VIDEOCONFERENCE MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

WEBEX PLATFORM

MONDAY, NOVEMBER 16, 2020

9:49 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Ms. Theresa Taylor, Chairperson

Mr. David Miller, Vice Chairperson

Mr. Margaret Brown

Mr. Rob Feckner

Mr. Henry Jones

Ms. Fiona Ma, represented by Mr. Matthew Saha

Ms. Lisa Middleton

Ms. Stacie Olivares

Ms. Eraina Ortega

Mr. Jason Perez

Mr. Ramon Rubalcava

Ms. Shawnda Westly

Ms. Betty Yee, also represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Dan Bienvenue, Interim Chief Investment Officer

Mr. Matt Jacobs, General Counsel

Mr. Don Moulds, Chief Health Director

Mr. Scott Terando, Chief Actuary

Mr. James Andrus, Investment Manager

Mr. Kelly Fox, Chief, Stakeholder Relations

APPEARANCES CONTINUED

STAFF:

Mr. Sterling Gunn, Managing Investment Director

Ms. Pam Hopper, Committee Secretary

Mr. Michael Krimm, Investment Director

Ms. Rina Lessing, Investment Manager

Ms. Divya Mankikar, Investment Manager

Mr. Arnie Phillips, Interim Deputy Chief Investment Officer

Ms. Christina Reese, Investment Director

Mr. Greg Ruiz, Managing Investment Director

Ms. Anne Simpson, Managing Investment Director

ALSO PRESENT:

Mr. Tim Behrens, California State Retirees

Mr. Vince Bodnar, Oliver Wyman

Mr. Benkai Bouey, Wilshire Associates

Ms. Ashley Dunning, Nossaman, LLP

Ms. Sandy Emerson, Fossil Free California

Mr. Steve Foresti, Wilshire Associates

Ms. Alyssa Giachino, Private Equity Stakeholder Project

Mr. Dillon Gibbons, California Special Districts Association

Mr. Daniel Ingram, Wilshire Associates

Mr. Ferris Kawar, Fossil Free California

APPEARANCES CONTINUED

ALSO PRESENT:

Mr. Rick LaBeske, California Association of Highway Patrolmen

Mr. Bijan Mehryar, League of California Cities

Mr. Michael Ring, Service Employees International Union

Mr. Jason Schwarz, Wilshire Associates

Mr. Sarah Theiss, Fossil Free CA

Mr. Tom Toth, Wilshire Associates

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PROCEEDINGS

CHAIRPERSON TAYLOR: I call to order the open session of Investment Committee.

Our first order of business is to call roll.

Ms. Hopper.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Here.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Present.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Present.

COMMITTEE SECRETARY HOPPER: Betty Yee?

COMMITTEE MEMBER YEE: Here.

COMMITTEE SECRETARY HOPPER: Madam Chair, all is in attendance.

CHAIRPERSON TAYLOR: Okay. Thank you, everyone. So we are going to adjourn and go into closed session. So let's pop over to closed session. And I will see you there. Everybody who's watching, we will be in closed session -- open session is going to be there after. I can't give you a time.

Thank you.

(Off record: 9:51 a.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 1:43 p.m.)

VICE CHAIRPERSON MILLER: We'll call to order and take the roll call and then we'll get Stacie when she gets logged in.

COMMITTEE SECRETARY HOPPER: Okay. Thank you, Mr. Vice Chair.

Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good afternoon.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Here.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Here.

COMMITTEE SECRETARY HOPPER: Betty Yee?

COMMITTEE MEMBER YEE: Here.

COMMITTEE SECRETARY HOPPER: And I don't see Stacie Olivares as of yet, Mr. Vice Chair.

VICE CHAIRPERSON MILLER: Okay. Well, hopefully, she will be on shortly.

Let's move ahead with the approval of the November 16th, 2020 Investment Committee timed agenda.

COMMITTEE MEMBER BROWN: Move approval.

COMMITTEE MEMBER JONES: Second.

VICE CHAIRPERSON MILLER: Okay. Moved and seconded.

Any discussion?

Okay. I'll call for the question. Ms. Hopper, if you would call the roll.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Betty Yee?

COMMITTEE MEMBER YEE: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I have all ayes. Margaret Brown making the motion, Henry Jones seconding it.

VICE CHAIRPERSON MILLER: All right. So on to Item 4, Executive Report. Mr. Bienvenue.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Thank you, Mr. Vice Chair. Good afternoon and good afternoon members of the Investment Committee.

It's a pleasure to be with you here again today on what is amazingly our actually last Investment Committee of 2020. I can't believe that we are already approaching the holidays and that 2021 is almost upon us. I actually feel like I just got used to dating things 2020 and now have to adjust to 2021.

It's also amazing to me that we've done every Investment Committee this year in this virtual environment. It's certainly seems to have gone fast. But it's been eight months of this remote working and it seems like just yesterday that we -- that we completed this pivot from the kind of minimal remote work to a hundred percent remote work. When the pandemic broke out. At that, of course, our number one priority was ensuring the health and safety of our team members, while also very carefully minding the portfolio, maintaining productivity and risk control and protecting the sustainability of the fund on behalf of our two nearly two million members. These, of course, remain our critical priorities today. And I continue to just be really proud and appreciative of the work of this excellent team.

And with this being the time of year to be especially thankful, I also want to take a moment to note how extremely appreciative I am and we are of you the Board and your strong and continued support, as we navigate the challenges that we face together.

And while it's nice to take a moment to be thankful, I can assure you that we won't let that thankfulness translate into complacency. We remain focused on the work to be done to best position the portfolio for the long term and executing on our agreed CalPERS own investment strategy, which includes, of course, a centralized management of the portfolio positioning, allocation, leverage and liquidity, preparing for and navigating through our upcoming ALM cycle, and then continuing to build on our capabilities to further deploy assets in the private markets, where we believe that the tradeoff between return and risk is a better tradeoff.

And as long as we're on the topic of being thankful, I would like to take a moment of personal privilege to acknowledge and thank Eric Baggesen as he is retiring at the end of December. And this will be his last Investment Committee with us.

For me personally, Eric has been not only a boss and a colleague, but also a friend and a mentor. And I'm extremely thankful for what he's done, not only for me, but for this organization. Eric has dedicated more than 16 years of tremendous service to CalPERS and to the Investment Office. He joined in 2004, as a Senior Portfolio Manager, which is known as Investment Director, over the Internal Equity Team, within Global Equity. In 2008 he was named a Senior Investment Officer, which is now Managing Investment Director for Global Equity. And in 2013, he moved over to run what is now Trust Level

Portfolio Management and Implementation. And you may recall that Eric also acted as our Interm Chief Investment Office in late 2018.

Throughout Eric's time with CalPERS, his leadership and his personal relationships really have been immensely valuable and he's been a key contributor to the extent of evolution that the Investment Office has experienced over that time.

Many on the team will acknowledge that Eric and I probably disagree as often as we agree, but it's exactly that difference and diverse thinking that we have across our entire investment team that makes us stronger and contributes to better investment decision making.

So I really just want to pause a moment and to thank Eric for his many years of commitment, creative thinking, energy and efforts to make this place better err day after day. So, Eric, thank you.

Now, as further evidence of Eric's commitment to CalPERS success, he graciously agreed to stay on with us as long as necessary to ensure his successor's full integration into our organization and our one-team one-fund culture. And that successor was appointed a couple of months ago.

And it's Sterling Gunn, who is here with us today and is our new Managing Investment Director for the Trust

Level, Portfolio Management and Implementation team. Sterling comes to us with extensive experience. He served as a Senior Vice President and co-head of total portfolio strategy, at GIC, which manages Singapore's foreign reserves. And he was a Vice President and head of Quantitative Research for the Canadian Pension Plan, or CPPIB, among other experience.

Sterling played significant roles in designing and implementing a total fund approach at both CPPIB and GIC, and he deeply understands the numerous factors that CalPERS must consider while constructing and managing our portfolio.

So a hearty welcome to Sterling and one more time a huge thank you, and note of gratitude and congratulations to our friend and colleague Eric Baggesen on his retirement.

And now, I'd like to turn our focus to a couple of highlights from the quarterly update on performance and risk, which is in the information consent items, Item 6c. Of course, the primary purpose of this Investment Committee is to provide oversight to the management of the portfolio. So I thought I'd spend a few minutes giving and overview.

For the period ending September 30th, the total asset value of the PERF is approximately $408 billion and approximately $22 billion for the affiliates for $430 billion in total, with the affiliates growing quickly, of course. And for the PERF, that keeps us at just over 70 percent funded or 30 percent underfunded.

For the 1-, 3-, 5- and 10-year performance numbers, the PERF's absolute return is actually right at or about 7 percent, which underscores how dependent performance measurement can be to the time period used. As you may recall, many of the numbers were below 7 percent at the end of June.

This also reinforces our need to stay focused on the positioning of the portfolio and the resulting performance over the very long term, because long term is the nature of our liabilities. Now, on a relative basis, the PERF has underperformed our benchmark in all time periods, which are -- which speaks to our need to be and to really stay laser focused on what we're here for, which is to manage this large and complex portfolio to generate positive performance.

We did outperform last fiscal year, which was a good outcome, but a portion of that excess return came from measurement timing in the private markets, and it's only a one-year performance number, where ours is a very long term horizon. So your Investment team is staying laser focused on the portfolio and the performance, and we greatly appreciate your a sport in helping us remain that way.

Regarding portfolio positioning, we have the portfolio allocated really as we want in the public markets. But in the private markets, and specifically private equity, we remain underweight. This is the reason that deployment in private markets remains an area of critical emphasis and attention for us.

As an offset to our underweights to private equity and to real assets, we are overweight public equity. And while the report reflects a slight underweight to the fixed income asset class, that is offset by fixed income exposures at the plan level.

Regarding some of the risk metrics for the portfolio, total forecasting volatility remains at 11 and a half percent with forecasted tracking error at 1.1 percent and 0.3 percent for what we'll call our actionable tracking error for the portfolio. And we'll have more on these risk measures in Item 8a coming up.

The portfolio remains highly liquid with liquidity coverage ratios reflecting plenty of coverage across all forecasted timeframes and scenarios, and with more than $15 billion in balance sheet overnight liquidity.

These risk metrics speak to the need for us to consistently intentional in where and how we take investment risk. We do know that getting to 7 percent won't happen without taking risk. So the key is to take risk we deem to be prudent and that we believe we'll be compensated for.

And with that, I'll move to closing with an overview of today's agenda. We lead off, first of all, with two action items. First, Don Moulds and Scott Terando will join Christine Reese and Sterling Gunn to present a recommendation on a discount rate for the Long-Term Care Fund.

Next, Anne Simpson, our newly appointed Managing Investment Director of Board Governance and Sustainability, will look to close the loop on the Investment Committee delegation. And I'd be remiss candidly, if I didn't also take this opportunity to congratulate Anne. We certainly want to thank Eric and to welcome Sterling, but a sincere and heartfelt congratulations and thank you are also due to Anne Simpson for her much deserved promotion to Managing Investment Director of Board Governance and Sustainability, and her more than 11 years of dedicated service to this organization.

After the action items, we move to our information items. And we'll start with Michael Krimm presenting what is intended to be an educational item on the tracking error risk metric, as part of our CalPERS overall investment risk management framework, and one of our many guard rails to manage the portfolio's investment risk.

Then we have Daniel Ingram joining us from Wilshire Associates to present the annual consultant review of CalPERS divestments, as required by CalPERS Total Fund Investment Policy. This will be followed by an update from Anne Simpson and Divya Mankikar on CalPERS investment strategy on climate change risk and opportunity.

And then in the last information item, we'll hear again from Anne joined this time by James Andrus on the annual update of the Responsible Contractor Policy. And then finally, we go back to an action item, this one led by Matt Jacobs, regarding the pending ownership transition of Wilshire Associates, the Board's general pension investment consultant.

And that concludes my opening remarks, Mr. Vice Chair. And with that, I'll turn it back to you for any questions or to take us through the agenda.

VICE CHAIRPERSON MILLER: Thank you. I have a question from Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.

Vice Chair. It's not question. It's just a comment. I just wanted to congratulate Mr. Baggesen and wish him well on his retirement. I know he has provided a number of outstanding professional years to CalPERS and I know there are a number of times that we really had to lean on him to take the lead. And being a Interim CIO, an Interim Managing Director over the years, and each time he has stepped up to the plate and delivered on behalf of our two million members. So I just wanted to congratulate him on a long career and wish him well, I also welcome Mr. Gunn to our family.

Thank you.

VICE CHAIRPERSON MILLER: Yeah. Thanks, Mr. Baggesen. Welcome to Mr. Gunn. Congratulations to Ms. Simpson. I'm sure we all share those sentiments.

And so, at this point, we'll move on. I see no more questions or comments for you Mr. Bienvenue. And so we'll move -- I've got action consent item for approval of the September 14th, 2020 Investment Committee open session meeting minutes.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I do show that Stacie Olivares is now online, so I've marked her as attending.

VICE CHAIRPERSON MILLER: Okay. Thank you. Yeah, I saw her come on board. Great.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Is this on the minutes?

COMMITTEE SECRETARY HOPPER: Yes. Yes, it is.

COMMITTEE MEMBER BROWN: I abstain. Abstain. I wasn't here.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER JONES: Has it been moved?

Has it been moved?

COMMITTEE MEMBER FECKNER: Aye.

VICE CHAIRPERSON MILLER: We need a motion and a second.

COMMITTEE SECRETARY HOPPER: Correct, Henry.

VICE CHAIRPERSON MILLER: So do I have a motion and a second.

COMMITTEE MEMBER JONES: Okay. I'll move it.

COMMITTEE MEMBER OLIVARES: I second.

VICE CHAIRPERSON MILLER: Henny moved it. Okay.

So now we'll call for the question, if you'd call the roll, Ms. Hopper.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Abstain.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

Ramon?

VICE CHAIRPERSON MILLER: You show as muted, Ramon.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Since I wasn't on the Committee, is it appropriate for me to vote on this?

COMMITTEE MEMBER FECKNER: Abstain.

COMMITTEE MEMBER WESTLY: Abstain.

COMMITTEE SECRETARY HOPPER: Betty Yee?

COMMITTEE MEMBER YEE: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I have Henry Jones making the motion, Stacie Olivares seconding it. I have nine ayes and two abstentions, one from Margaret Brown and the other from Shawnda Westly.

VICE CHAIRPERSON MILLER: Thank you, Ms. Hopper.

Okay. On to Item 6, information consent items. Anything that anyone wanted pulled that they may have conveyed to Theresa?

Okay. Betty Yee. Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Vice Chair. I wanted to pull Item 6a just for discussion.

VICE CHAIRPERSON MILLER: Okay. We will do that. Thank you. Okay.

COMMITTEE MEMBER BROWN: Mr. Chair?

Mr. Vice Chair.

VICE CHAIRPERSON MILLER: It looks like Ms. Brown wants to want to pull -- Ms. Brown

COMMITTEE MEMBER BROWN: Yes, 6d. Thank you.

VICE CHAIRPERSON MILLER: 6d, the same as Madam Controller. Okay.

Any others?

Okay. Let's move on then, Mr. Bienvenue, to 6d, the quarterly update on investment controls.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Mr. Vice Chair, with all the 6s, those are consent for us and we're happy to take any questions, but we don't have any -- any planned remarks. Although, I do note that we have -- we do have the request to pull the two of them.

VICE CHAIRPERSON MILLER: Okay. I guess I'll go back then first to Controller Yee with any specific questions.

COMMITTEE MEMBER YEE: Yes. Thank you, Mr. VICE chair. Just on Item 6a, I know this is the 2021 calendar that shows the four regular Investment Committee meetings beginning in March and then June, September, and November, with the special ALM workshop in February. And I just wanted to get clear about the process about additional meetings. In September, I know we had had a robust conversation that started in the Governance Committee about additional meetings.

And I just feel it's important for us to have -- I mean, after today's meeting, we won't be meeting again till March. And I just think, given the -- the flux in the economic conditions, that we might want to think about at least just adding a January meeting to level set at the beginning of the new year and leave it to the Governance Committee to consider the remainder of the calendar for next year.

CHIEF EXECUTIVE OFFICER FROST: Yeah. So there was Committee direction based on the last discussion, Controller Yee, as you indicated. In coordination with the Chair, Theresa Taylor, what -- when we looked at the calendar, you're correct, so you'll have the normal quarterly full investment committee meetings with, you know, the full reporting out of the typical items that you would see.

January, we have the Board education day as well as the stakeholder forum, adding an Investment Committee meeting in February to deal with ALM, that's the largest body of work I think for the Investment Committee for next year. But we could certainly add a market update. We could modify that agenda to whatever topics that the Board would like to see. We'd be completely flexible to that. And then you have your normal quarterly updates thereafter.

So that's what -- it's too bad that Ms. Taylor is feeling -- not feeling well, so that she could report out on this as well. But that was the recommendation coming from her. And then the current wording in the Governance Policy says at least four times per year. So, at any point in time next year, if the Board was feeling that they needed to add an additional meeting for a specific purpose or otherwise, we could certainly get another meeting scheduled.

COMMITTEE MEMBER YEE: Okay. Would that be through request of the Chair to add a meeting?

CHIEF EXECUTIVE OFFICER FROST: Yes.

COMMITTEE MEMBER YEE: Okay. So I guess what I'd like to maybe request is that we do build out the -- the time in February, in addition to the special ALM workshop to just get some updates, as we normally would, if it were a full Investment Committee, since that's the first real committee meeting of business in the new year.

CHIEF EXECUTIVE OFFICER FROST: Okay. Is it -- so if there's anything specific you would like to see, you know, certainly let us know as we're building out this agenda. But I think what we were planning is a full ALM update as well as kind of an outlook on the market.

COMMITTEE MEMBER YEE: Yep, exactly.

CHIEF EXECUTIVE OFFICER FROST: Okay. Yeah.

COMMITTEE MEMBER YEE: Yeah. Thank you.

VICE CHAIRPERSON MILLER: Okay. And on to -- if your questions are concluded, Controller Yee?

COMMITTEE MEMBER YEE: (Nods head.)

VICE CHAIRPERSON MILLER: Okay. On to, Ms. Brown, your questions for 6d.

COMMITTEE MEMBER BROWN: Yes. Thank you. I'd like to also comment on Ms. Yee about having more meetings. I recall our last Investment Committee meeting went 12 hours and I still didn't ask all my question. So hopefully, we won't be doing that in the future.

So, Mr. Bienvenue, 6d, Attachment 1, page 12 of 22. And this is probably going to be a Greg Ruiz question, but I have a question about private markets. You might recall that last quarter I was asking about capital calls from private equity, but specifically subscription lines, right, if we had seen a lot of those. And Greg had said we didn't know at that point in time.

But when I look at page 12 of 22, you know, I see contributions of 567 million, distributions of 463 million, and then I see other changes in market value of 254 million. But I'm just wondering if any of those 567 million in contributions we made, if any of those were capital calls for subscription lines? And the reason I ask is I had read a number of stories in investment publications that said it was becoming a problem, especially after March in the market downturn, that private equity was using subscription lines to increase their bottom line.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. So as to your point, Ms. Brown, it's definitely better to get -- to get Greg to answer that. He can speak much more closely to the -- to, you know, subscription lines both being down and then also, you know, paid back with capital committed.

COMMITTEE MEMBER BROWN: Yeah.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So let me ask Jared, if he could pull Greg Ruiz into the presenter room, so that he can take -- take Ms. Brown's question.

COMMITTEE MEMBER BROWN: Dan, my guess is he won't have that off the top of his head. And so I'd rather have a more accurate number, if he wants to get back to me. Hi, Greg.

Greg, I was asking about capital calls for subscription lines. I think I raised this a quart -- about a quarter ago. And I wasn't concerned about capital calls. I was concerned about our -- the portfolio companies using subscription lines to increase their bottom line. And I'm just wondering if part of that 567 million in contributions what that was and how much of that was subscription lines, and if we saw -- have seen an increase in those numbers?

MANAGING INVESTMENT DIRECTOR RUIZ: Yeah. So the -- what we have seen in our portfolio is a large number of our managers now use subscription lines to consolidate their capital calls. So instead of calling capital at the time of each investment, what they may do is consolidate the few capital calls and then call capital two or four times per year.

What they'll do is they will then use the subscription lines to fund the investment and hold the investment on the subscription line for a short period of time, until they call the capital from their LPs.

So to your question, it is quite common for private equity firms at this point to use subscription lines for that short period of time between when they make an investment and then they call the capital from their LPs, including CalPERS.

If the question is specifically what of the 568 million was first put on a subscription line before calling from LPs, you're correct, I would need to look at that specific number.

COMMITTEE MEMBER BROWN: And I'm more interested in the trend, because the stories I read were about how they were kind of getting out of control and they were really -- they were really large.

And so I just want to see maybe what the trend for capital calls is. I know you give us this information quarterly, but it's not broken down. So if wouldn't mind doing that. I don't know if anybody else wants to see that, but I'd just like to see if it's going to become a problem for us.

Does -- does doing these sort of consolidated subscription line requests, does that -- does that harm us at all, or does that interfere with our cash flows, or anything else like that? Does that harm us at all financially?

MANAGING INVESTMENT DIRECTOR RUIZ: We routinely -- we routinely assess how much is outstanding on subscription lines -- our partner subscription lines and have a kind of good view into that -- in the course of our normal monitoring of our portfolio.

COMMITTEE MEMBER BROWN: Great. That's what I'd like to see. That's it. Thank you.

VICE CHAIRPERSON MILLER: Okay. Thank you, Ms. Brown. I have Mr. -- let's see, who's next here. It looks like Mr. Jones has a question.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Vice Chair. Yes. This is not a question. It's a comment. I read another story in Buyouts magazine this morning, where they continue to receive incorrect information about our long range Capital Fund I LP, where we made a commitment of $1.5 billion and I provided them the correct information in the past, and I just want to reiterate that this investment was discussed multiple times by the Board.

In fact, at the Board's direction, independent fiduciary counsel was asked to review the potential transaction to review this exact issue. After discussion, CalPERS moved forward with the opportunity as a customized investment vehicle under the team's delegated authority, not as a Pillar 4 opportunity. We are pleased that our private equity team is successfully executing its strategy to steadily and prudently increase private equity investments and can drive returns to achieve our targeted returns. And that is listed in the open session item on 6d, Attachment 1, page 22, and page 35 of the iPad. So thank you, Mr. Chair.

VICE CHAIRPERSON MILLER: Okay. Thank you, Mr. Jones.

I'm not seeing any other questions, so I think we'll move on, Mr. Bienvenue, to the action items. It's number 7, action items, Long-Term Care Asset Allocation and Discount Rate. So I think we need to bring on Dr. Moulds and Mr. Terando.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Thank you, Mr. Vice Chair. Yeah, Jared, if we could please get Don Moulds, Scott Terando, Christine Reese, and Sterling Gunn brought forward into the presenter's room, please. And you say, Mr. Vice Chair, this is the first of our action items. So let's see, I see Christine. I see Don. I think we just need Scott and James Gunn. There's Sterling. And here comes Scott Terando.

So I think -- I think we're good. This is a -- this is a cross-team effort with the Health team, the

Actuarial team, and the Investment team. So Don, I'll turn it over to you to kick us off.

INVESTMENT DIRECTOR REESE: Actually, for open session, I'm going to be starting. Thanks, Don.

Good afternoon, Mr. Vice Chair and members of the Committee. Christine Reese, CalPERS team member.

Today in Investment Committee and tomorrow in the Pension and Health Benefits Committee, you will be hearing about proposed steps that CalPERS team members are recommending to stabilize the CalPERS Long-Term Care Program. Over the last several months, we've been working to mitigate challenges facing the program.

Today's Investment Committee item focuses on the Long-Term Care Fund investment portfolio and a detailed review conducted by the Investment Office with the goal of improving the outlook for long term expected returns.

For today's presentation, we have available for questions and comments Vince Bodnar, a long-term care consultant and partner with the firm Oliver Wyman, with whom we have been working during the last several months and Tom Toth your Board consultant from Wilshire.

Do we have the slide presentation that -- I don't see it yet.

(Thereupon a slide presentation.)

INVESTMENT DIRECTOR REESE: Thank you.

So before we move into the slide presentation. For background we discussed at the September Investment Committee meeting that there are challenges facing the long-term care investment portfolio. As the source -- as the sole sources of funding for the Long-Term Care Program are policyholder premiums and investment returns, it's important that we explore all options and ideas that could be of benefit to the program. In mid-September to discover external manager expertise and allocation options, the Investment Office released a comprehensive Request for Proposal for asset allocation and investment management services for the fund.

It was originally anticipated that specific asset allocation options and a recommendation could be brought forward to be the Investment Committee at this November meeting. However, due to the size and complexity of the proposal, the full review will be presented at the February 2021 meeting.

