
21 5b, approve the June 30th, 2019 Judges' Retirement System
22 actuarial valuation report and the corresponding
23 transmittal letter to the Governor and Legislature.

24 PRESIDENT JONES: On the motion of the -- on
25 motion of the Committee.

1 All those in favor say aye?

2 (Ayes.)

3 PRESIDENT JONES: 8c. He's asking to speak on
4 it.

5 VICE PRESIDENT TAYLOR: Did you want to -- okay.

6 PRESIDENT JONES: Why don't we ask him to speak
7 now.

8 VICE PRESIDENT TAYLOR: You want to have him
9 speak now?

10 PRESIDENT JONES: Yeah. We have a request from
11 the public to speak on Item 8. Mr. Jelincic, do you want
12 to take this opportunity to speak now?

13 VICE PRESIDENT TAYLOR: Was it 8c?

14 PRESIDENT JONES: He said 8c, but he didn't say
15 which item in C.

16 VICE PRESIDENT TAYLOR: Okay.

17 MR. JELINCIC: J.J. Jelincic. And I want to
18 speak on the election procedure. I would urge you to
19 select option B, the all paper ballot process. I'm glad
20 that staff is supporting security tinted envelopes.
21 Although, I will point out that they also say that was the
22 current process, and I ask if anyone remembers last
23 election.

24 When I was on the Board, I said I believed in
25 secret ballots. I still do. Anyone who is paying

1 attention knows that paper ballots are the gold standard.
2 Internet and IRV voting are subject to hacking and
3 transmission corruption. They make the ability to audit
4 the election difficult, if not impossible, which is why
5 the State of California outlaws them.

6 There's a great deal of irony in staff's position
7 that internet and IRV voting will cut costs, while at the
8 same time their agenda item shows that it -- that the
9 paper system is the cheapest.

10 Some have argued that we should maintain the less
11 secure voting system, because some prefer it. I will use
12 some historical examples, so that people don't have to get
13 all PC.

14 Some people, even a majority, thought it was
15 proper to put Japanese, including U.S. citizens, in
16 concentration camps. Some people, even a majority,
17 thought it was right to block Chinese immigration. I am
18 not impressed that some people want a more hackable voting
19 system.

20 I do give SEIU credit for admitting their goal is
21 to turnout votes by going into the workplace and saying,
22 here, take my phone and vote for our guy. Much easier
23 than reminding people to find their ballots when they get
24 home and to vote. Not secure or private, and it is part
25 of the reason why CalPERS stopped distributing ballots in

1 the workplace.

2 Experience does not show that sacrificing
3 security and increasing costs leads to higher turnout.
4 Please go for the gold, support paper ballots.

5 Thank you.

6 PRESIDENT JONES: Okay. Ms. Taylor, you made the
7 motion on your Agenda Item 5b, but we did not take a vote.

8 So all those --

9 VICE PRESIDENT TAYLOR: We vote -- we vote --
10 yeah, so just do it again.

11 PRESIDENT JONES: Yeah. So all those in favor of
12 the motion say aye?

13 CHIEF EXECUTIVE OFFICER FROST: Mr. Jones, we
14 have one other public commenter, I believe. Mr. Behrens.

15 PRESIDENT JONES: Yeah, but he is requesting 7b.
16 And I've pulled that to the end of the agenda.

17 CHIEF EXECUTIVE OFFICER FROST: Okay. All right.

18 PRESIDENT JONES: Yeah. Thank you.

19 So it's another item. So not 7 --

20 VICE PRESIDENT TAYLOR: Okay. All right.

21 PRESIDENT JONES: Okay. Mr. Behrens.

22 VICE PRESIDENT TAYLOR: Confusing.

23 MR. BEHRENS: Thank you, President Jones, members
24 of the Board. Tim Behrens, President of the California
25 State Retirees, speaking in support of status quo, which

1 is all three various ways to vote in the future. Even
2 though I agree that a paper ballot is still unhackable and
3 a good way to go, I think if we throw out twenty-one,
4 twenty-two thousand people that use their phone or their
5 laptop, then we are reducing the number of people that
6 participate in the election process, and instead of trying
7 to figure out ways to increase the number of people that
8 become part of our election process.

9 So I would urge the Board to vote yes on the
10 status quo. And have a good day. Thank you.

11 PRESIDENT JONES: Thank you.

12 Okay. Ms. Taylor.

13 VICE PRESIDENT TAYLOR: Thank you.

14 The Committee recommends and I move the Board
15 approve the following:

16 Agenda Item 5c, approve the June 30th, 2019
17 Retirement System II Actuarial Valuation Report and the
18 corresponding transmittal letter to the Governor and
19 Legislature.

20 PRESIDENT JONES: On the motion of the Committee.
21 All those in favor say aye?

22 (Ayes.)

23 PRESIDENT JONES: Opposed?

24 The item passes.

25 VICE PRESIDENT TAYLOR: I move the Board approve

1 the following:

2 Agenda Item 5d, approve the June 30th, 2019
3 Legislators' Retirement System actuarial valuation report
4 and the corresponding transmittal letter to the Governor
5 over and Legislature.

6 PRESIDENT JONES: On motion of the Committee.

7 All those in favor say aye?

8 (Ayes.)

9 PRESIDENT JONES: Opposed?

10 The item passes.

11 VICE PRESIDENT TAYLOR: Agenda Item 7a, the
12 Committee reviewed the delegation from the Board to the
13 Committee and has recommended changes that will be brought
14 to the Board in the April -- in April, along with the
15 other committee delegations.

16 PRESIDENT JONES: On motion of the Committee.

17 All those in favor say aye?

18 (Ayes.)

19 PRESIDENT JONES: Opposed?

20 The item passes.

21 VICE PRESIDENT TAYLOR: Agenda Item 7b, approve
22 Option A to maintain the status quo on election
23 procedures.

24 PRESIDENT JONES: Okay. On the motion of the
25 Committee.

1 All those in favor say aye?

2 VICE PRESIDENT TAYLOR: Margaret.

3 BOARD MEMBER BROWN: I said 7b. I thought we
4 were going to pull that to the end.

5 PRESIDENT JONES: Oh, you're right. And matter
6 of fact, I have noted that we pulled that.

7 VICE PRESIDENT TAYLOR: I'm sorry. My bad.

8 BOARD MEMBER BROWN: Thank you.

9 Agenda Item 7c -- excuse me -- approve the
10 revised proposed regulations to establish a fee structure
11 to fund the State Social Security Administrator Program
12 with a 15-day public comment period, followed by a
13 submission of the final rulemaking package to the Office
14 of Administrative Law.

15 PRESIDENT JONES: Okay. All those in favor say
16 aye?

17 (Ayes.)

18 PRESIDENT JONES: Opposed?

19 Hearing none. The item passes.

20 VICE PRESIDENT TAYLOR: Agenda Item 7d, approve
21 the recommendation for a two-year contract extension on
22 Barra, LLC contract.

23 PRESIDENT JONES: On the motion of the Committee.
24 All those in favor say aye?

25 (Ayes.)

1 PRESIDENT JONES: Opposed?

2 (No.)

3 PRESIDENT JONES: Note Ms. Brown as -- yes. Not
4 Ms. Olivares' abstention and Ms. Brown a no.

5 The item passes.

6 Okay.

7 VICE PRESIDENT TAYLOR: The Committee received
8 reports on the following topics. Reporting on
9 participating employers and the annual diversity report.

10 The Chair directed staff to:

11 Provide in-depth information on employers by
12 funded status, such as names, number of safety, and
13 miscellaneous employees, and date of incorporation; also,
14 to provide a summary of Government Codes used in the
15 Committee delegations; at the April meeting provide
16 examples of possible candidate statements and proposed
17 regulations that include optional attestations; include
18 proposed Social Security fee amounts and fund balances in
19 the annual budget; provide periodic updates and follow up
20 on the discussion of the Barra, LLC contract; report at a
21 future meeting on Investment Office initiatives to
22 increase diversity; add additional requested data to
23 future annual diversity reports.

24 The Committee heard public comment on the
25 following topics: CalPERS 2019 retired member election

1 results and review of Board election program.

2 At this time, I'd like to share some highlights
3 of what to expect at the April Finance and Administration
4 Committee meeting:

5 And that is the 2021 annual budget proposal;
6 annual review of Board member employer reimbursements;
7 State valuation and employer/employee contribution rates;
8 schools valuation and employer/employee contribution
9 rates.

10 The next meeting of the Finance and
11 Administration Committee is scheduled for April 20th, 2020
12 in Sacramento, California.

13 PRESIDENT JONES: Okay. Thank you.

14 Ms. Brown, you had asked -- I was -- I took your
15 request to mean 7b of the agenda, but you were referring
16 to 7b --

17 BOARD MEMBER BROWN: Of FAC.

18 PRESIDENT JONES: -- of the -- of the FAC, so I'm
19 going to go ahead and allow discussion now, since we've
20 already heard from the public comment -- public on this
21 item.

