

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

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FECKNER AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

MONDAY, SEPTEMBER 18, 2023  
9:01 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chairperson

Theresa Taylor, Vice Chairperson

Malia Cohen, represented by Regina Evans

Fiona Ma, also represented by Patrick Henning

Lisa Middleton

Eraina Ortega

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Yvonne Walker

Mullissa Willette

Gail Willis, Phd(Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Interim Chief Operating Investment Officer

Matt Jacobs, General Counsel

Nicole Musicco, Chief Investment Officer

Dan Bienvenue, Deputy Chief Investment Officer

Daniel Booth, Deputy Chief Investment Officer

Peter Cashion, Managing Investment Director

Simiso Nzima, Managing Investment Director

APPEARANCES CONTINUED

STAFF:

Anton Orlich, Managing Investment Director

Arnie Phillips, Managing Investment Director

Lauren Rosborough Watt, Investment Director

Tamara Sells, Associate Investment Manager

ALSO PRESENT:

Maria Blane

Sal Calleros

Ramona Cramer, Service Employees International Union,  
Local 1000

William Michael Cunningham(Remote)

Valentina Dabos

Tammy Dhanota, Service Employees International Union,  
Local 521

Jennifer Diaz de Monsterosa, United Food and Commercial  
Workers

Patricia Gutierrez, United Food and Commercial Workers

Steve Hartt, Meketa Investment Group

J.J. Jelincic(Remote)

Michael Mark, Smart Sheet Metal Workers, Local 104

Steve McCourt, Meketa Investment Group

Susan Minato, Unite Here Local II

Gretchen Newsom, International Brotherhood of Electrical  
Workers North District

APPEARANCES CONTINUED

ALSO PRESENT:

Jennifer O'Dell, Laborers International Union of North America

Brian O'Neil, Service Employees International Union, Local 521

Forest Peterson, Service Employees International Union, Local 521

Jose Preciado, Unite Here Local II

Michael Ring, Service Employees International Union

Nicole Samii (Remote), United for Respect

Pablo Sandoval, Service Employees International Union, Local 521

Sarah Theiss (Remote), Fossil Free California

Tom Toth, Wilshire Advisors

Amy Valdez, Service Employees International Union, Local 1000

Jeane Wong, Writers Guild of America

Habibulhaq Qazizada, Unite Here Local II

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PROCEEDINGS

1  
2 CHAIRPERSON MILLER: Good morning, everybody. I  
3 would like to call the meeting of the Investment Committee  
4 to order.

5 And the first order of business is the roll call.

6 BOARD CLERK TRAN: David Miller?

7 CHAIRPERSON MILLER: Here.

8 BOARD CLERK TRAN: Theresa Taylor?

9 VICE CHAIRPERSON TAYLOR: Here.

10 BOARD CLERK TRAN: Controller Malia Cohen?

11 Patrick Henning for Fiona Ma?

12 ACTING COMMITTEE MEMBER HENNING: Here.

13 BOARD CLERK TRAN: Lisa Middleton?

14 COMMITTEE MEMBER MIDDLETON: Present.

15 BOARD CLERK TRAN: Eraina Ortega?

16 COMMITTEE MEMBER ORTEGA: Here.

17 BOARD CLERK TRAN: Jose Luis Pacheco?

18 COMMITTEE MEMBER PACHECO: Present.

19 BOARD CLERK TRAN: Kevin Palkki?

20 COMMITTEE MEMBER PALKKI: Good morning.

21 BOARD CLERK TRAN: Ramón Rubalcava?

22 COMMITTEE MEMBER RUBALCAVA: Present.

23 BOARD CLERK TRAN: Yvonne Walker?

24 COMMITTEE MEMBER WALKER: Here.

25 BOARD CLERK TRAN: Mullissa Willette?

1 COMMITTEE MEMBER WILLETTE: Here.

2 BOARD CLERK TRAN: Dr. Gail Willis?

3 VICE CHAIRPERSON TAYLOR: Is he on yet?

4 Okay. We have to guess right now?

5 And let's note that Patrick Henning is here for  
6 Fiona Ma.

7 CHAIRPERSON MILLER: Yeah. Good. Okay.

8 Item 2, our executive report from the Chief  
9 Investment Officer Nicole Musicco.

10 CHIEF INVESTMENT OFFICER MUSICCO: Thank you.

11 Good morning, Mr. Chairman and Investment  
12 Committee members.

13 As you know, we do have a full agenda today that  
14 we are looking very forward to later today. But before we  
15 begin, I would like to speak to the difficult decision  
16 that I had to make last week to tender my resignation  
17 effective at the end of the month. Those are not easy  
18 words to say. So please bear with me today.

19 The position in trust that's been placed to me  
20 means so much. And I care deeply about the work we do,  
21 and about serving those who serve California. But right  
22 now, my family needs me back in Toronto. And as difficult  
23 and awkward and far from ideal that is for all of us, this  
24 is what I need to do.

25 It has been an honor and a privilege to work with

1 the talented team of investors that you see in this room  
2 today. Our investment team has delivered on every  
3 ambitious goal that we've set out to do. There will  
4 always be a small minority that fights change. But the  
5 vast majority of this team embraced change from the start  
6 in our mission to create the kind of culture that CalPERS  
7 truly needs in order to be best in class and deliver its  
8 promise to its members.

9           Thank you so much to our team, my team for  
10 welcoming the Canadian with the big ideas. You really did  
11 exceed my expectations on what we could accomplish  
12 together even in a short period of time. In just a year  
13 and a half, this team has excelled at creating a  
14 one-billion-dollar platform for diverse and emerging  
15 managers. This has raised awareness who other allocators,  
16 and has truly been a catalyst for change. We've made  
17 major strides in accelerating our private market  
18 investments. And we've laid a solid foundation for  
19 building more innovation into our investment strategies.

20           We built greater resiliency into our programs by  
21 improving our liquidity and risk management frameworks;  
22 and we launched our sustainable investment strategy to  
23 invest and risk mitigate through all the lenses of  
24 environmental, social and diversity issues.

25           But what makes me equally grateful and proud is



1 that CalPERS is the kind of organization that sees a human  
2 side of its team members and ensures everyone feels  
3 supported when it comes to balancing the many needs in our  
4 lives no matter how inconvenient for our organization.

5 Thank you, Marcie, for leading with compassion  
6 and setting the standard for other leaders when it comes  
7 to being there for your team in difficult times. Even  
8 braced a family-first approach and supported the need for  
9 space and privacy. You're an incredible mentor to many,  
10 and I'll forever be grateful for the compassion you and my  
11 team have shown.

12 When I became CIO, I was prepared for it to be  
13 the kind of job where success depends on giving everything  
14 that you've got and then some. Which is why I had to make  
15 the unfortunate decision to resign. No one could be  
16 appropriately served in this role by only having a piece  
17 of my attention.

18 Thank you, Dan, for stepping in as interim CIO.  
19 You are truly a great culture carrier. And I know this  
20 team will continue to do the hard work and service to our  
21 two million members and families.

22 It's been a great honor and a great privilege to  
23 serve in this role and I will be absolutely cheering for  
24 all of your success in the years to come.

25 Thank you, Mr. Chairman.

1           CHAIRPERSON MILLER: And thank you. And we have  
2 a few board members who want to speak, and I will kick it  
3 off. I just want to say thank you for your time here and  
4 your tenure. The progress has -- it's frankly been  
5 amazing and the challenges of making cultural change plus  
6 all the technical change plus all the just keeping all the  
7 balls in the air and keeping us, you know, moving the ball  
8 down the field and no backward steps. But what I really  
9 want to share with you and everyone is my utmost respect,  
10 because we lead by example every day, whether we're  
11 consciously leading by example or not. And the example of  
12 truly living the value and putting family first is  
13 something that I hope everyone can appreciate and respect  
14 from the top of the organization to the bottom. You know,  
15 family is family and there's nothing else when it comes to  
16 making a decision like that a difficult decision, and, you  
17 know, you have -- certainly have my respect and support  
18 and best wishes going forward.

19           CHIEF INVESTMENT OFFICER MUSICCO: Thank you so  
20 much.

21           CHAIRPERSON MILLER: Next we have Ms. Taylor.

22           VICE CHAIRPERSON TAYLOR: Thank you, Mr. Mil --  
23 there you go. Thank you, Mr. Miller.

24           CHAIRPERSON MILLER: That is -- oh. Put  
25 everybody up there.

1           VICE CHAIRPERSON TAYLOR: Won't you miss these  
2 microphones things, right.

3           So, Nicole, I just want to thank you so very,  
4 very much. We were honored to have you here. Your  
5 dedication, your creativity. You and I had lunch and we  
6 talked about all these great ideas that you've -- many  
7 have started to be implemented or have been implemented.  
8 So I just want to thank you for your hard work in this  
9 role, and recognize as our second female CIO just the --  
10 you know, the hard work and the creativity and all of the  
11 good investment decisions you brought to our organization  
12 I'm so very proud of.

13           But also I just want to say we're really sorry to  
14 see you go. And we do understand -- and I just have to  
15 say people don't recognize the challenges that women face  
16 in these big roles, and it's always under-recognized,  
17 right. But we respect the decisions you made for your  
18 family and wish you the best.

19           CHIEF INVESTMENT OFFICER MUSICCO: Thank you so  
20 much.

21           CHAIRPERSON MILLER: Next we have Director  
22 Walker.

23           COMMITTEE MEMBER WALKER: Hi, Nicole. So I know  
24 how hard it is to be in a job that you love and through  
25 not your own wishes, you're having to step away from that

1 job and go do something. I know the feeling that that  
2 puts inside of you. I haven't worked with you long, but I  
3 will say that from the time that I've worked with you,  
4 I've always believed that you are incredible and that you  
5 could do great things.

6           You said in your statement that you made the  
7 unfortunate choice. It's not unfortunate. You made the  
8 only choice. If I've learned nothing else, I know family  
9 always comes first. It doesn't matter what it is or where  
10 it is. And so -- and I'm glad that that was the choice  
11 that you had made. If you had sought my counsel, I would  
12 have told you the same thing. But I still recognize that  
13 it's hard. But I don't want you to leave knowing that I  
14 don't understand and we don't appreciate what you've done  
15 during your time here.

16           CHIEF INVESTMENT OFFICER MUSICCO: Thank you so  
17 much, Yvonne.

18           CHAIRPERSON MILLER: Okay. Next I have Director  
19 Pacheco.

20           COMMITTEE MEMBER PACHECO: Thank you.

21           Nicole, I want to say I really appreciated your  
22 leadership for the last 18 months that you've been here.  
23 Really appreciate how you've moved us in our culture with  
24 the best in class, and also as well in how we are focused  
25 moving into the private markets and the one-billion-dollar

1 mosaic program which is a diverse and emerging manager  
2 program. I really felt your leadership in that area was  
3 extraordinary, and moving us in that direction, giving us  
4 that foresight to move forward in the long run as well.

5 But I also want to say something about family. In the  
6 Latino culture it's la familia. And for us it's really,  
7 really important. So I understand completely with respect  
8 to your la familia and how you have to also, you know, do  
9 what you need to do.

10 So again, I -- from the bottom of my heart, I  
11 really appreciate what you've done for us, what you've  
12 given us and provided us, and we're very thankful that you  
13 were -- you've been with us for this long. Thank you.

14 CHIEF INVESTMENT OFFICER MUSICCO: Thank you.

15 CHAIRPERSON MILLER: Okay. You still have the  
16 floor.

17 CHIEF INVESTMENT OFFICER MUSICCO: Okay. Thank  
18 you for all of those warm comments. I really do  
19 appreciate it.

20 I'm now going to turn to our agenda today, which  
21 we're exited about. There's a lot of tremendous work  
22 that's been done. We have a lot more to do. But we heard  
23 you loud and clear over a number of last sessions. And so  
24 I'm delighted that for the first part of our agenda we'll  
25 be bringing forward the first reading of our proposed

1 revisions to the Governance and Sustainability Principles  
2 with our Total Fund Policy. We've created a dedicated  
3 session on labor principles based on feedback and  
4 discussions we've been having to give greater prominence  
5 to the existing language in our guidelines. I'll venture  
6 our trust level review, which is a compilation of our  
7 performance and activities across the Investment Office  
8 for the last fiscal year. And our continuous effort to  
9 improve our reporting, we have made some few adjustments  
10 that we'll bring you through.

11 I'm proud of the work the team has performed, and  
12 we believe this report is starting to give a much clearer  
13 and more comprehensive representation of that activity.  
14 So we hope that you're liking the new format.

15 You're then going to hear from your General  
16 Pension and Private Assets consultants. We'll share in  
17 Meketa with their trust level review report.

18 And then finally we'll end the day with the  
19 annual program reviews for Global Fixed Income and Global  
20 Private Equity. Arnie and Simiso will provide an overview  
21 of their respective programs, highlight market environment  
22 and its specific effects on the programs. They'll share  
23 investment risk, investment and risk analysis, and closing  
24 with information on any operational updates and key  
25 initiatives that we've been working on and will be focused

1 on in the future. You'll recall we had been doing these  
2 for just the private equity programs and now we're working  
3 into a rotation each and every one of our investment  
4 strategies over board meetings; and so today is fixed  
5 income and global equities.

6 With that I'll turn it back to the Chair.

7 CHAIRPERSON MILLER: Okay. Thank you.

8 So we'll move right along to Item 3, our action  
9 consent items.

10 What's the pleasure of the Committee?

11 COMMITTEE MEMBER PACHECO: Move approval.

12 VICE CHAIRPERSON TAYLOR: Second.

13 CHAIRPERSON MILLER: Moved by Mr. Pacheco,  
14 seconded by President Taylor.

15 So any discussion on the item?

16 I'll call for the question. All in favor?

17 (Ayes.)

18 CHAIRPERSON MILLER: Any nays?

19 No abstentions.

20 Okay. The item passes.

21 On to Item 4, our information consent items.

22 I haven't had any request -- oh -- any requests  
23 to pull anything.

24 So we will move on to Item 5, our information  
25 agenda items, starting with their revisions to Total Fund

1 Policy.

2 CHIEF INVESTMENT OFFICER MUSICCO: Thank you.

3 As mentioned, today we're just providing the  
4 first reading of proposed changes. Peter Cashion will be  
5 here to elaborate on that. And then we'll have Tamara  
6 Sells present the CalPERS well-established stakeholder  
7 engagement process and case studies of its applications.

8 So I could invite Peter and Tamara to come up,  
9 please.

10 MANAGING INVESTMENT DIRECTOR CASHION: Okay.

11 Good morning, everyone.

12 (Thereupon a slide presentation).

13 MANAGING INVESTMENT DIRECTOR CASHION: So today  
14 we have the pleasure to present to you the proposed labor  
15 principles. And this will be the first reading. And then  
16 we would return in November for a second reading.

17 Next slide please.

18 --o0o--

19 MANAGING INVESTMENT DIRECTOR CASHION: So based  
20 on our discussions both in June and July, the team's been  
21 working diligently to develop labor principles that are  
22 effectively based on what is already in our documentation  
23 at CalPERS.