For today's meeting, the Investment Office is presenting findings in support of the current recommendations for a discount rate, level of risk, and asset classes and investment products for the Long-Term Care Fund.

If we could move to slide 2.

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INVESTMENT DIRECTOR REESE: We start with a representation of the current portfolio. On the left is a graph showing long term expected risk and return values from 2018 to 2020. We see a drop of almost one and a half percent in expected return and one percent in expected risk with the 2018 values in the upper right and the 2020 values in the lower left.

On the right of the current asset allocation, and we note that this income allocation is 60 percent and that during the last few years, the long-term return expectations for certain fixed income securities, i.e. treasuries and mortgages, have dropped to historically low levels, along with interest rates. And this results in a long term expected rate of return to drop to approximately 4 percent.

Next slide, please.

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INVESTMENT DIRECTOR REESE: We evaluated the current portfolio and looked at opportunities to improve investment returns. And what we find is that in addition to searching for external expertise, that adding risk may be supported by the longer liability profile. And including private assets and some leverage could be beneficial to improving returns.

Next slide, please

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INVESTMENT DIRECTOR REESE: When we look at the added value that external management can bring to the Long-Term Care Fund, it's multi-faceted. Generally speaking, external managers have expensive resources from which they can draw to create and manage customized client solutions. Among those resources are specialized investment professionals and teams, sophisticated technology for investment modeling and risk management, broad market coverage, and industry knowledge.

We find that external managers that have experience with insurance funds and long-term care funds have expertise in designing custom asset liability management solutions specific to each client's objectives. They have experience managing insurance-related risk, building liability cash flow matching strategies, and de-risking glide path in the future. And some have actuarial professionals on staff.

These managers can also offer a wide variety of allocation options through broad market access. They routinely structure investments for a wide variety of clients and have experience with managing leverage, sourcing private assets and managing liquidity for both funds, large and small.

If we could turn to the next slide.

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INVESTMENT DIRECTOR REESE: Turning to the results of the portfolio review, I will begin with general findings followed by a detailed review of this slide. The managers all submitted thoughtful and thorough proposals. And we believe that they have strong capabilities and have a good understanding of our objectives. The proposals present a broad range of portfolio asset allocation recommendations covering more than 30 asset classes and segments across the manager universe.

In the proposals, we see wide ranges for allocations to equities and fixed income, a general shift away from treasuries and mortgages into corporate bonds in the fixed income asset class, some private assets recommended such as private credit, BLOs, and private equity, and some recommended leverage.

Evaluating the portfolios in more detail. On slide 5, we show a visual representation of our summary finding for expected risk and return. The goal of the review was to determine what discount rate could be supported. There's quite a lot of information represented here, so I'll step through each component on the graph as well as the methodology used for the analysis.

Starting with the three gray triangles, there's a point for the current long-term care portfolio for both

2018 and 2020, as we saw on slide 2. And as an additional reference point, the PERF from The 2017 ALM is in the upper right corner with expected risk at 11.4 percent and expected return at 7 percent.

The blue and orange diagonal lines are trend lines. We evaluated each manager's recommended portfolio using CalPERS 10- and 20-year capital market assumptions from March and plotted each portfolio's specific point on the graph. We then created a trend line for each group, blue for the 10-year and orange for 20-year.

And the gray box in the middle is an area in which many of the portfolios cluster, which are all at or above a 5 percent return and below a recommended upper threshold of risk of nine and a half percent, which is approximately a 30 percent increase from when it was last set in 2018.

We took the analysis a step further and evaluated the portfolios using Wilshire's September 30 CMA, which show expected returns values have come down from the March values.

Our conclusion, based on this analysis, is that an asset allocation can be selected that is supportive of a discount rate of four and three-quarters, given the upper risk threshold of nine and a half percent and the potential inclusion of private assets and leverage.

If we could move to the next slide

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INVESTMENT DIRECTOR REESE: I'd like to just spend a moment talking about capital market assumptions. And this slide is an updated version of what was presented in the ALM mid-cycle review in June. We know that CMAs are estimated forecasts and that 2020 has introduced more uncertainty than is typical. This is reflected on this chart for each asset class shown by the wide ranges for the March 2020 results, which are the black brackets compared to the 2017 ranges, which are the orange bars.

For our evaluation, we used the median values from March, which are the green dots, and the Wilshire September values which are the blue dots. And you can see that the Wilshire September values are either at or below our March values.

So due to the high level of uncertainty in CMAs coming down from March, we believe that a discount rate of four and three-quarters can be supported, which is at the lower end of our discount rate evaluation range of four and three-quarters to 5 percent.

If we could move to the next slide.

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INVESTMENT DIRECTOR REESE: This slide shows the anticipated timeline for next steps in the long-term care asset allocation review with the February Investment Committee meeting and if a manager is selected, a period of time after that meeting for contracting and implementation.

And our next slide.

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INVESTMENT DIRECTOR REESE: So the recommendations before you today are to set the discount rate to four and three-quarters, which Scott Terando, our Chief Actuary, will speak to in a moment, set an upper threshold of nine and a half percent risk, and add private assets and leverage as available investment options for consideration.

And then in the February meeting, as I mentioned, we will be bringing the full asset allocation options and a recommendation for consideration and adoption by the Board.

At this point, I'll turn it over to Scott to discuss the discount rate.

CHIEF ACTUARY TERANDO: Thank you, Christine. And good afternoon, Board members. Scott Terando, Chief Actuary.

As Christine mentioned earlier in the presentation, our recommendation for the discount rate for the Long-Term Care Program with -- based on the analysis of the proposed portfolios comes out to be 4.75 percent. This is higher than the 4 percent that was talked about in September. But when compared to the 5.25 discount rate that was used previously, it is still a 50 basis point drop in the discount rate.

When you take that into consideration of the change in the discount rate, along with the other changes that were discussed in September, including the changes to the lapse rate and morbidity assumptions, we are still facing the need to have substantial rate and premium increases for the plan.

Based on a 4.75 percent increase, we would -- our recommendation is to all -- allocate the two -- the premiums over a two-year period with a 52 percent increase on 7-1 of 2021 and a 25 percent increase a year later on 7-1-2022.

On the implementation of the rate increase, along with other risk mitigation factors will be discussed tomorrow at the Pension and Health Benefits Committee. And there will be provided a little more insight into some options about voluntary benefit reductions, as well as some mitigations that Don Moulds is going to discuss.

And with that, I think we'll -- that concludes the presentation and we'll open it up to questions.

VICE CHAIRPERSON MILLER: Okay. I'm not seeing any requests for questions, but I do believe we have public comment on Item 7a.

Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. We have one caller on Item 7a. That would be Mr. Tim Behrens from the California State Retirees.

MR. BEHRENS: Thank you, Kelly. Vice Chair, members of the Committee, Tim Behrens, CSR President.

As we mentioned in last week's stakeholders' meeting, CSR continues to support any changes to maintain the sustainability of the Long-Term Care Plan. I am hopeful that future investments will increase and help to hold down the costs. I receive several calls each month from long-term care stakeholders who are very worried about whether they can continue to pay. And if it goes up 50 percent in July, I'm going to assume that some of them are going to drop out of the program. And I don't know how much more that will injure the already injured program.

So I hope that you can work your magic, Finance Committee. I also would like to say that CSR supports increasing the number of meetings for the Investment Committee during the year 2021.

Thank you.

VICE CHAIRPERSON MILLER: Thank you, Mr. Behrens.

Is that the end of the public comment, Mr. Fox?

STAKEHOLDER RELATIONS CHIEF FOX: That concludes public comment --

VICE CHAIRPERSON MILLER: On 7a?

STAKEHOLDER RELATIONS CHIEF FOX: -- on Item 7a -- on Item 7a.

VICE CHAIRPERSON MILLER: Okay. I have a question from Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Vice Chair Miller. I think my question is for Christine. You know, we're talking about -- you're talking about some of these potential investors that have experience -- or, excuse me, managers that have experience maybe investing, but you talked about private equity -- or you talked about private assets. And so, you know, I assume they're going to, you know, based on models of when they are going to -- actuarial models of when they're going to need the cash, they're going to cash flow that all out, and what happens if it's -- if it's wrong? You know, I mean the whole reason we're here in this trouble is the actuarial models were wrong. I know they weren't Scott's. At least I don't think they were Scott's, but -- kidding.

But, you know -- but the problem with private assets, like real estate, is you've got to sell it to get the cash back. And so I just want to make sure that we're going to have the funds to pay for the needed services.

INVESTMENT DIRECTOR REESE: Yes. And what we're seeing with the -- with the manager proposals is that the larger blocks of assets are either in equities or in fixed income assets. The private assets that are recommended are typically smaller allocations, just kind of more around the edges than the -- than kind of the primary larger asset allocation blocks.

So we would incorporate that. And, you know, we're going to continue to work closely with the actuarial team and the health team to, you know, understand what our liquidity parameters need to be and so that we're prepared for what might come in the future.

COMMITTEE MEMBER BROWN: So does CalPERS staff -- does like our Actuarial staff or our Health Care staff review their assumptions before we allow them to model, or do we review all their models before we allow them to invest, or how does that work exactly?

INVESTMENT DIRECTOR REESE: So the Actuarial team and the Investment team have been looking at the portfolios, you know, jointly. The -- you know, the managers certainly have their own, you know, models and technology. And we will validate what they are presenting to us through our own -- through our own assessments.

But, you know, as we -- you know, the next phases in our review is that we will be, you know, talking with and looking more deeply into the proposals, and evaluating liquidity, and, you know, potential liquidity needs down the road is a -- you know, is a big factor that we will absolutely consider.

COMMITTEE MEMBER BROWN: Great. And if our manager guesses wrong, who -- who -- I assume, who pays? We -- CalPERS doesn't, is that correct, the beneficiaries do?

INVESTMENT DIRECTOR REESE: The two sources of funding are our investment returns and premiums, that's correct. You know, I think a lot has to do with, you know, what -- what the market will bear. We want to build kind of, you know, an all-weather portfolio for the Long-Term Care Fund, so that we -- you know, we are planning to add risk, but we want to do that prudently in areas where we believe we will be rewarded for it.

COMMITTEE MEMBER BROWN: All right. Thank you.

INVESTMENT DIRECTOR REESE: You're welcome.

VICE CHAIRPERSON MILLER: Okay. I have no more questions on the presentation. Thanks for the presentation, Ms. Reese and Mr. Terando. At this point, I think we need a motion. And that would be in the form of accepting the recommendations for the -- for the discount rate for the long-term care the asset allocation discount rate.

Do I have that correct Mr. Bienvenue?

I'm looking for a motion.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes, Mr. Vice Chair. We need a motion on the discount rate, please.

COMMITTEE MEMBER FECKNER: I so move.

COMMITTEE MEMBER PEREZ: (Raises hand.)

VICE CHAIRPERSON MILLER: Okay. Moved by Mr. Feckner, seconded by Mr. Perez.

COMMITTEE SECRETARY HOPPER: Any further discussion?

It looks like -- okay. I've got questions from it looks like Henry Jones is next. President Jones.

COMMITTEE MEMBER JONES: Thank you, Mr. Vice Chair. My question was answered already. Thank you.

VICE CHAIRPERSON MILLER: Okay. I've got Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: No, I can't -- I'm okay.

VICE CHAIRPERSON MILLER: Okay. And Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller.

I have grave concerns about the changes that are proposed for the discount rate and the additional risk our members are being asked to assume. The discount rate that's being proposed for our long-term care insurance exceeds that of the NAIC's stipulated discount rate for long-term care insurance. And extending our -- the assets we invest into riskier assets in order to get high returns, particularly during a downturn in the economy and during a pandemic, creates additional risk. So I am in favor of a much lower discount rate.

Thank you.

VICE CHAIRPERSON MILLER: Okay. Any other comments?

COMMITTEE MEMBER BROWN: I have a comment.

VICE CHAIRPERSON MILLER: We've got Ms. Brown.

I couldn't tell who that -- oh, okay. Ms. Brown.

COMMITTEE MEMBER BROWN: Sorry. Ms. Olivares, do you want to make an alternate motion that somebody might second who also is concerned about the high discount rate?

COMMITTEE MEMBER OLIVARES: So I could offer a friendly amendment and offer that the discount rate -- but this also applies to investment policy, so that the discount rate not exceed 4 percent for the long-term care insurance. But I also would want to keep the asset allocation as it is and not extend our investments for long-term care into riskier asset classes.

COMMITTEE MEMBER BROWN: If that's an alternate motion, I'll second it. I don't think it will be friendly.

VICE CHAIRPERSON MILLER: Okay. Okay. And so we have an alternate -- well we have an amendment -- alternate -- an amendment to the original motion or is it an alternate? I'm not quite sure.

COMMITTEE MEMBER JONES: It's a substitute motion.

VICE CHAIRPERSON MILLER: A substitute motion. Okay. So we will vote on that first. We'll have discussion. So let's have discussion on the alternate motion.

Now, one thing, I will certainly chime in, is I'm really concerned about the impact, and the cost, and the premiums. And the questions I get most from stakeholders are why wouldn't we be taking the same kind of steps to improve returns that we would in any other fund and why is it so extraordinarily low?

So that's -- that's -- you know, that's where the push -- pushback comes from. And from my perspective on holding at the status quo, which is making an incredibly painful situation even more painful.

Let's see who else?

I've got, it looks like, Matthew Saha.

ACTING COMMITTEE MEMBER SAHA: Thank you, Mr. Vice Chair. Just can I get -- I wanted to see if -- can staff respond I guess to the alternate -- or at least the substitute motion and what that impact would be?

ACTING CHIEF INVESTMENT OFFICER BIENVENUE: I see Don trying to respond. Don, it looks like you're still muted though somehow.

VICE CHAIRPERSON MILLER: Yeah. We can't hear you, Don.

CHIEF HEALTH DIRECTOR MOULDS: Is that better?

VICE CHAIRPERSON MILLER: Yes.

ACTING CHIEF INVESTMENT OFFICER BIENVENUE: Yes.

CHIEF HEALTH DIRECTOR MOULDS: Okay. I can start and then maybe Scott or Christine can jump in as well. And we have Vince Bodnar here who has extensive experience in the long-term care insurance market.

But, Mr. Vice Chair, you're correct that any reduction in the discount rate increases premiums significantly. If you go back to Christine's chart, you'll see that, you know, the two lines that -- that she's tracked are based on and -- on a ten-year trajectory, so -- and a 20-year trajectory. And the four and three-quarters is safely above the 10-year trajectory. It's worth noting that our anticipated -- anticipated peak of our -- of our outflows in the Long-Term Care Program are about 20 years off. So there is actually quite a lot of room for longer term investments, which is what the Investment Office is -- is advocating for right now.

But the -- you know, the flip side of that is that if we are below the four and three-quarters, the cost to our long-term care members, the policyholders, go up significantly. If we move back down to a four percent discount rate, the total cost of the -- of the premium increase would be about 135 percent. So it would go up fairly dramatically.

VICE CHAIRPERSON MILLER: Okay. It looks like I have Mr. Rubalcava.

You're still on mute.

COMMITTEE MEMBER RUBALCAVA: I'm having problems. I think I have problems here.

COMMITTEE MEMBER JONES: We can hear you.

COMMITTEE MEMBER RUBALCAVA: Can you hear me?

Oh, okay.

VICE CHAIRPERSON MILLER: Yes.

COMMITTEE MEMBER RUBALCAVA: Oh. Thank you. Thank you, Vice Chair Miller.

No, I was going to say I think it's been discussed that we -- we all know that we have a challenge. And -- but decreasing --

VICE CHAIRPERSON MILLER: You're muted again.

COMMITTEE MEMBER RUBALCAVA: I'm supportive of the initial motion.

I'm having problems here. Sorry. I'll pass.

VICE CHAIRPERSON MILLER: No worries. Okay.

So I have Ms. Olivares again.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller. I would like to note that increasing risk does not always increase returns. And so I am very concerned about the cost of long-term care for our policyholders. And I understand that that cost will continue to increase. But I think what is also more important is ensuring that the Long-Term Care Program continue and that it be safeguarded. And I think additional exposure to risk actually compromises the plan safety and will ultimately increase the rates.

Thank you.

VICE CHAIRPERSON MILLER: Okay. I have no more requests to comment or questions that I can see. And so I'll call for the question.

ACTING CHIEF INVESTMENT OFFICER BIENVENUE: Mr. Miller can I just really quickly

VICE CHAIRPERSON MILLER: Yes.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I'm sorry, Mr. Miller. Sorry to jump in. I just want to make sure that --

VICE CHAIRPERSON MILLER: No worries.

ACTING CHIEF INVESTMENT OFFICER BIENVENUE:

-- that, you know, when you asked about the -- about what the motion was on, I said the discount rate. I do want to make sure that we're clear that I believe -- and ask I believe it was Mr. Feckner that made the motion, that the motion is for all three of the recommendations on slide 8. So it's both setting the discount rate to 4.75 percent, also setting the upper risk threshold for the portfolio at 9.5 percent, and the inclusion of leverage and private assets in the potential solution sets, not -- definitely not making a decision that we're going to use them, but just the ability to use leverage and private assets. The recommendation is three-fold.

COMMITTEE MEMBER JONES: My motion was for staff recommendation.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Thank you, Mr. Feckner.

VICE CHAIRPERSON MILLER: Okay. And so that was the original. But right now I think calling for the question on the substitute motion that was made by Ms. Olivares and seconded by Ms. Brown.

So call for the question on that. So, Ms. Hopper, would you call the roll for the substitute motion.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: No.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: No.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: No.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: No.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: No.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: No.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: No.

COMMITTEE SECRETARY HOPPER: Betty Yee?

COMMITTEE MEMBER YEE: No.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I have 4 ayes, 8 noes for the substitute motion made by Stacie Olivares and seconded by Margaret Brown, I believe, for no higher than 4 percent.

VICE CHAIRPERSON MILLER: Okay. So the motion fails.

So we'll go now to call any further discussion before I call for the question on the original motion made by Mr. Feckner.

And I see comments from Ms. Ortega.

COMMITTEE MEMBER ORTEGA: Thank you, Mr. Chair.

I was going to make this comment prior to the other vote, but I think it still stands here that I do --

VICE CHAIRPERSON MILLER: Sorry, I missed you.

COMMITTEE MEMBER ORTEGA: No, that's okay.

I do feel a bit like there's some historical similarity to other actions that have been taken on the pension fund side where returns are not -- we're not seeing returns that will sustain a program long term, and instead of making fundamental change to the program itself or to the contribution levels, we look at alternative investments. And I -- I agreed very much with the comments that Ms. Olivares made about this issue. And I feel while I absolutely recognize the impact to the participants in the plan today, I can't help but think that what happens a year from now, two years from now, if we're really not changing the trajectory of the investment returns, it feels to me a bit of the kicking the can kind of situation. And so that -- that's why I supported the prior motion.

Notwithstanding that, you know, I'm happy to see what kind of asset allocation might come to us at the future meeting. But I do feel very nervous about where we are right now with this and that we're just really delaying the inevitable. And I think that that -- those delays, as the member -- the employer participants in the plan on the pension side, they know that those delayed realities are more painful later than they are now. So again, just wanted to make everyone aware of my support for the prior motion.

Thank you.

VICE CHAIRPERSON MILLER: Okay. Mr. Perez, do you have -- it looks like I've got you in my queue.

COMMITTEE MEMBER PEREZ: Thanks. Does our independent consultant have -- can he expand on this a little bit?

MR. BODNAR: Well, so my expertise is in the long-term care insurance industry. And I just -- again, many of them are subject to restrictions and regulations that kind of prohibit asset allocation like what we're looking at here. But I do think that if -- if they did have an option to -- they would consider at least exploring this alternative asset allocation that we're -- that we're looking at here.

I do hear the concerns. I agree that long-term care insurance does have a much different benefit while the premiums run down. And so delay in any action is very costly. And so you're right, moving to something riskier could result in a need for a larger increase down the road. But at the same time, yeah, I think someone had mentioned the policyholder who is asking why they must pay more premiums now, if there's a -- if there's a chance to get a higher return on the assets today.

I -- I note that -- I mean, I would ask Ms. Reese what the view is on interest rates going forward? I mean, is there a view that interest rates will climb going forward from the investment experts that you're working with?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Maybe I'll -- maybe I'll jump in on that. I mean I -- you know, candidly, actually, Arnie is probably better to answer questions on rates. But I think our overall perspective is that at the -- where rates where they are, we are questioning at the PERF level how much diversification and income. You know, the historical role of fixed income has been income and diversification. And that's certainly something that we're researching as we speak is whether treasuries being where they are specifically, even provide very little income and what they provide in terms of diversification.

I don't think we have an actual interest rate forecast. I mean, I do think for a while we thought they -- it was difficult to get them to go down much further, but we do certainly have a question -- an open question on how valuable fixed income can be as a diversifier, much less an income producer with rates where they are. Arnie, do you have anything to add to that

INTERIM DEPUTY CHIEF INVESTMENT OFFICER PHILLIPS: No, not really, Dan. I do think the -- predicting interest rates is a tough job. But when we do look at what the role of fixed income traditionally is, Dan mentioned diversification and income. Income is not much. Diversification is debatable now. And liquidity, which is important, but we can get liquidity in different types of products or different maturity, fixed income exposure. So I do think the same questions we're seeing on this topic do apply to the PERF. They apply to anybody that's got an asset liability framework. It -- it's a -- it's a tough subject, but predicting interest rates is also a tough science. So I'll just leave it at that.

MR. BODNAR: Okay. I mean, one of the

fundamental issues with long-term care insurance is that the duration of the liabilities is so long. It's longer than fixed income assets that you can buy today. And even in the insurance industry, where they have a buy and hold accounting mechanism for their -- for their bonds. We're not subject to market value fluctuations like your fund is. The problem is eventually the assets fall short of the liability duration and you have to reinvest at some point in the future.

And, I mean, that's really what -- that was really a fundamental problem with the long-term care insurance liability is that companies bought assets back when they were 6 to 8 percent and, you know, now they're having to reinvest at -- the assets that are running at, you know, 2 and 3 percent right now in a market value. So there's no real way to completely match that asset liability issue.

And right now, with -- you know, with market values of these assets where they are, if interest rates were to rise, you would see a decrease in the value of your portfolio of your are fixed income. So that -- that's a risk too that I think you need to think about. And there aren't -- there isn't really a fixed income portfolio that even -- even though your block is older, there really isn't a fixed income portfolio that really matches well with your liabilities going forward.

So it's a -- it's a difficult dilemma. I -- you know, I look at the box that you've drawn on the risk -- the risk tolerance. I think between the 7 and the 9 and a half, it seems -- it seems acceptable.

But I think it's worth looking at these proposals. And I think, you know, doing something prudent, moving to something that does -- does allocate to something with a higher yield, again is worth -- is worth considering here.

VICE CHAIRPERSON MILLER: Okay. Any other questions?

CHIEF HEALTH DIRECTOR MOULDS: Can I -- can I jump in and just add one other thing? Ms. Ortega had raised this issue about sort of long-term sustainability of the program and future costs. And it's an excellent point.

Tomorrow, at PHBC, I'm going to be talking about an option that we're currently developing that I think is going to be a much better solution to manage costs longer term. But just to be aware that we are looking at that. We have contractual obligations to our long-term care policyholders to -- to continue providing the benefits that -- that are part of their existing policies, but we can offer them options. And I think we will get to a better place, where we're able to manage costs better and give some alternatives, as I'll be talking about tomorrow, that -- that actually can keep them in their homes longer.

So long term, that is where we are looking for sustainability rather than increasing the risk that the portfolio is going to take, but this is a piece of the pie as well.

MR. BODNAR: Yeah, that's a good point, Don. And if -- you know, if you'll allow me, that's -- that's what the other long-term care insurance entities are doing right now. They're realizing that you can only get so much out of the premium rate increases going forward. They are really focused on the benefits and offering their policyholders meaningful benefits, but that will reduce the liability greatly going forward.

And I think that is where a lot of the focus is right now, particularly on trying some of these aging-in-place efforts as well that can try to keep some of the costs down.

VICE CHAIRPERSON MILLER: Okay. At this point, I don't see anymore requests to comment or question. So I will check and see the -- okay. So I'll call for the question and ask Ms. Hopper to call the roll.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

Is she --

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: I -- sorry, I want to be clear. I don't think the motion was stated specific, but this is to increase it from 4.75 to 9 -- sorry, let me pull it up. What -- can you -- can you restate the motion, please, because I think we're voting on multiple things.

VICE CHAIRPERSON MILLER: Yeah. The motion was to accept the staff recommendations, which included the increase in the discount rate, included the allocation, included the -- the risk parameters in the presentation, and --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yes, Ms. Olivares, there was -- there was three aspects -- three aspects to the motion. One was setting the discount rate at 4.75 percent, the second is putting the upper risk threshold for the portfolio at 9.5 percent, and the third one is --

COMMITTEE MEMBER OLIVARES: Between -- I'm sorry between 4.75 percent and 5 percent?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: No, the recommendation is 5 percent -- I'm sorry, is 4.75 percent to set the discount rate at.