22 BOARD MEMBER BROWN: Thank you, Mr. Chair.

23 Yesterday, at the FAC meeting, we had a
24 presentation from staff on the election results and the --

25 VICE PRESIDENT TAYLOR: No, we didn't. We had to

1 pull it. I'm sorry.

2 PRESIDENT JONES: No.

3 I'm allowing her to speak on -- because her
4 request to me was to pull 7b of my agenda, which is not
5 the election, but she clarified it's within the election.

6 BOARD MEMBER FECKNER: But if we made the motion
7 for 7b, she's talking to the motion.

8 PRESIDENT JONES: Yeah.

9 VICE PRESIDENT TAYLOR: No, we didn't. I can.

10 PRESIDENT JONES: Okay. Go ahead and make the
11 motion.

12 BOARD MEMBER FECKNER: I'm sorry.

13 BOARD MEMBER BROWN: No problem.

14 VICE PRESIDENT TAYLOR: Okay. Approve Option A
15 to maintain the status quo on election procedures.

16 PRESIDENT JONES: Okay. So discussion.

17 Ms. Brown.

18 BOARD MEMBER BROWN: Thank you.

19 And thank you, Mr. Feckner, for keeping us on
20 track.

21 So yesterday at the FAC meeting, there was
22 discussion about the election results, how to increase
23 more people to vote in the election process, and there
24 were a number of options put forward. I'm very proud of
25 this Board when they did not agree with the staff's

1 position that maybe we should eliminate candidate
2 statements, because I think, for most people here, when
3 you get a ballot in the mail, you open it up, you get the
4 booklet, and you figure out who you might vote for.

5 Sometimes you don't know who the people are and
6 all you have is the candidate information. And this Board
7 did agree that the candidate statement did need to stay in
8 the materials that come in the mail.

9 But my concern really is about online and phone
10 voting, which is not secure. The State does not permit
11 it. None of our vendors are certified by the state to do
12 online and phone voting, and I have very big concerns
13 about that process. It's also very confusing. If you
14 look at the ballot, you get a pin, and you have all these
15 instructions about different ways to vote. And I think it
16 is confusing for a large number of our voters. When, in
17 fact, if you just had the paper ballot and you said mail
18 it in, it would be less expensive and easier for the
19 member to vote.

20 We have no way of knowing if the 21,000 people
21 who voted via phone or IFR wouldn't have just sent their
22 ballot in the mail. Since the numbers are down, we can't
23 say that this is an increase. They just substituted the
24 way they voted, in my opinion. The only way to know would
25 be to go back and survey those voters and see if they had

1 voted in multiple elections. And I don't believe we have
2 any way of doing that.

3 But I want to go for the less expensive and safer
4 method -- measure, which is Option B. And I'd like to
5 make a substitute motion to approve Option B, which is
6 mail-in for all the elections. But say that with the
7 savings -- there's \$2.6 million, that's a minimum amount
8 of savings, because we have no idea what the vendor is
9 going to charge us in the coming years, because we're
10 going to go out for that contract.

11 So let's say it's three million or more. Why
12 can't we use some of that three million savings and use
13 that to outreach to our members to vote? That makes a lot
14 more sense. Get rid of the confusing parts of the mail
15 and phone voting -- of the phone and online voting, and
16 instead use some of that \$3 million in savings to outreach
17 to the voters. That's what -- that's my alternative
18 motion.

19 PRESIDENT JONES: Okay. Is there a second?
20 Motion by Ms. Brown. Is there a second?

21 ACTING BOARD MEMBER PAQUIN: Second.

22 PRESIDENT JONES: Second by Ms. Paquin.

23 Any further discussion?

24 Ms. Paquin.

25 ACTING BOARD MEMBER PAQUIN: Thank you, Mr.

1 President.

2 So on behalf of the Controller, she also shares a
3 concern and believes that, at this point in time with
4 security issues, that the paper ballot is the most secure
5 way to continue to offer voting to the members of CalPERS.
6 And she also agrees with the fact that some of that
7 savings hopefully could be used to try to encourage more
8 people to vote in the elections.

9 PRESIDENT JONES: Okay. It's been moved and
10 seconded.

11 All those in favor of the substitute motion, say
12 aye?

13 (Ayes.)

14 PRESIDENT JONES: Okay.

15 BOARD MEMBER BROWN: Could we have a roll call.

16 PRESIDENT JONES: Yeah. Let's vote
17 electronically.

18 MS. HOPPER: We're still on 7c summary of
19 Finance, right?

20 PRESIDENT JONES: Yes.

21 VICE PRESIDENT TAYLOR: 7b.

22 PRESIDENT JONES: It's the Finance Committee 7b.

23 VICE PRESIDENT TAYLOR: So it's -- we're in 8,
24 right, Committee reports.

25 MS. HOPPER: Okay. I'll start it right now.

1 Thank you.

2 (Thereupon an electronic vote was taken.)

3 PRESIDENT JONES: Okay. The motion fails.

4 Okay. Thank you. Now, we'll vote on the
5 original motion by the Committee.

6 All those in favor say aye?

7 (Ayes.)

8 PRESIDENT JONES: Opposed?

9 Hearing none --

10 (Noes.)

11 PRESIDENT JONES: Note Ms. Brown, Ms. Paquin, and
12 Mr. Perez a no.

13 The item passes. Thank you.

14 So that concludes the report of the Finance
15 Committee.

16 Now, we will move to the Pension -- Performance,
17 Compensation and Talent Management Committee report. On
18 that, I call on the chair, Mr. Feckner.

19 BOARD MEMBER FECKNER: Thank you, Mr. President.
20 Performance, Compensation and Talent Management Committee
21 met on February 18th, 2020. The Committee held an
22 election of the Performance, Compensation and Talent
23 Management Committee Chair and Vice chair. Rob Feckner
24 was elected Chair and Eraina Ortega was elected Vice
25 Chair.

1 The Committee recommends and I move the Board
2 approve the following:

3 Agenda Item 8a, semiannual status report on
4 incentive plan of the Chief Executive Officer.

5 PRESIDENT JONES: On motion of the Committee.

6 All those in favor say aye?

7 (Ayes.)

8 PRESIDENT JONES: Opposed?

9 Hearing none. The item passes.

10 BOARD MEMBER FECKNER: Agenda Item 8b, review of
11 the Performance, Compensation and Talent Management
12 Committee delegation. Approve the proposed amendments to
13 the Performance, Compensation and Talent Management
14 Committee delegation resolution.

15 PRESIDENT JONES: On motion of the Committee.

16 All those in favor say aye?

17 (Ayes.)

18 PRESIDENT JONES: Opposed?

19 Hearing none. The item passes.

20 BOARD MEMBER FECKNER: At this time, I would like
21 to share some highlights of what to expect at the next
22 Performance, Compensation and Talent Management Committee
23 meeting. The Committee will receive an update on the
24 employee engagement survey.

25 The next meeting of the Performance, Compensation

1 and Talent Management Committee will be scheduled for
2 April 20th, in Sacramento, California.

3 That concludes report.

4 PRESIDENT JONES: Thank you, Mr. Feckner.

5 The next item on the agenda is the Risk and Audit
6 Committee report. And for that, I call on the Chair, Mr.
7 Miller.

8 Hit your button.

9 Okay.

10 BOARD MEMBER MILLER: Okay. There it is.

11 Okay. The Risk and Audit Committee met on
12 February 18th, 2020.

13 The Committee recommends and I move that the
14 Board approve the following:

15 Agenda Item 7a, review of the Risk and Audit
16 Committee delegation. Approve the proposed amendments to
17 the Risk and Audit Committee delegation resolution as part
18 of the annual Board Committee delegation review process.

19 PRESIDENT JONES: On the motion of the Committee.
20 All those in favor say aye.

21 (Ayes.)

22 PRESIDENT JONES: Opposed?

23 The item passes.

24 BOARD MEMBER MILLER: The Committee received
25 reports on the following topics:

1 The third-party valuation and certification of
2 the State and schools pension plans as of June 30th, 2018;
3 and the 2019 through 2020 mid-year plan updates for
4 Enterprise Compliance and Enterprise Risk Management.

5 The Chair directed staff to modify the quarterly
6 status report, Office of Audit Services, to include more
7 detail regarding the status of open audit items. Ms.
8 Chappuie will bring the changes back to the Committee for
9 its consideration.

10 At this time, I would like to share some
11 highlights of what to expect at the April Risk and Audit
12 Committee meeting. The 2021 -- 2020 through 2021 plans
13 for Enterprise Compliance and Enterprise Risk Management.

14 The next meeting of the Risk and Audit Committee
15 is scheduled for April 20th, 2020 in Sacramento,
16 California.

17 And that concludes my report.

18 PRESIDENT JONES: Thank you, Mr. Miller.

19 We have a -- Ms. Brown.

20 BOARD MEMBER BROWN: Thank you, Mr. Chair.

21 I just wanted to thank both the Chair of Risk and
22 Audit, Mr. Miller, for agreeing to have Ms. Chappuie, the
23 Chief Auditor, bring back changes to the quarterly audit
24 reports. Currently, we don't get a listing of unresolved
25 audit findings, and what the potential resolution is, and

1 when those items will be resolved. Basically, we just get
2 a bar chart. And I don't believe it's real oversight. So
3 I do appreciate you, Mr. Miller, agreeing to have staff
4 come back and give us more detail so we can provide true
5 oversight.