24 CHAIRPERSON MILLER: Could you get a little  
25 closer to the mic.



1           MANAGING INVESTMENT DIRECTOR CASHION: Sure.

2           CHAIRPERSON MILLER: Thank you.

3           MANAGING INVESTMENT DIRECTOR CASHION: Thank you.

4           So we've developed these labor principles using  
5 the -- as a starting point using the existing and  
6 well-established coverage of labor principles that CalPERS  
7 already has across numerous documents, including the  
8 Governance and Sustainability Principles. We've decided  
9 to give greater prominence to these -- to this existing  
10 language and created dedicated section within the CalPERS  
11 Governance and Sustainability Principles document.

12           So to come up with these principles we reviewed a  
13 number of best-in-class frameworks and best-practice  
14 standards, including the International Labor Organization,  
15 the American Investment Council, and LiUNA and along with  
16 others. And the good news is that our current coverage of  
17 labor is largely already reflected in these -- in these  
18 documents and best practice standards. But we really felt  
19 there was important to profile them and pull them out into  
20 their own independent section in one location.

21           And as such, these will all be integrated into  
22 overall governance and sustainability principles and our  
23 investment guidelines. And then subsequently, managers  
24 will be made aware of these principles and provide  
25 periodic attestations.

1 Next slide please.

2 --o0o--

3 MANAGING INVESTMENT DIRECTOR CASHION: So we'll  
4 jump right into the principles themselves. As you can  
5 see, there are five items that are in bold. These come  
6 directly from the international labor organization  
7 principles.

8 We -- beneath each of the bolded items we have a  
9 subpoint that complements and gives greater detail and  
10 granularity. These -- each of these items comes from the  
11 American Investment Council.

12 I'll quickly walk through each of the main  
13 points. The first relates to freedom of association and  
14 the effect of recognition of the right to collective  
15 bargaining.

16 Next is the elimination of all forms of forced  
17 and compulsory labor.

18 Third is abolition of child labor.

19 Four, elimination of discrimination and respect  
20 of employment and occupation.

21 And, lastly, a safe and healthy working  
22 environment.

23 Next slide please.

24 --o0o--

25 MANAGING INVESTMENT DIRECTOR CASHION: So as

1 stated, we already have solid coverage of labor principles  
2 across a variety of documents, including the investment  
3 beliefs, governance and sustainability principles, and our  
4 ESG guidelines.

5 Next slide please.

6 --o0o--

7 MANAGING INVESTMENT DIRECTOR CASHION: This  
8 graphic shows how we've blended, merged principles from  
9 our existing CalPERS language, referencing the American  
10 Investment Council guidelines for responsible investing,  
11 as well as the ILO standards, principles and rights of  
12 work. And the culmination of this is the CalPERS labor  
13 principles that will be identified in a specific  
14 standalone section of our document.

15 Next slide please.

16 --o0o--

17 MANAGING INVESTMENT DIRECTOR CASHION: So here is  
18 the presentation of the ILO standards, which I've already  
19 stepped through. The next slide presents the American  
20 Investment Council guidelines for responsible investing.  
21 There are 10 of these overall. And five relate to labor.  
22 And those are the points that we've pulled out to identify  
23 here.

24 --o0o--

25 MANAGING INVESTMENT DIRECTOR CASHION: On the

1 next slide, in terms of next steps, so we will gather  
2 feedback from the Board in this session and this will be a  
3 first read of the policy update. We will then come back  
4 in November for a second read, an action item for policy  
5 update. If that is approved and passed, then we will take  
6 steps to integrate that into our documentation and our  
7 ongoing diligence and rollout of our work.

8 Next slide please.

9 --o0o--

10 MANAGING INVESTMENT DIRECTOR CASHION: Now I have  
11 the pleasure to pass to Tamara for the stakeholder  
12 engagement process.

13 ASSOCIATE INVESTMENT MANAGER SELLS: Thank you,  
14 Peter.

15 Good morning, board members. Thank you so much  
16 for having me today. My name is Tamara Sells. I'm the  
17 associate investment manager on the sustainable  
18 investments team. I'd like to just provide you with an  
19 overview of this stakeholder engagement process.

20 Consistent with the total fund investment policy,  
21 CalPERS has had a long-standing stakeholder engagement  
22 process that provides an avenue of communication for our  
23 stakeholders to raise issues related to systemic risk and  
24 those linked to ESG sustainability as well as responsible  
25 contracting.

1           The visual before you illustrates a high level  
2 stakeholder engagement process the CalPERS staff followed  
3 to identify and mitigate risks to our portfolio that can  
4 negatively affect CalPERS' investment returns, our  
5 reputation and trust. We address each issue consistent  
6 with our fiduciary duty to our members and our  
7 beneficiaries which begins with Step 1, which is  
8 identifying the issue.

9           These issues again run the gamut in terms of ESG  
10 or sustainability broadly. They can also fall under  
11 responsible contracting and they're raised in a variety of  
12 ways, through our managers, through our stakeholders, the  
13 media headlines, and even through our relationships with  
14 external managers.

15           We assess each issue raised to determine to what  
16 extent is the issue supported by CalPERS's investment  
17 beliefs, our principles and our policies. Then we move on  
18 to Step 2, which is conducting the initial information  
19 gathering. In this process -- or in this step - excuse  
20 me - we assess the materiality of each issue and in  
21 particular the potential impact to our portfolio's risk  
22 and returns. We assess the specific asset class that the  
23 issue falls under, our portfolio exposure, and the  
24 relevance to long-term performance.

25           We also assess the stakeholder's ask of CalPERS

1 to evaluate whether our actions will influence a  
2 measurable outcome and whether CalPERS should partner with  
3 others to achieve success or some other approach that's  
4 more suitable to adjust the matter.

5 We research our prior work, our letters, our  
6 company engagements, proxy votes, and any other historical  
7 information that helps us provide context to how best to  
8 mitigate the risk.

9 And, lastly, we assess whether CalPERS staff have  
10 the expertise, resources, and standing to influence an  
11 outcome.

12 Then we move to Step 3, which is conducting the  
13 stakeholder engagement. CalPERS staff undertake  
14 constructive engagement with our stakeholders to  
15 understand their concerns. When engaging with our  
16 stakeholder we look to understand their perspective on the  
17 issue, the direct impact that the issue has to their  
18 members, and also to understand what local, state or  
19 federal resources that the stakeholder has already  
20 utilized.

21 Then we move to Step 4. And that's conducting  
22 the investment manager or portfolio company engagement.  
23 CalPERS staff will engage our external managers and  
24 portfolio companies, and we -- to the extent we can, we'll  
25 encourage managers and companies to seek a plan for

1 resolution, risk mitigation, and controls to prevent  
2 future issues.

3           And I just want to highlight then in Step 3 and  
4 4, that could be a continuous ongoing process, as some of  
5 these issues are quite complex; so there can be a number  
6 of follow-up engagements with both the stakeholder and the  
7 company under a manager.

8           Then we move to Step 5. In Step 5 we continue to  
9 monitor the issue and we provide regular communication to  
10 all of the relevant parties. Although each engagement  
11 varies, the ongoing monitoring of the issue or the matter  
12 could last months or longer.

13           Staff will conduct follow-up meetings with  
14 stakeholders, companies, and managers as needed. And we  
15 encourage our stakeholders to keep us apprised of any  
16 relevant updates that are related to that issue.

17           And, lastly, as each -- since each matter raised  
18 varies, how each matter concludes is not the same. The  
19 engagement process may conclude at any phase based on our  
20 analysis and findings. But we do work to ensure that the  
21 stakeholders ask of CalPERS or at best a resolution has  
22 been reached.

23           CalPERS staff will send an update to the  
24 stakeholder and the manager that outlines our engagement  
25 summary and our outcome.

1           And so to summarize, CalPERS staff follow a  
2 long-standing and a thoughtful approach to the stakeholder  
3 engagement process that is consistent with our investment  
4 belief, particularly investment belief number 3, and our  
5 total fund investment policy. Each issue raised is  
6 screened, using the prioritization framework outlined in  
7 the investment brief number 3. Our CalPERS stakeholder  
8 investment process is rooted in information gathering in  
9 order to assess and mitigate risk to our fund. We address  
10 each issue case by case but always consistent with our  
11 fiduciary duty.

12           Thank you.

13           CHAIRPERSON MILLER: Okay. Thank you.

14           It looks like I have a comment or a question from  
15 President Taylor.

16           VICE CHAIRPERSON TAYLOR: Thank you, Chair  
17 Miller.

18           So thank you, Mr. Cashion, Ms. Sells. I  
19 appreciate your work on this and getting our first reading  
20 on these guidelines. So I'm very happy with these. I  
21 think I had -- and so I just -- I had a couple of  
22 questions. I'm going to start because you were at the end  
23 so I remember what I was going to ask better, Tamara.

24           So then at the end of the engagement process,  
25 then you update to the stakeholder and to management.



1 Generally -- or a lot of times these issues come in --  
2 sometimes they're just straight to you, but sometimes they  
3 come in through us.

4 ASSOCIATE INVESTMENT MANAGER SELLS: Right.

5 VICE CHAIRPERSON TAYLOR: So do you generally  
6 like send us a quick note as well?

7 ASSOCIATE INVESTMENT MANAGER SELLS: Absolutely,  
8 yes. No, I --

9 VICE CHAIRPERSON TAYLOR: Okay. I just want to  
10 make sure.

11 ASSOCIATE INVESTMENT MANAGER SELLS: I apologize  
12 that I forgot to mention that. But, yes. Depending on  
13 how it comes through, if it comes to one of our board  
14 members or to Marcie or to Nicole or Dan, we definitely  
15 will follow-up and owe an engagement summary to whomever  
16 that executive sponsor is to make sure that they're fully  
17 aware of the engagement outcome.

18 VICE CHAIRPERSON TAYLOR: Perfect. Yeah, because  
19 I get those questions follow-up for myself as well. So --

20 ASSOCIATE INVESTMENT MANAGER SELLS: Yes.

21 VICE CHAIRPERSON TAYLOR: -- they need to know  
22 that.

23 And then so I -- and then for -- Peter, I just  
24 wanted to tell you, really, really great ideas. I think I  
25 mentioned this in our briefing. I think that it's

1 critical for our investment partners to commit to this  
2 risk mitigation, and I'm glad we're doing this. And I  
3 think -- just really quickly, can we discuss -- I think  
4 you discussed it during our briefing -- sort of the idea  
5 of how we got to -- how we're going to implement this.

6 So first we're implementing it across all asset  
7 classes. But secondarily, we're implementing it in  
8 private equity, which is one of our -- this is a new thing  
9 for private equity. So how do we implement it; what's the  
10 structure for that?

11 And then is there any data gathering? As we  
12 go -- move forward, is that data -- does it -- is it going  
13 to take a year of reporting? For example, how do we  
14 gather that data? Is that because, you know, we --  
15 they've signed on to these ideals and then we are still  
16 getting X amount of problems coming in that have to do  
17 with labor and the labor principles. So then we need to  
18 tweak something. So how does that work? How are we going  
19 to move forward for data gathering and then making sure  
20 that we're coming back and checking on these principles?

21 MANAGING INVESTMENT DIRECTOR CASHION: Thank you,  
22 Ms. Taylor.

23 So, in terms of the implementation it will be  
24 across a total fund, all of INVO. In terms of our first  
25 steps, it has been with private equity, but that will roll

1 out across all asset classes.

2 With respect to implementation, what we will do  
3 is include this in a side letter at least for private  
4 markets - I guess could be public as well for active  
5 managers - whereby they will at the beginning acknowledge  
6 that they -- the labor principles, and then provide  
7 periodic attestations in line -- that they are aware and  
8 broadly aligned with the principles.

9 In terms of monitoring, so -- and data gathering,  
10 so that will really be captured through the work of Tamara  
11 and her stakeholder engagement. And, you know, we can I  
12 think assess over the first time period, whether it's a  
13 year or an appropriate time span, the implementation of  
14 it, what is -- what is working, if there's any areas for  
15 improvement.

16 VICE CHAIRPERSON TAYLOR: Okay, great. I  
17 appreciate that. Thank you. I just wanted to kind of  
18 figure out how we're going to do this, because always  
19 having the data matters, right.

20 And one last question for both of you is, as  
21 we're moving into the engagement process when these things  
22 come up, are we making sure that we're talking to the  
23 labor individuals, not just the management company; but  
24 are we also engaging the labor folks that are bringing  
25 these to our attention?

1           ASSOCIATE INVESTMENT MANAGER SELLS: Thank you  
2 for the question. Yes, absolutely. The stakeholder voice  
3 and their opinion on the matter is a extremely important  
4 part of the process. And so we want them to understand  
5 that they have an avenue of communication and a point of  
6 contact. And like I said, we might have multiple  
7 follow-up meetings with the stakeholder to ensure that we  
8 are on the same page. But absolutely we want to hear from  
9 the stakeholders.

10           VICE CHAIRPERSON TAYLOR: Okay. Thank you very  
11 much, you guys.

12           CHAIRPERSON MILLER: Yeah, thank you.

13           Next I have Director Middleton.

14           COMMITTEE MEMBER MIDDLETON: All right. Thank  
15 you, Mr. Chair. And thank you President Taylor for your  
16 questions. Peter, Tamara, this is a good step forward and  
17 I really appreciate the work that everyone has put into  
18 this. There are issues that are going to arise after we  
19 have made an investment and we determine that we have made  
20 an investment in a firm that is not following through  
21 these principles.

22           But the bigger question frequently is how do we  
23 avoid involvement in the first place. So could you walk  
24 us through some of the steps you'll be taking to be  
25 proactive and make sure that we do not get involved with

1 organizations that do not comply with these principles.

2 MANAGING INVESTMENT DIRECTOR CASHION:

3 Ms. Middleton, that's an excellent point. And in  
4 fact not even for labor principles but also for broader  
5 ESG standards and guidelines: The main thing we are  
6 trying to influence is avoiding these topics, avoiding  
7 these problems in the future. And that is like -- that is  
8 the fundamental objective is to bring greater awareness  
9 and sensitivity both through -- by the general GPs, the  
10 general partners, and the portfolio companies so that  
11 these, problems, issues - labor, health and safety, any  
12 environmental topics or issues - are avoided -- the  
13 problems are avoided.

14 Now, in some cases, there will still be incidents  
15 or issues; we invest in many thousands of companies. So  
16 it's important that we if anything does occur, first that  
17 we have a clear engagement process and, second, that we  
18 have the comfort of knowing that we have our standards  
19 that the manager attested to and for whatever reason they  
20 may not have been followed.

21 So, yes.

22 COMMITTEE MEMBER MIDDLETON: Then let me add just  
23 a couple of comments on a couple of the issues. For  
24 context, over the last four decades, one of our political  
25 parties and agents in numerous corporate organizations

1 have had a prolonged attack on the right of  
2 representation, and have done everything that they can  
3 within the law and in changing the law to reduce the  
4 number of individuals who are represented and to walk up  
5 to where they're toes are touching, if not barely getting  
6 over, the line of what would be an unfair labor practice.

7 I think the pendulum is beginning to turn. And  
8 this organization that was built by American labor does  
9 not want to be associated with organizations that do not  
10 in fact support the right of representation of their  
11 employees.