COMMITTEE MEMBER OLIVARES: Perfect.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And then the last one is to have the potential for inclusion of leverage in private assets. And again, the asset allocation will come back in February.

COMMITTEE MEMBER OLIVARES: Thank you for clarifying that. My vote is no.

COMMITTEE SECRETARY HOPPER: Stacie Olivares votes no.

Eraina Ortega?

COMMITTEE MEMBER ORTEGA: No.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Betty Yee?

COMMITTEE MEMBER YEE: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I have 10 ayes, 2 noes, one made by Stacie Olivares, the other by Eraina Ortega. The motion was made by Rob Feckner and it was seconded by Jason Perez.

VICE CHAIRPERSON MILLER: Okay. The ayes have it. The motion passes. Thank you, everybody, for a really thoughtful discussion and decision.

So that brings us next to --

COMMITTEE MEMBER PEREZ: Henry is either pointing to God or he has a question.

(Laughter.)

VICE CHAIRPERSON MILLER: Henry.

COMMITTEE MEMBER JONES: No, I was just to going say some time ago, but if you -- you've already identified it. I was just going to say the recommendation was on iPad page 196. That's all. And so -- but she's -- someone has already set what they are, but they're there. Okay.

VICE CHAIRPERSON MILLER: Yeah. Thank you.

And so that bring us to Item 7b, review of the Investment Committee delegation. And I'll go to Ms.

Simpson. And again, congratulations to Ms. Simpson.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Thank you, Mr. Vice Chair. I see Anne Simpson is with us. Jared, if you can also please move, I think, he's -- Don Moulds, Christine Reese, and James Gunn back to the attendee room. Anne, over you to take us through the IC delegation.

You're muted.

MANAGING INVESTMENT DIRECTOR SIMPSON: Trying again. Thank you, Dan.

First of all, thank you very much Vice Chair Miller for those very kind words. I'm very honored to be in this new role -- in this new role to serve our members. And thank you to the Board members who sent the same good wishes. I really appreciate that.

So this item is to bring back for your consideration a revised Investment Committee delegation. This reflects some of the discussion that came from the Board's most recent self-assessment and the working group, which was looking at how to simplify and make more readable and accessible various Board items. And it also reflects discussion in the September meeting around the composition of the Investment Committee.

So just to sum up, there are three elements that are new in the Board Investment delegation, which you have before you. The first is to reflect that the Investment Committee will comprise the entire membership of the Board. Secondly, that the Investment Committee is authorized to act finally with respect to all action which is directed within this delegation.

And finally, as has been done with other Committee delegations, this version of the delegation removes some duplicative language and sets out the delegation more directly.

So with that, Vice Chair Miller, I'd be glad to take any questions.

VICE CHAIRPERSON MILLER: Okay. Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Vice Chair. Yeah, Ms. Simpson, thank you. I just want to be clear, the redlined document here are the changes prior to the one we received at the -- that was not approved by the Committee sometime ago, is that correct?

MANAGING INVESTMENT DIRECTOR SIMPSON: Let me make sure I understand. The version that you have is intended to reflect all of the direction and decisions that were made previously.

COMMITTEE MEMBER JONES: Okay. So that -- so but there was a doc -- there was a presentation made that included some more changes. They're not listed in this change document here.

MANAGING INVESTMENT DIRECTOR SIMPSON: Correct.

COMMITTEE MEMBER JONES: Okay.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes, we took that as direction.

COMMITTEE MEMBER JONES: Okay.

MANAGING INVESTMENT DIRECTOR SIMPSON: And our intention is that your direction has been fully reflected in this.

COMMITTEE MEMBER JONES: Okay. Thank you.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you.

VICE CHAIRPERSON MILLER: Okay. I'm not seeing any other requests. I do have a request from the public, I believe. Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. We have a caller -- one caller on Item 7b. Mr. Tim Behrens from California State Retirees.

MR. BEHRENS: Thank you, Kelly. Vice Chair, members of the Committee, members of the Board, the CSR mission is to protect our pension and health care benefits. And we depend on the CalPERS Board members to have our back. We support the full Board being on the Investment Committee. It makes perfectly good sense to us to have all of you have our back, and support our input, and add to the debate for the future.

Thank you very much.

VICE CHAIRPERSON MILLER: Thank you, sir.

Okay. And with that, I don't see -- any others, Mr. Fox?

STAKEHOLDER RELATIONS CHIEF FOX: No, Mr. Chair. That concludes public comment on Item 7b.

VICE CHAIRPERSON MILLER: Okay. So at this point, I guess we would entertain a motion.

COMMITTEE MEMBER JONES: Yeah. Move approval.

VICE CHAIRPERSON MILLER: Moved by Mr. Jones.

COMMITTEE MEMBER FECKNER: (Hand raised.)

VICE CHAIRPERSON MILLER: Seconded by Mr. Feckner.

And any further discussion?

Okay. Ms. Hopper, I'll ask you to call the roll.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Betty Yee?

COMMITTEE MEMBER YEE: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I have all ayes for Item 7b. Henry Jones making the motion, Rob Feckner seconding it.

VICE CHAIRPERSON MILLER: Thank you, Ms. Hopper.

The motion passes. And so that concludes Item 7.

So on to Item 8, information items, starting tracking error. And it looks like Mr. Michael Krimm with information Item 8a.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Thank you. Yes. Thank you. Jared, if we could move Anne Simpson back to the attendee area, please. And yes Michael Krimm is joining us. This is responsive to some of the questions that we've gotten around tracking error and kind of the overall risk management framework. So Michael and his team spent quite a bit of time looking at it and thinking through both ways to -- you know, to share more information with the Board and make -- but also make the whole risk management framework more useful. So with that, Michael, I'll turn it over to you to take us through 8a.

(Thereupon a slide presentation.)

INVESTMENT DIRECTOR KRIMM: Great. Thank you, Dan. Michael Krimm, CalPERS staff. So like Dan mentioned, we have -- we have two goals for this agenda item. And the first is to just provide a general refresher on the concept of tracking error in response to some Board member questions.

Tracking error is one of the investment risk metrics that we regularly report, and which is widely used in industry. It's also one of the most technical and lease intuitive metrics that we have. So we think it's worth carving out some time on occasion to discuss just for those reasons alone.

Secondly, there are some inherent challenges with this metric applied to the total plan, which is inhibiting its effectiveness as a risk monitoring and governance tool.

We want you to be aware of these challenges. We also wanted to introduce an improved version of the metric, which we've started publishing that's side-steps these problems. And finally, we'd like to present some ideas for potential future improvements in the Investment Policy as it pertains to tracking error.

In terms of how this conversation is organized, I'm going to start with some context on how tracking error or TE, as I'll abbreviate it fits in our overall policy and risk construct. And I'm going to touch briefly on the interpretation and the meaning of the metric, but I don't intend to spend a lot of time on the mechanics or statistical aspects.

And then next I'm going to highlight some of the limitations of the metric, particularly as pertains to private asset classes. And then I will close with some of the potential improvements to how we use it.

Closely related to the concept of tracking error is the idea of risk budgeting, which is the question basically of how you -- you know, budget or allocate risk. That includes questions like what should our tracking error limit be? We're not going to go into this topic today. That is really a broader topic about plan investment strategy, more broadly.

Today, we would like to establish a common baseline on the measurement and monitoring aspects of this metric.

And finally, I want to just start with a point of clarification on the label of tracking error. The word "error" in the label is potentially misleading. Tracking error is not actually about an error in the sense there's a problem where more is worse and less is better. This label kind of exists for historical reasons and it seems -- you know, I think we're kind of stuck with it. But really tracking error is an investment risk measure. And like any investment risk, whether the risk is good or bad, depends on what we get in return for taking that risk as well as our tolerance that we have for that risk.

So with that, I actually want to jump ahead through the materials. So if we could jump to page four, please.

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INVESTMENT DIRECTOR KRIMM: Thank you.

So I'm going to start by reading CalPERS Investment Belief number 9, which states that, "Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error". Consistent with this Investment Belief, the tracking error is only one of the many guard rails that are defined in the total fund and program investment policies.

We've put a lot of these on this page not to try to read through them in detail, but to illustrate the fact that tracking error is really part of a broader tapestry of risk tools being used a CalPERS. I think that context is really important, because it tells us we are not leaning on this one metric that we're talking about today for our overall investment risk management.

Oftentimes, tracking error is either completely ignored by investment professionals because of its many known flaws or it is overrelied on, because it has the promise of summing up kind of everything neatly into a single number.

But in the context of a holistic policy framework that we have, we actually have the freedom to avoid either of these extremes and to take from this tool what it is useful for without having to rely on it for the things it's not useful for.

So let's go to page five, please.

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INVESTMENT DIRECTOR KRIMM: I'm going to try to explain what is the actual risk that tracking error is trying to measure? Before we get into what it means, I want to talk about what it's trying to measure. And to do that, we have to understand the underlying paradigm that tracking error implicitly assumes, which is that the paradigms that we could group all investment risk taking in our plan into two broad categories. The first is risk that comes from the strategic asset allocation, which is embodied in our policy benchmark. And then the second category is, what we call, active risk. And active risk is what tracking error is measuring.

Active risk describes how the implemented portfolio is different from the policy benchmark at each point in time. Remember that the policy benchmark is not just the performance yard stick, because I think that's often how we think of benchmarks. But the benchmark is also a paper portfolio that specifies a specific set of positions and weights at any point in time. Tracking error attempts to quantify the impacts of the differences in the holdings between our portfolio and between the bench -- and the benchmark.

So the most important aspect to understand when looking at this metric when you're consuming in your oversight is that it is a relative risk metric. It is about differences between the portfolio and the benchmark. It is not about absolute risk.

Said another way, more tracking error means we are more different from the benchmark. It does not mean -- more tracking error does not mean that the plan necessarily could lose more money. It might mean that, but it could also mean that we actually have a less risky portfolio in an absolute sense, because we're just trying to quantify how distant we are from the benchmark.

Deciding on the strategic asset allocation, that first category, of course, is the most important investment decision we make in the plan. And it is the dominating driver of risk in the portfolio. It is the decision that you review through the upcoming -- that you're going to review in the upcoming ALM cycle. And it's a decision that's ultimately taken by the Investment Committee under advisement of staff and consultants.

In contrast, active risk, which again is what we're measuring with tracking error, active risk is driven predominantly by staff's portfolio implementation decisions. Active risk results from two sources. First, there are natural frictions of any portfolio relative to its benchmark, implementation frictions. And then second, there are intentional staff decisions to deviate from the benchmark for return or risk purposes.

So under this paradigm, tracking error is a way of measuring and potentially of constraining how much the portfolio implementation deviates from the policy benchmark. And that, in turn, is kind of the core premise of this metric. The promise, the aspiration is that track -- that in a single number, tracking error can capture the sum effect of all deviation of the portfolio from the policy benchmark.

And in terms of risk management, that implies that as long as you understand the risks the strategic asset allocation -- again, which is the conversation we'll be having in the ALM process. As long as you understand that big bucket of risk, then tracking error can be used, in theory, to kind of neatly capture the remaining risk of how the portfolio is implemented.

And if tracking error remains reasonably small and well understood, then we can feel we have a handle on the overall portfolio risk profile.

Now, unfortunately, in real life, tracking error does not work to fulfill this function perfectly. And in particular, it falls short when applied to private assets. So that's why we had the prior slide, we can rely on it. We shouldn't, but that's the -- kind of the aspiration of the metric.

Can we go to slide 7, please.

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INVESTMENT DIRECTOR KRIMM: So this -- promise this will be brief, the statistical interpretation. Tracking error has a -- an interpretation statistically as the standard deviation of the expected excess returns of the portfolio versus the benchmark. More simply, I think you can think of this as a measure of how much our excess returns fluctuate, with a higher tracking implying greater fluctuation in the return of the portfolio versus the policy benchmark, and lower tracking error implying a lower fluctuation.

Again trying to describe it another way, higher tracking error implies a higher probability that the portfolio will either outperform or underperform the benchmark in a given time period. Personally -- and there are some -- there are some problems with the statistical interpretation too.

So personally, I actually find it more intuitive and probably reliable to use tracking error not as a predictor of return outcomes, though it kind of has that interpretation, but as a relative measure almost like you think of maybe a speedometer or the volume dial on your phone, where, you know, if your volume on your phone is set to 4, you may not know what the means in terms of the kind of audio engineering, but you have a sense of what the means based on your experience with that volume level and based on the fact that the manufacturer set your phone up to go to 10, so you get a sort relative sense of place.

So, for example for tracking error, given our tracking error is around 1 percent right now, and the portfolio benchmark volatility is around 11 and a half percent, you can got a sense that whatever the statistical interpretation, our model -- which by the way, both those numbers come from the same model, our model is implying that our excess returns will fluctuate with about one-tenth the magnitude of the overall portfolio. And that actually is pretty close to the historical outcomes as well.

Similarly, given a tracking error limit for the plan of 150 basis points, that's our current policy limit, a 100-basis point measured tracking error that we have right now, or 105 basis points, implies that we are about two-thirds of the way to the limit today. So again, just a relative interpretation of the number.

Slide 9, please.

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INVESTMENT DIRECTOR KRIMM: All right. So let's talk about the problems in the implementation of tracking error. Tracking error is rarely used for private asset classes. And that's for two main reasons. First of all, the metric, like I was discussing, is, by definition, only meaningful in the context of an investable benchmark. And private asset benchmarks are typically not investable and ours are not investable

And the second problem is that data availability challenges limit the effective resolution of the risk model. So what this means is that our model can give us a good -- like kind of a rough sense of the economic risk of real assets and private equity that's useful for things like asset allocation, so as overall asset classes, but it lacks the required granularity of data in either -- in terms of our portfolio positions or in terms of the benchmark and the calibration of the model to be able to convey useful information about relative risk taking, even if the benchmarks were investable. So those are the challenges with private assets.

And on the next page, if we could jump to that, we're going to show how that maps to the total plan.

Can we go to page --

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INVESTMENT DIRECTOR KRIMM: Yeah, thank you.

So slide 10. So this chart shows you where the currently reported PERF tracking error comes from. And the column on our right is our total reported plan tracking error of 105 basis points. A quick caveat, we did the analysis for this presentation based on earlier data, so it's about one or two months dated from the data that you had in your quarterly update. But the numbers are very close and the overall picture hasn't changed at all, so -- but just in case you were trying to compare those numbers.

So for our total tracking error here is 105 basis points. We've broken out kind of where it comes from. And you can see that the tracking error from the private assets, which are the second and third columns in red on this chart, dominate our reported tracking error. And right now, only a small portion of tracking error is coming from our entire public asset portfolio and active asset allocation decisions. And that is that first column in green.

Now, by the way, that first column doesn't have to be small. It's been much bigger in the past, but just right now, we aren't taking a lot of active risk in these areas.

This portion on the left, this green portion, that's what we call actionable tracking error, because this is where the metric is meaningful. And portfolio positioning can be intentionally managed relative to an intention -- an investable benchmark. In other words, this is where the tracking error metric can map directly and pretty cleanly to portfolio management decisions.

For the private assets, we have the challenges I just discussed. So these bars represent the outcome of benchmarking and modeling challenges more than meaningful information about the state of risk taking in private assets.

So let's go to page 11.

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INVESTMENT DIRECTOR KRIMM: So there's two implications of having our total plan reported tracking error metric dominated by essentially benchmarking and modeling issues.

The first implication is that the metric we're looking at ends up offering little differentiation between vastly different risk-taking scenarios. For the sake of time I'm not going to go into this table in detail. We can go back to that in the Q&A if you're interested. But the high level takeaway is that we've modeled three very different potential portfolios in this top section. And we see the metric hovering around 100 basis points, almost regardless of what we do across these very different scenarios. So we're not getting a lot of resolution. It's almost like you have the speedometer and it just starts at 55 miles an hour.

The second implication of the current implementation of tracking error, because of the modeling challenges in the private assets, is that coupled with our 150-basis point limit, we actually have sort of a de facto intrinsic constraint on increasing our allocation to private assets in the PERF.

As we increase our allo -- increase our strategic weight to these assets, tracking error will increase relatively -- and relatively quickly exceed the policy limit. And this increase happens mechanistically. It's simply because these assets are almost, by definition, different from their non-investable benchmark. And it is not a representation of, you know, risk taking or departure from policy, the way that we would want it to interpret tracking error. So these are two implications of the current methodology.

And for this reason, we've started reporting a new metric. And if we could jump to page -- the next page, please.

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INVESTMENT DIRECTOR KRIMM: And this new metric is on the bottom of this chart. We call this Actionable TE. So this table is an excerpt from our regular quarterly reporting, which actually Dan flashed up at the beginning -- spoke to at the beginning of the meeting. And we are also planning to introduce this new metric on the Insight Tool. And what this does is it corresponds to the actionable tracking error column that I showed you a few pages ago.

This metric neutralizes the reported tracking error from privates, which is the one that is creating so much noise in the total tracking error and allows us to focus on tracking risk taking in the rest of the portfolio, which I will add is the other 80 percent of the portfolio, and which is public assets and active allocation.

And that is the realm where tracking error can add, I think, some good risk management value. So we're reporting that alongside the old metric, which is the one in the middle of this table.

Finally, if you'd jump to page 13, please.

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INVESTMENT DIRECTOR KRIMM: So the last thing we wanted to do in this meeting is raise a few areas of potential improvement to the Investment Policy language around tracking error. Depending on your feedback, we could work with your consultants to come back with a specific proposal on this -- on these topics in the future. And by the way, we have discussed all these materials with them as well as the new metric. So if you have questions, you can also address them in this meeting.

So here's kind of the three areas. First of all, we would consider applying a tracking error policy constraint to actionable tracking error only, in other words, the new metric, with the constraint appropriately resized to reflect the same level of allowable risk.

And this would make our risk limit focus on the things where tracking error is a -- is we think a useful metric to measure.

The second change would be to introduce language around what happens when the limit is breached, as well as any allowable short-term departures from the limit. For example, for handling rebalancing strategy in a crisis, where you can very easily breach a tracking error limit.

And then the third potential change would be to consider dropping the separate 75-basis point tracking error constraint on allocation in favor of a unified limit. We didn't talk about the specifics of the policy on this today, but basically this is a -- sort of a secondary constraint that we think is less relevant in today's total fund management context.

So those are my -- those are my prepared comments. And with that, I'm going to pause and jump into questions.

Thanks.

VICE CHAIRPERSON MILLER: Okay. Thank you for the presentation. And let's see, I have a question from Stacie Olivares.

Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller and thank you, Mr. Krimm. Interesting. I actually love statistics and econometrics. It's kind of my field. So it's actually an exciting conversation for me.

So tracking error, as you know, measures how accurate our predictions are ultimately. And I understand that the more public the information the better our prediction, right, because that way we can have checks and balances on the information that comes in. There's data that's frequently available and it's more accurate and easy to measure. So I understand why you want to separate these. And it seems like you want to have us look at a tracking measure -- sorry, tracking error for those that are actionable, some that are publicly-traded securities, fixed income, et cetera, and then separating that out from private markets, correct?

INVESTMENT DIRECTOR KRIMM: That's right. And I would -- I would -- I would say -- I would pull out -- we would want -- what we want to do and what we're doing in this new metric is we're pulling out the tracking error that we believe is a meaningful measure, which is essentially neutralizing the private.

COMMITTEE MEMBER OLIVARES: Right. And you're saying that would also cover asset allocation as well?

INVESTMENT DIRECTOR KRIMM: That's right. So particularly over --

COMMITTEE MEMBER OLIVARES: So performance and asset allocation.

INVESTMENT DIRECTOR KRIMM: Excuse me.

Yes, that's right. So it would include over and underweights to -- to all of our asset classes, which is obviously a big source of tracking error many times.

COMMITTEE MEMBER OLIVARES: Right. And I understand that we've had trouble getting to our private equity allocation. And so I'm wondering how this will affect that? So, how the Board, for example, can keep track of our allocations to private markets to ensure that we're on track.

INVESTMENT DIRECTOR KRIMM: Yeah. So the -- actually, the primary channel for measuring our allocation is the quarterly update on performance and risk --

COMMITTEE MEMBER OLIVARES: Um-hmm.

INVESTMENT DIRECTOR KRIMM: -- as well as the Insight Tool. And we -- we basically just report the allocation. So you can look at those weights and that's totally independent of the tracking error calculation.

COMMITTEE MEMBER OLIVARES: So then this proposal would just make our TE look lower overall, because we're separating out private markets.

INVESTMENT DIRECTOR KRIMM: Yeah. We would be reporting -- we would be reporting the tracking error only from -- from these separated items. So we would -- if we -- actually, could we jump back to page -- I'm trying to remember the one with the bars. Page 10.

Yeah. So right now, the black bar is what we're reporting.

COMMITTEE MEMBER OLIVARES: Um-hmm.

INVESTMENT DIRECTOR KRIMM: Public assets and allocations on the left. Again, it's low right now. It hasn't always been low. And during COVID, it jumped to round 90, so it can -- it can -- actually, it's meaningful. It's not just sort of a throwaway. But the big chunks here are private equity and real assets. And this is not our allocation. We -- we are capturing allocation in that green bar, so if we have big differences.

What this is capturing is how private equity is measured by --

COMMITTEE MEMBER OLIVARES: Um-hmm.

INVESTMENT DIRECTOR KRIMM: -- the risk model against its won benchmark.

COMMITTEE MEMBER OLIVARES: Right. Okay. Thank you.

VICE CHAIRPERSON MILLER: Okay. It looks like I have a question from Controller Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Vice chair. This is really an interesting presentation and really appreciate it. I guess I'd want to follow on Ms. Olivares's questions. So I guess on slide -- the last slide that was up, slide 13, on the potential policy improvements. Yeah.

So given that there's a lot of variance between the private equity portfolio returns and the benchmark, so what's -- what would we be expecting that staff would still need to report? I guess options two and three would be preferable, right, to option one?

INVESTMENT DIRECTOR KRIMM: I'm sorry. We intended these three as al simultaneous changes.

COMMITTEE MEMBER YEE: All simultaneous. Okay. Okay.

INVESTMENT DIRECTOR KRIMM: But I would say -- I would say the second and the third are maybe more in the category of cleanup and housekeeping, I think, and it's the first one that I would argue is the more substantive change.

COMMITTEE MEMBER YEE: Okay. Oh, I see. All right. All right. I thought we were looking at them discretely, so I was confused. Okay.

So -- and so if we looked at these in total, we still would be able to capture the reporting of total risk with the change?

INVESTMENT DIRECTOR KRIMM: Yeah, we would -- you know, we would propose to continue reporting the current tracking error metric that includes the private assets. It's just you have to think about the information that you're getting.

So right now, you know, our private equity benchmark -- and by the way, the issues are similar for real assets. They're just a little more muted.

COMMITTEE MEMBER YEE: Yes.

INVESTMENT DIRECTOR KRIMM: But our private equity benchmark is the FTSE. It's the public markets. And we have that benchmark I think for good reasons. It represents an opportunity cost. It represents a return hurdle. So it's very useful for asset allocation and asset allocation management purposes, but --

COMMITTEE MEMBER YEE: Uh-huh.

INVESTMENT DIRECTOR KRIMM: -- when you're calculating tracking error and you're feeding the risk system, you're given it all of our private assets. Of on private equity. And then you're calculating how the risk model thinks private equity is different from public equity. So you have this almost sort of implicit internal inconsistency in that our Investment Policy for private equity says, well, go invest in private equity,

COMMITTEE MEMBER YEE: Right.

INVESTMENT DIRECTOR KRIMM: So if we faithfully do that, then we are almost by definition going to have tracking error against the private equity. And there is really not useful information about our management of the portfolio. You're really just getting the risk models interpretation of how private and public equity are different. And that's why we're saying this isn't something that we want to focus, because it's just not really useful information.

COMMITTEE MEMBER YEE: I see. Okay. That makes sense. And so, I guess after this discussion today, what -- what should we be inspecting with respect to these improvements?

INVESTMENT DIRECTOR KRIMM: Yeah. So, you know, what we'd like to do is we'd like to make some of these recommendations for policy changes. And really we'd like to work with your consultants on that for both -- primarily with Wilshire, but also Meketa, and then come with a recommendation at a future meeting.

And I'm not sure if that, you know, we would put that -- this isn't necessarily an urgent item, but that could be --

COMMITTEE MEMBER YEE: Yeah.

INVESTMENT DIRECTOR KRIMM: I know when we revisit the Total Fund Policy or could be stand-alone.

COMMITTEE MEMBER YEE: Okay. Do our --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:
Yeah, maybe, I'll -- I'm sorry.

COMMITTEE MEMBER YEE: I'm sorry, Dan.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I'm sorry, Ms. Yee, maybe I'll just jump in really quickly.