6 Thank you.

7 PRESIDENT JONES: Okay. Thank you.

8 The next item on the agenda is proposed decisions
9 of administrative law judges. Mr. Chirag is on the phone.

10 Good morning.

11 MR. SHAH: Good morning, Mr. President, members
12 of the Board.

13 PRESIDENT JONES: Okay. In the event you have
14 questions for our independent administrative law judge
15 counsel, he's on the phone to answer any questions you may
16 have.

17 So with that, I call on Ms. Taylor for Agenda
18 Item 9a.

19 VICE PRESIDENT TAYLOR: Great. Thank you, Mr.
20 Perez. Agenda Item 9a. I move to adopt the proposed
21 decision at Agenda Items 9a1 through 17 as the Board's own
22 decisions with minor modifications argued by staff to
23 Agenda Items a1, 2, 9, 12, and 15.

24 PRESIDENT JONES: On the motion by Ms. Taylor.

25 All those --

1 BOARD MEMBER MILLER: Second.

2 PRESIDENT JONES: Second by Mr. Miller.

3 Discussion?

4 Seeing none.

5 All those in favor say aye?

6 (Ayes.)

7 PRESIDENT JONES: Opposed?

8 The item passes.

9 Next item Ms. Taylor is 9b.

10 VICE PRESIDENT TAYLOR: Agenda Item 9b, I move to
11 deny the petitions for reconsideration at Agenda Items 9b1
12 and 2.

13 PRESIDENT JONES: It's moved by Ms. Taylor.

14 Is there a second?

15 BOARD MEMBER BROWN: Second.

16 PRESIDENT JONES: Second by Ms. Brown, was it?

17 BOARD MEMBER BROWN: Yes.

18 PRESIDENT JONES: Okay. Ms. Brown.

19 All those in favor say aye?

20 (Ayes.)

21 PRESIDENT JONES: Opposed?

22 Hearing none. The item passes.

23 The next item on the agenda is 9c. For that, I
24 call on Ms. Taylor.

25 VICE PRESIDENT TAYLOR: I move to direct the

1 CalPERS Legal Office to solicit written comments from the
2 public on whether or not to designate the Dudley J. Lang
3 final decision at Agenda Item 9c1 as a precedential Board
4 decision.

5 PRESIDENT JONES: Okay. Do we have a second?

6 BOARD MEMBER MILLER: I'll second.

7 PRESIDENT JONES: Second by Mr. Miller.

8 All those in favor say aye?

9 (Ayes.)

10 PRESIDENT JONES: Opposed?

11 The item passes.

12 Just a minute. I just got an updated list. I
13 want to just see if the item we just took action on is on
14 this updated list.

15 That's -- no. Okay. So okay. All right. Thank
16 you, Ms. Taylor.

17 VICE PRESIDENT TAYLOR: Absolutely.

18 PRESIDENT JONES: So now we move to the action --
19 I mean, the information item -- the action item, I'm
20 sorry, 9D, State Legislative Proposal.

21 Mr. Brown.

22 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Good
23 morning, Mr. President and Board members. Danny Brown,
24 CalPERS team member.

25 Agenda Item 9d is asking the Board to sponsor our

1 annual housekeeping bill that makes clarifying and
2 technical changes to the Public Employees' Retirement Law,
3 or as we like to refer to as the PERL.

4 The proposal currently has two primary
5 provisions. The first provision confirms -- conforms the
6 PERL to a recent change in federal law that changed the
7 minimum distribution age for retirement accounts from 70
8 and a half to age 72.

9 The second provision of this proposal clarifies
10 what type of confidential data may be shared and who it
11 may be shared with. And so it's a fairly straightforward
12 and simple proposal. And at this point, I'll conclude my
13 comments and answer any questions you may have.

14 PRESIDENT JONES: Are there any questions from
15 the Board?

16 Ms. Brown.

17 BOARD MEMBER BROWN: Thank you.

18 PRESIDENT JONES: Hit your button.

19 BOARD MEMBER BROWN: It's on. I'm on.

20 Usually people don't have a problem hearing me.

21 Okay. Mr. Brown, so what's concern with the
22 confidential data now.

23 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: We're
24 just clarifying, one, is who -- what -- so right now, what
25 we can do is employer data that comes to us can be

1 shared -- or I should say employee data that comes to us
2 can be shared to the -- with your employer. So the --

3 We're just clarifying the names of the employer.
4 For example, we say State agencies, but State agency does
5 not include CSU, so we need to spell out CSU. We need to
6 spell out some of the other school employers.

7 The other issue is with -- around reciprocity.
8 As you know, some of our retirees have reciprocity with
9 other retirement systems, so we want to make sure it's
10 clear that we can share data with other retirement
11 systems. So it's just clarifying those -- those types of
12 things. So it's not changing the con --

13 BOARD MEMBER BROWN: It's not expanding.

14 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN:

15 -- expanding the concept.

16 BOARD MEMBER BROWN: Okay.

17 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: It's
18 still listing as we will only share member data with the
19 member themselves or with their corresponding employer,
20 and in this case, other retirement systems.

21 BOARD MEMBER BROWN: Great. Thank you.

22 PRESIDENT JONES: Okay. This is an action item.

23 But before we take action on this, we have a
24 request to speak on this item.

25 Mr. Jelincic.

1 MR. JELINCIC: I was on E.

2 PRESIDENT JONES: It's D on my thing. Okay.

3 VICE PRESIDENT TAYLOR: Is Mr. Darby on.

4 PRESIDENT JONES: No. Mr. Darby is E.

5 Okay. So we have a --

6 BOARD MEMBER BROWN: Move approval.

7 PRESIDENT JONES: Moved by Ms. Brown.

8 BOARD MEMBER PEREZ: Second.

9 PRESIDENT JONES: Second by Mr. Perez.

10 All those in favor say aye?

11 (Ayes.)

12 PRESIDENT JONES: Opposed?

13 Hearing none. The item passes.

14 Thank you, Mr. Brown.

15 9e.

16 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Yeah.

17 So on Agenda Item 9e, we are asking the Board to sponsor

18 legislation that would assist the Investment Office in

19 pursuing private debt investment opportunities.

20 As you know, Ben and his team have discussed the

21 importance of having more access to the private markets in

22 order to hit our seven percent investment return. This

23 proposal is meant to ensure that confidential due

24 diligence material is protected especially when CalPERS

25 internal investment team is actively or directly involved

1 in the private debt underwriting.

2 As part of the due diligence necessary to
3 properly underwrite a private debt investment, CalPERS
4 team members, or its external partners, conduct a
5 comprehensive review of highly sensitive, proprietary, and
6 trade secret information, including the borrower's
7 financial condition, credit history, and collateral.

8 However, if there's potential that this sensitive
9 information could be subject to public disclosure, it
10 could impair CalPERS' ability to fully participate in this
11 market. This proposal would establish disclosure
12 requirements relating to private debt that parallel the
13 existing disclosure requirements for alternative
14 investment vehicles and public banks.

15 Specifically, the proposal would stipulate that
16 the name and address of the borrower, the dollar amount of
17 the loan, the investment return on the loan, and any
18 undrawn loan commitments would be disclosable upon
19 request.

20 It would also specify that proprietary due
21 diligence information, information proprietary to the
22 borrower or borrowers, and details about potential
23 collateral will remain confidential.

24 Establishing public disclosure requirements
25 relating to private debt records ensures that the public

1 will continue to receive the information needed to
2 evaluate the performance of the fund, while protecting the
3 confidential financial information of the borrowers.

4 And with that, I'm available for any questions.

5 PRESIDENT JONES: Okay. Any questions from the
6 Board?

7 Ms. Brown.

8 BOARD MEMBER BROWN: So I have concerns when we
9 start messing with the California Public Records Act. I
10 think it's a slippery slope and it makes us less
11 transparent, not more transparent.

12 And, Mr. Brown, I heard you talk about trade
13 secrets. And I know that in private equity they call
14 everything a trade secret. Their contract is a trade
15 secret. And so I want us to be very, very careful that we
16 don't expand the definition of what needs to remain
17 private or hidden, that we don't end up not disclosing the
18 contract, or any of the other information that we should
19 be able to see as -- as a part of the public records.
20 I -- but I really have concern about any legislation that
21 adds exceptions to this CPRA.

22 Those are my comments right now.

23 PRESIDENT JONES: Okay. Ms. Paquin.

24 ACTING BOARD MEMBER PAQUIN: Thank you.

25 I was just curious why private debt wasn't

1 included in the original bill over ten years ago? And
2 also, if this bill would only be specific to CalPERS or
3 would it include other systems like the UC and CalSTRS?

4 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Sure.
5 So I'll take the second question first, because that's the
6 easier one. But, yes, it would include CalSTRS and the UC
7 retirement systems.