12 Secondly, we have a broken immigration system in  
13 this country. And today there are millions of youth that  
14 are here without documentation and frequently without  
15 family. And we find many industries that are taking  
16 advantage of this. We resolved issues of child labor over  
17 a hundred years ago, and I have absolutely no patience for  
18 any corporate entity that is employing a child, period.

19 Thank you.

20 CHAIRPERSON MILLER: Okay. Next I have Director  
21 Pacheco.

22 COMMITTEE MEMBER PACHECO: Thank you. Thank you,  
23 Chairman Miller. And I also want to thank my fellow board  
24 members, Ms. Taylor and Ms. Middleton, on their comments  
25 as well.

1 I'd like to go -- Mr. Cashion, I'd like to ask  
2 you a question regarding the process to refine the CalPERS  
3 language on labor into the labor principles, the three  
4 buckets there. One's separated with respect to the  
5 existing CalPERS language on labor, the AIC's guidelines  
6 for responsible investing and the ILO. And it's  
7 fascinating that it -- how you elaborated on your remarks  
8 that a lot of these principles were already in our  
9 investment policy but in different locations. So it's --  
10 it was there but it wasn't really pronounced, like how  
11 it's pronounced with respect to the investment beliefs,  
12 you know, how we have the investment beliefs at the top of  
13 our world.

14 And I also want to mention that it's also  
15 interesting that, you know, this document, this investment  
16 policy's been around for decades. You know, it's in many  
17 respects a living document or how we utilize this.

18 So my comment is, I want to go back to the -- and  
19 how we're going to implement it, or basically supplement  
20 this, on the AIC's guidelines for responsible investing.  
21 I'd like to -- maybe you guys can elaborate more on that  
22 on what is that association and who has signed on to make  
23 sure that the ones who -- because they're ones who --  
24 whoever there's here to -- you can elaborate more on that,  
25 because it kind of would give us some perspective of --

1 because we're going to be doing this for private equity  
2 first on how we can -- who are the players in that  
3 particular area. So if you can elaborate on that, please.

4 MANAGING INVESTMENT DIRECTOR CASHION: Thank you,  
5 Mr. Pacheco.

6 So the AIC has a broad membership, including many  
7 of the leading private equity firms. And as I said  
8 previously, they have 10 guidelines on responsible  
9 investing. We've reviewed those, and five were closely  
10 related, linked to labor, which is why we've incorporated  
11 those in. So I think it has been a good blend of both  
12 in -- you and related industry association group, AIC,  
13 plus our own existing standards which were already -- had  
14 already had very strong and good coverage of labor and  
15 bringing it into one location.

16 COMMITTEE MEMBER PACHECO: Excellent.

17 ASSOCIATE INVESTMENT MANAGER SELLS: As far as  
18 that list of organizations, I think we can look into that  
19 and get back to you on that.

20 COMMITTEE MEMBER PACHECO: Oh, fantastic.

21 ASSOCIATE INVESTMENT MANAGER SELLS: Not a  
22 problem.

23 COMMITTEE MEMBER PACHECO: No, I was just curious  
24 of how that would all -- laid out.

25 And then the other process is with respect to the



1 stakeholder engagement process. You mentioned in  
2 number -- I believe it was number -- let me just get my  
3 notes here -- I think it was number 3 and 4 that the  
4 engagement could be ongoing. Can you elaborate on what  
5 you mean by the ongoing engagement?

6 ASSOCIATE INVESTMENT MANAGER SELLS: Yes. So we  
7 will have -- we'll conduct an initial engagement with the  
8 stakeholder just for information gathering to try to  
9 understand what the -- or identify what that issue is.  
10 But we continue to go back to the stakeholders once we  
11 have updates. That could take weeks sometimes, just  
12 depending on when we can get in touch or get on calendars  
13 for -- with the managers or with other companies. But we  
14 will continuously have a feedback loop with the  
15 stakeholder as we have updates. And then as I've  
16 mentioned, we also want the stakeholder to continue to  
17 feel free to bring us updates as well that are relevant to  
18 that situation, which will help us factor that in to our  
19 approach and our strategy as to how to mitigate that risk.

20 So there will be multiple follow-up engagements  
21 with the stakeholder throughout the entire process and  
22 potentially monthly meetings with the managers as well or  
23 the portfolio company.

24 COMMITTEE MEMBER PACHECO: Just to follow-up on  
25 that.

1           ASSOCIATE INVESTMENT MANAGER SELLS: Sure.

2           COMMITTEE MEMBER PACHECO: After it -- we  
3 continuously have this engagement, the goal -- the end  
4 goal, it's my understanding, would be to have a resolution  
5 of some sort, right?

6           ASSOCIATE INVESTMENT MANAGER SELLS: Right.

7           COMMITTEE MEMBER PACHECO: Where we would move to  
8 the Step 5 where the monitoring aspect of this. Am I  
9 correct here or -- I'm just trying to understand.

10          ASSOCIATE INVESTMENT MANAGER SELLS: Right. So  
11 when we move to Step 5 for monitoring, a lot of times we  
12 haven't met a resolution yet. So that's why we're  
13 monitoring, and we're trying to --

14          COMMITTEE MEMBER PACHECO: Okay.

15          ASSOCIATE INVESTMENT MANAGER SELLS: -- yeah, to  
16 get to that point for Step 5.

17                 So that's what I'm saying, each issue how they  
18 actually sunset is different depending on the case by  
19 case. But that monitoring step can last weeks or months  
20 depending on -- we're usually waiting on the company to  
21 engage with the stakeholder or the managers engage with  
22 the stakeholder. We're trying to see how they've made any  
23 changes at the company, if they've implemented internal  
24 controls and so forth. So sometimes that takes a little  
25 bit of time.

1           COMMITTEE MEMBER PACHECO: But as you mentioned  
2 in your remarks, it's a -- each case is different for each  
3 case. So depending upon the case, it will take us -- it  
4 depends on how long it would take us to get to some sort  
5 of understanding.

6           ASSOCIATE INVESTMENT MANAGER SELLS: That is  
7 correct.

8           COMMITTEE MEMBER PACHECO: Very good then. Thank  
9 you so much.

10          ASSOCIATE INVESTMENT MANAGER SELLS: No problem.  
11 Thank you for the question.

12          CHAIRPERSON MILLER: Next I have Director  
13 Rubalcava.

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

16                 First I want to thank you both for the excellent  
17 presentation. I'm very pleased to see that these labor  
18 principles which have always been part of the CalPERS body  
19 or canon, I guess. It's been sort of put in a concise  
20 section so it's clear within the Governance and  
21 Sustainability Principles; and more importantly that it's  
22 reinforced that's clearly nested within our fiduciary  
23 duty.

24                 And I appreciate the statements you made, Peter,  
25 about the managers will be made aware that we'll take

1 steps to implement and make sure there's ongoing diligence  
2 and work.

3           So my question is: One of the methods of  
4 implementation that you point out it was through  
5 private -- these private letters, with private equity.  
6 And so that's good. And you both had some discussion here  
7 in this body regarding the use of private letters.

8           Has that been -- is that a new concept or have we  
9 used that already regarding labor principles?

10           MANAGING INVESTMENT DIRECTOR CASHION: So the  
11 side letter concept is not new. We currently have a side  
12 letter and it references our ESG policies and procedures.  
13 But it doesn't specifically call out labor principles.

14           So this will be one of the proposed changes, to  
15 call out labor principles and also request that the  
16 general partner inform us if there's any material ESG  
17 incidents or if there's a material change to their  
18 policies.

19           COMMITTEE MEMBER RUBALCAVA: Thank you.

20           And, Tamara, it's good to see you here. And I  
21 really appreciate the presentation, the stakeholder  
22 engagement process and how we are engaging throughout the  
23 whole range.

24           So my question is: I know that you -- based on  
25 the responses to my colleagues, that there will always be

1 report back. At what point do you foresee coming --  
2 you're going to be monitoring. So at what point to decide  
3 we need changes? Say this is adopted. At what point do  
4 you decide we need to perhaps bring back more  
5 recommendations? Or is that in the timeline, is that an  
6 annual revisit, or is it -- what is the thinking there?  
7 Because we want to strengthen to make sure it works for  
8 the changing economy, for example. I mean private --  
9 especially private equity is growing and has a lot of  
10 industries under it. So -- umbrella.

11 ASSOCIATE INVESTMENT MANAGER SELLS: Thank you  
12 for the question.

13 I would -- and I hope I don't speak out of turn  
14 here, but I would assume since this is the first  
15 go-around, maybe after a year we do an assessment just to  
16 see how things are and kind of level set.

17 Going forward, I don't know what's the  
18 appropriate pace. But I would say, you know, give this  
19 about a year, give us some time to really understand how  
20 it's working, implementation of it. And then we'll go  
21 from there in terms of frequency.

22 DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: And,  
23 Mr. Rubalcava, that aligns with our -- with the way that  
24 we approach the policies, an annual review of the Total  
25 Fund Policy with a first reader, a second. So we would

1 line this up with that if that works for the Board.

2 COMMITTEE MEMBER RUBALCAVA: Thank you, Dan. And  
3 than you both -- thank you, all three.

4 And my final comment - it's a comment, not a  
5 question - is I think -- I should -- I didn't speak  
6 earlier, Nicole, but I think I told you privately. I  
7 really appreciate the emergence you brought about private  
8 equity as being consistent and making up for the lost  
9 decade, and your commitment to emerging matters. I think  
10 part of your legacy could we just labor principles. I  
11 know we had a debate back and forth. But it's here before  
12 us and it's under your leadership, so I appreciate that.  
13 Thank you.

14 Thank you all.

15 CHAIRPERSON MILLER: Okay. Thank you.

16 Director Willette.

17 COMMITTEE MEMBER WILLETTE: Thank you so much.  
18 Good morning. I really appreciate you bringing these  
19 labor principles to us. I'm really excited. I'm really  
20 happy with the slides. And I just want to reiterate my  
21 colleagues' comments here, kind of make some underlines.

22 I do believe that this is central to our  
23 fiduciary duty. And I think that that will go far for us.

24 As to President Taylor's comments, our ability to  
25 collect data -- to collect third-party data especially

1 from primary affected workers is critical for us to make  
2 decisions on to better our members' benefits.

3 We do look forward to moving forward and working  
4 with all of our investment partners and other investors to  
5 see these standards, you know, work, take hold, be  
6 implemented. And I also encourage you to work with other  
7 investors. And I would love to see thoughts on how we can  
8 build out with other investors on these principles so that  
9 it's not just -- I love that CalPERS is leading on this.  
10 I'd love to see us at the industry standard and move  
11 forward so it's not just CalPERS.

12 And, finally, you know, any great plan is just on  
13 paper until we put into practice. If there's any  
14 resources you need to do this great work, please come back  
15 to this Board. I look forward to having a year update,  
16 right, with part of the Total Fund Policy updates. But if  
17 there's any point, you know, please come to the Board and  
18 we would love to know what's going on at every step. I  
19 think managing the structural risks and opportunities like  
20 this are really good investment in ensuring this fund's  
21 future. So I look forward to seeing this grow.

22 Thank you.

23 CHAIRPERSON MILLER: Okay. Thank you.

24 Next I have Director Walker.

25 COMMITTEE MEMBER WALKER: Thank you. Thank you.

1 Hi.

2           So quick question that came to me - and it  
3 might -- this might be in the wrong place. But just  
4 something that came to me while I was listening to my  
5 colleagues. So as I -- before I start let me just say I  
6 really do appreciate the principles and the work that went  
7 into the document, right. I think they're right. I think  
8 they were what we were asking for. So I -- that's all I  
9 have to say.

10           So when I think of these things, I think of them  
11 more as a filter, right. So as we're going to invest in  
12 the company, like it's a filter that we go through: Are  
13 they hitting these points? Are they hitting that points?  
14 And so are there ever -- is there ever any time where we  
15 come up on a company that we think is going to be great  
16 but they're not hitting our principles, that we make the  
17 decision like, "Look, we're not -- you are not our kind of  
18 company. We're not going to invest our money in you"? To  
19 know that that's out there?

20           Or once we've invested in them and we have  
21 figured out -- like, we've gone through this long process  
22 and we're checking and checking and checking, but really  
23 the same thing keeps happening over and over again. So  
24 this is not a blip; it is a way of doing business. At  
25 what point do we come to the decision to say, "Look, again



1 you're not our kind of people; you are not deserving of  
2 having working people's money invested in you"? Because  
3 that to me makes it have -- makes it be a little more  
4 real. People know that this is more than just pretty  
5 words on a paper, but this is actual fundamental beliefs  
6 that CalPERS has and unless they can meet those  
7 challenge -- not challenges, but unless they can meet our  
8 beliefs, they are going to sacrifice doing business with  
9 CalPERS.

10           And so how -- how does that work? How strong are  
11 we with it? Maybe this is not the right time to answer  
12 it, but that's what came to me as I'm, you know, listening  
13 to my colleagues ask the questions and everything else.

14           MANAGING INVESTMENT DIRECTOR CASHION: Thank you,  
15 Ms. Walker.

16           When CalPERS is evaluating an investment, whether  
17 it's in a fund or an individual company through  
18 co-investment, my view is that the principles are the  
19 principles and those have to be followed and respected  
20 both at the beginning and in an ongoing basis. So if you  
21 take some of our principles, I'd be hard pressed to think  
22 we would do an investment, for example, if the child labor  
23 principle wasn't being respected. So I think those are  
24 kind of fundamental beliefs and we expect all to follow  
25 those; and, frankly, in many cases it's just simply the

1 law.

2           But if we take your example and more broadly on  
3 ESG, for example, Environmental Social Governance, and  
4 let's say that we're investing in a company and we want  
5 that company to report on its emission with greater detail  
6 and granularity; so we need to give the company time to  
7 develop that capability and competence, so we're willing  
8 to give some - whether it's 12 months, 18 months - for  
9 them to develop and build that capacity and that muscle.  
10 So that's an example where we can give them -- you know,  
11 work with them or at least advise them on who they could  
12 work with to develop and build.

13           If something does go wrong, if there is an issue,  
14 an incident, then of course we will follow our stakeholder  
15 engagement process. And really, it's really difficult to  
16 say, you know, what action we would take because it's so  
17 case by case. However, we would clearly require, whether  
18 it's the GP or the company, to take the appropriate action  
19 if there has been a violation or a breach of either a law  
20 or a standard or our principles themselves. And I -- I  
21 can only assume that a company or a GP would take that  
22 action.

23           And as we said earlier, really these are there to  
24 avoid those situations. So to the maximum extent possible  
25 we want to avoid.

1           DIRECTOR WALKER: Thank you.

2           DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: And,  
3 Ms. Walker, I'm sorry. The only thing I would add to that  
4 is that -- the answer to your question is yes. We have  
5 avoided companies and we have avoided partners that have  
6 been inconsistent with our principles. And that will be  
7 the case, because our principles are there for a reason.