COMMITTEE MEMBER YEE: Sure.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: As Michael said, what we really wanted to gauge -- and we recognize the need to spend some time on tracking error and help -- you know, because we've gotten a number of questions over the years.

COMMITTEE MEMBER YEE: Yeah.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Then when we dug in, we thought, you know, what would actually make it probably more intuitive would be to potentially apply these. But obviously, given, you know, the importance of policy changes, we just wanted to raise this as what -- like it's just something that there's an appetite for or not an appetite for, because we -- you know, we are really just interested in feedback.

And one of the other points to Michael's previous point that I do want to underscore is that one of the concerns that we have is that, there is -- and if you go to slide -- or was it slide 11, you know, talking about that if -- you know, right now, the way it's currently implemented, our tracking error limits would provide a disincentive to allocate to private markets, which, of course, we know is exactly the opposite of what we're trying to achieve --

COMMITTEE MEMBER YEE: What we're trying to do, right.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

-- with the investment strategy. So that's why -- that's one of the reasons to highlight it here also.

COMMITTEE MEMBER YEE: Yeah. Yeah. Okay. Well, Mr. Vice Chair, I would be very interested in pursuing this. I think -- I like the proposed improvements. I'd like to kind of take a deeper dive and then -- and I was just trying to understand the different pieces. But now that they're being proposed to be looked at in total, that makes sense, so that we're still capturing the reporting of the total risk as well. So I'm -- I would like to see further work on this.

Thank you.

VICE CHAIRPERSON MILLER: Thank you.

Next, I have Mr. Jones. President Jones.

COMMITTEE MEMBER JONES: Thank yo. Thank you, Mr. Vice Chair. Thank you for the presentation. And each time you make a presentation on tracking error, I learn just a little bit more, not a whole lot. But a couple of questions. Given that the change in the relationship to the 150 basis points, if it goes down below that, it indicates less risk and if it goes up, it indicates more risk? Is that the beginning premise of looking at the 150-basis point tracking error?

INVESTMENT DIRECTOR KRIMM: Just specifically more higher tracking error means we are more different from the benchmark, that the implemented portfolio has essentially diverged from the policy benchmark. And less trucking error means -- means less of a departure. If -- if we had -- if we theoretically held the benchmark -- and again, remember the benchmark is just kind of the systematic implementation of your strategic asset allocation. It's a paper portfolio.

If the actual portfolio -- if we actually just held the benchmark perfectly, which again is impossible -- but if we did that, then in theory, you would have zero tracking error. That's what the zero point is supposed to be.

COMMITTEE MEMBER JONES: Okay. So if we adopt this recommendation to consider dropping part of this, then would the policy of 150 be changed to what 75, 100?

INVESTMENT DIRECTOR KRIMM: Exactly. So we would -- we kind of noodled through it and we think the --

the allowable equivalent level of risk would be a -- in the public markets and asset allocation that we get today would be around a hundred basis points, maybe a little less. And then that's something that we'd want to -- so we'd want to lower the limit to -- if we wanted to keep the same current risk limit.

COMMITTEE MEMBER JONES: Okay. And are there any --

INVESTMENT DIRECTOR KRIMM: Yeah. And that's something that we'd want to make sure -- you know, we've already walked through this with your consultants, but that's something we'd want to kind of do jointly with them.

COMMITTEE MEMBER JONES: Okay. And also, are there ranges like in our asset allocation where we have a target allocation with a plus or minus range. In implementing this policy, I've never seen anything that talked about ranges. Are there any?

INVESTMENT DIRECTOR KRIMM: No. The wording is a little vague. We actually have it on page -- page three of the presentation. So -- and it's the bottom section that's that constraint in bold there. The CalPERS total fund shall be managed with a target forecast annual tracking error of 1.5. So we've interpreted that as a limit, in other words a limit of 0 to 1.5.

COMMITTEE MEMBER JONES: Okay.

INVESTMENT DIRECTOR KRIMM: But again, you know, I think the language can just be cleaned up a little. And again, like I --

COMMITTEE MEMBER JONES: Okay.

INVESTMENT DIRECTOR KRIMM: -- mentioned in the slide on recommendations, we would propose that we have the sort of provision for, you know, what we call peace time and war time that we have a -- you know, that we think about tracking error as a general tolerance for the staff departing from the -- benchmarks for the public assets and asset allocation.

COMMITTEE MEMBER JONES: Um-hmm.

INVESTMENT DIRECTOR KRIMM: And then we'd provision for kind of extreme events.

COMMITTEE MEMBER JONES: Okay. Okay.

Okay. Well, it -- and as a management -- as a Board oversight tool, we would use the tracking error with -- in conjunction with your targeted allocation and what else? What other matrices do we use the tracking error with, in terms of our oversight responsibility to let us know about your active risk that you're taking or is it just this number?

INVESTMENT DIRECTOR KRIMM: Yea. No, I wouldn't suggest -- I think those two are central. I think leverage is important as sort of a backstop risk metric. And I think -- and those are all on Insight. Let's see what else comes to mind. I think, you know, the other -- the other -- in my opinion, one of the most important risk management tools is looking at performance, which obviously we do in a different context, but -- because a lot of times all these risk models, you know, they tell you what they think could happen. Performance is the cold hard truth.

COMMITTEE MEMBER JONES: Um-hmm.

INVESTMENT DIRECTOR KRIMM: So also very important to understand performance.

COMMITTEE MEMBER JONES: Um-hmm. So this is -- so in terms of the policy on the tracking error is more of a management tool rather than an oversight tool is what you're saying?

INVESTMENT DIRECTOR KRIMM: I think it -- so I think it is a -- it's a good management tool, because what happens is if it -- you know, it throws all your -- it kind of takes everything in your portfolio like a salad and throws it all in the same bowl and then pops out a single number.

And so, you know, kind of theoretically one of the benefits -- and that's, by the way, how we use it internally is if there's some corner of your portfolio --

of your, you know, tens of thousands of securities that is kind of doing something different than you expected, tracking error can kind of help give you a little bit of a sense of that. So that's the management approach.

As a risk oversight tool, it can give you a -- you know, kind of a heads up about the level of risk taking of level of exposure that the portfolio has relative to the benchmark. So it --

COMMITTEE MEMBER JONES: Okay.

INVESTMENT DIRECTOR KRIMM: So I think there it's kind of useful for Oversight. And then, of course, again, as a governance tool, you can have a limit, like we do, that, you know, puts -- you know, a boundary on the extents of departures from the benchmark. And by the way, we talked about tracking error and allocation limits, and I mentioned leverage and liquidity. Remember, we also have -- you know, like I had on that one page, we have a lot of limits for each individual asset class, and right -- and what that asset class can do, and ranges, and constraints.

COMMITTEE MEMBER JONES: Um-hmm.

INVESTMENT DIRECTOR KRIMM: So, again, it's all part of a -- of a -- of a matrix of constraints.

COMMITTEE MEMBER JONES: Okay. Okay. Okay. Thank you very much. Appreciate that.

VICE CHAIRPERSON MILLER: Okay. It looks like I have a question from Director Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller. Just a couple more questions. So would it be possible just to have the TE reported overall for the PERF and then just have a subsection for actionable TE, and we can just kind of see over time, you know, if we need to keep both?

INVESTMENT DIRECTOR KRIMM: Yeah.

COMMITTEE MEMBER OLIVARES: I think that might be an easy solution.

And then second question is I'm wondering if employee performance and compensation is tied to TE?

INVESTMENT DIRECTOR KRIMM: I'm not sure if I'm allowed to speak to that. It's tied to performance, so I don't -- no, I think I can answer that. It's not. Tracking error is a -- is a forward-looking what is in the portfolio metric. Compensation is tied to realized returns.

COMMITTEE MEMBER OLIVARES: Okay. And it would just be great, I mean, to get a -- to have our consultants take a look into that as well.

INVESTMENT DIRECTOR KRIMM: Absolutely.

VICE CHAIRPERSON MILLER: Okay. Thank you. I think we're --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Forecasted tracking error.

VICE CHAIRPERSON MILLER: Does anyone have anything else?

I'm not seeing anymore -- oh, it looks like we -- President Jones has a question.

COMMITTEE MEMBER JONES: Yeah. Thank you. Yeah. It may not be a question directly for David, but -- I mean, for Michael, but it's a question that I saw. It raises a question looking at the page nine, where it says real asset benchmark is not investable. And I -- and I -- and I'm not really expecting the answer now. But I know when we had our training on benchmarks about over a year ago, and a question was raised about using non-investable criteria for benchmarks. And so are we moving in the direction of that every benchmark will be investable or what's the status of that from that discussion?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Maybe I'll -- maybe I'll take that.

INVESTMENT DIRECTOR KRIMM: Dan, do you want me to take -- okay.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yeah. No, I can jump in on that one. So, yes, Mr. Jones, ideally benchmarks are investable. And that's why in the public markets, all of the bench -- benchmarks are investable. And we're actually able to replicate those benchmarks.

And in the private markets, that's just a much more difficult thing. You know, in the case of real assets, you know, you have a bunch of, you know, buildings, and apartments, and the like. And it's just -- it's hard to come up with something that someone can actually just go out and by, the way you can in the public -- in the public equity space.

In private equity, it's arguably even (inaudible) have access to all the same things that would make it investable. But in addition, you can have more public equity and put 150 basis points on top of that. And there isn't a product that you can buy that is public equity plus 150 basis points.

So in the public -- in the public markets, the goal is definitely to make benchmarks as investable as they possibly can be. In the private markets, as much as you're trying to make them as investable as possible. It's really -- there's just this inherent conflict there.

COMMITTEE MEMBER JONES: Okay. Thank you.

VICE CHAIRPERSON MILLER: Okay. Thank you very much for the presentation, Mr. Krimm. It doesn't look like I have anymore questions or comments.

INVESTMENT DIRECTOR KRIMM: Thank you.

VICE CHAIRPERSON MILLER: And I think at this point, Mr. Bienvenue, I think it might be a good time for us to take about a 10-minute break. We've been at it for just about two hours straight. So if we could come back. It's on my clock, oh, 3:38. So if we could come back at 3:48, then we'll jump into the next agenda item. Okay?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Sounds great, Mr. Vice Chair. We'll see you then.

VICE CHAIRPERSON MILLER: See you all in 10 minutes.

(Off record: 3:39 p.m.)

(Thereupon a recess was taken.)

(On record: 3:50 p.m.)

VICE CHAIRPERSON MILLER: 8b, information item, our consultant review of CalPERS divestments. And Mr. Bienvenue, introduce your team members here.

(Thereupon a slide presentation.)

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Thank you, Mr. Miller. As mentioned in the opening comments. This is our annual consultant review of CalPERS divestment -- the economic impact of divestment, as required by the Total Fund Investment Policy. So Daniel Ingram is joining us from Wilshire to lead us through the discussion.

Daniel, over to you.

VICE CHAIRPERSON MILLER: I think you're muted, Dan.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Daniel, your mic is showing as muted. Are you able to enable your video and unmute?

MR. INGRAM: Sorry about that. Can you hear me okay.

VICE CHAIRPERSON MILLER: Yes.

MR. INGRAM: Okay. For some reason the usual icons have deserted me, so I apologize. I can't seem to find my video icon. My camera. I'm in the settings. Normally, there's just a simple icon to toggle it at the bottom of my screen, but they seem to have left me.

Connect to video system. All right.

Okay. Well, we'll just have to proceed with audio until someone maybe can point me to -- I'm in the tool bar at the top of the page, but for some reason, the normal camera icon I can't see it, but I don't know why that is.

Okay. Let me just carry on. Thank you, Dan. Good afternoon, everybody. Daniel Ingram Senior Vice President for responsible investment at Wilshire Associates. We'll go straight to slide 2, if I may, please.

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MR. INGRAM: Just to outline, as many of you are aware, the Total Fund Investment Policy outlines two divestment-related actions. Firstly, every five years, staff conduct a deep dive investment review. And that looks at the broader investment risks and opportunities within each of the different divestment areas for a determination of whether to continue.

But today, we're not discussing that broad review. Staff are due to undertake a review of all divestment programs in 2021. And so we'll be providing information as part of next year's deep dive. Today, we're presenting an annual snapshot. That's an annual financial impact divestment analysis. That's called a more limited scope to the five-year deep dive. So we're just purely concerned today to look at the financial gains and losses through to June of this year -- fiscal year to June 2020 for each of the different divestment programs.

And this presentation provides you with updated numbers covering two different time periods. Time period one covers the period since each divestment program was last affirmed and time period two we go back over a longer period analyzing the impacts since each divestment program began.

First, a quick note on methodology. Our analysis is based on comparing the returns of the unconstrained portfolio to the six constrained portfolios, though by way of reminder, that's to tobacco, EM principles, Sudan/Iran, firearms, and thermal coal.

By way of reminder, the Sudan/Iran and thermal coal divestments are mandated by State law. And the tobacco, emerging equity market principles, and assault style weapons are implemented pursuant to CalPERS Board's direction.

On slide 3 --

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MR. INGRAM: -- we discussed this last year in response to the question what happens to the divested dollars. So we thought we'd provide some clarity here with an illustrative example of how tobacco-divested assets are reinvested on a pro rata basis, in this case, across the IT and utility industries.

So in this example, we're assuming that IT and utility industries have higher returns than the tobacco industry. And so as a result of divesting from tobacco, which is held in the unconstrained benchmark as a result of divesting and moving into the constrained benchmark of reinvesting those tobacco assets into those higher returning industries, the decision to divest from tobacco would have led to improved performance. So in this case, the unconstrained benchmark with tobacco has 10 percent, but the constrained benchmark has 10.15 percent leading to a gain of 15 basis points.

And we talked last year that that gain would show up in the PERF annual performance. So just bear that in mind when we're talking about those gains and losses, that that's -- that that's where they show up in the PERF's annual performance.

For time period one, since last affirmation slide 5 -- if we could switch to slide 5, please.

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MR. INGRAM: Thank you.

You'll see that CalPERS divestment programs have delivered positive gains since they were last affirmed by the Board with a total gain of 2.376 billion. Gained as a result of not being invested in these six areas. The largest gain of $856 million came from the tobacco divestment program, since that was last affirmed -- as you can see, Q-1 2017, that was last affirmed in December 2016.

Other notable gains since the last affirmation include the EM principles providing a gain of 688 million, and thermal coal, as a result of not being invested in thermal coal, that has also led to a gain, in this case it's $348 million.

Now, time period two, if I may look to the appendix on slide 7 --

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MR. INGRAM: -- this tells a different story. As you can see, the tobacco divestment program was started way back in Q-1 of 2001. And as you can see, taken together since inception, the divestment programs have led to a loss of $2.18 billion in present value terms. So while the five of the divestment programs since inception have delivered gains, the tobacco program goes back a much longer period, over 20 years, and in of itself has delivered a loss of 3.692 billion.

And then I'll just conclude this presentation by pointing to the appendix, which contains annual impacts over a longer period for each divestment program. So, for example, slide 8 --

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MR. INGRAM: -- shows the tobacco divestment impacts over time. Despite the positive gains from being divested from tobacco since 2016 that we just talked about since the last inception, that was the period when the tobacco industry underperformed, you can see there's a lot of ground to make up for the losses that were accumulated as a result of not being invested in the tobacco industry when it performed relatively well during the time period

2001 to 2015, the fund lost money almost every year apart from 2013.

And on that note I'll hand it back to the Chair to see if there are any questions about our report.

VICE CHAIRPERSON MILLER: Okay. I have a question from Director Perez.

COMMITTEE MEMBER PEREZ: Dan, when do we hear the deep dive? When is that presented to us?

MR. INGRAM: I don't know the exact timing next year, but it's probably going to be towards the end of next year, I believe, the deep dive.

COMMITTEE MEMBER PEREZ: I'm sorry. That was for Dan Bienvenue.

MR. INGRAM: Oh, sorry.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes, Mr. Perez, I believe it's this meeting next year. I believe it's the November meeting in '21.

COMMITTEE MEMBER PEREZ: Okay. So --

CHIEF EXECUTIVE OFFICER FROST: I think what -- excuse me, I think we have it scheduled for earlier than that, Dan, but we can talk off-line, but I believe it's the first quarter, no later than second quarter next year.

COMMITTEE MEMBER PEREZ: Because I'm not -- help me out, am I able to make a motion to lift the tobacco divestments right now today?

CHIEF EXECUTIVE OFFICER FROST: I think we may have a notice issue to take that type of action today, but let's have Matt Jacobs weigh in on that.

GENERAL COUNSEL JACOBS: Yeah. That type of motion would be beyond what the -- this particular item is noticed for, which is consultant review of CalPERS divestments. So if you think about it in terms of notice to the public, it's not really telling them that that kind of thing could be done today. But if you wanted to, you could certainly make a motion to place it on a calendar earlier than otherwise be scheduled -- earlier than its otherwise scheduled for.

COMMITTEE MEMBER PEREZ: I think -- Marcie, I think if it's quarter one of -- or our next Investment meeting in March, I think you said, then I can -- I can wait till then. If you guys would -- if -- there's a great article in the Orange County Register yesterday, 96 -- no, it's 99 cities had local tax measures on their ballots to try to increase tax revenue to payoff their pension bond -- their pension obligations.

My city, the City of Corona, is looking into a combination hybrid between an obligation bond and a 115 trust to lower that.

Then as Mr. Ingram said in the last several years, tobacco has done bad. And my interest in bringing this up is not to strong arm our Investment Office into investing into tobacco or into any of the divestments that we currently have. They're the professionals. I am not. My interest is to take the handcuffs off the investments ni which our Investment Office can dip into when they see or if they see fit.

CHIEF EXECUTIVE OFFICER FROST: Yeah.

COMMITTEE MEMBER PEREZ: If there's nothing I can do between now and next meeting, then so be it.

CHIEF EXECUTIVE OFFICER FROST: Yeah, I think just getting Committee direction, Dan and I have not -- obviously have not had the chance to coordinate on this, but my understanding the last time we spoke to the Board and gave an update to the Board is that we were going to bring those back in March. So if that's changed, Dan and I need to reconnect. But perhaps we can just get Committee direction on how quickly you'd like that -- those decisions to be brought back.

COMMITTEE MEMBER PEREZ: I'm not a shot caller on the Committee, but --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: When I look at the item -- or the agenda for calendar 2021, it is currently sitting on November, but I do think that the analysis is a fairly deep dive, so there is a fair amount to do there, but I do think that we could bring it back in

March, if --

COMMITTEE MEMBER PEREZ: Here's my concern about waiting till November, because we're going to start the ALM cycle. And, I mean, four point -- or three pont -- almost 1 percent of the fund, that's kind of a lot of money, not to say that we're going to get that back tomorrow or even ever, but I want those handcuffs taken off, so you all can determine what's good. So, first quarter?

CHIEF EXECUTIVE OFFICER FROST: We -- yeah, we can take that as Committee direction if that's the Committee's wish.

VICE CHAIRPERSON MILLER: Yeah, I think so. What would be the direction to move from November to March? Would that be practical for staff --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: That would be a move that's five years --

VICE CHAIRPERSON MILLER: -- or should we move it, you know, maybe sooner than November, but -- what would be -- what would be the time to allow your staff to actually do, you know, the -- the necessary work --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Why don't we do this --

VICE CHAIRPERSON MILLER: I'm open to direction that it happens sooner, but I -- you know, March is -- you know, that's right around the corner. And if you didn't have it on your calendar, you know, how is -- how is that going to happen?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: (Inaudible). Why don't we -- why don't we take it as direction for March. If for some reason there's enough there, we'll have -- we know we have a committee meeting in February. Now, in February, if we're not going to make March, if for some reason the analysis is too much -- but my sense is that it's doable by March. We just need to shift a couple of things. We can accelerate it and --

VICE CHAIRPERSON MILLER: Okay. As long as you're comfortable with that, then I would say let's -- we'll take that as Committee direction then, okay?

CHIEF EXECUTIVE OFFICER FROST: Yeah.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Perfect. Thank you. We'll take that as Committee direction then.

VICE CHAIRPERSON MILLER: Anything else, Director Perez?

COMMITTEE MEMBER PEREZ: No, sir.

VICE CHAIRPERSON MILLER: Okay. Any other questions or comments before I go to the public comment?

Okay. Mr. Fox, I believe we have at least one public comment on this item, 8b.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. We have three callers on Item 8b. The first Mr. Bijan Mehryar of the League of California Cities.

VICE CHAIRPERSON MILLER: Mr. Mehryar.

MR. MEHRYAR: Good afternoon. Can you all hear me? Good after --

VICE CHAIRPERSON MILLER: Yes, carry on.

MR. MEHRYAR: Good afternoon. Thank you, Mr. Fox and Board members. Bijan Mehryar with the League of California Cities. I just wanted to take this time to appreciate Board Member Perez's comments about the dire straits that many local governments find themselves in, having to resort to tax increases and pension obligation bonds to help fund their pension obligations.

Now, we -- I'm not here to take any position on any of the individual divestments, but we do think it's important to emphasize that the Investment Office needs the freedom and the ability to creatively achieve their goal of meeting the 7 percent.

And I think when you all as a Board evaluate this report, it's important to consider that every investment loss, every inability to hit that 7 percent, ultimately means that employers are going to have to pay more. So I highly encourage you as you consider other divestment proposals that may come up in the near future or in the longer term, to remember that any type of politicalization of the fund, any investment decision making that is separate from the goal of achieving 7 percent, or your fiduciary duty to meet your obligation is going to impact the employer ability to pay. And when the employers cannot pay, that's when we will find ourselves in even dire straits than we're already in.

So thank you very much for the opportunity to comment and I appreciate your careful consideration of the impacts of the divestment policies on the PERF.

Thank you.

VICE CHAIRPERSON MILLER: Thank you, sir.

Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes. Mr. Chair, next we have Dillon Gibbons of the California Special Districts

MR. GIBBONS: Thank you. Thank you. This is Dillon Gibbons with the California Special Districts Association. Thank you, Mr. Fox, and Chair, and members of the Committee.

CSDA believes that divestment as an investment strategy can present challenging conflicts for CalPERS in balancing current affairs against its fiduciary duty to maximize retirement investments. CSDA supports CalPERS priority to its members as stated in the State Constitution, Article 16, Section 17, "A retirement board's duty to its participants and the beneficiaries shall take precedence over any other duty".

We would oppose any efforts that would divert CalPERS from its duty to its members including divestment of CalPERS assets to achieve political objectives, if the divestment would have a negative impact on the overall health of the fund.

We support CalPERS proxy access efforts to effect change from within businesses CalPERS has invested in to ensure that we are -- they are well managed for sustained long-term success.

So I want to echo the comments that my colleague from the League of Cities made and just encourage you to listen to your Investment staff who has advised you that divestment is a bad investment strategy. If there's money to be made, go ahead. But to -- to simply achieve a political objective using the retirement funds and having employers, employees, and retirees pay for that, I believe is -- would violate your fiduciary duty.

With that, thank you and have a wonderful afternoon.

VICE CHAIRPERSON MILLER: Thank you, sir.

Mr. Fox, our next.

STAKEHOLDER RELATIONS CHIEF FOX: Thank you, Mr. Chair. Our last caller on Item 8b is Mr. Rick LaBeske with the California Association of Highway Patrol Officers.

MR. LABESKE: Hi, Mr. Fox. Can you hear me, sir?

STAKEHOLDER RELATIONS CHIEF FOX: Yes, sir.

VICE CHAIRPERSON MILLER: Yes, sir. Go ahead. Carry on.

MR. LABESKE: Oh. Okay. Perfect. Hey, thank you, ladies and gentlemen, Mr. Fox, and Board for the time and opportunity to address you folks. Again, this is Rick LaBeske, President of the California Association of Highway Patrolmen. And I would just like to say on behalf of the 14,000 active and retired members of the California Association of Highway Patrolmen, I'm taking your time to express my support for CalPERS reevaluating its diversement[SIC] policies to ensure that the pension funds earn the highest rate of return possible on its investments.

Now, more than ever, we rely on CalPERS Board members to exercise their fiduciary duties to ensure that the fund reaches its goals for return on investment. In the current environment when achieving returns is so difficult, we do not believe it's appropriate to be divested from legal investments for political reasons, particularly when those diversements -- divestments are determined to have resulted in lost opportunities for returns, as was reflected in the most recent report to the Investment Committee.

We request that CalPERS Board act quickly to reevaluate its divestment policies to ensure that all paths for legal investments are available to the fund and to ensure that the fiduciary responsibilities of the Board are carried out on behalf of all CalPERS members.

Again, I want to thank you on behalf of the California Association of Highway Patrolmen and would like to thank you for your time.

VICE CHAIRPERSON MILLER: Thank you, sir.

Is that all of our commenters on this item, Mr. Fox?

STAKEHOLDER RELATIONS CHIEF FOX: That concludes public comment on Item 8b.