8 And I think the answer to your first question is
9 the fact that private debt really wasn't a market back
10 when the private equity bill went through. It's something
11 that has come about after -- with Dodd-Frank and the fact
12 that now there's types of debt that banks cannot
13 underwrite, because of requirements on them, so they've
14 created a market for this private debt.

15 ACTING BOARD MEMBER PAQUIN: Okay. Thank you.

16 PRESIDENT JONES: Okay. Ms. Taylor.

17 VICE PRESIDENT TAYLOR: Yes. Thank you. Thank
18 you for this report.

19 I'm just -- also, I just want to make sure, so
20 basically what you're trying to shroud is if it's, I don't
21 know, Joe Smith's loan that we're loaning to Joe Smith,
22 his information -- his private information is kept
23 private, is that correct? Is that the main thrust of
24 this?

25 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: That's

1 correct. And I would say it's typically going to be a
2 company rather than an individual. But it would be a
3 company. I mean, there could be situations where the
4 company is, you know, owned by an individual or
5 individuals that we may look at too, but it's typically a
6 company that we're talking about.

7 VICE PRESIDENT TAYLOR: Okay. So --

8 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: It's
9 keeping that company's financial information private.
10 It's also then making us competitive in the sense that if
11 we have to disclose it, then they're likely going to go to
12 someone that doesn't have to disclose it. So in order to
13 make sure that we're competitive in this market and
14 getting the best opportunities, we need to, you know, have
15 you know, these similar rules that other folks will be
16 playing by.

17 VICE PRESIDENT TAYLOR: Okay. I'm just take --
18 trying to consider that, because companies also have to
19 disclose a whole bunch of information anyway.

20 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: And
21 this -- well, this -- and this -- and for example, if we
22 are underwriting a loan to a public company, this does not
23 all of a sudden make something confidential that is not
24 already public.

25 VICE PRESIDENT JONES: Okay.

1 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: So
2 whatever is already public will continue to remain public.

3 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Okay.
4 I gotcha. Thank you.

5 PRESIDENT JONES: Ms. Olivares.

6 BOARD MEMBER OLIVARES: So I applaud the efforts
7 of the CalPERS investment team to look at this asset
8 class, particularly right now, given the yields. It's a
9 space I'm working in right now and private credit, so I
10 understand it.

11 I'd like to understand a little bit more about
12 what would be confidential, because I'm not clear about
13 that.

14 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Well,
15 I think -- I think it's -- and I'm going to -- I'm going
16 to -- I'm going to bring up some help, just because they
17 can -- probably going to get way down in the weeds.

18 BOARD MEMBER OLIVARES: Thank you.

19 Hi.

20 CHIEF INVESTMENT OFFICER MENG: Good morning. So
21 in private debt -- in private markets, when they -- when
22 we underwrite, decide whether we lend money to them or
23 not, in the private markets, we have more access to more
24 confidential information, so we can do better assessment
25 of the underlying credit of the Board.

1 And some of the confidential information can be
2 some of their trade secrets, or their competitive
3 advantage, taking advantage of technological advantages.
4 For us, we need to understand -- to help us understand
5 better and we can underwrite the loan much better.

6 But in order for us to have access to that
7 confidential information, to help us to underwrite the
8 loan better and protect our interest, we need to have
9 access to that information. And the borrowers are willing
10 to share with us that information on the condition that it
11 won't be leaked to the public and to hurt their business.

12 And anyway, you can extend the argument if we
13 lend money to them, the side effect of that, if we review
14 their competitive advantage and their business get hurt,
15 in a way our business or our investment return will be
16 hurt as well. And so that is the type of confidential
17 information.

18 And the other thing is, Ms. Brown just mentioned,
19 it's a very competitive landscape space and this is the
20 common market practice. If the borrower sense the risk
21 of -- risk to their business and they can borrow money --
22 as you know, the market is really hot now -- they can
23 borrow money from a lot of other people. And they may
24 chose not to borrow from us. So in a way that can hurt
25 our investment capability as well.

1 BOARD MEMBER OLIVARES: Will our strategy be kept
2 private?

3 CHIEF INVESTMENT OFFICER MENG: The strategy
4 itself is not private at all. It just the loan -- the
5 underwriting loan. For example, when we go out to apply
6 for a mortgage, and we provide our confidential
7 information, financial information, you know, credit
8 history, we open the whole book to the underwriter from
9 the commercial mortgage lend -- not commercial, the
10 mortgage lender, but in return that we know certain part
11 of that information will be kept confidential.

12 BOARD MEMBER OLIVARES: What about our
13 underwriting criteria, will that be confidential?

14 CHIEF INVESTMENT OFFICER MENG: Our underwriting
15 criteria, the general rules are not confidential at all.
16 But to each of the loan, what information we are getting
17 from the borrower to the extent it should be confidential,
18 we need to keep them confidential.

19 BOARD MEMBER OLIVARES: Do you think the language
20 in this bill goes far enough?

21 CHIEF INVESTMENT OFFICER MENG: That I don't --

22 BOARD MEMBER OLIVARES: So from my experience,
23 this is an extremely competitive market space right now.
24 And people -- companies compete based on strategy. And
25 it's very hard to get into these investment opportunities.

1 That's why I'm asking these questions about the
2 confidentiality of strategy and underwriting criteria. I
3 understand the loan information will be kept confidential
4 and there are many reasons why, right?

5 So I -- on the credit side, if you're buying a
6 pool of loans, I mean, you could have different types of
7 business owners and their confidential information. On
8 the private debt side, there is a lot of confidential
9 information.

10 But as we decide to get into this asset class, I
11 want to make sure that we can be competitive and that
12 we're looking at all aspects of this, including our
13 strategy.

14 CHIEF INVESTMENT OFFICER MENG: Yes. So let me
15 say, the way the -- currently, the proposal is written, I
16 think will help us to become competitive in the space.
17 But whether it has gone far enough or not, that I would
18 leave to Mr. Brown.

19 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Yeah.
20 Well, I would just -- my response is that, you know, we
21 did work with the Investment team and our Legal Office on
22 the language, but also recognizing that we're trying to
23 mirror the other provisions that are out there, so that
24 we're not necessarily asking for more protection or less
25 protection that has already been granted by the -- for

1 alternative investment vehicles.

2 And then last year, there was a bill that went
3 through a public banks, where local governments can
4 underwrite loans and they asked for similar protections
5 for their underwriting. So I think we were trying to
6 stick to what the Legislature has already granted
7 permission for public entities to have, you know, private.

8 And I would think -- and I want to point out one
9 other key piece of this bill is unlike private equity,
10 where the exemption is provided to our external managers
11 who are doing this and have the material, this bill would
12 actually protect information that our own internal staff
13 is having access to and underwriting. So to the extent
14 that we can do this ourselves versus relying on external
15 managers.

16 So I think that's an important component of this
17 bill that doesn't exist in the alternative investment
18 vehicle bill -- or language.

19 BOARD MEMBER OLIVARES: Thank you.

20 PRESIDENT JONES: Mr. Perez.

21 BOARD MEMBER PEREZ: I want to say yes to this,
22 but I need more -- I need more. This is just a proposal
23 to move forward with drafting a bill or do you have the
24 bill drafted?

25 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: This

1 would be a proposal to -- I mean, we have draft language
2 that is -- that is in, I should say, mock up form. But
3 this is the Board to grant us permission to pursue
4 legislation. And then we would get an author to introduce
5 the legislation. And the legislation would go through the
6 process, and, you know, who knows what it will look like
7 when it comes out at the end. But this is permission to
8 give us -- you know, approval for legislation.

9 I think all of the policies around these type of
10 investments would still be, you know, subject to the Board
11 approval and go to the Board, but this is just legislation
12 to exempt certain information from the Public Records Act.

13 BOARD MEMBER PEREZ: Right. And I support that.
14 But -- so I would support developing -- writing up a bill,
15 getting the sponsor, but then bringing that bill back to
16 us, so I can read it. I can make sure I'm comfortable
17 with it. I know that sounds like a lot of extra work and
18 I apologize. But if you come -- that's the box I live in.

19 Thank you.

20 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: I
21 would just say the difficulty is that -- as I will mention
22 later in my update is that we have a deadline of next week
23 to introduce bills. And so there is a timeline. And so
24 we can do that, if that's the Board desires to bring back
25 language to look at, but it might just postpone getting

1 something done this year.

2 PRESIDENT JONES: Mr. Perez, if -- recognizing
3 that they're meeting a deadline, if the -- once the bill
4 is introduced, it will not be acted on immediately, so
5 perhaps you can come back to us, give us an update before
6 the Legislature take action on it. So you'll have an
7 opportunity to review it that way. Is that --

8 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: And if
9 I may add, Ms. Frost made a good point. I mean, even if
10 we do introduce a bill, you know, obviously it's -- it
11 will take a long time for it to go through the process, so
12 it -- you know, at any time, the Board could decide that
13 they don't want to move forward with it and we can, you
14 know, pull it or stop it from going through.