8           COMMITTEE MEMBER WALKER: Thank you.

9           CHAIRPERSON MILLER: Okay. Doesn't look like I  
10 have any more questions from the Board on this item.

11           I'll just make a brief comment. I think -- to me  
12 this is particularly exciting because of the burgeoning  
13 private equity space and our leadership role as we move  
14 more into that space. And I think often with private  
15 equity, we dwell on kind of the -- all these classic  
16 examples of kind of exploitive extractive kind of  
17 approaches to adding value whether it's, you know, buying  
18 a hotel chain and breaking it up and selling the hotels  
19 and making parking lots out of them or whether it's  
20 exploitive labor practices. But the flip side also is, in  
21 that space there are partners that we can work with who  
22 add value by bringing operational improvements,  
23 efficiencies, better inventory, better technology; but  
24 also better labor practices, who understand how to work  
25 with their workforce to improve efficiency, effectiveness,

1 who understand how to work with the unions to be partners  
2 to bring that kind of change forward.

3           And I think that also, you know, highlighting  
4 this and moving that direction as we continue to do more  
5 and find these great partners, whatever their strength is,  
6 however they do that value-add so that we can outperform  
7 expectations, this gives us again more strength to lead  
8 on, and I think -- I think you and the team and Nicole's  
9 leadership for, you know, giving us this extra set of  
10 tools to continue to lead on both the thought level and  
11 the performance level.

12           So thank you.

13           With that, we have a number of public commenters  
14 that I want to get to. And we had a commenter on the line  
15 for 4C that I missed earlier, and I think they've hung up.  
16 But if they do come back on the line, if your out there  
17 listening, I will circle back to you if you get back on.

18           So we have a commenter for number 2. And we'll  
19 start there. And then we've got quite a few commenters  
20 for 5A, and so I'll make another remark or two before we  
21 start them.

22           But first number 2, Valentina Dabos from the  
23 public, if you would come forward.

24           And just turn on the light. A microphone there.  
25 And your time will start when you begin to speak. So

1 identify yourself and speak.

2 VALENTINA DABOS: Good morning, Chair and  
3 trustees. My name is Valentina Dabos with the Private  
4 Equity Stakeholder project. I have a watchdog on the  
5 private equity industry. We frequently report to  
6 investors on our findings of unsafe working conditions,  
7 wage theft abuse, and anti-union behavior by  
8 private-equity-owned portfolio companies.

9 The private equity industry's own efforts  
10 purporting to manage human capital have been grossly  
11 inadequate, and those failures have exposed investors to  
12 financial and reputational risks.

13 We commend this board's leadership in calling for  
14 strong labor standards in private equity. Our crucial  
15 step to protect CalPERS' interests in long-term value  
16 creation and risk mitigation as part of a fiduciary duty  
17 to the system participants.

18 One clear example of the need for labor standards  
19 is the appalling child labor scandal at Blackstone-owned  
20 slaughterhouse cleaning company, Packers Sanitation or  
21 PSSI.

22 As you know, The U.S. Department of Labor found  
23 systemic failure across Packers Sanitation's entire  
24 organization, which employed at least 102 children across  
25 eight states in conditions of oppressive child labor.

1           A DOL investigator told 60 Minutes there's no way  
2 this was just a mistake, a clerical error or a handful of  
3 rogue individuals getting through. This was the standard  
4 operating procedure. After continued bad press, pressure  
5 from labor rights groups, an increase from Blackstone  
6 investors including pension funds in California, New York,  
7 South Dakota and others, PSSI reached an agreement with  
8 UFCW to enable workers to organize and improve working  
9 conditions and wages.

10           Well before the child labor scandal broke, PSP  
11 wrote a report, Profit Over Safety, asking why Blackstone  
12 took millions out of PSSI in dividends while it remained  
13 an extremely dangerous workplace with several employee  
14 deaths during Blackstone's ownership.

15           The company also spent significant resources on  
16 union avoidance firms to discourage unionization after  
17 acquisition by Blackstone. It remains important to ask  
18 why it took one of the largest child labor scandals in  
19 modern history for Blackstone to acknowledge employees'  
20 labor rights as a key factor in guaranteeing good working  
21 conditions across one of its large portfolio companies.  
22 Blackstone has half a million employees across its  
23 portfolio, making it one of the world's largest employers.

24           CalPERS also investments with private equity  
25 firms CD&R, Apollo, Brookfield, and Cerberus, all of whom

1 have had or continue to have recent public labor disputes.  
2 We believe these serious high profile labor disputes show  
3 the need for private equity firms to make real commitments  
4 to labor rights before receiving additional Investments.  
5 PSP has developed the private equity labor rights platform  
6 to that end and we welcome dialogue around these  
7 standards.

8           We welcome the proposed CalPERS' labors  
9 principles as a first step and encourage CalPERS staff and  
10 trustees to continue to work towards enforceable  
11 principles with real processes to ensure that managers do  
12 not violate worker rights. Implementation must require  
13 private equity firms to adopt such principles before  
14 committing capital and a rigorous process to ensure  
15 manager compliance.

16           Thank you.

17           CHAIRPERSON MILLER: Thank you. Appreciate your  
18 comments.

19           Okay. I just want to mention for the record that  
20 Dr. Gail Willis has joined the call remotely via phone.  
21 So Dr. Willis is on the line.

22           So next we'll take our public commenters for Item  
23 5A. And because we have so many, I'm just going to ask  
24 everyone to do your best to keep your comments brief and  
25 concise. And to the extent that a commenter has already

1 made comments that you are going to make, it's perfectly  
2 fine to just say, "What they said."

3           Yeah, and try not to repeat things if possible so  
4 that we can get everyone through their time.

5           You'll each have three minutes. The time will  
6 start when you begin to speak. So identify yourself,  
7 begin to speak. You'll see the clock, it'll be running,  
8 and you'll have your time.

9           I believe we have a few people who are joined by  
10 translators. And I believe our process is to allow  
11 additional time for the folks with translators, if I'm  
12 correct. So we'll get started.

13           So the first person I have is it looks like  
14 Patricia Gutierrez; and joined with a translator. So if  
15 you'll come down.

16           And they will be followed by Jennifer Diaz de  
17 Monstrosa and a translator. So if you could come down as  
18 well. And take the two seats to my left there, the first  
19 two seats.

20           Okay. And I believe our first two speakers are  
21 with UFCW.

22           Okay.

23           PATRICIA GUTIERREZ: Good morning. My name is  
24 Patricia Gutierrez. I have worked at Cardenas Markets for  
25 the past eight years. I have made a trip here because I



1 want you to know as investors in Apollo that Cardenas is  
2 treating us badly. And that is not good for us and for  
3 your investment.

4 I think you are passing labor principles today.  
5 I can tell you we really need them at Cardenas, so we can  
6 work to the best of our ability for us and for you.  
7 In April of last year, the person in charge of the bakery  
8 at my store in Coachella, California, left. The store  
9 director talked to me about being supervisor of the  
10 bakery, but then ignored me after I said I was interested.  
11 Since then, they hired two men to fulfill the position.  
12 One left and the other is gone a lot, leaving me to cover  
13 and fulfill the work of two people.

14 When I was asked to train a new worker, I said,  
15 "Yes, but it will take time away from baking." The store  
16 director told me if I want the job, you better not say  
17 anything, as he threatened me.

18 Recently, we were without air conditioning in the  
19 bakery for more than two months. And they only gave us  
20 small fans. The fans don't help us at all. We leave  
21 battle and sweat because of the ovens because of how hot  
22 it is in there. And that is not a safe way to work.

23 When I got sick in December, the doctor gave me a  
24 note saying I needed three days off from work because my  
25 lungs were inflamed. So I asked for sick leave. Instead

1 they took it out of my vacation. I explained my situation  
2 to the secretary and she replied curtly, "Well, that's not  
3 my problem either."

4 I believe that we need a union so we can make our  
5 jobs safe and work at our best for your investment. And I  
6 don't feel I can speak up at work without my managers  
7 threaten me. We support your labor principles and we want  
8 Apollo to enforce them at Cardenas. That's what Apollo  
9 should do for you.

10 Thank you.

11 CHAIRPERSON MILLER: Thank you.

12 Okay. Next.

13 JENNIFER DIAZ de MONSTEROSA: Good morning. My  
14 name is Jennifer Diaz de Monsterosa, and I have worked at  
15 Cardenas store in San Jacinto, California, for five years.  
16 I came here today with my family and other Cardenas  
17 workers because Apollo invests your money in Cardenas, and  
18 Cardenas is mistreating us.

19 I am glad you are meeting today about making your  
20 investments have good labor principles because I think  
21 Cardenas is an example of why you need to. I feel that we  
22 could make Cardenas a better business for you and a better  
23 place to work if Cardenas would treat us with respect and  
24 we could speak up without being harassed.

25 In December, I hurt my left shoulder at work

1 during working hours. Then the manager began manipulating  
2 my schedule, reducing my hours to the minimum. I lost  
3 many days of work.

4 They will do things to get me to leave. And so  
5 unfortunately I had to resort to a third person to assess  
6 my rights.

7 In Decem -- in 2022, my husband and I had a  
8 daughter. And we work in the same store. When I return  
9 from my paid family leave, managers work with our  
10 schedules since we did not have a babysitter. But after  
11 my injury, they would put us on the same shifts or mid  
12 shifts, and we don't earn enough to hire babysitter with  
13 the few hours they give us.

14 Then after I went to a rally to help my  
15 co-workers organize a union, they stopped posting my  
16 schedules. So I had to ask from day to day when I was  
17 supposed to work. That's when my supervisor tried to  
18 humiliate me specifically on Father's Day by timing my  
19 checkouts and saying a new person was checking out more  
20 items per minutes than I was.

21 Now I only get 30 to 32 hours a week - not even  
22 40 hours - and I'm supposed to be a full-time. I feel  
23 that these are retaliations against me. I don't believe  
24 it helps your investment to harass a good worker just  
25 because I got injured at work or because I want a union.

1 I want a union because we can't do our best work for your  
2 investment the way we are treated. You are investing in  
3 us. I hope you will make Apollo live up to your  
4 principles at Cardenas. It will be better for your  
5 investment in all of us. Thank you for passing them.

6 CHAIRPERSON MILLER: Thank you.

7 Okay. Our next person here is Gretchen Newsom,  
8 if you would make your way down.

9 And meanwhile I want to circle back. Our caller  
10 on 4C is on the phone. So I'd like to hear from them now  
11 if we can get them on the line.

12 STAFF SERVICES MANAGER I FORRER: Yes, one moment  
13 please.

14 CHAIRPERSON MILLER: Yes, go ahead.

15 STAFF SERVICES MANAGER I FORRER: Yes, Mr.  
16 Chairman. J.J. Jelincic is on the line talking to Item  
17 4C.

18 CHAIRPERSON MILLER: Okay. Mr. Jelincic, you  
19 have the floor.

20 J.J. JELINCIC: This despite just because it  
21 would disrupt it less.

22 But anyhow, J.J. Jelincic, beneficiary. No  
23 matter how you got on the dais, elected, appointed or a  
24 designee, you work for me and the other beneficiaries.  
25 You owe us a duty of loyalty and care.

1           You used to provide monthly information on what  
2 you were doing with our money and the risks you were  
3 taking in the PERF. Then you decided to only provide  
4 quarterly information. The last time you provided even  
5 that information was in March, and that information was  
6 for the fourth quarter of last calendar year. I don't  
7 know if you decided to suppress the information because  
8 you were ashamed, or embarrassed, or just decided, "I  
9 don't gotta, so I ain't gonna."

10           Tomorrow, when you're in closed session to  
11 discuss an approved management bonuses and pay increases,  
12 I hope the shame, embarrassment, and arrogance is part of  
13 your discussion.

14           In June, you were about to approve a change in  
15 the insider trading policy. You stopped only because it  
16 came to your attention that it was going to hurt you unit  
17 and labor bonafides by ignoring your own employees'  
18 bargaining rights. You directed management to meet with  
19 the labor organizations and bring the issue back at this  
20 meeting. It's not here. I assume this insubordination  
21 will be also part of your backroom discussions.

22           Thank you.

23           CHAIRPERSON MILLER: Thank you.

24           Okay. We'll move forward on the next comment on  
25 5A.

1           GRETCHEN NEWSOM: Thank you.

2           CHAIRPERSON MILLER: Ms. Newsom.

3           GRETCHEN NEWSOM: Tough act to follow.

4           Honorable Board Members. My name is Gretchen  
5 Newsom. I'm representing the 9th District of the  
6 International Brotherhood of Electrical Workers, speaking  
7 on behalf of our 155,000 union members of IBEW.

8           Today I address you on a matter of significant  
9 importance, the imperative for CalPERS to adopt a third  
10 bottom line in your investment standards, one that  
11 champions workers and unions.

12           In the past I had the privilege of working  
13 alongside former California State Treasurer Phil  
14 Angelides, when he introduced the double bottomline policy  
15 here at CalPERS. That groundbreaking policy combined  
16 financial returns with environmental social  
17 considerations, recognizing that prosperity should not  
18 come at the expense of ethics and societal well-being.

19           CalPERS, entrusted with states guarding the  
20 retirements of union members, carries a unique  
21 responsibility. We implore you to integrate robust labor  
22 standards into your investment policy, standards that  
23 bolster unionization, worker dignity, and an improved  
24 quality of life. This includes neutrality agreements,  
25 card check agreements, project labor agreements, worker

1 retention policies, equitable wage progression, and a  
2 commitment to refrain from supporting companies that  
3 undermine unions.

4           Let me illustrate the urgency of this need with  
5 an example. Westinghouse under the ownership of  
6 Brookfield, our CalPERS investment, is currently waging an  
7 anti-union campaign at Hopkins, South Carolina, at the  
8 Columbia Fuel Fabrication facility. Workers here handle  
9 hazardous materials and are striving to secure a safer  
10 working environment with representation from IBEW. Yet  
11 they face intimidation and coercive tactics, stifling  
12 their freedom to choose to unionize. This troubling  
13 situation has led to pending unfair labor practice charges  
14 against Westinghouse involving nine violations, including  
15 threats to workers for discussing union matters.

16           To underscore the gravity of the situation  
17 consider that in 2016 air pollution systems at the  
18 facility contained alarming levels of uranium. In 2019  
19 three workers were hospitalized following maintenance  
20 involving hydrofluoric acid. Ground water under the plant  
21 in 2018 exceeded safe drinking water -- or standards. And  
22 in 2022, an alarm system for critical events failed.  
23 Those workers were failed.

24           These safety concerns underscore the urgency of  
25 safeguarding worker rights to organize. A unionized

1 workforce -- excuse me. A unionized workplace not only  
2 protects workers but also fortifies the safety of the  
3 surrounding community. Anti-union campaigns such as the  
4 one at Westinghouse revealed disturbing lack of corporate  
5 integrity. By integrating robust labor standards into  
6 your investment policies CalPERS can champion a level  
7 playing field nationwide lifting up all workers.

8           And in conclusion we call upon CalPERS to take  
9 the high road and embrace enforceable labor standards  
10 throughout your investment portfolio. This decisive  
11 action will not only enhance the working conditions but  
12 again elevate those workers and fortify their rights in  
13 seeking to organize and unionize. It is time to ensure  
14 that the voices of workers are amplified and their rights  
15 are protected.

16           Thank you for your unwavering support for this.

17           CHAIRPERSON MILLER: Thank you.

18           Next I have three commenters from Unite Here  
19 Local II - Habibulhaq Qazizada, Jose Preciado, and Susan  
20 Minato, if you'll work your way.