VICE CHAIRPERSON MILLER: Okay. Moving along then. I don't see anything else.

Okay. So moving on to Item 8C, Climate Change Risk Strategy.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Thank you, Mr. Vice Chair.

Jared, if we could please move Daniel Ingram back to the committee room and if we could please move Anne

Simpson and Divya Mankikar forward to our -- to the presenter queue. And Anne, I'll turn it over to you to take us from there.

(Thereupon a slide presentation.)

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes. Thank you very much, Dan. And very nice to be back again. Anne Simpson from the Investment Office, the Board and Governance Sustainability team, which reports to Marcie.

So it's my pleasure today to introduce our update for the Board on climate change risk strategy. This was requested at the last Investment Committee meeting. And what we've been able to do is give you the outline of the strategy itself and then a progress report on each of the elements.

So I'm delighted -- excuse me, I've got a bit of a cold. So Divya Mankikar, who's our climate change in-house expert, is going to take you through the details of this progress report, but I just want to set the scene.

The first to say is that our work on sustainability is driven by our fiduciary duty. And it really is rooted in CalPERS Investment Beliefs, which were referenced earlier by Michael Krimm when he was talking about risk.

I want to start by focusing on Investment Belief number four where CalPERS recognizes that long-term value creation requires effective management of three forms of capital, the financial capital, of course, but also human capital and physical capital.

And it's with that framing in our Beliefs that we started a research exercise awhile back under the Sustainable Investment Research Initiative to really look at all the evidence about what really mattered to risk and return with that idea of the three forms a capital.

Climate change really rose to the surface in being an issue which was relevant across the total fund, in terms of us thinking about both risk and also about opportunity. So the strategy for our sustainable investment strategy, which the CalPERS Board adopted four years ago, was to say we have three channels of influence in pursuing an agenda on climate change and the other priorities of that strategic plan.

The first is engagement. And this is where, we're using our position as a part owner of companies and also as a provider of capital. We're able, through partnership to work with others, to really work with companies to bring the transition forward that we see that's going to be important for those companies thriving in the long term, particularly with the transition that's necessary for many sectors, because of the impact of climate change. And our flagship project there is Climate

Action 100+. And Divya will say more about that.

Our second channel of work is advocacy. This is where we as a fiduciary can raise our voice with regulators of policymakers to make sure that we have the rules in the marketplace to ensure that we're able to manage risk and to find opportunities. And again, we've had tremendous progress there, both looking at the issue of risk reporting by companies, which is very important to our assessment of both risk and opportunity and also matters like carbon pricing. There's been great progress on both fronts, which is very encouraging.

And thirdly, and this is really great credit to our asset classes, because we take a total fund approach, we've said integration is the third channel of our work on sustainable investment. And on the integration work, each of our asset classes has developed an approach, which is specific to their particular situation. And the approach that they're taking we've provided for you in this presentation. And also, we've got links for you to their sustainable investment practice guidelines.

Finally, even though CalPERS is so very big, everything that we do has to be done in partnership. So the theme of partnership runs right through this work. And through partnership, not only do we learn from others, we're able to pool influence, pool resources, and further our own understanding of what needs to be done by working with others. And the groups that we work with are an extremely important part of the progress that we're starting to make. We see that through the UN, through the Vatican Council On Care for our Common Home, through our membership of bodies like Ceres, and the PRI, and others.

So let me turn to Divya now to take you through the details. We've also provided links along the way to the many reports and initiatives that she'll be referencing, so that you can see more about what we're doing, if you -- if you want to do a deeper dive.

So with that, let me turn to Divya.

INVESTMENT MANAGER MANKIKAR: Thank you, Anne. So I will go through, as Anne said, the presentation and each of those three pillars of activity in a bit more detail. And, of course, we'll always happy to stop and respond to any questions you may have.

If we go to the next slide, please --

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INVESTMENT MANAGER MANKIKAR: -- you have an overview here where we'll briefly review the portfolio context as it relates to the subject of our climate strategy and then go into each one of those three pillars.

So on the next slide what you have is a quote -- next slide please.

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INVESTMENT MANAGER MANKIKAR: Yeah -- from the U.S. National Climate Assessment, which came out just a couple of years ago, which states that, "Climate change creates new risks and exacerbates existing vulnerabilities in communities across the U.S. presenting growing challenges for human health, safety, quality of life and...", importantly for this discussion, "...the rate of economic growth".

So what that means scientific experts here, economists have been able to model the impact of climate change on economic growth. And this is really where our climate change integration strategy is grounded, the fact that climate change does -- does impact our portfolio companies and the economies in which we invest, as well as their return and growth profiles.

In addition, CalPERS declared last year that climate change is one of the top three risks to our fund.

So as we go to the next slide --

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INVESTMENT MANAGER MANKIKAR: -- we -- and we think about our approach to climate change, it's helpful to keep in mind the characteristics of our portfolio. So as of June 30th, 2020, our portfolio -- or the PERF rather was $389 billion, about 80 percent of that in public markets, the remainder in private. The majority of our fund is internally managed. So this is important to consider when we think about how to integrate climate factors into enhance our investment decisions, it largely is dependent on whether we're looking at our own decision making and we're looking at internally managed portfolios, whether we're evaluating external managers and whether our approach is index oriented, or we're -- or we're taking active risk. So all of those factors come into play in terms of the specific activities of an asset class to integrate climate and other sustainability considerations.

So going to the next slide --

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INVESTMENT MANAGER MANKIKAR: -- as you will recall in June, we presented our first report on our climate strategy that aligned with an international framework for climate reporting, called the Taskforce for Climate-related Financial Disclosures, or TCFD. And in that report, we disclosed that according to the four TCFD sectors listed here on this slide, roughly 21 percent of our total fund is invested in those sectors, and therefore, you know, more acutely exposed to climate-related risk.

Going to the next slide --

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INVESTMENT MANAGER MANKIKAR: -- we think about climate change, not just purely as a risk, but also as an opportunity. And again, in our TCFD report, we found that about $12 billion as of December 31st was invested -- sorry -- in private asset classes was invested in quote/unquote climate solutions, renewable energy and sustainably certified buildings. We're thinking about this, not just from a risk lens, but also where can we invest our assets where we're seeing opportunities(inaudible) climate pollution.

So going to the next slide --

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INVESTMENT MANAGER MANKIKAR: -- (inaudible) side our investment -- organized around three pillars engagement, advocacy, and integration. And this is not just for climate change, but other sustainability factors. All of our work here is really much more impactful when we leverage partners. And so that underpins our strategy.

So with this background, I'd now like to turn with a little bit more detail related to our efforts in each of these pillars.

So going to slide 9 on engagement --

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INVESTMENT MANAGER MANKIKAR: -- you've heard from us before that our premier endeavor on the engagement front is Climate Action 100+. And actually coincidentally, it was exactly five years ago that I first presented to this Board, when I had just joined CalPERS, on our carbon footprint -- the first CalPERS carbon footprint, where we looked at global equity and found that a subset of the more than 10,000 companies that we invest in, about 80 at that time, were responsible for half of our global equity portfolio's emissions.

We then took those results to peers and found that they had a similar exposure. And as you know, that led us to co-found the launch of Climate Action 100+. Climate Action 100+ has a focus on net zero emissions and engaging a target list of companies that are the systemically important carbon emitters.

What we found in running the analysis related to our TCFD report earlier this year is that if we just looked at the Scope 1 and 2 emissions of the top 100 companies on the Climate Action 100+ list, they would equate -- they would become the third largest global emitter after China and the U.S. So what that means is we have an opportunity to significantly impact emissions leveraging our tool of engagement. And we believe that that benefits not just our global equity portfolio, but has benefits across the portfolio as emissions reductions mitigate the climate risk to our total fund.

In terms of activities, we engaged 22 -- or rather we lead engagement for 22 of the companies on the Climate Action 100+ list and support peer asset owners' engagement teams by running proxy solicitations on a number of others.

And so far in the nearly three years since we launched Climate Action 100+, over 50 companies have set aims to achieve net zero emissions by 2050 or sooner.

If we go to the next slide --

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INVESTMENT MANAGER MANKIKAR: -- I'll just briefly remind you that the goals of Climate Action 100+ are three-fold. They are to have governance oversight at the Board level for each of these companies on the list, that the companies set emission targets in line with net zero by 2050 target, and that they disclose their climate strategy to us, as well as implementation, of that reduction target through TCFD style disclosure.

If we go to the next slide then --

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INVESTMENT MANAGER MANKIKAR: -- I know I'm going relatively quickly through these, because we did cover some of this in June. So I want to make sure we have time for the integration portion as well.

But here you have two case studies among those 50 companies that have set emission reduction targets. And the reason we pulled this two companies out is that Duke Energy is an energy consumer in being a utility and BP is an energy producer. And the point here is really that there's so many interrelationships within the economy, it isn't just one industry or sector where we're looking for emissions reductions, but really there's a dependence between industries. And so we have a holistic approach within Climate Action 100+ and within our broader CalPERS strategy to consider climate in our investment decisions.

So then going to the next pillar, if we can flip to slide 13.

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INVESTMENT MANAGER MANKIKAR: The second pillar of our strategy is advocacy. And CalPERS holds Board and advisory positions with several financial regulators and policy setters at both the international and the federal level. On the following slides, you have, you know, those entities that we have such positions with or have engaged in recent years, so I won't go through each and every one.

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INVESTMENT MANAGER MANKIKAR: But broadly speaking our goals are to advocate for policies that enable a low carbon transition, again to mitigate the financial risk to our portfolio of climate change. And key policies that we advocate for are carbon pricing, removing fossil fuel subsidies and mandatory climate risk reporting.

One element that is new since we reported to you in June is the report from the Commodity Futures Trading Commission, which I believe is on the slide --

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INVESTMENT MANAGER MANKIKAR: -- after this one.

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INVESTMENT MANAGER MANKIKAR: There you go. And CalPERS was selected to be one of the 35 members of the Climate Subcommittee to the Market Risk Advisory Committee of the CFTC. The CFTC's role which stands for Commodity Futures Trading Commission, is to, as it says, regulate the trading of commodity futures, for example, oil and agricultural commodities. And this was a significant effort, because it's the first time a U.S. financial regulator convened such a committee to -- and really put energy into examining the links between climate change and the U.S. economy.

After a one-year consultation process with these 34 other members that represented finance, industry, and civil society organizations, the subcommittee adopted a report unanimously, which you have as an attachment to this item, which found that, again, climate change does, in fact, impact the U.S. financial system. And on the next slide I believe you have a quote --

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INVESTMENT MANAGER MANKIKAR: -- which says, "Climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy", which again underpins the activities that we have to think about climate change as an investment risk and opportunity factor.

So finally on advocacy, we also wanted to talk briefly about our work at the State level. We're proud of California's leadership on climate change and to have had the opportunity to work with the Governor's office on their recent Executive Order, which created a climate investment framework. The framework advances efforts to establish climate change as a financial risk. And we worked with CalSTRS, the UC funds and several departments within the Governor's office to create this framework, which also happens to align with our Investment Beliefs and our sustainable investment strategy. So we think that's a good collaboration that has, you know, landed in a -- in a place that aligns with CalPERS strategy.

Sorry, I said that was the final one on advocacy, but actually I have one more to mentioned there on the international front --

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INVESTMENT MANAGER MANKIKAR: -- which is CalPERS push for climate risk reporting at the international level by engaging the International Accounting Standards Board, or IASB, which oversees the development of financial reporting standards for basically every country outside of the U.S. And so clearly they have a very broad and impactful arena to impact financial disclosure from companies around the world. Our team was able to work with the IASB on research that established that the TCFD reporting that CalPERS has put out in June, that we're asking for for Climate Action 100+ companies is a actually already embedded in the current standards, supporting the concept that companies can already be reporting on their climate strategy.

Okay. So now let's turn to the third and final pillar.

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INVESTMENT MANAGER MANKIKAR: I won't go through all of the slides here to leave time for your questions. But if we just go through slide 19 --

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INVESTMENT MANAGER MANKIKAR: -- I wanted to say at the outset that over these five years that I've been at CalPERS, we've developed a lot of relationships with the asset classes that are -- and I wanted to commend my asset class colleagues for doing a lot of work that I, too, may not be -- you know, we will go into depth on each of these icons as to what each asset class is doing. But there's a lot of depth of activity and work that underlines these icons. So I just wanted to congratulate my colleagues for all of the work that they're putting in to considering climate change as part of their investment approach.

So we collected practices deployed by each asset class in prepping for this discussion. And that's what these icons represent is bodies of activity that each asset class is undertaking. I will first start with the Sustainable Investment Practice Guidelines, which apologies for the typo here. It should be "Practice" not "Program" guidelines.

Each asset class developed these guidelines to have a nuanced approach to ESG integration in their investment decision-making process. And so for an example within our real assets team, the managers in that team engage our external managers to solicit responses to questions around climate risk and other ESG factors and leverage those his responses in their overall score and evaluation of prospective managers and mandates. And the links to these guidelines are in the appendix. They're also being updated as practices evolve.

Then going back to the top of this list and going through this more alphabetically, within benchmarking, we looked earlier on slide 5, but I'd like to stay on this slide for now, at the four TCFD sectors agriculture, energy, materials transportation. And looking at global fixed income as an example, our energy sector ex- -- so the global fixed income team was looking at reducing active risk relative to its benchmark. And where that reduction was found ask is in our historic energy exposure.

So there, the global fixed income team reduced our exposure about 5 percent lower than it was four years ago, and this was led by a reduction in utilities exposed to coal, again to come into line with the benchmark in that asset class.

With income research, we looked at global equity's approach to engaging companies in the Climate Action 100+ discussion and to engage effectively that team has to conduct fundamental analysis on each target company. I'd also like to flag that we have an RFI coming out in the next few weeks where we're soliciting research to improve our own due diligence looking at climate factors and financial performance, and the latest review of evidence from academic researchers and other practitioners on that subject.

Going then to manager research, again our sustainable investment practice guidelines frame how each asset class considers manager performance on ESG. Using private equity this time as an example, we consider a manager's capabilities to consider climate change as part of our due diligence. And the CalPERS team has been interacting with the Institutional Limited Partners Association, or ILPA, to help them develop the ESG due diligence questionnaire over several years, which has now become one of the industry standards in evaluating PE manager's ESG performance.

And as examples of PE managers that are thinking about ESG, we saw recent announcements from Blackstone that they've set a goal of reducing carbon emissions by 15 percent across all new investments within the first three years of ownership. We've also seen TowerBrook and Carlyle highlight examples of climate-aligned investment in their reporting.

So then just the last two icons here, and then I think we can turn to Q&A. In selection, there's a couple more slides here. But for the sake of brevity, I'll just say climate change research factors into security selection as well not just manager selection. An example in global fixed income, the team is accessing different forms of transition-related risk research and physical climate change related research, as part of their bottoms-up research and relative valuation analysis.

Finally, on tools we have a newly created group within the research and strategy group called Sustain. And that team is vetting the latest ESG tools that come out from the market to see which ones may enhance our investment process and working -- and that team is working internally to sort of consult to the asset classes to help them improve their consideration of ESG data as to are relevant.

One key tool that CalPERS has actually played a hand in developing is a physical climate risk tool that looks at the zip code level, so at a -- at pretty micro level, looking at physical climate risk factors, whether it's extreme heat, water stress, hurricanes, et cetera. And that was developed by Wellington Management and Woodwell Research Center with input from CalPERS on how to make it useful to our investment teams.

So I tried to go through that relatively quickly, but we have people on hand for questions, including Anne and myself. And we're happy to go into detail on any of the above.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you very much, Divya.

VICE CHAIRPERSON MILLER: Great. Thank you.

MANAGING INVESTMENT DIRECTOR SIMPSON: I did just want to call out the people who are on hand, so the Board knows this really was a total fund effort so.

So Nelson Da Conceicao from our Research and Strategy Group; Rina Lessing from Real Assets; Paul Kramer from Global Fixed Income; Mahboob Hossain from Private Equity, and -- who am I missing? Simiso Nzima. Simiso's team who's done such wonderful work on the engagement side.

So thank you very much, Divya, for that. I realize there's a lot in the slides. But as Divya said, we would be delighted to answer any questions. And I'm very grateful that our asset class colleagues are here with us as well, if there's something specific to an asset class that you'd like to ask. So thank you, Vice Chair Miller.

VICE CHAIRPERSON MILLER: Thank you and the whole team for a very encouraging and enlightening presentation. And we have some questions queued up and I'll start with Director Middleton.

COMMITTEE MEMBER MIDDLETON: Okay. Thank you, Mr. Vice Chair. Anne, I'm really pleased that the prior agenda item and this agenda item were back to back, because I think they some -- very much go together.

So my first question, when we think back to divestment decisions, we take out -- and this is the question, we're restricting ourselves from an entire class of investments, as I understand it. So my question -- and I'll start this with Dan. Do we -- do we invest evenly across the board in an entire sector of investments or do we selectively choose what is the most appropriate investment within a broad sector?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Thank you for the question, Ms. Middle. And I think you're asking about the public equity asset class, so correct me if that's not the case, but let me answer.

COMMITTEE MEMBER MIDDLETON: I am.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So the way that our cap-weighted benchmark is constructed is all about basically taking the entirety of the equity markets, so it's everything that's traded in the equity markets and then going down to a certain level of capitalization. Right now, we go down to 98 percent. So we take 98 percent of every country, every sector within that country, every company within that sector and it goes all the way down to 98 percent and then puts that together in a weighting methodology that basically says, the size of the portfolio that is publicly traded -- the science -- or the size of the company that's publicly traded aggregates all of those and puts it together as one overall benchmark. So that's the way a cap-weighted benchmark is constructed. And so that's the first sleeve.

The second sleeve, as we know, is factor weighted. And there is some proprietary modeling there. There's a lot more, you know, mathematics used. But again, it's a quantitative construct to -- to basically consider the entire universe and then try to come up with what we believe to be the -- you know, an optimal way to weight that from a factor standpoint. But in both cases, all sectors are included, all countries, all sectors.

COMMITTEE MEMBER MIDDLETON: All right. We have heard in public comment many times that the energy sector has underperformed the market as a whole. And that from a strictly an investment standpoint, if we were to exit the energy sector, we would be gaining in income. Do you believe that is true?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

That's a really challenging question, Ms. Middleton.

(Laughter.)

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And frankly, I wish I had a crystal ball to answer that question. Really, you know, I will say that one of the theoretical underpinnings of cap weighting is that markets are fairly efficient, specifically equity markets, right?

And so the price reflects all known and knowable information that's in the market. So the only way to actually beat that is with, you know, material non-public information, which of course is illegal.

So it's really hard for me to say what the -- you know, what the oil industry or all of the fossil fuel industry is going to do for the future. I do think that having a cap-weighted portfolio that is 97 percent indexed is our way of saying that we generally don't think that we can beat the market and that we have a better handle on prices.

And, yes, while backward looking, oil companies have underperformed, you know, every -- every perspective for every mutual fund you'll ever see will tell you that, you know, past performance is not indicative of future returns. And we would tend to subscribe to that.

MANAGING INVESTMENT DIRECTOR SIMPSON: Could I add a thought to what Dan just said. And it's really that with an indexed strategy, we're finding the cheapest -- if you like, cheapest and most efficient way to harvest returns from the economy, that's how I would explain an indexing strategy.

When you're doing stock picking, you're looking at individual securities. And there are certain asset classes like our global fixed income portfolio is based on that approach. But when you're as big as we are, indexing -- you know, the history shows if you're as big as we are, it's impossible really over time to beat that market.

But here's the thing, even if we had a crystal ball and we could beat the market, we could stock pick or sector pick, we're running another risk still, which is those companies which are producing the emissions are still out there doing that in the real economy. And that's causing the global warming and that's causing the temperature rise, and the wildfires, and the sea level rising. So we've got two things in mind here, which is that all of that affects all of our holdings, that -- you know, the tools that Divya mentioned, which actually maps our exposure to physical risk, we call it for short the zip code risk tool that we've built, it -- to reduce the risk, we've actually got to bring the emissions down. So having this active ownership approach really does help us tackle that risk.

The other thing is we want to see these companies transition. These companies are extremely important right now, you know, to the whole value chain of the industry, the energy that we -- the rest of industry relies on. You know, we were talking the other day about the example of Vestas, this wonderful company the produces windmills, you know, for producing renewable energy. But guess what, it's made from steel, which requires metallurgical coal. There hasn't been a swap out or substitute for that yet. It requires cement, so we're engaging cement companies and steel companies.

And then that windmill has got to be put on a ship and delivered to the place out in the sea, where it's going to be set up to produce the renewable energy. So you'll see on the Climate Action 100 list of companies that have made that commitment the biggest shipping company Moller-Maersk, the fourth biggest cement company, one of the biggest steel makers ThyssenKrupp.

So we've really -- as Divya was saying, we've got to look at the economy in a holistic way. And I think actually that does reflect the investment strategy that we have for this asset class, which is to use an index to harvest the market.

COMMITTEE MEMBER MIDDLETON: Thank you. And as someone from Palm Springs, I'm always happy to be talking about windmills.

(Laughter.)

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER MIDDLETON: We have within our city limits some of the best land in the world for the production of wind energy. I applaud the work that you are doing and applaud staff. Engagement is, I believe, the appropriate strategy moving forward. And in comparison to divestment, it is absolutely the appropriate strategy.

Thank you.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you, Ms. Middleton.

VICE CHAIRPERSON MILLER: Thank you.

Next, we have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Vice Chair Miller. Thank you for the presentation. It's very enlightening and I'm glad to see that CalPERS and you -- you folks in particular are taking the lead in really coalition and doing the advocacy and the work. We always hear a lot -- I mean, on the one hand it's good to see this report is coming out with -- talk about the risk factor on how they'll impact the economy. So we -- that's easier for people to understand.

But the other side, and I think you mentioned it in your opening memo, is the whole thing about we're also about long-term value creation. So I was wondering if you could speak to how that element is being factored into your work and something that Ms. Middleton has -- the whole thing about energy transition, how is that working and what role is CalPERS playing in that arena?

Thank you.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes. Thank you very much.

I'd like to call on Rina Lessing from Real Assets if she'd be so kind to join -- to join me for this, because what I think was a very compelling piece of information in our first major report on our climate strategy really showed this extraordinary 18 percent, that 18 percent of our private assets by value, and it's gone up since then -- and Rina can talk about that. I think it would be helpful to hear from Rina as to how, as one asset class, how real assets is finding this sustainability thinking as a way to evaluate opportunities.

So Rina, would you be able to join us? You could just --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Jared, could we please bring Rina Lessing forward to presenter room less

MANAGING INVESTMENT DIRECTOR SIMPSON: Thanks Dan.

INVESTMENT MANAGER LESSING: Okay. I don't know if --

MANAGING INVESTMENT DIRECTOR SIMPSON: Wonderful. Hello.

INVESTMENT MANAGER LESSING: Hello. Well, thank you -- thank you for the question. I'm Rina Lessing n Real Assets. Work collaboratively -- collaboratively with, you know, Anne's group, and the Research and Strategy Group on sustainability.

So on opportunities, I think a good example of that is our energy optimization initiative for real estate. We actually formalized this initiative July 1 of 2019, but have been working several years to kind of pilot aspects of this initiative. And our goal there is to enable the systematic identification, implementation and tracking of energy-related opportunities.

It's also to reduce carbon intensity, helping mitigate the systemic risk of climate change to the real estate portfolio, and more broadly to CalPERS total fund, while enhancing returns in the -- and the long-term value of the CalPERS investment, primarily through capturing energy cost savings and improving the attractiveness of our assets to tenants.

Lastly, another objective is to facilitate transitioning the CalPERS portfolio toward carbon neutrality, where it's accretive to performance.

And Anne mentioned I believe the percentage we have invested in sustainably certified buildings. We had -- at the time of the TCFD reporting, I think we had just over 12 billion invested in sustainably certified buildings. We've actually grown that number. And I think as of June, we're just over 15 billion. You know, while it's not a requirement to invest in sustainably certified buildings. Where managers do so, it's because it's competitive in the marketplace and we're doing it to achieve really our targeted returns.

We get a number of projects through our annual investment planning process that managers propose that are kind of innovative projects that look at reducing carbon intensity and to achieve those energy savings to improve performance of the assets. And so we really consider this a good opportunity and one that we have seen over the last few years, and very recently since we formalized it, produced over 220 projects that we've spent. We're now tracking for improving -- on making these improvements in the portfolio. I hope that answers your question.

COMMITTEE MEMBER RUBALCAVA: Thank you and looking forward to hearing more about those 220 projects. Thank you.

VICE CHAIRPERSON MILLER: Thank you. And next, we have Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. Thank you so much for your report. It's always I very impressive all the initiatives and work that the team is doing. So we appreciate that.