15 BOARD MEMBER PEREZ: Will we have that kind of
16 authority once it's -- someone sponsors it and they can't
17 change their mind and say, no, you guys --

18 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Well,
19 we would -- I mean, we -- I would -- we would be at the
20 sponsor's -- I mean, obviously, the authors of the bills
21 can do anything they want, once -- once we get an author.
22 But technically as the sponsors, they will, you know,
23 listen to us and kind of give us a lot of latitude on that
24 area. But no, we don't have complete control over what
25 the author wants to do with the bill.

1 BOARD MEMBER PEREZ: Thank you.

2 PRESIDENT JONES: Okay. So that's the direction
3 to come back after the bill is -- so that -- excuse me --
4 after the bill is introduced, so that we have a -- and
5 that's a normal process anyway that you update us on a
6 regular basis, is that correct?

7 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Well,
8 we do. But I think I still would need a vote on whether
9 or not the Board wants to -- I mean, I guess, I would -- I
10 would think we still need a vote --

11 PRESIDENT JONES: Oh, yeah. Yeah. No.

12 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: -- on
13 whether or not to sponsor this legislation.

14 PRESIDENT JONES: Oh, yeah. Right. No, I'm
15 going to take a vote on it, but I just wanted to be sure
16 that Mr. Perez's --

17 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN:
18 Sure.

19 PRESIDENT JONES: -- concerns were addressed.
20 That's all. Okay.

21 Okay. So before we vote on this, we do have a
22 couple of requests to speak on this item.

23 Oh, you -- I'm sorry. We have a couple of more
24 requests here. We first have Mr. Miller. Okay.

25 BOARD MEMBER MILLER: Yeah. More comments than

1 questions, but I'm in support of this. Like Ms. Olivares,
2 I'm concerned that, you know, we want to make sure we --
3 if we do this, that we get it right the first time and
4 that we don't put ourselves at a competitive disadvantage.
5 I think this is -- I'm encouraged that we're looking at
6 these kinds of alternatives and new opportunities as they
7 present themselves.

8 I am -- I know that Ben and the entire team are
9 laser focused on meeting and beating our seven percent
10 goal. And this is an important part of it.

11 I also think that if the folks that we're trying
12 to serve with this, in terms of the marketplace, have any
13 perception that we are a less secure option to borrow
14 money from, in materials of their information, their
15 security on confidential -- especially trade secret
16 information that might be part of what backs our
17 confidence in loaning to them, that we would be at a
18 severe, in my opinion, disadvantage.

19 And so it's really important that they have that
20 confidence that they can do business with us, just as they
21 would have confidence in doing business with other
22 providers.

23 And in my experience as a regulator for the last
24 nearly 30 years, where I had authority to do
25 administrative, civil, and criminal prosecutions for

1 environmental crimes, et cetera, yet, as an environmental
2 regulatory agency under federal and State law, the
3 authority delegated to us, we still had a strong
4 affirmative obligation to protect confidential information
5 and trade secrets of regulated companies who, you know, if
6 they did commit environmental crimes, that changed the
7 dynamic and that investigation could go into those areas.
8 But as regulatory agencies, routinely with the authority
9 to collect information from them to regulate them, we
10 still had that affirmative obligation, or else we never
11 could have been delegated those authorities to collect the
12 information in the first place.

13 So I'm completely comfortable with the idea of
14 trusting CalPERS to have all the tools they need to be
15 effective at underwriting these kind of loans and helping
16 us make our fund perform better in this tough competitive
17 environment.

18 Thank you.

19 PRESIDENT JONES: Ms. Middleton.

20 BOARD MEMBER MIDDLETON: Thank you, Mr.
21 President.

22 I think I understand the basic reasoning for
23 this. The more you know about someone who's coming to us
24 for a loan, the better you can do a job of underwriting
25 that loan, or at least one better be able to better

1 underwrite.

2 Some very specific -- excuse me -- specific
3 questions. Is CalSTRS and UC in support of this
4 legislation?

5 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: They
6 have not taken a formal position. I think -- I think that
7 they -- based on my conversations with them at the staff
8 level --

9 BOARD MEMBER MIDDLETON: Right.

10 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: -- I
11 think they all see the importance of it, and all are
12 interested in it, and want it, but they haven't taken it
13 formally to their boards yet. And so we would -- we --
14 we're hoping that they will be supportive of it and we be
15 encour -- we will be asking for their support.

16 BOARD MEMBER MIDDLETON: All right. You can
17 appreciate the importance of that.

18 If we were to move forward with this, in a
19 typical transaction, can you define for me some types of
20 data that currently would be in the public domain that
21 would no longer be in the public domain?

22 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: I --

23 CHIEF INVESTMENT OFFICER MENG: That would not be
24 the case. If anything currently in the public domain will
25 remain to be in the public domain.

1 BOARD MEMBER MIDDLETON: So if we're getting
2 legislation that will allow us to keep some things secret
3 that we cannot now keep secret, what are those things that
4 we will now be able to keep secret?

5 CHIEF INVESTMENT OFFICER MENG: Just clarify.
6 Your question is say -- yeah, so if we didn't have the
7 bill -- if we didn't have the bill, we continue the
8 private debt, some of the managers will shun away from us.
9 And the other thing if -- for the managers say chose
10 not -- choose to do business with us, they have a risk. I
11 want to say that -- I'm not legal expert, we may have a
12 legal risk as well, because we get their confidential
13 information, we process them, and there's no such bill
14 protect us. And when we have to make it public, we put on
15 the public domain, the borrower of the company may sue us.
16 But again, I'm not a legal expert. I'm thinking the
17 potential risk to us.

18 GENERAL COUNSEL JACOBS: Can I take a crack?

19 INVESTMENT DIRECTOR CROCKER: Kit Crocker,
20 CalPERS Investment.

21 GENERAL COUNSEL JACOBS: Sorry. Oh, I didn't
22 know you were --

23 INVESTMENT DIRECTOR CROCKER: Kit Crocker,
24 CalPERS Investment Office staff.

25 So just one example that's vivid to us is

1 inventory levels can be very competitively sensitive to
2 our borrowers.

3 BOARD MEMBER MIDDLETON: Sure.

4 INVESTMENT DIRECTOR CROCKER: And we, of course,
5 would want to look at those as a potential lender.
6 Collateral we would be looking at very closely. So all
7 sorts of, you know, things that, as a borrower, as a
8 ongoing business, you don't want to have to share with
9 your competitors.

10 BOARD MEMBER MIDDLETON: Right.

11 INVESTMENT DIRECTOR CROCKER: And though the
12 private in private debt is referring to the fact that the
13 debt itself is not publicly traded. Often, these are
14 middle-sized companies that are not publicly traded. So
15 they're not used to this -- you know, this open disclosure
16 of everything about their financials, so...

17 BOARD MEMBER MIDDLETON: Right. So we're coming
18 back to some of the underlying financial data of the
19 organization that we're thinking of underwriting a loan
20 for, is that correct?

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

23 BOARD MEMBER MIDDLETON: All right. Okay. Last
24 question that I have. Will the existence and the amount
25 of a loan that we issue still be a public record?

1 INVESTMENT DIRECTOR CROCKER: Yes, and the name
2 and address of the borrower, the dollar amount of the
3 loan, the rate of return.

4 BOARD MEMBER MIDDLETON: All right. And the
5 terms of repayment of that loan, will those be a public
6 record?

7 INVESTMENT DIRECTOR CROCKER: As of now, that's
8 not something we've specified.

9 BOARD MEMBER MIDDLETON: I'm sorry, I'm not sure
10 I heard.

11 INVESTMENT DIRECTOR CROCKER: No, we had not
12 contemplated the terms of repayment.

13 BOARD MEMBER MIDDLETON: Being a pub -- being in
14 the public record?

15 INVESTMENT DIRECTOR CROCKER: Correct.

16 BOARD MEMBER MIDDLETON: All right. I'm -- that
17 is an area that I would need more education on.

18 Thank you.

19 PRESIDENT JONES: Okay. Ms. Brown.

20 BOARD MEMBER BROWN: Thank you.

21 I appreciate this discussion by the Board and
22 with staff. I just want to say that I'm going to be
23 voting no on this. And the -- for the primary reason that
24 Mr. Brown stated, which is we have no control over what
25 the author wants. And you also said who knows what it

1 will look like in the end. And I have concerns.

2 Maybe when you bring the legislation back and I
3 see how it's written, that can turn into a yes. But I
4 really have concerns over a slippery slope. If anybody
5 else adds anything else to this opportunity to change the
6 CPRA. We don't know what's going to happen, and so I have
7 concerns about that. So I'll be voting no.

8 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: I just
9 wanted to clarify my comment of when I said not sure what
10 it will look like, and maybe I --

11 BOARD MEMBER BROWN: Well, it's the truth.

12 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN:

13 Obviously, any time you have a piece of
14 legislation going through, you have to negotiate. You
15 have folks that may be in opposition and so forth. So
16 there's always some give and take, and -- but obviously,
17 we wouldn't agree to a final bill that we weren't
18 comfortable with or we think, you know, helped us out. So
19 I don't want to think like it's -- where it's totally out
20 of our control. But as the sponsors, obviously, we get to
21 decide or agree on what amendments we need to take in
22 order to get the bill to the Governor's desk and
23 ultimately to have the Governor sign the bill.