21           Oh, Local 11. Okay. If you come on down.

22           SUSAN MINATO: I'm going to go first.

23           CHAIRPERSON MILLER: Okay. Identify yourself,  
24 and your time will start and the clock will begin.

25           SUSAN MINATO: Thank you.



1           Good morning, everyone. My name is Susan Minato.  
2 I am co-president of Unite Here Local 11. We're more than  
3 30,000 hotel and service workers in Southern California  
4 and Arizona.

5           On July 4th, approximately 15,000 hotel workers  
6 at over 50 hotels went on strike. They're still on  
7 strike. And they are asking really truly for the bare  
8 minimum to survive - living wage, fair benefits - in a  
9 time when housing costs are so exorbitant they're dollars  
10 have been de-valued.

11           Many of these brave workers are here behind us  
12 today. Some of them are on the dais with me. And we're  
13 here because 40 percent of those hotels that have gone on  
14 strike are owned or operated by private equity firms with  
15 money CalPERS is invested in. A current CalPERS  
16 commitment in both of these companies, total of 2.88  
17 billion in seven Advent funds, and CalPERS, 4.4 billion in  
18 Blackstone. Sorry.

19           Three are owned by Blackstone. Thirteen are on  
20 strike and operated by Advent who owns Aimbridge.

21           So, these strikes present clear ESG risks to  
22 CalPERS. We have over 40 full conventions with full  
23 documentation from the customer that have moved events  
24 from the striking hotels or canceled them altogether,  
25 amounting in millions of dollars in lost revenue and

1 reputation. And we believe the number to be much greater.  
2 This is just where the customer has documented. And I  
3 wanted to be very careful when I told you that. And we  
4 are currently trying to pull conventions out all the way  
5 to 2028.

6 We -- our members thank CalPERS staff and  
7 trustees for canceling the pathways to Women's Conference  
8 that was being held in the Anaheim Hilton, where workers  
9 went on strike. So thank you for that.

10 Further, another metric. The strikes have been  
11 covered in 1,725 separate TV, radio, and online news  
12 clips, creating headline and reputational risks for  
13 Advent, Blackstone, and CalPERS. The total reach in that  
14 for those of you who know social media is about 6 billion.  
15 And that's many who -- that's people or groups that have  
16 come across the content on social media.

17 So we're especially here today though to applaud  
18 CalPERS for introducing labor principles to be  
19 incorporated into its Total Fund Policy. Our union and  
20 your fund's interests are aligned. Strikes are difficult  
21 for our members but also damaging to CalPERS returns.

22 So our experience, we have vast experience in  
23 policy as a union and often in conjunction with SEIU. And  
24 one of the best ways we feel that has achieved a positive  
25 labor piece is something we refer to as a labor piece

1 policy. At LAX, biggest -- one of the biggest airports in  
2 the world, there is a simple but effective labor piece  
3 policy passed by the LA City Council. And this labor  
4 piece has been effective in protecting the public body's  
5 proprietary interests. There have been no strikes at LAX,  
6 no boycotts at LAX associated with labor disputes in the  
7 16 years that this policy has been in place.

8 CHAIRPERSON MILLER: Your time has run, so I'll  
9 ask you to wrap it up.

10 SUSAN MINATO: Oh, thank you. I'm sorry about  
11 that.

12 And so I just wanted to mention the labor piece  
13 policy because it's such a success. LAX is a big airport.  
14 And we do look forward to collaborating with you, the  
15 trustees, and staff to revise the policy.

16 So thank you so much.

17 CHAIRPERSON MILLER: Thank you for your comments.  
18 And who's going to speak next?

19 Yeah, if you could get a little closer to the  
20 microphone.

21 HABIBULHAQ QAZIZADA: Hello. My name is  
22 Habibulhaq Qazizada. I'm a housekeeper at the Sheraton  
23 Hotel in downtown Phoenix, and I'm a proud member of the  
24 Unite Here Local 11.

25 I came to the United States as a refugee. In my

1 home country of Afghanistan. I worked with the U.S.  
2 military as a sergeant. After the U.S. military left  
3 Afghanistan and the U.S. withdraw from the country, I had  
4 to flee my country home and leave my wife and kids behind.  
5 And now I worry about their safety every single day.

6           After I arrived in the U.S., I was able to get a  
7 job at the Sheraton with the help of Refugee Resettlement  
8 Agency. I work hard at my job and I suffer through  
9 horrible back pain just so I can earn enough to send money  
10 to my wife and kids back home. I live in an apartment in  
11 Phoenix with two roommates, but I pay over \$1,700 a month  
12 on the rent. There are week that I don't earn enough  
13 money and I am forced to make a very difficult decision to  
14 pay my rent and send money to my family in Afghanistan.  
15 Because of my career I would be able to retire with a  
16 pension after coming to the U.S. I had to leave  
17 everything behind - my house, my family, my career -  
18 because of -- because my life was in danger.

19           The workload is very heavy and I feel worker  
20 every day, I don't know how long I will be able to keep  
21 working. But I have pushed through for my family and  
22 myself. Blackstone is the largest investment company in  
23 the world, with one trillion dollars. They can afford to  
24 pay us fairly, give us affordable health care and provide  
25 a pension.

1           Thank you for your listening and for your  
2 support.

3           CHAIRPERSON MILLER: Thank you.

4           JOSE PRECIADO: Good morning. My name is Jose  
5 Preciado and I have been a cook in Laguna Cliffs Marriott  
6 operated by Aimbridge for 36 years.

7           At the age of 16, I went on strike in a factory  
8 in Mexico to fight for better pay. When I came to the  
9 United States things were better at first. But now I can  
10 no longer provide for my family on my wages at the hotel.  
11 I have to pay 3,500 per month for rent. The cost of car  
12 payments, gas, and groceries keep going up.

13           I am 60 years old. I want to retire. But we  
14 have no pension at the hotel. So I have to keep working.  
15 All I want is to be able to take a vacation, and enjoy  
16 life with my three grandchildren.

17           So after 44 years, I went to strike in Mexico. I  
18 made the hard choice to go on strike again with my  
19 coworkers at Laguna Cliffs. We organized the hotel into  
20 union in 2020. Aimbridge Security tried to have us  
21 arrested where we were protesting at a nearby park.

22           Now, we have been on strike. We have filed a  
23 charge alleging that the head of the security told against  
24 who was threatening to attack us that we could do whatever  
25 we wanted and he would defend him to the sheriff. The

1 next day, my co-worker, Nelson, who is a housekeeper, was  
2 punched in the head by another guest who yelled at her  
3 calling her a sexist name and walked back into the hotel.

4 We have had to deal with this from so many -- so  
5 much from Aimbridge at this hotel. And there have been so  
6 many news articles about the nasty things they have done  
7 to us. As I said, we have filed federal labor charges  
8 against them.

9 CalPERS, this is why it's important that you  
10 support workers like us.

11 Trustees and staff, thank you.

12 CHAIRPERSON MILLER: Thank you.

13 Okay. Next, Sal Calleros.

14 Sal Calleros, come on down.

15 And then followed by Jeane Wong from WGA, if you  
16 would come down as well, we'll take you in order.

17 Okay. And your time will start when you  
18 introduce yourself and begin to speak.

19 SAL CALLEROS: Can you hear me? Okay.

20 Good morning. My name is Sal Calleros. I've  
21 been a writer member of the Writers Guild since 2007.  
22 We've been on strike since May.

23 I've written for shows such as The Good Doctor,  
24 Snowfall, and Silo on Apple TV, and have a personal  
25 connection with CalPERS. My sister is an executive

1 assistant in the city of San Fernando, and she's very much  
2 depending on CalPERS for her retirement.

3           So I'd like to commend you all for your  
4 leadership and centering labor principles and your  
5 governance and investment guidelines.

6           Quick story about investing. After the last  
7 strike, I didn't work for about three years. I worked as  
8 a forklift driver. But I kept writing. I invested in  
9 myself, with no guarantee that I'd make a good return.  
10 Eventually one of my scripts got me a job, and it got me  
11 back to work. I succeeded because I did the work.

12           Now I ask you, are the CEOs who are in Hollywood  
13 doing the work necessary to get a good return on your  
14 investments? Are they doing all they can to end the  
15 strike? Because it doesn't seem like it. These CEOs have  
16 cost California 5 billion to date according to the Milken  
17 Institute.

18           Now, what's happening is that they're putting at  
19 risk every pension for every participant in CalPERS who  
20 depend on it for their future, like my sister.

21           The production shutdown has also had impact on  
22 other businesses, like hotels and restaurants staffed by  
23 Unite Here workers who are also on strike for fair  
24 contracts.

25           Now, for us, the writers, the companies know that

1 what we're asking for is reasonable, affordable and  
2 absolutely essential for us to continue working in this  
3 industry.

4 Now, they are supposed to go back to the  
5 negotiating table this week. And I want to be optimistic.  
6 But so far it seems that the studios lack any sense of  
7 urgency. Since July, CalPERS board members have been  
8 engaging with major media companies to discuss the strike  
9 impacts on your investments. And I want to believe that  
10 the reason that they're going back is because of those  
11 efforts. It's clear that CalPERS has recognized the  
12 strong alignment between fiduciary interests of the Fund  
13 and of workers in its portfolio companies. And for that,  
14 I would like to thank you.

15 CHAIRPERSON MILLER: Thank you.

16 JEANE WONG: Hi. My name is Jeane. I am a film  
17 and TV writer. I've been a Writers Guild member for five  
18 years. I worked on Arrow, Senocat(phonetic) and for  
19 Hallmark. I want to thank Director Fiona Ma's office for  
20 your leadership and recent letter calling on the companies  
21 to negotiate a fair deal for actors and writers.

22 I also want to thank CalPERS recognizing that  
23 investment approaches undervaluing labor is shortsighted.  
24 It is inconsistent with CalPERS' mission. Qualitative and  
25 quantitative studies have shown that treating workers



1 respectfully and fairly leads to more successful  
2 sustainable business. Unfortunately, we are facing  
3 employers who don't understand this.

4           July this summer, week 11 of our strike, we had  
5 two WJ members speak to you about the risk our employers  
6 were waging on your investment portfolio. Today, week 21,  
7 I want to give an update. Workers throughout Hollywood,  
8 not just actors and writers, are in solidarity the WJ  
9 proposals are reasonable, affordable, and will fix a  
10 broken system.

11           However, our employers, the media companies that  
12 CalPERS is invested in, have yet to offer writers a fair  
13 deal. Despite the fact that executives continue to say  
14 publicly that they want a deal, they have only made one  
15 single counteroffer, an inadequate counter, more than a  
16 month ago that does not address our core issues. Let that  
17 sink in. 140 days, one offer. Is that negotiating in  
18 good faith. Meanwhile, us writers are ready and willing  
19 to make a fair deal.

20           As a result, these companies are causing  
21 unnecessary pain and damage. In August, the strikes  
22 caused a loss of an estimated 17,000 jobs nationwide.  
23 Like Sal mentioned, 5 billion to the California economy so  
24 far.

25           Recently, Warner Brothers' discovery announced

1 that the strikes will cost them an estimated 300 to 500  
2 million in profit this year. But settling the strike  
3 would only cost 45 million a year. The economic reasoning  
4 behind stalling negotiations doesn't make sense. It is  
5 leading to risk and harm in CalPERS' portfolio, your  
6 portfolio. And everyone here as fiduciaries should be  
7 very concerned.

8           So in closing, we ask to please redouble your  
9 efforts in urging these media companies to negotiate a  
10 fair deal that ensures stability for their workforce, the  
11 industry, and the long-term financial health of their  
12 companies and thus your pension fund.

13           Thank you.

14           CHAIRPERSON MILLER: Thank you.

15           Okay. I'd like to invite down Jennifer O'Dell  
16 from LiUNA and Michael Ring from SEIU to be our next  
17 commenters.

18           VICE CHAIRPERSON TAYLOR: Two of my favorite  
19 people.

20           CHAIRPERSON MILLER: Yeah.

21           All right.

22           (Laughter).

23           JENNIFER O'DELL: Good morning. Thank you.

24           This is on?

25           CHAIRPERSON MILLER: Yes.

1           JENNIFER O'DELL: Good morning, Mr. Chair and  
2 members of the Board. My name is Jennifer O'Dell from the  
3 Laborers' International Union of North America.

4           The laborers represent half a million mostly  
5 construction workers across the U.S. and Canada. We have  
6 83,000 members here in this region, 12,000 of which are  
7 plan participants in CalPERS. So we want to thank you for  
8 your stewardship of our members' retirement security.

9           We'd like to thank you mostly for pushing for the new  
10 labor principles that apply to all asset classes including  
11 private equity. We've been leading an effort around PE  
12 specifically and the lack of any real standards around  
13 that asset class.

14           One thing we'd like the Board to be aware of as  
15 you consider these standards is that last year we raised  
16 with staff some issues at CD&R, one of the companies you  
17 all invested, about a portfolio company called Feeney  
18 Brothers. Feeney Brothers is a gas utility contractor in  
19 the Boston metro area. They've been fighting unionization  
20 for over two years. Nonetheless, CalPERS reinvested  
21 another 500 million in CD&R after we raised those issues.

22           We've heard that the problems at CD&R are  
23 actually more widespread than we previously thought. An  
24 example of this is another CD&R portfolio company,  
25 Environmental Stone Works, Division of Cornerstone

1 Building Brands, has a decorative stone installation  
2 business that has relied on immigrant workers who report  
3 failures to pay overtime, and go back a decade or even  
4 more in some cases. We'll be giving the Board and staff  
5 some more information about that particular issue soon.

6 But we believe that Environmental Stone Works,  
7 and therefore CD&R, is responsible for millions if not  
8 tens of millions of dollars in underpayment for these  
9 workers.

10 For enforcement purposes - and this is the part  
11 that I'd like to underline as you consider your new  
12 policy - we'd like the Board to consider a policy for PE  
13 real estate and infrastructure that prevents the  
14 reinvestment into a fund manager's next fund if a manager  
15 violates your new principles. Otherwise, the principles  
16 are meaningless.

17 In the case of CD&R, we'd like funds -- we'd like  
18 funds of -- staff's assistance in setting up the meeting  
19 with them to discuss our concerns with both Feeney  
20 Brothers and Environmental Stone Works.

21 But again the laborers' union and our plan  
22 participants would like to thank all of you for really  
23 taking these principles seriously. It's a project that  
24 I've been working on for the better part of the last five  
25 years. And it's very important to us and we really

1 seriously thank you so much for taking our concerns very  
2 seriously.

3 Thank you for your time.

4 CHAIRPERSON MILLER: Thank you.

5 MR. RING: Good morning.

6 CHAIRPERSON MILLER: Turn on your mic.

7 There we go.

8 MICHAEL RING: Turn on the mic?

9 CHAIRPERSON MILLER: Yeah.

10 There we go. It's on. Somebody magically turned  
11 that on.

12 Thank you, Chair, and members of the Investment  
13 committee. Michael Ring with the Service Employees  
14 International Union. Good morning to you all. As you  
15 know, tens of thousands of SEIU members are plan  
16 participants. You'll be hearing from some of them shortly  
17 I believe.