I had a question about now that we have the Biden Administration coming on line in January, is there an opportunity to reverse what the SEC has done with regards to proxy access and restrictions on proxy advisors? I'm also curious about Department of Labor, if they'll be able to reverse a ruling for private plans as well too.

MANAGING INVESTMENT DIRECTOR SIMPSON: So thank you for the question. Certainly some of the moves at the SEC CalPERS has not supported, because our view of capitalism is that you have to put -- you have to give shareholders the information and the right to be protect themselves. And that's the most effective way to go about investor protection. So we were somewhat dismayed to see some of the recent moves.

I think in terms of the new administration, we'll have to wait and see who the new chair of the SEC will be and hear what their agenda is. But certainly, on some of the recent reforms, not just CalPERS but the Council of Institutional Investors, where Simiso Nzima sits on the board for CalPERS, has been a very vocal advocate saying markets need information and investors need rights. And if you take those as your two guidelines on regulatory reform, sadly that's something that enables us to do a better job protecting the interests of our members.

ACTING COMMITTEE MEMBER PAQUIN: Well, thank you.

Hopefully it's an opportunity to change that. I know that's very distressing. Thanks again.

VICE CHAIRPERSON MILLER: Okay. Thank you. And next we have Director Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller. I wanted to know about our plan to meet the Governor's executive Order on climate change.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you. Let me turn to Divya for that. She worked with Michael Cohen on the CalPERS team to give our feedback into the Executive Order. And as Divya said, it's something that we welcomed. So, Divya, would you like to come back to give a little more insight into the Executive Order from the Governor of California.

Thank you.

INVESTMENT MANAGER MANKIKAR: Sure. So like I said, we -- we're happy to work with the Governor's office on reviewing CalPERS' strategy on climate change, the UC funds, and CalSTRS. And what we found was a nice surprise in that there was a lot of alignment within and across our funds. And so working with the Governor's office we will be continuing to invest in those activities around engagement, advocacy and integration, as well as, you know, increasing, I would say, the dialogue between the funds to see where we can go further through collaboration. Whereas, until now, we have had, you know, periodic discussions, but largely those strategies were developed by each fund individually.

So I think it's still a bit early to know exactly, you know, the -- any new activities that we would under take because of the investment framework. At the moment, it's really learning from each other to understand what works along those three pillars.

COMMITTEE MEMBER OLIVARES: Thank you.

VICE CHAIRPERSON MILLER: Thank you.

I'm not seeing anymore questions. I do have a quick comment. As someone who's been employed as a professional scientist, as a professional regulator for the better part of -- well, actually over three decades now since the Deukmejian administration, it's really exciting to see partnership and working relationships with the Governor's office, with regulatory agencies. We really have never had any traction for that in my experience being in California. And it's really encouraging, because beyond just the usual easy-to-access information about corporations and their relationship to the environment and their workforce, there's a lot of inside information.

Regulators, and especially the field-level people, they know that within a given sector, there's the good, the bad and the ugly. And they know who they are and they know how to get to the information. That's not always obvious to, for example, investment professionals or others. A perfect example is what's going on with Exide in Southern California right now where we sunk $2 billion into trying to deal with the legacy of the aftermath of the pollution, and the impacts on the community, and it's just beginning, and now they're bankrupt.

So there's more than just standard greenhouse gas emissions. There's a lot of other information that these kind of partnerships can eventually get us to help us make those smarter investment decisions in the long run that will benefit everybody, including the industries in the long run.

So it's very encouraging, very enlightening. Thanks to everyone on the team and just keep up the great work.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you very much and thank you to all of the programs, and asset classes, and to Divya.

VICE CHAIRPERSON MILLER: And so seeing no more questions, we do have a couple of public comments on this item, Mr. Fox, I believe.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair.

We have three callers on Item 8c. The first Sarah Theiss from Fossil Free California.

MS. THEISS: Hi. This is Sarah Theiss, Fossil Free California and CalPERS retiree.

I appreciate the Board's continued attention to its responsibilities regarding the risk posed by the unfolding climate disaster. And I personally continue to appreciate the climate risk strategy report and the work since then, especially on integration. The information data and analysis are a rich source.

I want to take -- I want to pull in my -- pull into my comment a response to Ms. Middleton's question and some of the answers. The report and other material lays out many of the policies and actions CalPERS has taken since at least 2016 with regard to climate risk. I want to comment on an article that appeared in the proceedings of the National Academy of Sciences earlier this year, which I will send to you all afterwards via the clerk.

The research has looked at what interventions could lead to a sufficiently fast reduction in emissions by mid-century to limit global warming to 1.5 degrees centigrade per the Paris Climate Agreement.

The interventions were: removing fossil fuel subsidies and incentivizing decentralized energy generation; building carbon-neutral cities; divesting from fossil few linked assets; revealing the moral implications of fossil fuels; strengthening climate education; and disclosing information on emissions.

What strikes me is that the CalPERS policies are already supporting many of these items. For instance, especially as to fossil fuel subsidies, it's a great time to work on that, given the stated policies of the incoming administration. But what's not in CalPERS' toolbox is the possibility of divestment to avoid the risk of stranded assets.

I -- this is very strange to me, because as frequently stated in the meetings, I mean, CalPERS is all about, you know, risk and appropriate -- risk adjusted for returns. And all -- I mean, I believe -- it has nothing to do with engagement. All tools are needed, but without considering the possible rapid reallocation of fossil fuel investments, the need to do that, you risk significant and avoidable losses.

While it's true that no one can predict the future, there are many reports an articles that indicate that peak oil is coming down this decade. I suggest that the Board and staff report on current losses, due in particular to the pandemic and the risk of future losses as the assets continue to decline in value consistent with your fiduciary duty. And I also urge the Board to discuss these concerns with candidates for the CIO position to make sure the CIO is ready for the future and not basing decisions on old thinking or what could happen. You know, the fact that things -- there's tipping points. There's tipping points. And they could tip pretty fast and CalPERS could be a loser.

Thanks so much.

STAKEHOLDER RELATIONS CHIEF FOX: Thank you.

VICE CHAIRPERSON MILLER: Mr. Fox, our next commenter.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. The next caller is Sandy Emerson, Fossil Free California.

MS. EMERSON: Members and vice -- hello?

Good afternoon Board members and Vice Chair Miller. My name is Sandy Emerson and I am the Board President of Fossil Free California.

First, I want to congratulate Anne Simpson on her confirmation as Managing Investment Director of Board Governance and Sustainability. Well done and well deserved.

Second, I want to thank Anne Simpson and CalPERS for collaborating on the recent position paper on thermal coal for the United Nations convened Net Zero Asset Owner Alliance. The 30-member Net Zero Asset Owners Alliance, of which CalPERS is a founding member, represents over $5 trillion in assets.

The thermal coal position paper calls for the cancellation of all new thermal coal projects, a phase out of all unabated existing coal-fired electricity generation, and a halt to all new financing, development and planning of further thermal coal power plants.

In a move that rightly leverages the power of large investors, the introductory note to the position paper states that divestment is an option for companies that don't clearly demonstrate plans to transition their business to a line with a pathway to 1.5 degrees.

And I quote, "Alliance members will primarily aim to support companies to adopt transition plans through engagement. Members are able to employ an escalation strategy that may over time result in divestment if the company remains irresponsive to its demands".

In our view, it would be consistent with the position of the Net Zero Asset Owners Alliance if CalPERS sold off its remaining holdings in the thermal coal companies Exxaro, Banpu and Adaro. These companies were identified for divestment in 2017 in response to SB 185 and they have shown no real progress in transitioning their business activities.

CalPERS increased investment in Exxaro is particularly concerning since Exxaro has a plan for a six-fold expansion of its distribution capability and is a prime supplier for coal-fired electricity generation in South Africa.

Thank you very much.

VICE CHAIRPERSON MILLER: Thank you.

And our next commenter, Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Mr. Chair, the last caller is Ferris Kawar, Fossil Free California.

MR. KAWAR: Good evening. I am a CalPERS member for the last nine years. In your meeting on December 16th, 2019, Anne Simpson mentioned a report issued by the Principles for Responsible Investing, PRI, titled "Inevitable Policy Response", which essentially examined scenarios where abrupt policy shifts lead to stranded assets. The PRI website describes the inevitable policy response as government action to tackle climate change has so far been highly insufficient to achieve the commitment made under the Paris Agreement. And the market default assumption appears to be that no further climate-related policies are coming in the near term. Yet, as the realities of climate change become increasingly apparent, it is inevitable that governments will be forced to act more decisively than they have so far.

The question for investors now is not if governments will act, but when they will do so, what policies they will use and where the impact will be felt. The IPR project forecasts a response by 2025 that will be forceful, abrupt and disorderly because of the delay.

So my question is, given the following factors, that, first of all, science tells us we have nine years to transition off of fossil fuel. Secondly, the newly elected Democratic White House has called for swift action on climate change. And finally, a growing number of announcements ditching fossil fuels by governments and investors globally is accumulating daily. This includes Governor Newsom's recent announced ban on gas-powered cars by 2035 and an end to fracking.

So given those factors, has CalPERS analyzed a scenario where policy shifts happen so rapidly that fossil fuels stock prices plummet, due to their stranded assets, until these companies are able to transition to clean energy technologies? And if so, how long do you calculate it will take the oil, gas and coal industries to make the transition, given the current pace of investments in renewable energy?

Now, remember that the clock is ticking down from 9 years. And do you have reason to believe that the fossil fuel industry will be able to transition to meet these policies that the -- faster than the established clean energy competitors who already have proven their ability to meet demand.

And finally, how will the losses in value from the stranded assets impact the ability of fossil fuel companies to pivot and remain competitive.

Hopefully, we will have a new administration in late January. We know it takes a long time and effort to uncouple fossil fuel holdings from other funds. I believe it's prudent to consider moving for an engagement to a strategy of reinvesting that money to hedge against what many experts anticipate as the downward spiral for the industry. And let me be clear, I am asking for divestment --

VICE CHAIRPERSON MILLER: Thank you.

MR. KAWAR: -- for political or moral reasons. The only reasons you need are economic.

Thank you very much.

VICE CHAIRPERSON MILLER: Thank you. Thank you very much

Does that conclude our commenters on this item, Mr. Fox?

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair, that concludes comments on Item 8c.

VICE CHAIRPERSON MILLER: Okay. Thank you.

So we will move to Item 8d, Responsible Contractor Policy Program Annual Report.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Thank you, Mr. Miller.

Jared, if we could please bring James Andrus forward. I see it looks like he's coming on line now. And if we can move Rina Lessing and Divya Mankikar back to the attendee room, please.

With that, Anne, I'll turn it over to you to introduce 8d.

(Thereupon a slide presentation.)

MANAGING INVESTMENT DIRECTOR SIMPSON: Thank you very much. Before I go any further, I just want to let everybody know that actually all I have is a head cold. I just had a nice text saying are you okay. So I want you all to know that I'm not suffering from anything worse with the virus.

So first of all, it's my pleasure to introduce James Andrus. James, this year has been responsible for our responsible contractor policy, which goes back many, many years, back to the 1990s and also to say a fond farewell to Carrie Douglas-Fong, who for some years was running that program. She's just retired. So our good wishes to her.

I want just to remind the Board that the Investment Belief that I referenced earlier on climate change is really the one that encapsulates the relevance of this program, which is human Capital management. CalPERS has a range of different work on human capital management. But certainly one of the most long-standing and I think well-respected programs is that which speaks to our ambition to being responsible contractors.

So with that, let me hand over to James to take us through this year's report and then we'd be glad to answer any questions that you might have. So, James, over to you. Thank you.

INVESTMENT MANAGER ANDRUS: Good afternoon. James Andrus, Investment Manager, Board Governance and Sustainability.

The Responsible Contractor Program Policy is operating well. Today, we will provide you with information on the RCP policy covering an overview, history, summary results, and compliance in total contracting.

Next slide, please.

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INVESTMENT MANAGER ANDRUS: The RCP Policy Applies to domestic real estate and infrastructure assets where CalPERS holds greater than 50 percent interest on contracts equal to or greater than $100,000.

Next slide.

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INVESTMENT MANAGER ANDRUS: As Anne pointed out, the first mention of the RCP Policy was in 1992. It was carefully crafted by CalPERS external investment managers, labor, fiduciary counsel, Pension Consulting Associates[SIC], and staff. The goal of the policy is to hire responsible contractors based on local market conditions while maintaining a competitive bidding process.

In 1996, the CalPERS Investment Committee approved and established the program. The policy was most recently amended in 2015 after months of deliberations. The policy is important in the marketplace. It has been replicated by other public pension funds and investors. It sets a standard for responsible contracting.

The RCP Policy results in positive outcomes for CalPERS, labor stakeholders, and CalPERS investments.

Next slide.

Next slide, please.

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INVESTMENT MANAGER ANDRUS: All managers provided a report each with the certification of their contractors and subcontractors that also complied with the policy.

Certified responsible contractors received over $840 million last fiscal year and nearly five billion over the last five years under the policy.

Next slide, please.

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INVESTMENT MANAGER ANDRUS: For the fiscal year ending June 30th, 2020, managers reported 100 percent compliance. The policy continues to serve us well, improving communication with managers and stakeholders, while having a baseline we can all rely on.

And now, I'm open for questions.

MANAGING INVESTMENT DIRECTOR SIMPSON: Thanks very much, James. I'm not sure if your video is working, but don't be shy.

INVESTMENT MANAGER ANDRUS: Okay.

MANAGING INVESTMENT DIRECTOR SIMPSON: If you're able to come on camera, it would be nice to see you.

INVESTMENT MANAGER ANDRUS: Okay.

MANAGING INVESTMENT DIRECTOR SIMPSON: Yes, Vice Chair Miller, any questions for James?

VICE CHAIRPERSON MILLER: Let's see, I have a question it looks like from Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Miller. Appreciate the report. And thank you again, like I said, in the previous report, and I really appreciate you guys taking the lead -- CalPERS taking the lead in this area, where I think the pandemic, the Coronavirus pandemic, has reinforced how important it is that workers provide for -- that there be a focus on human capital, the need to keep people safe -- safety -- you know, safe, but also it's our -- it's workers and the security officers that make sure that the buildings are clean and all, and so people can come back in or when they're essential workers, they can still continue to work in some other buildings.

So my question is I know there's a long history you laid out of the Responsible Contractor Policy. And I know it's -- traditionally has focused on salary and lawful -- following the law and stuff. Has there been any thought of -- or -- I mean, the pandemic, has it forced us to look at it a different way about how to make sure there's health and safety protocols are followed and any of the -- what elements have come into the new thinking or RCP policy because of the -- all the experience that we have with the Coronavirus and especially in real estate?

INVESTMENT MANAGER ANDRUS: Thank you very much for the question. And in this particular instance, the RCP Policy has performed remarkably well. It's not just policy. Basically, it's a system of communicating with the managers and with the stakeholders. And so when you look at a particular area and how it performed during the pandemic, the RCP managers did a very good job in communicating -- in communicating with the employees, communicating with the stakeholders, the unions, and communicating with us.

And so they are, in fact, under dramatic pressure, but they did a wonderful job with communicating with their employees and in hour opinion doing a good job in taking care of those employees under the circumstances.

And so when you look for issues, I think it's amazing to find that because of the strategic planning that took place in setting up the policy that it's actually performed probably better than one would have ex -- than one would have expected.

So this is an -- this is actually an area of strength. And so the concern you have, I think, would be more of a concern when operating outside of -- outside of the policy. But inside -- but inside the policy, I think we have, in fact, seen strength in how it operated.

COMMITTEE MEMBER RUBALCAVA: Thank you for that answer. And I'm very comforted but it. I remember at some other meeting, Investment Chair Taylor mentioned that she had heard that there have been I believe it was hundreds of workers that work in buildings have passed away because of Coronavirus. But I guess in our experience it's been working. So I appreciate the work and the answer. Thank you very much.

Thank you, David.

VICE CHAIRPERSON MILLER: Thank you. I don't see anymore comments or questions from the Board, but I understand we do have a public commenter on this Item 8d. Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. We have Mr. Michael Ring with SEIU.

MR. RING: Hi. Investment Committee, Vice Chair Miller, thank you all for the opportunity to speak today. This is Michael Ring with the Service Employees International Union.

As you know, SEIU has over 200,000 members who participate in CalPERS and nearly two million members who work in essential industries across the United States, Canada, and Puerto Rico. Our members are public employees, health care workers, long-term care workers, daycare workers, security officers, airport service workers and commercial office cleaners. In other words, our members are essential workers.

These workers have always been vital to the functioning of our society and economy. Without them, those in need of care go uncared for. Without them, many of the rest of us cannot go to work, because we are worried about a loved one needing care, or we cannot do the work we need to do in the office, because the conditions aren't there to facilitate our work.

And during this pandemic, the fundamental roll these workers play has only become more clear. So they're asked to risk their lives so that society continues to function.

Tragically, many have lost their lives over the last seven months going to work. And this lack of care in protecting their lives is not acceptable on an unethical nor as investment risk strategy. However, as Mr. Andrus pointed out in response to Mr. Rubalcava's question, the RCP has been critical in protecting not only workers' lives, but also your investments.

As fiduciaries, you are responsible for ensuring you invest the retirement savings of CalPERS members in a manner that through prudence and diligence provides the best risk-adjusted return on these investments. Today, it is clear that in order for fiduciaries to meet their investment goals, they and their staff, and consultant, and investment partners must understand and value the fundamental roll essential workers play in our economy.

Companies across your portfolio in public equity, fixed income and private asset classes are realizing that without these Essential workers, public and private, they cannot successfully carry out their business plan. There will be no healthy economy in which to invest in the long term, if we don't value the people who make economic activity possible.

In that context, I want to thank CalPERS Board and staff for the presentation on responsible contracting, and more importantly for CalPERS leadership in understanding many years before others did, that CalPERS success in real estate investing is directly connected to responsible contracting in the real estate industry.

The long track record of success for all stakeholders through this program and the benefit it has brought to CalPERS participants is clear. Our members thank you all for your fiduciary leadership. We also ask you to build off the success of the RCP and use it as a model to continue our efforts to figure out how to apply the same value to workforce risk management and each of the other asset classes in your portfolio, as you do in Real Assets through the RCP.

You had an excellent discussion of these issues with key ideas brought forward in this regard at your most recent off-site. SEIU supports the efforts of this Committee, your staff and your investment partners to continue to lead in the integration of strategies and value the contributions of workers to their companies, our economy, and to investors. It is one of the most fundamental investment approaches you can apply to ensure retirement benefits are there for CalPERS beneficiaries for generations to come.

Thank you all very much.

VICE CHAIRPERSON MILLER: Thank you.

Is that the last of our commenters, Mr. Fox?

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. That concludes public comment. We'll have one more on Item 11.

VICE CHAIRPERSON MILLER: Okay. Thank you.

Well, thank you very much for the presentation. Again, encouraging and really appreciate the great work of the team on this.

So we will move on to Item 9, action item, independent oversight. I believe this one will ultimately come to Mr. Jacobs.

GENERAL COUNSEL JACOBS: Yes, it does. So good evening, Board members. Mathew Jacobs, General Counsel.

This item concerns a pending transaction which the Board's primary general pension investment consultant, Wilshire Associates, is being purchased by two private equity firms Motive Partners, and CC Capital, in addition to other confidential investors. A the third private equity firm Ares will be a secured lender on the deal.

The question for the Board is whether consent to Wilshire's assignment of your contract for advisory services to the new entity. So the agenda item itself lays out the chronology of Wilshire's advising CalPERS, of the transaction -- which I know it has not closed yet. It is scheduled to close next month -- and CalPERS' response or seeking -- of seeking and obtaining more information about the transaction and Wilshire's approach to handling of potential conflicts. Wilshire provided additional information that had not been attached to the agenda item last week and those have been uploaded to Diligent.

The issue in a nutshell is that once the transaction closes, Wilshire will be owned by two private equity firms and other confidential investors. This raises potential conflicts in appearance issues that the Board should consider in deciding whether to consent to the requested assignment.

Wilshire is here to answer any questions you may have. And I would note that our fiduciary counsel, Ashley Dunning, is standing by as well.

So with that, I will turn it back to you as the Vice Chair to field or to handle questions from your colleagues to Wilshire, or to me, or to Ms. Dunning.

VICE CHAIRPERSON MILLER: Okay. I guess I will start off myself. Just from my perspective, I have always found Wilshire -- I've never lacked confidence in the advice they were giving us or in the people giving us the advice. And to me this is not about that, so much as --

boy the timing -- the timing of this is very challenging. And the potential for perceptions of impropriety, or bad perception of conflict of interest, or just so much is very challenging right now. And it puts us in a position, in a way, of we're the one having to sell this to stakeholders, if we go down the same path. So that's where my concerns lie starting -- to start the conversation off.

So let's see who -- who's in the queue first. It's a long queue. Okay. It looks like President Jones is the first question in the queue.

COMMITTEE MEMBER JONES: Thank you, Mr. Vice Chair. Yeah, I guess the one question is to Matt and then the second question is to Wilshire. But I agree with Vice Chair Miller comments about the service over the years have been, I thought, very good, and in fact, in a lot of cases excellent. So it's not about the service that's being provided.

And also to Chair Miller's comment that the timing is -- couldn't be worse. You know, we've got a asset liability management coming upon us. We've got the review of the divestments coming up on us, et cetera. So a lot of key issues, and also looking at the capital markets assumptions in this very, very volatile market that we've been experiencing. And so continuity becomes important.

So having said all of that, my question to Mr. Jacobs is that can we cancel this any time? In other words, if we were to go forward and if we believed that some of the issues that can be addressed and subsequent to that sometime in the future, can we cancel at any time?

GENERAL COUNSEL JACOBS: Yes, we can. I believe there's a 10-day notice provision in the contract.

COMMITTEE MEMBER JONES: Okay.

GENERAL COUNSEL JACOBS: And certainly no more than 30 days, but it's -- I believe it's 10.

COMMITTEE MEMBER JONES: Okay. So my question --

GENERAL COUNSEL JACOBS: For no cause. Cause or no cause.

COMMITTEE MEMBER JONES: Cause or no cause. Okay. So it's like immediate then, if something happened that it's not in our best interests going forward.

GENERAL COUNSEL JACOBS: Yes.

COMMITTEE MEMBER JONES: So my question to Wilshire is that in the material that you forwarded to us, you talked about an independent conflict of interest party. Could you describe to us how that would work? There being independent, would they be providing updates to our Board, in addition to your board, et cetera?

MR. TOTH: Mr. Jones and members of the Board, we're happy to touch on that. And, first, let me just say we truly appreciate the opportunity to update the Board on this organizational change. It's a very exciting time. Before we get to that question, Henry, if I can just introduce my colleagues. With me today is our Chief Operating Officer, Ben Bouey. I'm sorry, Chief Operating Officer Jason Schwarz and Chief Compliance Officer Ben Bouey and Steve Foresti who, of course, you all know.

I'm actually going to turn it over to Ben to talk about the third-party independent compliance consultant and he can talk about all of the specifics that go along with that.

Ben, do you want to take it away.

MR. BOUEY: Absolutely. (inaudible) to answer your questions. So the third-party body is intended to be both an assistance in us helping to derive appropriate policies and procedures. We take great comfort in the strength of our policies and procedures, but it's really in addition to that just to provide additional comfort to our clients internally to our Board. Secondarily, what they would be there for is a big part of our compliance program is not just (inaudible) these policies and procedures, but have oversight, making sure that we're going back and making sure that everybody is actually implementing the policies and procedures as they should be.

COMMITTEE MEMBER JONES: Excuse me, Tom. He's kind of breaking up and I'm having -- at least I don't know if it's just me, but I'm having problems hearing him clearly. Could you --

MR. TOTH: So I'm hearing him okay. How about -- can I get a check from anybody else, no, you're getting him. Okay.

So let me provide the information I can. So the third-party compliance consultant is meant to be really a belt-and-suspenders approach. We're very confident that the compliance framework that we've had in place for our full 35-year relationship with you is robust and can handle both the perception as well as actual conflicts and manage them appropriately.

The third-party consultant is really meant to come in and make sure that the policies that we have in place are being implemented and follows. And so that's the, if you want to call it, an audit or something along those lines, the role that that third party could play, which is really meant to provide you, the CalPERS Board, with the ability to get comfortable that our compliance framework is incredibly strong and that there is no chance that the perception of conflict will turn into an actual conflict that will impact CalPERS.

COMMITTEE MEMBER JONES: And so my question -- so do we have unfettered access to that control group.

MR. BOUEY: Well, can you hear me or not? If not, I'll turn off my video and it might be helpful.

COMMITTEE MEMBER JONES: Okay. You might try that.

MR. BOUEY: Okay. Let me try turning off the video and seeing if that improves the audio quality. Is that better?

COMMITTEE MEMBER JONES: A little bit.

COMMITTEE MEMBER PEREZ: A fidelity thing, like you don't have a microphone.

MR. BOUEY: It seems that I don't have a microphone.