24 PRESIDENT JONES: Thank you, Ms. Ortega.

25 BOARD MEMBER ORTEGA: Yeah. Thank you, Mr. Chair

1 I'm supportive of this proposal. However, I do
2 want to raise a process issue, which is that I think it is
3 unusual to bring a proposal before the Board without the
4 actual draft language. So I would suggest in the future,
5 if we're going to consider sponsoring a bill, that we see
6 a draft of the actual legislation.

7 I -- in my experience, there are sometimes a
8 two-step process, where you come and say conceptually we'd
9 like to move forward with something. Are you in support
10 of the concept and we'll bring back the actual draft
11 language. I would support a process like that too, but I
12 think we are at a disadvantage to not see what the actual
13 proposal is.

14 And, you know, recognizing that any time you
15 introduce a bill, you -- you never know what's going to
16 come out at the end with the Legislature. And while we
17 can remove our name from that bill, at some point, the
18 bill may still move forward. And we have to recognize
19 that risk too. And that's the risk you take when you
20 decide to propose a legislative solution. But again, I'm
21 in support of the concept and the proposal here but I
22 would like to, in the future, see the draft.

23 Thank you.

24 PRESIDENT JONES: And let that be a direction
25 from the President in the future. Okay.

1 Ms. Olivares.

2 BOARD MEMBER OLIVARES: Thank you, Mr. President.

3 I think this is a good start. I echo the
4 comments of my colleagues in terms of the draft language,
5 and I understand the timing issue as well. I do want to
6 say when it comes to things like underwriting, oftentimes
7 there's like a secret sauce, right? Here, sometimes you
8 use different factors, and AI, things like that.

9 And so to the extent possible, I do believe we
10 could disclose our general underwriting criteria. When it
11 comes to the information of the borrower, so oftentimes
12 it's regulated. I mean, it depends on the loan amount,
13 right? So if you're looking at smaller loans amount --
14 really small loan amounts, you're talking about like SBA,
15 like up to five million or something like that.

16 Beyond that, there are many other considerations
17 and it does get into some serious privacy concerns,
18 especially when look at the cap table and the ownership of
19 the company, and it shows the individual's ownership, and
20 then from there you can understand their financial
21 position.

22 So I want to make sure we are protected legally
23 when it comes to that, because that's a lot of personal
24 information. And I think disclosing that could put us at
25 risk. I think to the extent that the Board has concerns

1 about what these investments look like in terms of the
2 terms, there are private databases that provide access to
3 that information. So if -- if we want it with the terms,
4 then we can probably see it in that. But that's not
5 typically publicly available information.

6 If there's a private a debt issuance, you might
7 see with like a tombstone. So it's the -- the name of the
8 company that lent money, the borrower, and then the
9 amount. If we need additional information beyond that,
10 perhaps we can get that from a different database.

11 Thank you.

12 PRESIDENT JONES: Okay. Thank you.

13 Okay. That concludes the Board members'
14 comments. So we do have a couple people requested to
15 speak on this item. And one requester has requested four
16 minutes, but I'm going to maintain three minutes, because
17 we have a list of other people that's waiting to speak.
18 So I'll call up Mr. Jelincic and Mr. Darby.

19 MR. DARBY: Go ahead.

20 MR. JELINCIC: J.J. Jelincic. I'm the one who
21 requested four minutes, so I'm just going to have to talk
22 a little quicker.

23 I do not believe that this is the time to rush
24 into shadow banking. When everyone else wants in, it's
25 time to get out, not rush further in.

1 That being said, the Board of the fiduciaries you
2 get to make the decision. You are the experts who make
3 the decision, whether the beneficiaries of the fund should
4 be making loans the banks won't. I strongly disagree with
5 the proposal to seek private equity level security for
6 this project.

7 I can understand and agree with why you would
8 want to protect the borrowers information. I can
9 understand why you would want to protect yourselves by
10 hiding the quality of the underwriting.

11 However, you're a public agency and should not be
12 able to keep the identity of your borrowers secret, which
13 staff has now said they will disclose, aft -- but it's
14 especially important that you not hide the loan
15 agreements. That simply invites corruption.

16 I believe you have to disclose -- if you had to
17 disclose limited partnership agreements, you would not
18 agree to indemnify general partners for criminal behavior.
19 You would not waive vendor's fiduciary obligations, and
20 you would not agree that maintaining a Cayman Island
21 office is a legitimate fund expense.

22 If you hide the loan agreement, you could make a
23 hundred million dollar loan to McClatchy to help out with
24 its bankruptcy at one percent, callable, on demand, with
25 the understanding that you will not make a demand call as

1 long as they don't write anything negative about the
2 system, or make a loan to CIM on favorable terms, if it
3 care take of the hole in the ground, or make a
4 below-market rate loan to say Mr. Cohen, for giving legal
5 advice that serves your purposes, but ignores the law.
6 Mr. Cohen might report it on a Form 700, if he's a person
7 who has to file one. But on the other hand, he might not,
8 because the loan is secret and non-disclosable.

9 Nothing like -- nothing like this could happen at
10 CalPERS. It's as unlikely as a CEO accepting a shoe box
11 of cash in return for a favor.

12 Sunshine is important and secrecy must be very
13 narrowly defined.

14 And I will put on my past employee hat for a
15 minute. We used to have the financial information of
16 Cargill, because we had a outstanding loan to them. That
17 information was so sensitive that they would not share it
18 with the rating agencies. Yet, we had it in our file and
19 it never did come out.

20 I'm not sure you really need the legislation, but
21 you should be interested in protecting the confidential
22 information of borrowers.

23 Thank you.

24 PRESIDENT JONES: Mr. Darby.

25 MR. DARBY: I simply want to say that RPEA

1 supports the information that Mr. Jelincic has just
2 provided along with the remarks of Margaret Brown.

3 Thank you.

4 PRESIDENT JONES: Thank you. Okay. That
5 concludes the list of requests to speak on this item. So
6 this is an action item. I need a motion.

7 VICE PRESIDENT TAYLOR: So moved.

8 PRESIDENT JONES: Moved by Ms. Taylor.

9 BOARD MEMBER MILLER: Second.

10 PRESIDENT JONES: Seconded by Mr. Miller.

11 All those in favor say aye?

12 (Ayes.)

13 PRESIDENT JONES: Opposed,

14 (No.)

15 PRESIDENT JONES: Note Ms. Brown as a no.

16 The item passes. Thank you, Mr. Brown.

17 Now, we move to informational con -- information
18 agenda items. Enterprise performance reporting, second
19 quarter. Ms. Hutchins.

20 (Thereupon an overhead presentation was
21 presented as follows.)

22 PRESIDENT JONES: Ms. Hutchins.

23 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT

24 DIVISION CHIEF LaMANTIA: Good morning, Mr. President and
25 members of the Board. Kristin LaMantia, CalPERS team

1 member.

2 Today, we'd like to present to you the second
3 quarter review of our enterprise performance report. This
4 report represents the third year reporting cycle of the
5 '17 through '22 strategic plan.

6 What we want to share with you this morning will
7 be focused on the indicators this quarter that are either
8 at risk or off target. We also want to highlight the work
9 that we have planned for the 20-21 business cycle.

10 --o0o--

11 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT

12 DIVISION CHIEF LaMANTIA: Now, it's going too far.

13 Okay. A little background before we jump in.

14 The framework that this system aligns to is based on our
15 foundation, and that is our mission, our vision, and our
16 values, and in simplest terms represents who we are and
17 what we want to achieve.

18 This includes our strategic plan goals and
19 objectives, as well as our outcome measures, which
20 highlight our high level operational expectations.

21 --o0o--

22 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT

23 DIVISION CHIEF LaMANTIA: Our Enterprise Performance

24 Management System involves the development,

25 implementation, monitoring and reporting of performance

1 metrics that support our mission. The intent of -- the
2 intent of this system is to reinforce CalPERS' desire to
3 be transparent and accountable in support of our strategic
4 goals and operational expectations.

5 As this system incorporates a significant amount
6 of data and information, you have all of the reports
7 within your agenda item attachments. However, our
8 discussion today will focus on the strategic side of the
9 house.

10 --o0o--

11 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT
12 DIVISION CHIEF LaMANTIA: A high level view of the status
13 can be found within attachment A, which is a view of our
14 strategic plan alignment map. This shows you the
15 connection between our goals, objectives, measures, and
16 initiatives focusing again on the strategic side of the
17 house. The map also reflects an overlay of status
18 indicators of red, yellow, and green, indicating those
19 items that are on target, off target, or at risk.
20 Additional details for each of these indicators can be
21 found within attachments C and D.

22 Our review and analysis of second quarter
23 information identified that four of our measures refreshed
24 with new data, and all but one are on target and reporting
25 in the green. The on-target measures are C-section rate

1 and employed engagement survey results, one related to
2 diversity and inclusion and the other accountability. And
3 we'll be speaking to that at-risk item in just a moment.