18 I want to thank the Board and the staff for your  
19 fiduciary work to ensure CalPERS' investments are grounded  
20 and sustainable, repeatable investment practices and  
21 policies. CalPERS invests to pay benefits to today's  
22 retirees and to workers who have just begun their public  
23 service and will not receive benefits for decades to come.  
24 In that context we want to offer enthusiastic support for  
25 the development and adoption of the labor principles

1 presented in this agenda item.

2           As a long-term universal investor, CalPERS  
3 depends on workers across the economy being able to do  
4 their best work without fear of intimidation, harassment,  
5 or discrimination so that they can thrive on the job and  
6 bring sustainable value to their companies. The rights of  
7 workers to a healthy productive workplace aligns with  
8 CalPERS' interests.

9           To share one clear example of this alignment, as  
10 some of the Board members referenced earlier, where  
11 workers' rights are respected, CalPERS can be sure that  
12 you have more accurate data that accompanies business  
13 practices. Accurate data from workers will allow you to  
14 make better corporate governance and investment decisions,  
15 manage risk, and seek out the most sustainable return  
16 producing investment opportunities.

17           Workers having a voice in the job and the secure  
18 process to safely bring forward concerns, suggestions, or  
19 violations of their rights, health, and safety is in the  
20 interests of the workers and of investors like CalPERS as  
21 you invest billions of dollars of capital across the  
22 economy for decades to come to meet your assumed rate of  
23 return consistently.

24           We appreciate the Board's recognition of this  
25 alignment and encourage CalPERS to continue to show its

1 fiduciary leadership and work with its investment partners  
2 and all stakeholders across financial markets to  
3 contribute to economy-wide labor standards that protect  
4 the interests of workers, investors, and plan  
5 participants.

6 Thank you.

7 CHAIRPERSON MILLER: Thank you.

8 Okay. The next in person we'll have Pablo  
9 Sandoval and Amy Valdez from SEIU. Come on down.

10 And meanwhile we have a phone caller that I will  
11 take if we still have them on the phone. So we'll get  
12 started with them as the others come down.

13 Okay. Caller, are you there?

14 NICOLE SAMII: Hello. My name is Nicole Samii.  
15 I'm a senior research coordinator at United for Respect, a  
16 national non-profit focused on raising standards in the  
17 retail industry. We've been supporting PetSmart workers  
18 for the past three years as they organized to improve  
19 working conditions.

20 I'm here today because CalPERS has a critical  
21 relationship with Apollo Global Management, investing over  
22 3.8 billion with the private equity firms since 2001. In  
23 July Apollo announced that it will acquire a minority  
24 stake in PetSmart from DC Partners. DC Partners has been  
25 unable to manage the human capital at PetSmart, with high

1 turnover and understaffing plaguing the company. These  
2 labor issues will soon become part of CalPERS' risk  
3 portfolio.

4 Before the deal between Apollo and DC Partners is  
5 finalized at the end of the fourth quarter, I urge CalPERS  
6 to encourage the firms to meet with the PetSmart worker  
7 committee about the issues that impact the company's  
8 long-term value.

9 Workers at PetSmart have repeatedly reached out  
10 to DC Partners about these issues but they have been  
11 ignored. They have now reached out to Apollo for a  
12 meeting but they have also been ignored. Again I think  
13 that they will ignore your request.

14 CalPERS proposed labor principles would include  
15 pension funds to -- would include pension funds to engage  
16 portfolio companies with ways they're seeking to improve  
17 their well-being. Your investment in Apollo puts you in a  
18 position to help bring measurable improvement for workers,  
19 while protecting the long-term value of the company, which  
20 has been -- which can positively impact the investment  
21 returns for CalPERS retirees. I urge you to ask Apollo  
22 and DC Partners to respond to the workers' request for a  
23 meeting.

24 Thank you.

25 CHAIRPERSON MILLER: Thank you.



1 All right. Next, Mr. Sandoval, you have the  
2 floor.

3 PABLO SANDOVAL: Well, my name is Pablo Sandoval.  
4 I'm a facility maintenance rep over at DT. I'm a member  
5 of SEIU Local 521. You're going to hear from a lot of  
6 other SEIU people, so I'm just going speak of some of the  
7 stuff I've been hearing as I've been sitting here.

8 Yeah, I think it's kind of important for us to  
9 think about the fiduciary and how it's all about your  
10 responsibility to us to give us high investments and what  
11 that really means. And, sure, we need high investments.  
12 That's great. But what do we need that for? We need that  
13 to provide better lives for ourselves and our families.  
14 And that's really what we want from you guys is to give us  
15 the means to provide better lives for ourselves and our  
16 families. And so, when you go and invest in these  
17 companies and they do the opposite of that, they take  
18 advantage of people and they hurt these people, it's kind  
19 of working against what your goal is. And I just think  
20 that's something that everybody really needs to think  
21 about here.

22 And that's it. That's all I have to say.

23 CHAIRPERSON MILLER: Thank you.

24 AMY VALDEZ: Good morning. My name is Amy  
25 Valdez. I'm a member of the SEIU Local 1000 and a CalPERS

1 plan participant. I work at EDD Unemployment as an  
2 employment program representative.

3 I'd like to thank CalPERS Board and the whole  
4 CalPERS team for your work to ensure a secure dignified  
5 retirement for all of CalPERS plan participants. I want  
6 to specifically thank CalPERS Board for recognizing the  
7 clear alignment between the fiduciary interests of the  
8 Fund and of workers in the portfolio companies in which  
9 CalPERS invests. We see the connection between better  
10 treated workers and better company outcomes leading to  
11 superior pension outcomes.

12 As plan participants we support the Board and  
13 their fiduciary work to protect our pensions. We know  
14 your work isn't easy, and we appreciate all that you do as  
15 fiduciaries on our behalf.

16 As a plan participant, we are well aware that  
17 over half the funding of our retirement payments come from  
18 the Fund's investment returns. We also understand  
19 investments that you make must be repeatable and  
20 sustainable because you are responsible not only to make  
21 payments to our current retirees, but also to recently  
22 hired public servants. Basically you're a long-term  
23 investor.

24 With that in mind, we apply -- excuse me -- we  
25 applaud the Board for understanding that short-term

1 investment approaches built on mistreating or undervaluing  
2 workers are not in alignment with the CalPERS mission.  
3 Both qualitative and quantitative data show that treating  
4 workers with dignity and respect and honoring their  
5 fundamental rights in the jobs leads to more successful  
6 and sustainable healthy workplace in companies. Anyone  
7 that's ever worked in an organization or company knows  
8 that you do better work when an organization actually  
9 shows that it cares about you, respects you, and values  
10 you. No one works their best for a bad boss. We already  
11 know that.

12           So thank you for the opportunity to address all  
13 of you today and for all that you do to assure our  
14 retirement.

15           CHAIRPERSON MILLER: Okay. Thank you.

16           Next I'll invite Ramona Cramer, Eddie Isaacs,  
17 also from SEIU 1000.

18           Oh, Eddie had to step away. Okay.

19           Okay. Welcome. And when you introduces yourself  
20 and start to speak, your time will start.

21           MARIA Blaine: Good morning, everyone. My name  
22 is Maria Blaine and I'm a member of SEIU Local 1000 and a  
23 CalPERS plan participant. I work for the Public Utility  
24 Commission.

25           And I'm here -- everyone has said -- and I'm in

1 support of what has been expressed here this morning.  
2 Your work is valuable, and we want to thank you. Workers  
3 health is vital for the economy.

4 So I'm stepping in for Isaac, because he had  
5 stepped away. So I'm going to just allow a few words from  
6 my sister Ramona.

7 Thank you.

8 CHAIRPERSON MILLER: Thank you.

9 RAMONA CRAMER: Good morning, Chairman and  
10 members of the Investment Committee. My name is Ramona  
11 Cramer and I am a member of SEIU Local 1000. I am a  
12 participant in your plans and I am also an associate  
13 budget analyst for the Office of Tax Appeals.

14 I, like everyone else, wish to commend your work  
15 on our behalf and also that of your team because I know  
16 it's not easy. You run the largest public fund -- public  
17 retirement fund and one of the largest private pension  
18 funds in the entire world. You have a great deal of  
19 responsibility and you are trusted by those people that  
20 you invest with. But you also have a great deal of  
21 influence with them.

22 I thank the CalPERS Board for honoring the labor  
23 values of the California State workforce and the labor  
24 within California and throughout the world by adopting  
25 these principles.

1           By adopting clear labor principles and holding  
2 your investment partners accountable to them, they too  
3 will respect what labor can do for them and treat them  
4 better, because that is something that you can do for all  
5 of labor, not just us.

6           In that context, I commend the Board for  
7 understanding that workers with dignity -- treating  
8 workers with dignity, respect, and honoring their  
9 fundamental rights of collective bargaining, to free  
10 association, to not be subject to discrimination and  
11 harassment and the use of child labor is not something  
12 that will make workplaces successful. This, at the very  
13 least, will cause scandal to the reputation, if not legal  
14 ramifications will -- which will hurt the bottom line of  
15 CalPERS investments and my investments in you.

16           If companies respect the workforce, and you help  
17 them do this because they're more oriented to the bottom  
18 line, then we will all prosper and our investments will be  
19 safe.

20           I thank you for the opportunity to address you,  
21 and thank you for everything that you do to ensure labor  
22 values, and the promise of our retirement being secure in  
23 the future.

24           CHAIRPERSON MILLER: Thank you.

25           RAMONA CRAMER: Thank you.

1 CHAIRPERSON MILLER: Okay. We have an on-line  
2 caller. And while we get them queued up, I'll ask Forest  
3 Peterson, Tammy Dhanota, and Brian O'Neil from SEIU 521 to  
4 work their way down. And we'll take our phone caller  
5 while they're coming down.

6 Okay. Caller, are you there?

7 WILLIAM MICHAEL CUNNINGHAM: Okay. Yeah.

8 CHAIRPERSON MILLER: Do you have those --

9 WILLIAM MICHAEL CUNNINGHAM: Can you hear me?

10 My name is William Michael Cunningham. I'm an  
11 economist based in Washington DC and hold an MBA in  
12 finance in math and economics, both from the University of  
13 Chicago. We are in the spring-fed pool for non-fiduciary  
14 investment consultants.

15 In 2015, we created a model that detailed how  
16 environmental issues impact stock prices, quantifying the  
17 impact environmental factors have on stock prices using  
18 several statistical techniques. We have now turned our  
19 attention to the impact of labor principles on stock  
20 prices. Our analysis strongly suggests that investors in  
21 publicly traded companies must not only recognize but  
22 quantify the impact labor and environmental incidents and  
23 issues have on a given firm's ability to use company  
24 assets and therefore thereby generate revenue and profit.

25 The conclusion of our research is

1 straightforward: Fair, rational, labor and environmental  
2 policies lead to higher long-term returns.

3 Thank you very much.

4 CHAIRPERSON MILLER: Thank you.

5 All right. And on to our speakers.

6 Forest Peterson.

7 FOREST PETERSON: Thank you.

8 Honorable Board, I am in support of the proposed  
9 alignment between the Fund and of the workforce in the  
10 Fund's portfolio companies.

11 My name is Forest Peterson. I hold a PhD in  
12 civil and environmental engineering from Stanford  
13 Engineering, where our focus is on public policy of  
14 infrastructure development. In that role, I was the first  
15 labor standards investigator for Santa Clara County where  
16 I dove into public works and policy enforcement.

17 As a countywide investigator, I'm a member of  
18 SEIU Local 521 - that's the Service Employees  
19 International Union - and thus a CalPERS plan participant.

20 Thank you for taking up this important task to  
21 balance the Fund's sustainable long-term goals.

22 As I saw in my labor standards research,  
23 frequently short-term investment approaches are built on  
24 mistreatment. That is a global pattern, be that unpaid  
25 brick kiln workers in Bangladesh or unpaid silvery tower

1 construction workers in San Jose, California. It is the  
2 same. Profit on the back of the workforce is not  
3 sustainable.

4           And both my research and as an investigator, I've  
5 seen how important it is that companies treat their  
6 workforce with value and respect, that companies that  
7 CalPERS invests in are key industry employers, and that  
8 means CalPERS has a key lever in how the workforce is  
9 treated.

10           One of the key mechanisms for workforce value and  
11 respect is the collective bargaining process. Key to that  
12 is companies do not oppose the bargaining process. This  
13 example is no better demonstrated by a comparison of the  
14 California union representative highway construction  
15 workforce and the precarious and unhealthy condition of  
16 the highway workforce in states that do not have a united  
17 workforce, because of hard fought protections upheld by  
18 unions like the laborers. As a concrete laborer myself in  
19 LiUNA, I worked to a PhD, where I brought the workers'  
20 understanding of labor standards, the civil engineering  
21 research would led to helping fun -- found the labor  
22 standards enforcement office. Whereas the investigator, I  
23 am now protected by the hard fought protections upheld by  
24 SEIU.

25           One thing has stood out: All workers need labor



1 standards.

2 Data is on your side. It is time to invest with  
3 employers that uplift the workforce along with fund  
4 returns.

5 Thank you.

6 CHAIRPERSON MILLER: Thank you.

7 You have the floor.

8 TAMMY DHANOTA: Good morning. My name is Tammy  
9 Dhanota. I'm a member of SEIU Local 521 and a CalPERS  
10 plan participant for 30 years, and I'm still too young to  
11 retire. And I currently work for San Clara Valley  
12 Transportation Authority as a public communication  
13 specialist.

14 Today I specifically wanted to thank the CalPERS  
15 Board for recognizing the clear alignment between the  
16 fiduciary interests of the fund and of the workers and the  
17 portfolio companies in which CalPERS invests. As plan  
18 participants, we are well aware that over half of our  
19 funding -- half of the funding of our retirement payments  
20 comes from the Fund's investment returns.

21 I come from a family of union members. My sister  
22 and brother-in-law are CalPERS participants from Santa  
23 Clara County Probation Officers Unit; and my husband is  
24 also a CalPERS participant in AFSCME from management BTA.

25 I especially want to share that my father is a

1 butcher. He's been a butcher my entire life. He  
2 currently works -- he's a member of the USFCW at Lunardi's  
3 in San Jose. And I can't imagine him working under the  
4 conditions that these workers in Cardenas have described  
5 to us today. It's heartbreaking. That's unacceptable.

6 We should expect better from those we invest in;  
7 and not to do so is really embarrassing.

8 We applaud the Board's initiative to bring forth  
9 these clear labor principles today, and as planned  
10 participants offer our full support to you in adopting  
11 these principles as you invest in our retirement dollars.  
12 If the investment world respects workers and the work they  
13 do, we can all prosper. If they don't, we are all at risk  
14 of having our secure retirement at risk because it is  
15 built on exploitation and abuse which cannot by definition  
16 lead to the sustainable healthy returns we need to keep  
17 our CalPERS healthy now and in the future.

18 Thank you.

19 CHAIRPERSON MILLER: Thank you.

20 All right.

21 BRIAN O'NEIL: My name is Brian O'Neil. I am an  
22 SEIU retiree member. I'm a CalPERS recipient and I'm also  
23 a member of RPEA.