COMMITTEE MEMBER PEREZ: Respectfully.

MR. BOUEY: Yeah. No. Let me -- I'm trying to provide other means. Let's see here. Is that improving it at all.

COMMITTEE MEMBER JONES: I -- yes. Yes.

MR. BOUEY: Okay. Excellent. So let me say it's -- what you would have access to are any reports produced by the third-party consultant, as well as, you know, they would be reporting to us generally. And then certainly -- I can't answer -- I mean, typically, no. Typically, we are engaging with them, like we would with our accountants or as we would with those who come in to provide audits to us, and then providing those reports to the Board.

COMMITTEE MEMBER JONES: Okay. Okay. That's all I have right now.

MR. TOTH: Mr. Chair, would it -- would it be helpful if we walked through the presentation, which we provided within the materials?

VICE CHAIRPERSON MILLER: Yeah, I think that might be helpful. I don't know if everyone has really had a chance to really digest that material, but if you could just hit the high points, that would be --

MR. TOTH: Of course. I didn't mean to suggest all of those materials. I know there's a lot there, but the organizational update slide deck.

(Thereupon a slide presentation.)

MR. TOTH: By the time we wrap up with this discussion, I think you'll have a clear understanding that, you know, number one, this transaction will improve our ability to provide CalPERS with the best advice possible. Number two, there are no direct conflicts here, because we do not provide manager recommendations for CalPERS. And number three, our compliance program effectively identifies and manages conflicts. So what Steve will discuss, there's no legitimate risk that the perception of conflict materializes to impact CalPERS.

So at this point, I'll turn it over to Jason to provide more detail on our path going forward.

We can flip to slide 2.

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MR. SCHWARZ: Terrific. Yeah. Good evening, members of the Board. I know it's been a long day and, you know, likewise like Tom, I want to thank you for the opportunity to address you all.

As many of you know, Wilshire was founded almost 50 years ago by Dennis Tito. Dennis has remained our Chairman and CEO since that time. And Dennis has also always owned a majority of the firm.

The investment here by Motive Partners and CC Capital really at it score will allow Wilshire to pass the mantle of leadership to the next generation of leaders, ensuring the continuity and stability of our investment platform and culture ensuring we can continue to help investors improve their outcomes for decades to come.

We will also be able to make meaningful investments in tools, and technology, and people, really the foundational elements of a world-class investment consulting business. We need that now more than ever.

It also solidifies Wilshire's presence as a growing, hiring California based company.

If we kindly move to the next slide.

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MR. SCHWARZ: From an operating perspective, you know, I want to note that there is really little change in the governance structure and the individuals responsible for the day-to-day management of Wilshire. CalPERS will continue to be supported by the same team and process, which will only enhance to greater investment over time and capabilities.

These new partners that -- the growth equity partners will not participate in any investment-related discussions concerning our clients nor will they have access to any client-specific information. Our investment process will remain insulated from any outside influence.

We're certainly aware of the concerns about potential conflicts of interest, whether real or perceived. We've long had in place -- as Ben noted, and we can talk more about it, we've long had in place a very comprehensive compliance framework. It's worked really well for the duration of our 35-year relationship.

And we know, of course, that managing conflicts is incredibly important to CalPERS. You've noted some of the timing issues. It's important for all of our clients. It's important for Wilshire as well. Our compliance team is staffed by dedicated professionals with decades of experience, supported by outside experts, lawyers, other specialists to ensure that we -- we're always following best practices, and conflict identification, and control.

And so I'd like to actually turn it back to Ben who heads that compliance function who has a couple slides on our process in more detail, which I think will create additional levels of comfort.

Ben.

MR. BOUEY: Thank you, Jason.

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MR. BOUEY: Let me begin by saying on slide 4, what we seek to layout there is what's the basis of all that we do, the very foundation is how seriously we take our fiduciary obligation to you and to all of our clients. And so all of our actions are intended to make sure that they are in the best interests of the work we are doing for you.

And what I want to show the Board is how Wilshire implements the excellent controls that we put in place. But more than that, I want to point out that actually some of the greatest security you should take is that someone stated earlier is in the ethics of the men and women who are privileged to serve CalPERS and all of their constituents. But added to that is the extensive infrastructure that we have put in place recognizing and dealing with conflicts of interest, which have really been honed over the 50 years that we've been doing business.

And, in fact, so much so, we raise a skeptical eye to any financial firm that claims quote/unquote to be conflict free. From Wilshire's standpoint and as the market understands, conflicts can arise unintentionally and sometimes for good reason. And we recognize that what is important is how we manage those potential conflicts and assure that the advice we provide to our clients is independent of the influences that may arise because of conflict.

And so as we discuss on slide 5, we do this by three primary things, controls, oversight and transparency.

If we could move to slide 5.

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MR. BOUEY: Controls include our well-defined process, the research and investment, and barriers that we create to make sure we segregate the information that may create conflict. We do this by having ongoing oversight of these goals, as we mentioned. And that's where the belt and suspenders comes in with the third party. And lastly, we do this through transparency to our client regarding our conflicts, as we've done in this case, and how we manage those conflicts.

With this in mind, we've evaluated the conflicts that might arise in relation to Wilshire's sale to a private equity firm. And the conclusion we've ultimately come to is that with regards to CalPERS the conflict manageable because of our service mandate. Our service mandate does not include evaluating or recommending investment managers, including private equity firms.

And so in other words, to paraphrase the Political Reform Act, Wilshire is in no position to make or, in any way, attempt to use our official position to influence a governmental decision, in which we know or have reason to know we have a financial interest. And so that just simply doesn't come into play.

Nonetheless, recognizing that the appearance of a conflict does raise concerns, we've taken additional steps to provide (inaudible) to CalPERS (inaudible) client. The most important of these is that we have explicitly mandated that our consultants do not evaluate, recommend or directly invest in our new owners.

And this eliminates the prospect that our new owners can in any way benefit from any influence Wilshire could assert on its client.

And so before I turn this over to Steve, I just want to point again to all the information that we provided, which is listed in slide 6, which should give --

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MR. BOUEY: So is -- it reflects all of our updated policies, our updated ADV, the updated procedures. And we have given you this to give the Board the additional comfort that Wilshire will remain confident in its ability to fulfill our fiduciary obligation, just as we have for the past 35 years to CalPERS.

Thank you.

Steve.

VICE CHAIRPERSON MILLER: Thank you. Okay. And I think I'll move on to our next question, I think comes from Director Brown.

COMMITTEE MEMBER BROWN: Thank you. So, Steve -- I'm sorry, Tom -- I would never call the CEO Steve. Can you tell me how often you are opining or what kind of opinion you give us when a PE deals comes forward?

MR. TOTH: So Member Brown --

COMMITTEE MEMBER BROWN: Just generally, not specifically

MR. TOTH: None is the short answer for private equity.

COMMITTEE MEMBER BROWN: Right, because we get those from another consultant.

MR. TOTH: Meketa is your private asset consultant.

COMMITTEE MEMBER BROWN: Okay. Great. Right. This is not just for me. This is for people who are on the web as well.

Okay. And so -- so you're not giving us any opinions as to whether or not the investment meets the Board's requirements, or meets the Board's delegated authority, or anything else like that, but it's coming through Meketa

MR. TOTH: For private equity, that's correct.

COMMITTEE MEMBER BROWN: Okay. Great.

So I believe one of your -- I guess they're your shareholders now, basically said that you're going to keep -- the information is going to be separated. So how -- the information would not be shared. So how is that going to occur? Are you going to have stand-alone systems? I'm very curious as to how you're going to ensure that -- that Ares and the other two firms don't have access to that information.

MR. TOTH: Well, I'll start and then Ben if I can -- if you can get into specifics of information management. I mean, I think, at the -- at the very beginning, they're not involved in our investment process. So to the extent we're putting together asset class assumptions with the work that Steve Foresti and his team do, they have literally no input into that and provide no influence over it.

In terms of specific information management processes, Ben, can you touch on those?

MR. BOUEY: Yeah. Our network is divided, so that only specific areas of the network are accessible to those who have need of that information, that is maintained by our IT division. And any exceptions to that is required to be approved by me or our general counsel. And so it's part of our manage -- it's part of our data management process internally.

COMMITTEE MEMBER BROWN: And so that's how you're going to keep that information segregated?

MR. BOUEY: That's correct. And so we segregate those divisions -- those parts of the network.

COMMITTEE MEMBER BROWN: So, Tom, can you tell me -- can you explain for me just a recent conflict you may have had and how -- how your policies help to resolve that?

MR. TOTH: A recent conflict that I have had.

COMMITTEE MEMBER BROWN: As a Board member, I'm always -- as a Board member, I'm always concerned that my staff is going to be pushing you to adopt a new policy, or a modified policy, or a delegation of authority that may be, you know, you don't necessarily agree with, and those are the conflicts I'm worried about. But what kind of conflict else could come up?

MR. TOTH: So the most specific conflict here is the recommendation of the private equity partners for investment. Either in a direct way or a roundabout way, I should say, that's the most direct conflict that can show up in this case and that does not exist, A, because we don't provide that -- that man -- we don't work in that mandate for you, but also, as Ben alluded to, we -- we've specifically set aside -- set in place procedures to avoid that exact conflict. So we just took it off the table.

COMMITTEE MEMBER BROWN: Okay. And then this question is for legal counsel. And so, Matt, you know I always like to delve into being a pretend lawyer. So how about we get like a -- like a financial hold harmless from them for violating any conflict of interest?

GENERAL COUNSEL JACOBS: Well, it's an interesting idea. I don't think they'd sign it, but the -- the potential viability -- I mean, look --

COMMITTEE MEMBER BROWN: Oh, you're frozen, Matt.

GENERAL COUNSEL JACOBS: I'm frozen, because I don't know how to answer that question.

(Laughter.)

COMMITTEE MEMBER BROWN: Okay. So the way we do it is we -- in construction, right, we contract -- we get -- we get hold harmlesses, right? We bond around the problem or something like that. So I just --

GENERAL COUNSEL JACOBS: Yeah. Here's --

MR. SCHWARZ: Let me -- let me suggest this. I mean, that is

GENERAL COUNSEL JACOBS: Here's -- here's my concern. Here's a concern, I should say. It's not so much on a particular transaction, because as Mr. Toth said, they're not going to be representing a company or a GP that we're interested in investing in. I think the bigger concern is perceptual. And first -- here's an example, and I mentioned this to the Wilshire folks a couple of weeks ago, they're going to be opining in a -- next year on asset allocation. So what do they do with respect to advice on how much CalPERS should be invested in private equity, given that they have ownership -- that they're owned by private equity?

And it's an appearance issue. Maybe it's not a real issue, but it's an appearance issue. It's a confidence issue. And that's not really the sort of thing that you can quantify and say, you know, give us $500 million for that. And even if we could, I don't think Wilshire is good for it. Maybe they are.

COMMITTEE MEMBER BROWN: I appreciate that. You know my concern, Matt, is that not only are they owned by private equity, but their shareholders are in private equity. So it's not just that they're owners, they all share in those profit -- I believe they share in those profits. So all right. That's all I have. Thank you.

VICE CHAIRPERSON MILLER: Okay.

MR. TOTH: Member Brown and other members of the Committee, Dave, if I could, could I let Steve walk through an example of what would need to transpire for that perception to become a real conflict, because we've thought very carefully about this, believe me, because we know how important perception is.

And in that discussion, we -- he's -- we've got these steps that we've laid out to illustrate what a, candidly, stretch that would be.

Steve, can I ask you to comment on that?

MR. FORESTI: Sure, I'd be happy to. I just want to make sure everybody can hear me and see me. I just had to sign back in, because I was having a computer problem. Am I good?

MR. TOTH: You are.

MR. FORESTI: Terrific.

Yeah. So to Tom's point, you know, the way -- the way I would look at this and I think in the most practical way I could lay it out, in order to bridge the gap between the perception or the potential of this conflict that Wilshire would -- you know, might be artificially biased to promote the private markets, so to take that potential and bridge it to the risk that that conflict materializes as in any real way to impact CalPERS, one has to essentially accept a series of conditions all to be true.

And, you know, Tom mentioned, and I'd love to lay those out for you, because I think it's a pretty extensive list. But, you know, it begins with the idea that Motive and CC Capital are unethical and would motivate Wilshire to act in a way that would violate its fiduciary obligation. So that's -- that's condition number one.

Condition number two would be that our new owners believe that by Wilshire artificially promoting the private markets, there's some sort of financial benefit to be gained, presumably that, you know, if we encourage clients to push some additional capital generally into the private markets, into this $4 trillion private equity pace, that a couple of those dollars would come back to CC Capital and Motive.

And, you know, in my mind this is akin to me dumping a bucket of water into the ocean and expecting to see its level rise.

Number three, our owners would further have to believe that that questionable benefit is worth the considerable business and existential reputational risk that would be required for its pursuit.

Number four, all of Wilshire's governance around management structure, compliance control, the reporting, and the oversight around those controls, all of that would need to fail in protecting the independence of Wilshire's investment platform.

And then finally, Wilshire's investment team, and indeed, you know, Wilshire's CalPERS service team would all need to knowingly participate in those failures. And, you know, the way -- the way we look at it, and I would suggest that it's hard to imagine that any one of those conditions could be met, let alone all of them, which again is what would be required for that potential conflict, or that perception of a conflict to actually be realized in any -- in any real way to impact CalPERS.

So, for us, it's -- you know, getting there is a bridge too far, and, you know, we believe that's the conclusion that anyone who objectively analyzes the perceived conflict in terms of its potential to become a real issue would conclude as such. So that's kind of the way I think about it. And, you know, nobody is denying that there maybe a conflict there, at least a perception of it. But to us, it really is a bridge too far to get from that perception to the reality of it potentially causing any harm whatsoever or being realized in any way.

VICE CHAIRPERSON MILLER: Yeah. So we have a number of other questions. And my just quick comment is thanks for that, Steve. That's --

MR. FORESTI: You bet.

VICE CHAIRPERSON MILLER: That may be compelling to me, but I know that a lot of members, a lot of stakeholders are pretty immune to rational logical arguments sometimes, if they've got a preconceived perception or an inclination to think the worst and accept, I mean, some pretty wild misinformation, disinformation, conspiracies. And we've seen that play out where we end up having to spend lots of our time and staff's time trying to quell what are sometimes some pretty ridiculous notions that get established that it's just an additional hurdle and a lot of work for us. And sometimes with some stakeholders, we can never really quell them.

So -- so I think -- who do I have next? I think I have Director Olivares next.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller.

And I appreciate the comments from my colleagues, particularly President Jones. I think that was very insightful the suggestion that we perhaps get more information and maybe defer this.

I'd like to direct the Board's attention to the supplemental materials provided from Wilshire Associates. There are many. But in those, it is mentioned that there is a potential conflict of interest. I think it -- you know, we've had this great long-standing relationship with Wilshire. But many of us might be concerned that there could be a repeat of Arthur Andersen and Enron here, right? So we don't want a conflict that's going to compromise the integrity of our fund and hurt our members.

So within the supplemental materials, I'd like to pull up the updated RFP pages -- page 9, number 22. And just as we're pulling that up, I'd like to say that I understand that whenever we engage in a significant contract, there's usually some type of key person provision, as we discussed earlier in the day with something else.

And so I understand that since obviously the ownership has changed, this is an opportunity for us to revisit the terms of the contract. And so I would like Board members to keep that in mind.

Maybe we're not able to pull that up. But if people would just look at that, that would be great.

The other question I had has to do with private debt. So I understand that Ares is lending to Wilshire/Motive, and I want to know how we can provide some type of insulation as it results to recommendations to CalPERS on private debt?

MR. TOTH: I'll start, Ms. Olivares, and then I'll turn it over to Ben, if you have any more specific comments around that.

So first and foremost, we do not bring investment ideas like the potential to invest in Ares to CalPERS. So that's number one. Number two, as it relates specifically to this transaction, Wilshire was not party to selecting Ares as a lender. And then finally, number three, they're a -- they're a lender. So you can think about them as a bank. In the same way you are taking out a loan from a Wells Fargo or a Citibank, the insulation from the provider of those funds is pretty absolute. There's -- you don't look through Wells Fargo to their depositors who are providing you with the information. So I think there is a reasonably substantial cushion between Wilshire and CalPERS vis-à-vis the Ares lending relationship.

Ben, do you want to --

COMMITTEE MEMBER OLIVARES: The only -- excuse me, I want to say the way --

GENERAL COUNSEL JACOBS: Tom. Tom, can I just interrupt you.

COMMITTEE MEMBER OLIVARES: I'd actually like to continue. I would like to say the way I understand --

GENERAL COUNSEL JACOBS: Yeah, go ahead.

COMMITTEE MEMBER OLIVARES: -- the contracts to work is that there are provisions that allow the lender, in some cases, to recall or change the amount lent, if their clients change.

So, for example, if the relationship between Wilshire and CalPERS were not to continue, I'm wondering if that is mentioned anywhere in the agreement with Ares, because there is a clear potential conflict there.

MR. TOTH: So, Ben, maybe this is actually a better question for Jason in terms of the structure of the deal and with Ares.

So Jason, do you want to take that?

MR. SCHWARZ: Sure. And, I mean, to be clear, you know, Ares is not a lender to -- we didn't select Ares, Mrs. Olivares. And I will say that the lending in the sense that the -- I think what you're getting at, which is an important question is, if the CalPERS relationship was in question, would we not be able to, you know, cover that loan or would that be a breach of covenant in some respect. And the answer to that is decidedly no. There are no oppor -- there's no way for that loan to be called by virtue of the fact that, you know, something happening with the CalPERS relationship, you know, period, full stop.

And so, you know, there is no ongoing incentive for us to, you know, in any way, you know, change, or recommend, or in any way sort of alter the normal course of advice that we would provide to clients as a fiduciary, given the fact that Ares is a passive lender to the organization.

COMMITTEE MEMBER OLIVARES: So the term of the loan does not include any language regarding loss of significant clients?

MR. SCHWARZ: None, Mrs. Olivares, are noted specifically. There are no specific references to any particular clients. It's covenant-like loan, where the coverage ratio, if you will, is very conservative.

COMMITTEE MEMBER OLIVARES: The DSDR, yeah.

MR. SCHWARZ: Yeah.

COMMITTEE MEMBER OLIVARES: But, no, I'm talking -- I'm not talking about CalPERS specifically, but I'm talking about loss of clients.

I would like to move on to the ADV 2A, and so thank you for providing the form. I appreciate that.

Can we go to page 19?

Are we not able to bring that up on screen?

Okay. Well, then I guess I'll just -- should I just talk through it?

So on page 19 of the form ADV A2, the conflicts of interest are listed there. And Wilshire recognizes that this transaction does create conflict of interest. So I just want to be sure that we're all very aware of that.

And then in page 20, transparency is addressed, and 21 has controls. There is some language regarding ethical walls. Would you please walk us through that?

MR. TOTH: Sure.

MR. BOUEY: An ethical wall is as I described earlier they are the barriers for data and information. So there are two types. There is the electronic ethical walls around our networks that prevent certain professionals from accessing parts of the network that would give them information that would represent the conflict of interest, because we recognize that it is pos -- you know, the theory would be that having certain information may skew the advice they may give to a client.

And then, you know, other ethical walls would be the physical sharing of documents that prevent, once again, access to what may end up becoming a conflict. And so it is not meant to address necessarily this specific conflict. Some of these ethical walls are (inaudible) other conflicts that we recognize within Wilshire.

COMMITTEE MEMBER OLIVARES: Thank you.

Also, in the supplemental materials, there was a section on conflict of interest procedures which I see is only in draft form. I'd like to know which third party has provided legal review on behalf of CalPERS of this transaction and the documentation provided?

MR. BOUEY: So the one that you are seeing is in draft form, because it's being updated. Red lines show you the changes. Anything without the red lines is currently policy. That is our current procedures.

And, you know, once again, we would never -- we couldn't -- we would have no one representing CalPERS. I mean, we couldn't hire someone on your behalf. That would be outside of our mandate. And so --

COMMITTEE MEMBER OLIVARES: Yes, I'm sorry. That's -- it's a question I'm asking. Perhaps our counsel could answer that. Thank you. Mr. Jacobs.

GENERAL COUNSEL JACOBS: Well, we have reviewed the protocols that have been provided. We're not experts on it, but we've got our views on it.

Ms. Dunning has also reviewed it. My biggest issue with them is really that they're -- I mean (inaudible) and Wilshire has been talking about their policies have been in place for 35 years. But, I mean, we've got a new situation here. And so we can look at their policies and they may have been perfectly implemented up to the last 35 years. But this is a new situation. We don't know -- and these policies are new. And so we don't know really how they're going to work. And we don't have sufficient insight into how things work with -- at Wilshire to know whether these are appropriate, so we could spend a lot of time and a lot of money. I'm just not sure that we will get further than we are today, which is they may look good on paper, and they may provide us some comfort, and they may provide the Board some comfort, but we don't really know how they're going to work in practice.

COMMITTEE MEMBER OLIVARES: I'd love to hear from Ms. Dunning if we can on this.

VICE CHAIRPERSON MILLER: Yeah. Can we bring Ms. Dunning on.

GENERAL COUNSEL JACOBS: Could you elevate her, David, please?

MS. DUNNING: Good evening. Can you -- can you hear me and see me now?

COMMITTEE MEMBER OLIVARES: Yes.

GENERAL COUNSEL JACOBS: We can.

MS. DUNNING: Okay. I would echo Mr. Jacob's comments that this whole transaction is so new, in the sense that there's a completely new ownership structure at Wilshire, new reporting relationships, new financial interests of current Wilshire employees that will exist as a result of the transaction, that to assess how all of that will play out, and whether the various controls that have been described to you will be sufficient in the context of the mandate that Wilshire has with you, I think it's a little bit premature to say one way or the other.

The big picture fiduciary question for the Board, I believe, is what to do in the current context where you have your ALM coming up soon as you noted, as I think Trustee Jones noted. You have various important processes in which you need to engage with a fiduciary to receive advice. Are you confident that you can continue to do that with Wilshire providing you with sound advice, do you need to make sure that while you're receiving that advice from Wilshire, you're engaging in an additional say parallel effort to ensure that you're receiving reports from the compliance -- third-party compliance officer whom they've hired or -- or does this lead to a loss of confidence that -- that makes you look elsewhere or decide that you need to look elsewhere?

That's really I think what you need to be discussing right now. I don't know -- there is -- doesn't appear to me to be an absolute prohibition on going forward with Wilshire the way that they've laid it out. But it's a question of whether you think they can comply with their fiduciary obligations to them in light of the -- to you in light of this new ownership structure?

As Matt -- or Mr. Jacobs said earlier, it's good that you are able to end the relationship in sort order, if you were to provide the consent, but then decide that it was not -- you were not pleased with the way in which the company was proceeding under this new ownership.

My question has been whether you can hold off on providing the consent and still retain Wilshire, so that you're not necessarily accepting this transaction, but are continuing with them. I'm not sure if that's actually a possibility, but it's occurred to me.

I've been concerned about the same things that a number of you have raised about Ares, about the private equity pension that could potentially come out of this. But you've gotten some good response from Wilshire on some of those topics as well.

So I'd say this is a judgment call that has -- where you're asking the right questions, but it is -- today should not be a final decision on anything. You could make a decision to proceed with further reporting back to the Board, but I would say this is probably the beginning of the conversation rather than the end.

COMMITTEE MEMBER OLIVARES: Thank you.

VICE CHAIRPERSON MILLER: Okay. It looks like next we have Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Mr. Vice Chair. I appreciate the conversation that we've been having. And I also wanted to say that, yeah, the Controller, we've always appreciated the relationship with Wilshire, and the advice that they've given us, and the work that they've done. But we feel very strongly that this is going to lead to a lot of reputational risk for CalPERS, especially as we embark on the ALM process next year.

And as we are trying to do that thorough process and provide assurances to our members and stakeholders that we're looking at every possible allocation options to ensure the success of the fund, it's going to be very distracting t answer questions about Wilshire's ownership we feel.

So again, we remain very, very concerned. We appreciate all of the actions Wilshire has tried to take to assure their clients about conflicts of interest or potential conflicts. But we just feel that at the end of the day, it's going to come down to one of reputational risk and headline risk.

Thank you.

VICE CHAIRPERSON MILLER: Thank you.

Next, we have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Vice

Chair. A question for Wilshire. I think Mr. -- I think it Tom, who was talking about some sort of third-party compliance consultant, but I didn't actually see it in the slides, but -- so I had a quest -- two questions there. One is, is this a new entity that Wilshire is contracting with or has a contractual relationship already existed? That's the fist question. And second, what is their experience or qualifications that you -- that brought Wilshire to select them as their third-party compliance consultant?

MR. BOUEY: Sure. And I can take that. This would be a new relationship that we are establishing to give additional comfort to groups such as CalPERS. Once again, what we primarily rely on at Wilshire is our history, is the strength of our team, is our deep understanding of conflict of interest and how to manage them that we've been doing for a very long time.