4 All but one of our business plan initiatives are
5 reporting in the green. We'll speak to the one initiative
6 reporting at risk in just a moment also.

7 For the at-risk items, we will provide
8 information regarding the root cause for the status, as
9 well as any constraints or mitiga -- mitigation strategies
10 currently underway. Keep in mind, this report is
11 reflective of a January 31st status and represents those
12 items that are relevant and in the forefront of our
13 strategic priorities.

14 --o0o--

15 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT
16 DIVISION CHIEF LaMANTIA: So with that, I'm going to turn
17 this over to Doug to speak on the at-risk items.

18 CHIEF OPERATING OFFICER HOFFNER: Good morning,
19 members of the Board. Doug Hoffner, CalPERS team member.

20 Excuse me.

21 The item I will be speaking to relates to both --
22 we have the at-risk item here related to senior executive
23 management relationships. This item is essentially
24 looking at engagement survey feedback that we've conducted
25 for the last three years. As you can see, that we have a

1 trend line that continues to move up. We conducted this
2 survey in October of this last year in 2019. It's gone up
3 four percentage points. Based on our third-party
4 engagement survey provider, a score of 59 or greater is
5 considered a high performance organization. So you can
6 see the trend is in the upward trajectory right now.

7 We continue to work, as a senior and executive
8 leadership group on this issue. We're rolling out sort of
9 spot survey questions across the organization and engaged
10 our senior leadership, along with executive team, in
11 developing some measures that will try to address this
12 item here.

13 But as I would really highlight the fact that
14 we're -- we're continuing to move in a more positive
15 fashion for this item.

16 Happy to take questions.

17 PRESIDENT JONES: Continue.

18 --o0o--

19 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT
20 DIVISION CHIEF LaMANTIA: So the second piece of my report
21 is the business plan update. And we want to bring your
22 attention to the projects we'll be working on in the 20-21
23 business cycle.

24 Each year, the leadership team looks at our plate
25 of work to make sure that we are moving the needle related

1 to our strategic plan goals and priorities. The 23
2 initiatives for the upcoming fiscal year are outlined for
3 you in Attachment F, all of which will be conducted with
4 existing resources or funding that was requested through a
5 prior budget cycle.

6 Many of the initiatives are continuing as
7 multi-year initiatives with new deliverables or phases
8 that are completed each year. We do have four new
9 initiatives planned, all of which support the five-year
10 investment strategy and are related to portfolio,
11 performance, process, and people.

12 Since this is the first time you'll be hearing
13 about the initiatives that support the plan, Heather is
14 here to give you the high points on the work being done to
15 achieve their overall strategy.

16 Heather.

17 ASSOCIATE INVESTMENT MANAGER SISON: Thank you,
18 Kristin. Good morning, Mr. President and members of the
19 Board. Heather Sison, CalPERS team member.

20 As Kristin states, the main update regarding the
21 2020-21 CalPERS business plan surrounds the Investment
22 Office's new five-year plan as the Vision 2020 plan comes
23 to a close.

24 Significant work was done under the previous
25 plan, with progress made in our focus areas of investment

1 risk management, and performance attribution, enhanced
2 capital allocation framework, enhanced investment platform
3 and controls, and Investment Beliefs and ESG integration.

4 The new five-year plan, which brings together
5 several months of work by the Investment Office management
6 team, under Ben's leadership, looks through the lens of
7 the four Ps, portfolio, process, people, and performance.
8 These four focus areas, along with our drive to a
9 one-team, one-fund approach will lead to annual projects
10 supporting progress on the Investment Office's next
11 five-year investment plan, which supports and aligns to
12 the CalPERS strategic plan goals in the areas of fund
13 sustainability, reducing complexity, and talent
14 management.

15 So with that, I'll turn it back to Kristin for
16 next steps.

17 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT
18 DIVISION CHIEF LaMANTIA: Thanks, Heather.

19 In closing, our third quarter report is due in
20 the spring and we're happy to take any questions.

21 PRESIDENT JONES: Okay. Thank you very much for
22 your report.

23 Ms. Brown.

24 BOARD MEMBER BROWN: Thank you. I was flipping
25 through the little tables that say either "on target" or

1 "pending refresh" A lot of them say pending refresh, so
2 you want to tell me what that means exactly?

3 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT
4 DIVISION CHIEF LaMANTIA: So on the -- on those, the data
5 is available at certain times of the year. And so
6 something that may be refreshing in the fourth quarter
7 would say pending refresh.

8 BOARD MEMBER BROWN: So it would be helpful to
9 know like when we're going to see that --

10 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT
11 DIVISION CHIEF LaMANTIA: Okay.

12 BOARD MEMBER BROWN: -- fourth quarter 2021,
13 something like that, because there was a table here that
14 said on target 49 percent. It was something to do with
15 health care, and -- but it had 2018 data. So you would
16 think that that would say pending refresh, because it
17 doesn't have 2019 data. So I'm just -- a little help on
18 that would be good.

19 ENTERPRISE STRATEGY & PERFORMANCE ASSISTANT
20 DIVISION CHIEF LaMANTIA: Okay. No problem.

21 BOARD MEMBER BROWN: Thank you.

22 PRESIDENT JONES: Thank you.

23 Seeing no further requests to speak from the
24 Board and no -- we do have a request from the public to
25 speak on this item. Dr. Girling, are you in the audience?

1 If you could come forward.

2 PRESIDENT JONES: You'll have three minutes to
3 speak. And please state your association.

4 It's on.

5 DR. GIRLING: It's on. Okay.

6 Actually, it's Robert Girling. I'm with
7 California State University ERFSA. And I'd like to, first
8 of all, begin by complimenting the team on such a
9 comprehensive strategic plan, and -- but I would like
10 to -- and I'd also like to compliment you for the
11 stakeholder engagement meetings that I was fortunate to
12 attend last month and this month. So that's really a very
13 positive thing.

14 And I used the opportunity at those stakeholder
15 engagement meetings to report back to our membership,
16 which is approximately 20,000 members. So we -- we use
17 that information very effectively.

18 I would like to express a concern that we have
19 with regard to the mitigation strategies in relation to
20 the risk of significant investment loss, and -- and as
21 well as the integration of environmental, social, and
22 governmental -- governance considerations into the
23 investment decision making.

24 So I note, first of all, that one of your risk
25 items, in which there was underperformance, was the total

1 net return on the portfolio. And, you know, it is -- it
2 is our concern -- it's our belief that this has to do with
3 failure to take into account the in -- the extreme risks
4 related to the changing structure of the international
5 financial environment.

6 And with respect to this, I point out Larry Fink,
7 who is the CEO of the largest investment firm in the
8 world, pointed out we're on the edge of a fundamental
9 reshaping of finance with climate change as a defining
10 feature. That climate risk in investing risk in the near
11 future, and sooner than most anticipate, there will be a
12 significant reallocation of capital.

13 So I'm concerned whether the mitigation
14 strategies that you have will really address that and will
15 look at the full range of fossil-free investments, such as
16 the Parnassus Core Equity Fund, which is an \$18.3 billion
17 fund of U.S. equities. It's possible that had CalPERS
18 invested in a different risk -- range of investments, that
19 the performance might have been better.

20 Last, in closing, I'd like to say that we are
21 also concerned about the fact that the straight -- the
22 State Treasurer has been removed from the Investment
23 Committee, in that reshuffling. I fully understand why
24 you might want to have a smaller Investment Committee, so
25 that it makes decision making easier, instead of the full

1 Board. However, to remove the State Treasurer seems to me
2 to be a very poor decision. And I would ask you to
3 revisit that and make sure that that Investment Committee
4 is comprised of people that are critical, and that have --
5 that are willing to kind of put in the time and have the
6 basis -- the basic knowledge that's needed to make those
7 decisions, because not everyone on the Board can be an
8 expert in Finance, but you want to make sure --

9 PRESIDENT JONES: Dr. Girling, your time -- your
10 time is up.

11 DR. GIRLING: -- that you have the very best.

12 I know I've gone over my time, but --

13 PRESIDENT JONES: Okay.

14 DR. GIRLING: -- we are very concerned about
15 this, and that the --

16 PRESIDENT JONES: Okay. Thank you for your --
17 thank you for your remarks.

18 DR. GIRLING: -- that the mitigation strategies
19 be appropriate.

20 PRESIDENT JONES: Okay.

21 DR. GIRLING: Than you.

22 PRESIDENT JONES: Thank you.

23 The next item on the agenda is State and federal
24 legislation update.

25 Mr. Brown.

1 LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Good
2 morning, again, Mr. President and Board members. Danny
3 Brown, CalPERS team member. This is the State and federal
4 legislative update.

5 On the State side, the Legislature's deadline to
6 introduce new bills is this Friday. So far, they've
7 introduced about 750 bills through yesterday. We
8 anticipate that after the next three days that number will
9 probably get up to about 2,000. So needless to say we'll
10 be busy the rest of this week and next week reading
11 legislation, and -- but we do anticipate to have a full
12 list to you next month on the bills that we're tracking
13 that impact CalPERS.