24 I just wanted to thank you for taking this up and  
25 for moving this, because I remember, oh, less than two

1 decades ago I worked with Michael Ring and Mr. Dennak in  
2 starting these beliefs for CalPERS and now we're evolving  
3 and we're improving on them. Which is very, very good  
4 for -- not only for the pension fund but for the country  
5 at all. I mean right now, as you know, the workers in  
6 this country are crying for unions. They want them. And  
7 I think that politicians, other people can maybe push  
8 businesses, but pension funds can. And you being the  
9 biggest pension fund can also work with others to make it  
10 even more bigger and pushier and get them to do things.

11 I am supportive of these initiatives and I hope  
12 that these pass and that they are followed through and  
13 that you hold the staff and these companies accountable.

14 Thank you.

15 CHAIRPERSON MILLER: Thank you.

16 Next public speaker is Michael Mark from Smart  
17 Sheet Metal Workers Local 104. If you'd come down,  
18 please.

19 MICHAEL MARK: Good morning esteemed Board  
20 members. My name is Michael Mark. I'm with Sheet Metal  
21 Workers Local 104. We cover the entirety of Northern  
22 California.

23 First off I want to say thank you, thank you so  
24 much. As a member of a union, my members, we represent  
25 families. There are so many families that are part of the

1 CalPERS Board, and the representation from this pension  
2 fund one family leads to a greater good. And by the  
3 ability of passing great labor policies such as this, it's  
4 increasing the ability for other families to take in some  
5 of the benefits that CalPERS recipients actually take care  
6 of.

7           There has been so many talks of different  
8 construction projects specifically, and I'm so much  
9 looking forward to the Responsible Contractor Policy  
10 update next November. But with that, there is -- in my  
11 opinion, this is a great start. There is something more  
12 that could be done from CalPERS and other government  
13 pension funds such as yourselves, but the very first thing  
14 is it takes a start -- a start of the building blocks.  
15 This is the very start. And I appreciate your time. And  
16 again, from all my brothers and sisters who have been here  
17 today that spoke, this is a great policy, very beginning;  
18 and I'm looking forward to, if there are stakeholder  
19 meetings that Ms. Sells explained about, I would like to  
20 be a part of. As well as if there's anything --  
21 engagement on the RCP, responsible contractor policies and  
22 stuff, because in the end there's a lot of construction  
23 managers that don't understand the feedback, the narrative  
24 that comes back from your wishes to what they get the  
25 middle person and then in the end it doesn't actually get

1 to the construction side.

2 So appreciate your time. Again, Michael Marks,  
3 Sheet Metal Workers Local 104. Our union is one union is  
4 that helps make sure that we have great indoor air quality  
5 within buildings.

6 So thank you.

7 CHAIRPERSON MILLER: Great. Thank you.

8 Okay. At this point I'd like to take a little  
9 break, and then we'll come back -- let's come back in 10  
10 minutes, and we'll continue to get a few more items in  
11 before we break for lunch. So a 10-minute break. So  
12 we'll be back at 11:12.

13 (Off record: 11:02 a.m.)

14 (Thereupon a recess was taken.)

15 (On record: 11:16 a.m.)

16 CHAIRPERSON MILLER: Okay. Let's get started  
17 again here, if folks will take their seats. And I think  
18 we've got just about all our Board members back.

19 Okay. I have 11:16. We're going to jump back  
20 into our agenda at Item 5B, CalPERS Trust Level Review.

21 CHIEF INVESTMENT OFFICER MUSICCO: Great. Thank  
22 you very much.

23 Before I get started, could I please invite  
24 Lauren Rosborough Watt to the presenters.

25 CHAIRPERSON MILLER: Yes, indeed.

1 CHIEF INVESTMENT OFFICER MUSICCO: Great.  
2 Perfect. Thank you very much. This on our annual trust  
3 level review, and this is the first time we're presenting  
4 the trust level review in kind of this new format where  
5 we've provided in advance more of an annual report style  
6 of reporting so that we could get more into the weeds,  
7 hopefully provide more transparency, just more  
8 comprehensive approach, if you will.

9 (Thereupon a slide presentation).

10 CHIEF INVESTMENT OFFICER MUSICCO: And so what  
11 we've done is we've also made a few enhancements to the  
12 report by adding some new investment metrics as well as  
13 the inclusion of some operational metrics so you can get a  
14 sense for some of the behind-the-scenes operations that  
15 are required frankly to execute on our investment  
16 strategy.

17 I'll briefly cover an exec summary of some of  
18 those metrics, and then I'll have Lauren Rosborough Watt  
19 provide the economic portion of the report. I showed that  
20 to Lauren. She's been such an incredible resource to us,  
21 and so I'm really appreciative, Lauren, that you're here  
22 today to take on that piece.

23 And then I'm going to close out the report with  
24 some highlights of the key exhibits within the report and  
25 answering any questions that the Committee may have. So I

1 need the exhibits you see here. Do appear in the  
2 document, but we thought they're important enough to pull  
3 out.

4           So what you have here is a dashboard. It's an  
5 executive summary of, as I mentioned, investment and  
6 operational metrics. And I'll just call your attention to  
7 a few items. First you'll see that the PERF NAV increased  
8 by more than 25 billion, really mostly driven by public  
9 equity markets which returned 14 percent. And we'll get  
10 into the details of individual segments on the tally.

11           The PERF was effectively flat for the first half  
12 of '22-'23. I think we kind of described as a Tale of Two  
13 Cities. We have flat returns in the first quarter and  
14 first quarter...

15           (Technical difficulties.)

16           CHIEF INVESTMENT OFFICER MUSICCO: I did not plan  
17 a rap performance for the event today. Apologies for  
18 that.

19           So first half, flat; second half returned 5.7  
20 percent, bringing out fiscal year performance to 5.8  
21 percent. You'll recognize the 5.8 percent is first a  
22 benchmark return of 5.6, for an excess return of 25 basis  
23 points.

24           Returns for the 10-year and 20-year periods where  
25 we pay close attention to given we are long-term investors

1 have been at or above 7 percent.

2 Another measure that the team has been very  
3 focused on tracking and building on as we strive to be  
4 best in class is really a cumulative value-add or a dollar  
5 value-add measure. A dollar value-add is really the  
6 excess dollar returns relative to our policy portfolio.  
7 Over the past five years, this team has delivered 3.8  
8 billion of dollars value-add. And it was 0.6 billion  
9 value-add for this last fiscal year.

10 The results for any given year for dollar  
11 value-add will vary significantly, so we should really be  
12 focusing on DVA delivered over longer periods like the  
13 five years that I just mentioned.

14 Another metric we'll point out, total plan  
15 volatility, has been relatively stable over the last 12  
16 months and it's in line with the transition to our new  
17 strategic asset allocation.

18 Actional tracking error, which is the allocation  
19 and public -- it was due to the allocation and public  
20 market strategies remains small at 14 bps compared with  
21 the 100 basis point limit. The plan maintains adequate  
22 liquidity with 2.6 times covered in a 30-day stress  
23 scenario. We've been paying very close attention to that  
24 and have improved our framework for liquidity over time,  
25 as we mentioned earlier.



1           The operational metrics at the bottom of the  
2 screen again are really just for us to better acknowledge  
3 the operation behind the investment numbers and give you a  
4 sense of it. We have 283 members on the investment team  
5 today managing 10 trusts, which is the PERF and  
6 affiliates. The total fiscal operating cost came out to  
7 23.3 basis points on 462.8 billion of AUM, which is really  
8 well below CEM peer bench when I came.

9           Last year the team also accepted an ambitious  
10 challenge, around nine strategic initiatives, which I will  
11 dive into a bit in the next slide, but I have covered some  
12 in my opening comments.

13                           --o0o--

14           CHIEF INVESTMENT OFFICER MUSICCO: Then this is  
15 just really just to give you -- I'd like to think of it as  
16 in-our-kitchen point of view to understand better the  
17 volume, if you will, and the complexity of the different  
18 workstreams that were managed this year to lead us to our  
19 year-end. We had 22 workstreams, which was really 2 to 3  
20 workstreams per each of these nine strategic initiatives,  
21 led by one of our -- one of the -- my -- a number of my  
22 CIO huddle, if you will.

23           We had a 147 deliverables that were identified.  
24 And we had 85 cross-asset class and program member -- team  
25 members who volunteered themselves to make sure that they

1 are part of this sea change in our culture towards  
2 becoming best in class.

3           Not everyone is going to be open to change; which  
4 we've said, you know, can often lead to some grumbling.  
5 But that was such a small minority. As you can see by the  
6 volume and the output that was achieved this year, the  
7 vast majority accepted the challenge to be change agents  
8 and laid their groundwork of becoming a best-in-class  
9 Investment Office. I feel extremely confident that that  
10 momentum will continue under the leadership of Dan and the  
11 members of my direct reports.

12           This is a huge culture initiative. But as the  
13 team has all bought into, it is absolutely necessary in  
14 order for us to deliver our 6.8 percent returns required  
15 to meet our pension promise to our members.

16           As I mentioned, I did already mention it to you  
17 the accomplishments in my open comment, so I won't  
18 reiterate those. But I did want to point out a few  
19 additional ones which will continue to be -- continue to  
20 evolve upon my departure. First being really an  
21 establishment of an active risk innovation framework. A  
22 lot of this culture change is about us being understanding  
23 and being comfortable on taking more active risk. And so  
24 the team has made good headway into starting research  
25 projects and leaning in -- more into areas where we could

1 be taking more active risk.

2 We also really leaned into co-investing on a  
3 fee-free, carry-free basis, and started to access deal  
4 flow that we historically were precluded from. A lot of  
5 that has to do with the brands we've been building in the  
6 market that we are great partners for our other capital  
7 providers, and we're seeing some great traction there.

8 We forged deeper strategic relationships really  
9 under an initiative that Dan Bienvenue has been leading  
10 with a handful of partners that have scale, and we have a  
11 number of those exciting strategic relationships well on  
12 their way. Many of those are cross-asset class total-fund  
13 related, and so should have a real impact on our  
14 investment strategies.

15 Fourth up I'd say -- I'd like to highlight that  
16 we're in the early stages of defining a new data and text  
17 strategy. We know that topics like AI, for example, are  
18 top of mind for all organizations and ours is absolutely  
19 one of those. So thinking about how we establish the  
20 appropriate tech and data strategy for us to be successful  
21 in the future not only just for our regular way business  
22 but to remain competitive.

23 And, finally, just operationally, really a  
24 shout-out for the successful execution of the strategic  
25 asset allocation. This Board approved a new SAA back in

1 November of '21. But the execution of that strategic  
2 asset allocation was really just started as of July 1st  
3 last year. So this last fiscal year you'll see the fruits  
4 of the labor of that operationally very intensive  
5 execution, including everything like the 20 billion in  
6 emerging market debt, as well as our private credit  
7 program which we'll touch on a little bit more.

8 --o0o--

9 CHIEF INVESTMENT OFFICER MUSICCO: So on the  
10 topic of SAA, as this Board and investment team are well  
11 aware, one of the single most important decisions that  
12 gets made with the Board and the investment team is  
13 setting a benchmark asset mix and having a reasonable  
14 probability of achieving our target discount rate over the  
15 long term. Asset allocation time horizons spans  
16 decades or more, which is why as long-term investors we  
17 really are focused on longer-term returns versus the one  
18 year. Annual returns could vary significantly from the  
19 discount rate. But as you can see on this chart, over a  
20 10-year horizon returns do become steadier, though still  
21 modestly varying over time. If we had superimposed a  
22 20-year look-back you would have seen an even smoother  
23 line here, which is why it's so important for us to be  
24 focusing on long-term returns but also setting our  
25 strategy up for success for the long term.



1 participants expected a more difficult time ahead, but the  
2 size, the duration, and the speed of that was largely  
3 contested at the time.

4           Through the third quarter of 2022 some of the  
5 more vulnerable smaller emerging market economies were  
6 slowing markedly as a result of higher food and energy  
7 prices in part due to the Russia-Ukraine conflict and  
8 rising borrowing costs; and analysts overwhelmingly  
9 expected Europe to fall into recession. So on the chart  
10 there, that blue solid line is expectations as formed a  
11 survey by consensus economics of professional forecasters  
12 as their expectations over time for 2023 and economic --  
13 real economic activity for a number of countries.

14           So you can see their expectations were that  
15 Europe was going to fall into a recession both in the end  
16 of 2022 and into 2023, and you can see that blue line  
17 falling below zero.

18           Inflation in the UK was running double digits and  
19 real activity deteriorated rapidly in Q2 of 2022, and that  
20 was a surprise for markets, not long before what was now  
21 known as the gilts crisis where the UK 30-year bond yield  
22 surged 127 basis points, or 1.27 percent, in a matter of  
23 days. And that was amplified by private asset managers  
24 and funds selling.

25           So you can see on the black dotted line there,

1 the bottom line, that expectations for UK real economic  
2 activity for 2023 were influenced by the current events  
3 that were occurring in Q3 of 2022. So that October to  
4 December period you can see those expectations for growth  
5 being revised lower.

6 Then in March of this year, the U.S. experienced  
7 a mini-banking crisis when Silicon Valley Bank and two  
8 other institutions went into insolvency. And in the case  
9 of U.S., which is the black solid line rising into Q1, you  
10 can see it's stalled in Q1 as these events transpired.

11 So I point out these events to highlight the  
12 frequency of negative events that impacted on the global  
13 economy last year, which in turn impacted on expectations  
14 for growth for this year.

15 I'd also like to highlight that these  
16 expectations were not met. And activity ended up better  
17 than expected, and this bolstered the returns in  
18 particular of gross assets over the fiscal year.

19 Next slide, please.

20 --o0o--

21 INVESTMENT MANAGER ROSBOROUGH WATT: So the  
22 question then is why were these return weaker expectations  
23 not met? And on each of the occasions that I spoke to you  
24 before, rising uncertainty was responded to by policy  
25 intervention. And you can see here there are two lines:

1 a blue line, which is an indicator of volatility in the  
2 share market with VIX index; and the gray line, which is  
3 an indicator of the volatility of the bond index there on  
4 the right-hand side.

5           So in Europe EU member states pledged over 600  
6 billion U.S. dollars to support households and businesses,  
7 which in return reduced their heating and electricity  
8 costs. The international monetary fund rapidly provided  
9 debt structuring support for fragile emerging market  
10 economies. The Bank of England stepped in and intervened  
11 in the UK government debt market. And the FDIC treasury  
12 and the Fed here provided support for financial  
13 institutions in the U.S.

14           So consequently these pockets of volatility and  
15 that volatility of those lines rising fell quickly, and  
16 you can see that. I've signaled that with some red arrows  
17 facing down.

18           From a macroeconomic perspective, the support  
19 provided a cushion to growth; and this allowed households  
20 to feel confident to continue to consume or spend, and  
21 also businesses and firms to be confident to employ and  
22 not to lay off staff.

23           The official liquidity programs that were put in  
24 place to support the global economy over the past year are  
25 a timely reminder not to underestimate the power of policy



1 actions on market outcomes. And we certainly saw the same  
2 thing during COVID.