And so this really -- you know, Tom put it best when he said this was public (inaudible) approach looking at this. You know, we have selected ACA Compliance Group. They are well known in the industry. About 75 percent of the people who work for ACA come directly from regulators. They have really direct experience in dealing with compliance programs, not just from the standpoint of implementing them, but overseeing them, examining them, and being able to determine the strength of this program.

COMMITTEE MEMBER RUBALCAVA: It might be helpful -- thank you. It might be helpful for our Legal Office and the trustees to get a better understanding of what the relationship is going to be, if there's a contractual -- receive a copy of their scope of working something in a future presentation.

Thank you.

VICE CHAIRPERSON MILLER: Okay. I had a question for Matt. In terms of -- it sounds like a lot of extra activity, a lot of extra baggage, a lot of extra complications. And so what would the process be, how quickly could we get another firm on board if we needed to, if all the complications don't work out or the compensation for all those complications or whatever?

GENERAL COUNSEL JACOBS: Not very quickly, unless it was Meketa. Meketa serves -- it actually has it in its contract that it is a back-up general investment consultant for the Board. But that is not the same as your primary, so it's not as if we could just rely on Meketa without some kind of further negotiation for its enhanced role.

But on the resumption that they would be interested in that role, you -- and that we would be able to reach contractual terms for them to fulfill that role, that's just -- I guess, that's the -- that's the most expedient way of filling this role were you to go down that path. And, you know, presumably that could be done in a few weeks or maybe even quicker. If we don't do that and you want to do an RFP, I mean, that takes a long time. It takes several months, I think, that --

VICE CHAIRPERSON MILLER: Would that be an interim step to an RFP or would it be --

GENERAL COUNSEL JACOBS: You could do that. You could do that, absolutely. Another thing that you could do is to maintain Wilshire while you do an RFP. Now, one thing I would note about Meketa stepping into the role as primarily is that this Board has had a policy of not wishing that its private asset class consultants also be its general pension consultant. And that is based primarily, as best we could recreate, on this concern that you don't want the general kind of looking over the shoulder of its own advice with respect to the private asset classes.

So if you move Meketa up to position number 1 and you wanted to maintain that policy, you would want to get new private asset class consultants.

VICE CHAIRPERSON MILLER: Okay. Next, I have a question from Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you, Mr. Vice Chair. And I thank everyone for the questions and the comments that we've had so far. I want to preface what I have to say that while Wilshire has had a 35-year relationship, I've not been on the board for 35 years.

During my time, Wilshire has been essentially my relationship with Mr. Toth and Mr. Foresti. And I have found both of them to be exemplary. I have truly enjoyed their wisdom and their promptness with everything that has come across.

So I preface anything I say with -- with I'm completely impressed with both of you and appreciate your work.

I want to ask Mr. Bienvenue to describe for us the kinds of consultations and interactions that you and the Investment Office have with -- with Wilshire. When are they involved in meeting with you and describe those conversations and relationships.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Well, there's a lot of them. Thank you for the question, Ms. Middleton. Currently, Arnie and I check in with Wilshire monthly. We also check in with Meketa monthly, just to kind of provide an update on where we are, you know, with the team, with upcoming Investment Committee, or with upcoming topics, all of those kinds of things.

Then also annually, Wilshire does the review of the total fund, right? So they're a part of that total fund trust level review that we just saw in September. And what happens is that in September staff takes the lead. In March, the consultants take the lead including Wilshire and Wilshire reviews the overall general pension and then also reviews the public asset classes. So that's the other big area they're involved with with us.

Certainly, in the case of the tracking error item, that you saw earlier, we definitely wanted to make sure that -- you know, that we were walking along with Wilshire and we, you know, worked with them to incorporate their thoughts and feedback, understand any concerns that they would have, you know, as far as if we were to consider certain changes to the policy? So there's all of those things.

And then the last thing I can think of is that currently Wilshire also opines for Opportunistic just the way that Meketa opines for private equity and real assets. They opine that something is consistent with policy and delegation. Currently, Wilshire does that for the Opportunistic Strategies Program.

COMMITTEE MEMBER MIDDLETON: So the perception that would be the common perception of the general public is that because Wilshire is owned by -- would be owned by a private equity firm, that they would point, nudge, or move an investment decision in the direction of something that would favor their ownership or an investment of their ownership. Is that something that you are concerned about that you would not be able to detect?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Candidly, in the case of staff, I would not be concerned about that. So I hear all of Matt's concerns and I'm -- you know, Matt and Ashley, I'm very sensitive to those concerns. For our staff, as investment professionals, I would -- I would not have those concerns, just because, you know, our team is dealing with conflicts constantly. Every time we trade in the markets, you know principal transaction, there's a conflict. Every time we, you know, we work on lots of places in this business where for-profit firms are interacting with us, there's potential conflict. So our job is to be aware of those conflicts and protect the organization for those. So for us as the Investment staff I wouldn't have those concerns.

COMMITTEE MEMBER MIDDLETON: So I'll finish with a comment. I really appreciate what Mr. Jacobs and Ms. Dunning had to say. And what I did not hear from either one of them is that they're satisfied that we have a process in place or an understanding in place that removes any doubt.

And until we have something that our counsels can take and tell us as the Board this is a reliable process moving forward, I think we have to have more conversation. I need to be able to hear from Ms. Dunning and Mr. Jacobs, that they are satisfied with this relationship going forward and I've not heard that.

And I don't want to substitute -- take an -- as a Board make a decision without the support of our attorneys. So I would like to see a conversation continue between, staff and counsel at CalPERS and Wilshire to see whether or not they can -- we can have a recommendation to continue this relationship that is satisfactory to our counsel.

VICE CHAIRPERSON MILLER: Okay. It looks like I do not see anymore questions, and --

MR. TOTH: Vice Chair Miller, could I -- could I make a comment here in response to Ms. Middleton's.

VICE CHAIRPERSON MILER: Who is speaking?

MR. TOTH: This is Tom from Wilshire.

VICE CHAIRPERSON MILLER: Oh. Yeah, go ahead.

MR. TOTH: Thank very much. First of all, I'd like to say, Ms. Middleton, thank you for your kind comments. We take great pride in the fiduciary service we provide to you guys and that's, I think, A, number one, the protection offered to CalPERS.

But more specifically around what we're talking about here, it's really important to understand that this consent doesn't lock CalPERS into anything additional. It doesn't change the terms of the contract and it certainly doesn't reduce your ability to undertake further due diligence. And in fact, we'd welcome that. And as Mr. Jacobs pointed out, you can terminate us at any time. You have that ability. This consent in front of you doesn't change that at all.

So we know that we have to prove ourselves to you, day-in and day-out, because while our contract might say three years, it -- it's really month to month with very limited notice. And that's why we can say here today that we're going to do just that. We're going to prove ourselves to you day-in and day-out. And we're going to get you any information that you need to get comfortable.

MR. SCHWARZ: Mr. Vice Chairman, there's one other -- on other data point. This is Jason at Wilshire. You know, and Steve Foresti, I don't know if you have any final comments.

But just one point, I mean, we have -- we have over 250 advisory relationships that look like CalPERS, not as large as CalPERS, but many, you know, large State pension funds, corporate funds, foundations, endowments.

I mean this is, as you know, the heart of what we do. We have received affirmative consents for just about all of those clients. We have engaged in conversations like this for many of those clients. I don't suggest that the challenges before you are not unique to you and are meaningful. And we have every expectation that you'll continue to do the diligence required. You know, I just wanted to provide perhaps some comfort in the numbers that there is -- you know, we are largely -- you know, we have been engaging in this process. And there is a distinction between the consent process and -- and the -- and the letter with the agreement -- and I actually just back to Mrs. Olivares as well, that you raised an important question earlier.

At the end of the day, I mean, we are fiduciaries. If we did anything to breach that, there is, you know, a contract in place. And so I'm just perhaps suggesting that there's a -- there's a -- two paths to be -- to be taken here. The consent and ongoing diligence will provide you with the materials from our third-party compliance consultant, as Mr. Jones and Mr. Rubalcava had noted. There are many, many ways where we feel we can get you comfortable in the interests of full disclosure and the time associated to do that.

Thank you.

VICE CHAIRPERSON MILLER: Yeah. I have Director Perez.

COMMITTEE MEMBER PEREZ: I took some notes and you just answered -- Mr. Schwarz, you just answered one of them in regards to what your other clients have done. But adding to that, could we -- not that I'm going to make the call, but if we needed too, could Matt or -- and his team reach out to the other clients to figure out how they are dealing with this and how they -- how their staff or their general counsel is telling their board members that you're good to go?

MR. SCHWARZ: I mean, absolutely. I mean, we would -- we would make, you know, any resources that make any connections to any clients, you know, available to Mr. Jacobs or anybody else for that matter, Jason.

COMMITTEE MEMBER PEREZ: And I think -- Matt, I think David asked this, but it was hard to hear. From the last RFP when we did this, I know Meketa had put in for it, but then who -- who was left standing on do we have to do a brand new RFP or can we pull from that pool?

GENERAL COUNSEL JACOBS: Well, one of my colleagues on the line will correct me if I'm wrong. You don't have to do an RFP. So somebody text me if I just got that wrong, but -- so the quest -- I mean, so you could move to -- I don't know who else had submitted and who else was deemed worthy of being interviewed. I don't have that information. Maybe Dan or Arnie does.

But there are a variety of different ways to contract with somebody. But the -- an excellent way, of course, is to do it through an RFP. And that's the way it has been done in the past and it takes several months to do that. I'm not sure that answered your question. But if I didn't, give me another shot, give me another chance.

COMMITTEE MEMBER PEREZ: No, no, no. You're fine. And so could we continue with Wilshire. And then if -- if there is a real conflict, not just a whisper conflict, but a real conflict, can we -- and I think you already talked about that, we can call in Meketa to be a designated hitter on that or not really?

GENERAL COUNSEL JACOBS: Well, subject to Meketa's willingness to take that position and our ability to reach some kind of -- some kind of agreement as to what compensation they would require to do that.

COMMITTEE MEMBER PEREZ: But I'm sure that would come out of Wilshire's chunk, right?

(Laughter.)

GENERAL COUNSEL JACOBS: Yeah, that's when we get back to Ms. Brown's suggestion, maybe they could hold us harmless on that.

COMMITTEE MEMBER PEREZ: Yeah, that was it.

VICE CHAIRPERSON MILLER: Okay. President Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Vice Chair. Yea. Let me be clear, if we were to sign the consent form, that doesn't lock us in anymore than we are today, where we could still cancel in 10 days or 30 days, as you mentioned, Mr. Jacobs?

GENERAL COUNSEL JACOBS: That's correct.

COMMITTEE MEMBER JONES: Okay. So, you know, there's still a lot of unanswered questions that I sense that -- so we don't have to take action on this today, even though it's an action item. We could just continue down the path and continue to pursue as both Matt and Mr. Ms. Dunning indicated, until we have -- I think Ms. Middleton indicated, until we have Matt and Ms. Dunning comfortable in terms of their advice on this, after we continue to pursue the various other pieces of information.

GENERAL COUNSEL JACOBS: We could, but let me -- let me ask Wilshire, do you need the Board to take action on the consent today?

MR. BOUEY: Jason, can I answer that?

MR. SCHWARZ: Sure.

MR. BOUEY: Because I think, you know, this is a technical question that I'm not sure anybody really has the answer to, but what we need to understand is that the consent is not an endorsement of the transaction, number one. The consent does not change the contract in any way, so the same terms are there. Without the consent, you know, honestly where we are is sort of in a regulatory limbo. I don't know that this question has ever been raised or answered, either in any of the regulatory agencies that we are subject to. And so that's the difficulty.

And so it almost raises more complications than makes things easier if we don't have the consent. Obviously, our fiduciary obligation continues, but the status of the contract comes into question at that point, and that becomes a complicating issue.

GENERAL COUNSEL JACOBS: So what you're saying is you would prefer that we sign the consent.

MR. BOUEY: I mean, if the -- if the intent is to move forward and give yourselves time, then yes. It creates greater clarity in the relationship than if we don't have the consent.

MR. SCHWARZ: And I would just add one more -- you know, it still creates the opportunity to have these discussions. As many of you have noted, there's more questions perhaps than there are answers today. That there are -- you know, there are instances where, you know, folks they sign the consent and then we'll continue to do that diligence. And, you know, there's times when, you know -- I wouldn't volunteer this, but if you so choose to sort of put Wilshire on watch or to take the time to do the necessary diligence, you know, all of those opportunities are at your disposal. We remain fiduciaries in the -- you know, in the mean time. This transaction hasn't closed. Nothing has changed, I do want to point out, you know, until, you know, the end of the -- the end of the year.

GENERAL COUNSEL JACOBS: Let me just make this point.

VICE CHAIRPERSON MILLER: A question --

GENERAL COUNSEL JACOBS: Let me just make this point. Because I don't want the Board to think that we're going to necessarily get answers -- definitive answers by extending this out. I mean, fundamentally, you've got -- you're moving this -- what this transaction does is it moves Wilshire -- and let me tell you, I've got no questions about the integrity of these individuals or about Wilshire in general. I think, you know, echoing what other people have said from what I've observed, it's a great firm and they would continue to have their fiduciary obligation, and that's a high obligation.

But fundamentally, what you've got is you're moving from a firm that is independent right now owned by its principles to a firm that will be owned by private equity. And that perception I don't know how we are -- I mean, we can put -- I guess that's the question for the Board is if you think you can get comfortable with that perception, then that's fine. Let's move forward and try and lockdown some of these protocols and procedures. But if you can't, I mean, we're never -- I don't -- I guess what I'm saying is I don't think we're ever going to be able to dispel that appearance.

VICE CHAIRPERSON MILLER: Matt, from --

GENERAL COUNSEL JACOBS: And that may not be fair. I'm happy to hear from Wilshire on it, but that's kind of -- I just don't want us to go down this road to think that we're necessarily going to be able to resolve that issue.

VICE CHAIRPERSON MILLER: Yeah. It's a question and then a comment. My question is if we sign this today, basically, we're just postponing making a decision or does it actually make it any more or less difficult to sever a relationship? And then my comment is from the viewpoint of our stakeholders, the perception of conflict, the perception of nefarious behavior, the perception of anything associated -- the minute you say private equity with a lot of our stakeholders, they instantly -- we have a perception issue and a hurdle to get over.

And all this new additional potential for perceptions to reinforce them, to create new ones, all the baggage of additional administrative, and legal, and technical complications I -- I agree with you, I don't see how we -- we have so many challenges with our stakeholders, and the media, and everything as it is, I don't see how we overcome this. But would signing this make it any harder to change direction, if we're only just delaying making a decision.

GENERAL COUNSEL JACOBS: Well, I don't think it would make it harder to -- to make a decision down the road. The -- the potential, the appearance, the conflicts trigger as soon as the deal closes and the ownership changes.

But that aside, say you would be living with this at least perception until you make a decision, but that would be the only downside to continuing the relationship by signing the consent.

VICE CHAIRPERSON MILLER: Okay.

GENERAL COUNSEL JACOBS: Ms. Dunning looks like she's trying to jump in here.

MS. DUNNING: Just a couple quick things. Thank you for seeing that. One is that by signing the consent, I believe you are consenting to the transaction. So you're not consenting to engage in a relationship with one who's not acting like a fiduciary, but you are consenting to the new ownership structure, at least for the duration of your relationship.

That said, I was actually going to make a counterpoint to that, which is I wouldn't be so concerned about a perception of conflict that you do not believe is an actual conflict that it deprives you of an outstanding investment consultant. So if your conclusion as fiduciaries is that you'll get unconflicted, loyal and outstanding advice from Wilshire, the fact that there may be some members who look askance at private equity, I don't think that should be the driving force to have you not go forward with this.

I mean, I think it really is important to try to stay above the fray to the extent that you can when assessing this arrangement and determining whether you should proceed with it or not.

MR. SCHWARZ: Members of the Board, you will be in good comfort if you reach that conclusion. There is not one client of Wilshire, not one, that has not provided consent because of this concern. Not one.

And so I'm not diminishing it. I'm not suggesting that it doesn't take time for you to get comfortable. I'm not suggesting, as Ms. Dunning noted, that the -- that the mere perception of conflict isn't a real thing.

But all of our other clients have come to the conclusion that Wilshire as a public servant, as a trusted fiduciary, as a thought leader to its clients that has sufficient policies, procedures and controls to address those, and our clients have reached that conclusion. And we'd love for yo (inaudible) reason, to be -- to take the time to get there, you know, if nothing else out of a respect for a 35-year relationship, we would ask that much.

VICE CHAIRPERSON MILLER: Okay. Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Mr. Miller. As most of you know, I strongly dislike the outrageous fees we pay to private equity, so I would be the last person to make the motion to approve the consent for this. So -- and this is based upon the history with the firm, but also the work they have done for other Board members, for myself as a brand new Board member and ongoing. The work that they do for us is exceptional. I don't expect it to change and I'm hoping that we can get a second and get a vote up or down.

Thank you.

COMMITTEE MEMBER JONES: I will second it.

VICE CHAIRPERSON MILLER: Okay. Moved by Director Brown, seconded by President Jones.

Any further discussion?

Okay. I'll call for the question. Ms. Hopper, would you call the roll?

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Matthew Saha for Fiona Ma?

VICE CHAIRPERSON MILLER: You're muted, Matt.

ACTING COMMITTEE MEMBER SAHA: Aye.

Aye.

COMMITTEE SECRETARY HOPPER: Okay.

Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

Stacie?

COMMITTEE MEMBER OLIVARES: Sorry. No.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.
COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?
COMMITTEE MEMBER RUBALCAVA: Yes.
COMMITTEE SECRETARY HOPPER: Shawnda Westly?
COMMITTEE MEMBER JONES: I think she had to leave.
COMMITTEE SECRETARY HOPPER: Okay. Betty Yee?
Lynn Paquin for Betty Yee?
ACTING COMMITTEE MEMBER PAQUIN: No.
COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I have 9 yes, 2 noes. The noes were made from Stacie Olivares and Lynn Paquin for Betty Yee. The motion was made by Margaret Brown, Henry Jones seconded.
VICE CHAIRPERSON MILLER: Okay. The motion passes.
I guess it will be Committee direction that -- I'm not sure quite how to put this, that we -- at least, we revisit this. It's not a final decision. It's just one step closer to a decision.
MR. TOTH: And let me just say, this is Tom with Wilshire, thank you. We appreciate it and we understand that there's more to do and we have every intention of providing you all the information that you need to get comfortable. And even to Mr. Jacobs' point, is there a way to be, you know, 100 percent comfortable when it comes

to perception? Perhaps not. But I can promise you that we are going to give you every bit of information that you need to adequately respond to your stakeholders to make them comfortable.

So again, thank you.

VICE CHAIRPERSON MILLER: All right. Thank you, all.

I see no more requests to speak, so then I guess we'll move to the next item, which is, I think, Committee direction.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes, sir, Mr. Vice Chair, and I have two Committee directions that I took note of. The first is that in February, in addition to some of the educational work around the ALM, that we will bring a market update and the like to this group and other -- other topical market issues, that way, you know, it allows the Board to do their oversight duty.

The second one I got is that we will accelerate the every five year review of the divestment deep dive from November of next year to March of next year. So we'll bring that to this group in March. Those were the two committee directions that I had.

VICE CHAIRPERSON MILLER: Sounds about right. Anybody -- okay.

COMMITTEE MEMBER JONES: Yeah.

VICE CHAIRPERSON MILLER: I think that is --
Henry.

COMMITTEE MEMBER JONES: I think we still would like to have some kind of forum to talk with their -- the firm, ACA. We'd like -- I think I heard a number of Board members would like a better understanding of that relationship, so we should schedule that to have a follow-up.

VICE CHAIRPERSON MILLER: Okay. Do you have that, Mr. Bienvenue?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I'm happy to add that as a third direction as a follow up to understand the nature of the relationship with ACA.

GENERAL COUNSEL JACOBS: If I may, what are the other -- what is the rest of the direction with respect to further due diligence, if you will, on the Wilshire transition -- ownership transition? Is there anything else?

VICE CHAIRPERSON MILLER: You know, I'm not -- not quite sure. I mean, I don't know whether to ask for a recommendation or exactly. Ms. Middleton has her hand up. Let me see. Do you have a thought?

COMMITTEE MEMBER MIDDLETON: I would -- thank you, Mr. Vice Chair. I would like to have Mr. Jacobs and Ms. Dunning meet with Wilshire, explore some of the potentials for appearance of conflict and come back and report to us as to how they will be resolved. And I see something along the lines of a memorandum that defines what Wilshire's relationship will be when it comes to issues around private equity.

GENERAL COUNSEL JACOBS: Okay. Thank you. Thank you.

VICE CHAIRPERSON MILLER: Yeah. Okay. And I just want to double check with Mr. Fox, it doesn't look like anybody wanted to weigh in from the public on these last items? It kind of surprises me, but is that correct, Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Mr. Chair, we have one comment for the agenda Item number 11, public comment. We have Alyssa Giachino with the Private Equity Stakeholder Project.

VICE CHAIRPERSON MILLER: Okay. Well, I think we'll hear from her now.

MS. GIACHINO: Thank you, Kelly. Good evening, Board members and staff. Alyssa Giachino from the Private Equity Stakeholder Project.

I wanted to give you an update on the ongoing issues with Leonard Green and Partners, Safety Net Hospital Chain, Prospect Medical Holdings. As you recall, Leonard Green's aggressive gutting of Prospect and its hospitals has garnered substantial concerns from workers, lawmakers, regulators and investors across the country.

At your September meeting, you heard from stakeholders in Connecticut, including from Ed Gadomski a former IT tech whose entire department was outsourced just weeks after Prospect was approved for a large local tax break. Since then, there have been multiple noteworthy developments.

And in-depth investigation of Prospect by ProPublica revealed a disturbing patter of safety and quality issues at Prospect Hospitals in every state the company operates from California to Pennsylvania. The ProPublica revelations are numerous.

I'll just note those uncovered at hospitals -- Prospect hospitals in California. Three lawsuits have charged Prospect's Culver City hospital with different allegations of billing fraud. One lawsuit alleged that special marketers for the hospital bussed in a stream of about 20 elderly patients a day, many suffering from dementia, and admitted them into the ER despite having no problems that required hospitalization. The litigation is pending in Los Angeles.

Another suit alleged that the hospital inflated Medicaid revenues at its detox center. Prospect settled that suit in 2017.

Last year, Attorney General Becerra formally charged Prospect executives with gross negligence related to persistent mold contamination of a hospital pharmacy, including an equipment used to mix patient medication. The pending attorney general proceedings could revoke or suspend the hospital's pharmacy permit.

At Prospect's flagship Los Angeles hospital, persistent elevator breakdowns sometimes require emergency room nurses to wheel patients on gurneys across a public street as security guard attempts to halt traffic.

Regulators -- outside of California, regulators in Rhode Island recently extended their review process for Prospect's proposed change in ownership for a second time, as they attempt to understand the puzzlingly low valuation that owners have assigned to the hospital company and the dividends paid out despite its deteriorating financial situation. The regulator's new deadline to approve this transaction is January 2021, over a year after the Prospect first submitted its change in ownership application.

Last month, at the New Mexico State Investment Council, the State's Land Commissioner, Stephanie Garcia Richard raised concerns saying that she will no longer support investments into Leonard Green until they answer for the problems at Prospect.

The more we learn about Prospect Medical Holdings, the more disturbing this story becomes. And these problems are not going to go away, especially if Leonard Green continues to evade responsibility for the grave safety and quality concerns at its hospitals.

Moreover, Leonard Green continues to justify its gutting of Prospect by touting its returns to investors like CalPERS. CalPERS should not feel comfortable being used --

VICE CHAIRPERSON MILLER: Thank you.

MS. GIACHINO: -- as a shield for looting safety net hospitals. As one of Leonard Green's --

VICE CHAIRPERSON MILLER: Thank you.

MS. GIACHINO: -- biggest investors, please stand up --

VICE CHAIRPERSON MILLER: Thank you.

MS. GIACHINO: -- and ask them to return the dividends.

Thank you.

VICE CHAIRPERSON MILLER: Great. Thank you very much.

Mr. Fox, any other commenters for the public comment period?

STAKEHOLDER RELATIONS CHIEF FOX: No, Mr. Chair. That concludes public comment for today.

VICE CHAIRPERSON MILLER: Okay. Thank you.

Okay. I think that -- there's nothing left on our agenda, and so I would -- oh, we don't have to do a motion to adjourn, do we?

No. Okay.

GENERAL COUNSEL JACOBS: No.

VICE CHAIRPERSON MILLER: So I will say hearing no objection, we're adjourned.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 6:46 p.m.)

CERTIFICATE OF REPORTER

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of November, 2020.

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