14 Based on our early review, we don't see a lot of
15 big policy bills around retirement. However, it's
16 probably going to be another year for health care policy,
17 as that continues to be a priority for the Governor.

18 On the federal side, I just want to kind of point
19 out some of our priorities for the year and some of the
20 activities that we've already undertaken or will take
21 soon.

22 With respect to investments, we plan to focus on
23 carbon pricing, climate risk, and human capital
24 management, but at the same time, you know, responding, as
25 necessary, to anything else that comes up. For example,

1 we recently submitted two comment letters to the SEC on
2 their recent proposed rules that we've discussed here
3 before. These are regarding exemptions from the proxy
4 rules for proxy voting advice and then procedural
5 requirements and resubmission thresholds. Both of these
6 letters are posted to our website. And in both cases, we
7 have opposed the proposed changes. But in some cases
8 we've made some alternative suggestions.

9 Unfortunately, the political forces at work
10 almost ensure that some version of these rules will be
11 finalized. We just hope they don't go as far as
12 originally proposed.

13 However, with the expected changes, I think it
14 just reinforces the importances -- importance of us
15 working with Congress on disclosure rules around ESG
16 issues.

17 In fact, we're currently working on a support
18 letter on a human capital management disclosure bill by
19 Cindy Axne out of Iowa that we hope the House Financial
20 Services Committee will be marking up later this month or
21 early next month.

22 Before I move to health care though, I did want
23 to let the Board know that K&L Gates was the winning
24 bidder of our recent RFP, so they will continue to be our
25 federal representative on investment issues for the next

1 five years.

2 On the health side, we will continue to focus on
3 ending surprise billing and lowering prescription drug
4 costs. As I think I mentioned the last time in December,
5 May 22nd is now the target date for Congress to get
6 something done on both of these issues. We're optimistic
7 that something can get done on surprise billing, less
8 optimistic that they're going to be able to reach an
9 agreement on prescription drug costs.

10 And then finally on the retirement front, we
11 don't anticipate much legislation that will directly
12 impact CalPERS, but we will look for opportunities to
13 engage on just the theme of retirement security, and work
14 with our national organizations NCPERS and NASRA.

15 Now, ending with some of our outreach efforts.
16 In addition to the activity that I've already mentioned,
17 last month James Andrus and I were in D.C. and we
18 participated in 17 congressional visits in two days, which
19 we focused on our investment and health priorities. Mr.
20 Rubalcava participated in half of those meetings with us.
21 And I appreciate his participation and his help in
22 advancing our issues. I think those meetings were very
23 productive and set the groundwork for ongoing dialogue.

24 And then next week, we were able to secure an
25 opportunity for Marta Green to participate in a Capitol

1 Hill briefing on surprise billing put on by the Coalition
2 Against Surprise Medical Billing. And then we hope that
3 following that briefing we will be able to make some
4 visits with key congressional offices to hopefully help
5 push surprise billing across the finish line.

6 And with that, that ends my update and happy to
7 answer any questions you might have.

8 PRESIDENT JONES: Okay. Seeing no questions.
9 Thank you, Mr. Brown, for the update.

10 We now move to 10C, Summary of Board Direction.
11 Ms. Frost.

12 CHIEF EXECUTIVE OFFICER FROST: Okay. I recorded
13 two. One is to make sure that we include draft bill
14 language as a part of the action item for any future
15 proposed legislation, and two is adding the "refresh on"
16 date to the enterprise performance management system.

17 PRESIDENT JONES: Thank you very much.

18 Okay. We get to public comment. And so we have
19 two requests to speak. Mr. Baker and Mr. Behrens, if you
20 would come up. You will have -- each have three minutes
21 to speak. Over here to my left.

22 MR. BAKER: Yeah. Just distribute a packet of
23 information to the Board.

24 PRESIDENT JONES: And please indicate your
25 association and your name.

1 MR. BEHRENS: President Jones, members of the
2 Board, Tim Behrens, President of the California State
3 Retirees.

4 I just wanted to bring to your attention and
5 thank staff for updating the PERS Buck. On the back of
6 this is some really interesting information, if you
7 haven't seen it. I like the part that talks about
8 supporting 136,968 jobs in California, generates \$394
9 million in tax revenue in California, and then two hundred
10 -- \$23.5 billion investment in California.

11 I think it's important, especially with the
12 latest news media frenzy that's done on about CalPERS and
13 us stakeholders, that we start carrying this with us, and
14 sharing this with people in the community, so they
15 actually know the facts, and these are the facts.

16 So, thank you, staff.

17 Second thing was a question about Board travel.
18 I thought last year, when the Board adopted a plan to
19 public the Board travel and what it cost, that there was
20 going to be some kind of a small overview or short
21 overview of those travels by the Board member on whether
22 or not it actually made sense to go where they went, and
23 what they did, and give feedback on...

24 PRESIDENT JONES: You're correct.

25 MR. BEHRENS: Okay. I just --

1 PRESIDENT JONES: Yeah. And that will be going
2 to the Governance Committee.

3 MR. BEHRENS: Okay

4 PRESIDENT JONES: Eventually.

5 (Laughter.)

6 CHIEF EXECUTIVE OFFICER FROST: It's scheduled
7 for the March agenda.

8 PRESIDENT JONES: Okay. Okay.

9 MR. BAKER: Very good. Good morning, Mr.
10 President, members of the Board. My name is Jim Baker
11 with the Private Equity Stakeholder Project. I would like
12 to follow up on a comment that Michelle Le, a grocery
13 worker from Safeway from Washington D.C. made at the
14 December 9 -- 2019 meeting of the Board.

15 Safeway is part of Albertsons, the second largest
16 grocery chain in the United States. It employs more than
17 270,000 workers. Albertsons is owned by Cerberus Capital
18 Management, a private equity firm. CalPERS is among
19 Cerberus's largest investors and has committed to \$2
20 billion to Cerberus funds since 2012.

21 CalPERS is an investor in Cerberus Institutional
22 Partners V, which owns Albertsons Safeway. As Michelle
23 mentioned in December, under Cerberus's ownership, Safeway
24 is refusing to honor a commitment it made to ensure that
25 employees receive promised pension benefits. This could

1 result in a substantial reduction in pension benefits for
2 tens of thousands of grocery workers.

3 The labor disputes at Albertsons Safeway have
4 escalated since Michelle spoke to the Board in December.
5 Earlier today, after several months of negotiation,
6 Safeway workers in Washington D.C., Maryland, and Virginia
7 announced they will hold a strike vote on March 5th. Last
8 week, Safeway workers in Northern California canceled
9 their contract with the grocery chain after negotiating
10 for a year and a half and are pushing to strike.

11 Recently, the dispute has drawn substantial media
12 attention from the Wall Street Journal, the New York Post,
13 the San Francisco Chronicle, and other publications. In
14 January, the Wall Street Journal reported that Cerberus is
15 trying to take Albertsons public through an IPO. Needless
16 to say, drawing growing labor disputes with tens of
17 thousands of employees seems like a poor way to manage an
18 IPO process and creates unnecessary risks for investors.

19 Meanwhile, the performance of Cerberus's recent
20 funds has struggled. In the packet, I included a short
21 report released in January that looks at the performance
22 of recent Cerberus funds. For example, CalPERS invested
23 \$500 million with Cerberus through a separate account.
24 Cerberus Cal II partners in 2017. As of mid-2019, CalPERS
25 investment in the separate account had lost ten percent of

1 its value, generating a negative return.

2 Among other things, under Cerberus's management,
3 the separate account in 2017 made investments in Deutsche
4 Bank and Commerzbank, two large German banks. Cerberus's
5 investments in Deutsche Bank and Commerzbank have since
6 declined substantially in value.

7 Despite Cerberus's underperformance, CalPERS
8 committee and additional \$500 million to Cerberus -- a new
9 Cerberus separate account, Cerberus Cal III partners last
10 year. Given the risks that Cerberus has taken for
11 investors and workers at -- investors and workers a
12 Albertsons Safeway, and given the underperformance of the
13 recent CalPERS investment with Cerberus, we believe that
14 CalPERS should halt new investments with Cerberus,
15 including suspending Cerberus's ability to make new
16 investments under the separate accounts.

17 The Pennsylvania Public School Employees'
18 Retirement System Ceberus's second largest known investor
19 last year said they would not make a commitment to
20 Cerberus's new fund. Across the river, the California
21 State Teachers' Retirement System, which was previously a
22 large investor with Cerberus, stopped making
23 new investments with the manager --

24 PRESIDENT JONES: Mr. Baker, your time is up.

25 MR. BAKER: -- several years ago.

1 PRESIDENT JONES: Your time is up.

2 MR. BAKERS: Thank you so much. We believe
3 CalPERS should do the same. Thank you so much.

4 PRESIDENT JONES: Thank you.

5 Okay. Thank you.

6 So that concludes the CalPERS Board of
7 Administration open meeting session. So that meeting is
8 adjourned.

9 (Thereupon California Public Employees'
10 Retirement System, Investment Committee
11 meeting open session adjourned at 10:19 a.m.)

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of February, 2020.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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