3 But that wasn't the only reason. Economy's  
4 demonstration of greater flexibility than anticipated.  
5 Europe had a relatively mild winter. It wasn't as cold as  
6 anticipated. And notable event risk in the U.S. case, the  
7 debt ceiling -- limit or debt ceiling negotiations that  
8 occurred into the end of this fiscal year were quickly  
9 resolved.

10 And next slide please.

11 --o0o--

12 INVESTMENT MANAGER ROSBOROUGH WATT: So what  
13 happened is economies demonstrated greater strengths or  
14 resilience that was anticipated.

15 So in terms of what this means for asset returns,  
16 the first half of the fiscal year, as Nicole mentioned,  
17 showed modest returns as weaker expectations going into  
18 the end of the year impacted on asset prices. Whereas in  
19 the second half growth assets in particular appreciated  
20 strongly. And, for example, in the red circle there on  
21 the right, expectations for current earnings moved higher,  
22 so they were less negative future expectations --  
23 expectations of future earnings, so into 2023 were modest  
24 once again, less negative; and this boosted equity returns  
25 and tightened credit spreads.

1           In addition, in equity markets a narrow group of  
2 tech-related companies performed very well and that pulled  
3 the overall index higher.

4           However, not all asset returns over the past year  
5 performed as well, and areas such as in -- real assets  
6 were impacted by the higher cost of capital and a  
7 structural shift in the office sector. Increases in the  
8 short-dated interest rates by the Federal Reserve here  
9 also pulled long-dated interest rates higher; and when  
10 yields go up, prices on bonds fall.

11           So looking ahead, central banks have indicated  
12 the synchronous increases in interest rates has largely  
13 passed. Most developed market central banks have  
14 indicated rates are at or near their peaks. And some  
15 emerging market central banks have started to reduce  
16 interest rates as disinflation pressures take hold.

17           For now, financial conditions are a drag on  
18 growth, but perhaps not considered exceptionally tight  
19 here in the U.S. compared to history. Now, that lends  
20 towards this soft landing narrative, the idea that the  
21 economy can slow but not suffer a recession as it  
22 normalizes.

23           While interest rates are -- as illustrated in the  
24 chart above, are back towards recent historical averages -  
25 and you can see that with the red arrow I have there - I

1 do want to highlight two points. And the first one is  
2 that the pace of rate hikes was very rapid. And this  
3 takes time to impact on the economy. So we can expect  
4 this impact has not yet fully been felt.

5           The second point is that the period of very low  
6 interest rates - you can see there were -- interest rates  
7 were actually near zero - price of the recent rate hikes  
8 is very important. Now this period was accommodated by  
9 modest levels of debt burdens. However, during the  
10 pandemic, these debt imbalances have worsened in  
11 particular at the sovereign or the government fiscal level  
12 globally. And now we have a high cost of capital, and  
13 that's going to act as a drag on fiscal support going  
14 forward.

15           Now while the policy, that support we've  
16 experienced over the past year, has been a positive  
17 impulse to real economic activity around the world, and  
18 therefore asset prices, I do want to highlight that the  
19 need for this support sort of shows that there are  
20 outstanding vulnerabilities in the global economy as asset  
21 prices normalized and the global economy normalizes  
22 following the pandemic and the post-pandemic recovery.

23           So our assessment as a result is that the balance  
24 of risks to global growth remain to the downside looking  
25 forward. There is less uncertainty than during the

1 pandemic; and I've spoken a lot about uncertainty in the  
2 last two years with you all. So there's certainly less  
3 uncertainty than during the pandemic, but more uncertainty  
4 than prior to 2020. Uncertainty and volatility are  
5 persistent. They're very highly persistent in their  
6 impacts on asset returns. And the distribution of growth  
7 outcomes looking forward remains wide.

8 Thank you for your time.

9 CHIEF INVESTMENT OFFICER MUSICCO: Thank you,  
10 Lauren.

11 --o0o--

12 CHIEF INVESTMENT OFFICER MUSICCO: So we'll turn  
13 our time now to taking a look at our segment total  
14 returns. As mentioned, equities performed strongly in the  
15 fiscal year, while other assets were mixed with their  
16 fiscal year performance driven by public equity which  
17 returned 14 percent. If we break down further, looking at  
18 the segment -- individual segment returns, the  
19 cap-weighted segment significantly outperformed all other  
20 segments for the fiscal year with a return of 16.7  
21 percent. The income segment fiscal year performance was  
22 mixed, with Treasury returning negative 5.6 versus high  
23 yield's return of 9.1 percent.

24 The private asset fiscal year performance was  
25 also mixed, with private equity and real assets

1 respectively returning negative 2.3 and negative 3.1  
2 percent versus private debt's performance of a positive 6  
3 and a half percent.

4           Zooming out to the longer 10-year period, as we  
5 mentioned earlier we like to pay close attention to, all  
6 asset class had positive contributions.

7                           --o0o--

8           CHIEF INVESTMENT OFFICER MUSICCO: Taking a look  
9 at where our excess returns have been coming from,  
10 although private assets comprise about 20 percent of  
11 PERF -- 20 to 30 percent of PERF NAV.

12           Those programs account for the majority of  
13 one-year excess returns and nearly 50 percent of the  
14 five-year excess returns. The largest driver of excess  
15 returns for one- and five-year periods is private equity,  
16 with the five-year period being significantly impacted by  
17 private equity's more recent outperformance.

18           Private asset's excess return performance is best  
19 evaluated over longer periods as over the short-term  
20 variations and valuation approaches between the assets and  
21 their benchmarks can dominate.

22                           --o0o--

23           CHIEF INVESTMENT OFFICER MUSICCO: Next we'll  
24 turn to highlighting the PERF allocation activity. As I  
25 mentioned before, this was a large operationally

1 challenging activity that took over the past fiscal year  
2 but with great success.

3           The fiscal year saw some fairly significant  
4 changes to our allocation and portfolio construction. The  
5 changes you see highlighted here were largely made to  
6 execute the new SAA adopted by the Investment Committee  
7 the prior year.

8           Beyond the portfolio exposure changes that we  
9 made, the work represented here aligns with our ongoing  
10 effort to build capabilities along the themes of  
11 innovation and resiliency, two areas to highlight. We  
12 continue to invest in building our capabilities to deploy  
13 capital into private markets in a cost-efficient manner.  
14 I'd like to highlight that the private debt program  
15 started just a couple years ago as an incubated strategy  
16 under your opportunistic program. It's now one of our  
17 core private programs. Tremendous amount of work done by  
18 Jean and team over the past short period of time.

19           And private equity continues to expand its  
20 co-investment efforts in a more cost-efficient channel for  
21 investing in the asset class, and over this last year  
22 committed 6.4 billion to co-investments. So some great  
23 progress there.

24           We also continue to invest in improving our total  
25 fund management capabilities to support the increasing



1 manner given where rates are today.

2           Lastly, we do continue to believe that there are  
3 significant opportunities across all of our private market  
4 portfolios, and we expect to see continued growth in those  
5 allocations within the leeway that we already have in  
6 policy. That said, we're also doing a bunch of work to  
7 review -- to review those allocations which we would be  
8 bringing forward for future strategic asset allocation  
9 discussions.

10                           --o0o--

11           CHIEF INVESTMENT OFFICER MUSICCO: With respect  
12 to our private market program building, we want to just to  
13 provide this chart to give you a sense of the current  
14 outstanding commitments. And this represents a result of  
15 work that's been done to underwrite managers and funds  
16 both in the current and past years. This is a cumulative  
17 snapshot.

18           The total unfunded commitments to private assets  
19 as of June 30th, '23 is 66.7 billion, which is an increase  
20 of 15 and a half billion, demonstrating the activity that  
21 we've had in the past year. It was versus the fiscal year  
22 value of 51 billion last year.

23           Liquidity to fund outstanding commitments is  
24 maintained -- is maintained by retaining sufficient  
25 capacity in the designated public asset segments, which



1 was systematically sold down as commitments are called.  
2 So said differently, we're able to fund the private  
3 markets by selling down the public markets. And for that  
4 activity we have ample support to support this level of  
5 commitments, which is why we feel comfortable that as  
6 opportunities present themselves in the near future to  
7 lean more into private markets, we feel very confident  
8 with our -- the position of our liquidity.

9 --o0o--

10 CHIEF INVESTMENT OFFICER MUSICCO: Moving to a  
11 more sober note. We often show this slide just as a good  
12 reminder that our portfolio remains very exposed to growth  
13 risk and is highly co-related to equity markets.

14 In some sense, all of this talk, all of our  
15 efforts to increase what we're referring to as value-add  
16 is really to identify compelling private -- by identifying  
17 private market opportunities. Implementing new asset  
18 classes and strategic leverage, et cetera, are not only  
19 about increasing returns, but it's really to try to  
20 decrease this reliance on equity and growth premiums.  
21 We're looking for new ways to add dollars value-add.

22 What you see here is a very rough long-term  
23 historical simulation of our current asset allocation,  
24 which is the blue line, against the equity market, which  
25 is the red line. The point of this chart is to see that



1 perspective.

2           While it is to be expected to have drawdowns, and  
3 year over year we may not earn precisely our 6.8 targeted  
4 returns, if we successfully execute on our strategic asset  
5 allocation, what this cone chart is showing is that our  
6 longer-term expectation is to generate the returns we  
7 require to meet our pension obligations.

8           And with that, I'm going to pause and open up to  
9 any questions that the Committee may have. And I have our  
10 entire team here ready for those questions as well.

11           CHAIRPERSON MILLER: Okay. Thank you. Thank you  
12 all. Thank the team. And I really do -- this new format,  
13 this new approach to presentations, yeah, I really like  
14 it. And I think my colleagues probably share -- share  
15 that view.

16           So first off I have Director Pacheco.

17           COMMITTEE MEMBER PACHECO: Yes, thank you.

18           Thank you, Nicole, for your presentation. And  
19 thank you for -- both of you guys for this information.

20           I want to go back to the -- to page 239 of 5 --  
21 522, the trust level PERF metrics as the matrix part of  
22 that. So I -- what I'd like to elaborate on as -- you  
23 mentioned on the operational metrics that there was about  
24 283 filled positions out of the 344 of the total.

25           CHAIRPERSON MILLER: Page 2, guys.

1 COMMITTEE MEMBER PACHECO: Page 2. Sorry. Page  
2 2 of Page 15. Excuse me.

3 So -- and from my math, it seems like there's 61  
4 vacant positions right now.

5 So can you disc -- can you discuss what is the  
6 process being made in recruiting and retention of these  
7 investment folks so that we can get them -- we can get our  
8 whole process going on.

9 Thank you.

10 CHIEF INVESTMENT OFFICER MUSICCO: Yeah,  
11 absolutely. We've been working extremely closely with our  
12 partners in Michelle Tucker's area to really -- and it's  
13 really a part of our broader people in talent and culture  
14 strategy. And so what we've done is we've gone back and  
15 identified where the priority positions that we've not  
16 contemplated, and additions to what resources have we  
17 identified historically. And we've set out on a very  
18 ambitious and ongoing recruitment effort. We had some  
19 rapid recruitment successes. Again, that was a Michelle  
20 Tucker and team amazing effort, if you will, that we  
21 really benefited from. And in addition to that, each of  
22 the asset classes has been working extremely hard within  
23 our talent team to go out to market.

24 I think we've been having some good success and  
25 some good traction. But it's a tough market right now for

1 recruiting, and I would say that we have made sure to  
2 identify if there were any obvious gaping areas that  
3 require -- that would present a risk, and we've made sure  
4 to backfill that through oversight and succession planning  
5 bringing folks up. And so we feel very comfortable from a  
6 risk perspective that the current operations, knowing what  
7 we have in the pipeline with those who were to start. But  
8 we do have, you know, great ambition to be filling more  
9 for that future growth, and so we're just trying to get  
10 ahead of it.

11 COMMITTEE MEMBER PACHECO: And that's something  
12 that we're -- our timeline is sometime soon, then.

13 CHIEF INVESTMENT OFFICER MUSICCO: Absolutely.  
14 Sea These are -- this is an ongoing -- we think of a  
15 recruitment as a living, breathing exercise; and so each  
16 of the senior members are very actively engaged in  
17 recruiting right now.

18 COMMITTEE MEMBER PACHECO: Fantastic. Thank you  
19 very much.

20 CHIEF INVESTMENT OFFICER MUSICCO: You're  
21 welcome.

22 CHAIRPERSON MILLER: Okay. Next we have  
23 President Taylor.

24 VICE CHAIRPERSON TAYLOR: Hi. Thank you, Nicole.  
25 Thank you very much, both of you, for your presentations.

1 I wanted to move to page 3. So I really  
2 appreciate this. But as you were explaining it, you  
3 were going through each of the nine streams, and I was  
4 getting confused because it's not here. And so I kind of  
5 had a couple of questions.

6 In active risk you said you were doing a research  
7 project. What is that going to help us learn and move  
8 into?

9 CHIEF INVESTMENT OFFICER MUSICCO: Sure. So let  
10 me elaborate on that.

11 As I mentioned, at the start when we were looking  
12 at the metrics, we've historically had quite low tracking  
13 error, quite low active risk in our program, in our public  
14 market programs. And so -- and historically a number of  
15 years back some of the active management strategies within  
16 public equities, for example, were removed or shut down.  
17 And so what we've been doing is a real concerted effort to  
18 think about what would be the benefit of bringing back  
19 online some of those active equity strategies, for  
20 example. But also to be, you know, more diligent at  
21 looking at additional active-risk-type strategies.

22 So where can active risk come from? It can come  
23 from simply doing more of the co-investing we've been  
24 talking about. So making sure we really understand what  
25 impact that type of activity has from an active-risk

1 perspective. Or it could be looking at the excellent  
2 resources we have, for example, in fixed income, and are  
3 there opportunities in that area to do more active  
4 strategies versus passive strategies. And so that's  
5 really what that ask -- active-risk innovation has been  
6 about.

7           The interesting thing about that initiative is  
8 we've basically just put it out as an open almost context  
9 to the team. And we just had so much tremendous  
10 excitement and people self-selecting to really lean in and  
11 do work off the side of their desk, if you will, to think  
12 up and to come forward with really interesting active risk  
13 programs or strategies that they've probably been thinking  
14 about for sometime.

15           So I was really proud to see the momentum there;  
16 and I'm certain when I'm out of the chair, you'll start to  
17 hear more about some of those great initiatives.

18           VICE CHAIRPERSON TAYLOR: So, and we're looking  
19 at the active risk, these types of things, not just in the  
20 private market but also in our public --

21           CHIEF INVESTMENT OFFICER MUSICCO: Across -- yes,  
22 of course.

23           VICE CHAIRPERSON TAYLOR: Great.

24           And then I had a question for -- hold on -- you  
25 on -- where did it go?

1           Our asset liability management and our strategic  
2 asset allocation, you said - and I'm -- I could have heard  
3 it wrong, so I want to make sure I didn't - you said that  
4 we just started implementing it beginning of last fiscal  
5 year. So that would have been -- so where are we right  
6 now? So that would have been July of 22?

7           CHIEF INVESTMENT OFFICER MUSICCO: So I was  
8 referring to the new strategic asset allocation or the  
9 asset mix that this Board --

10          VICE CHAIRPERSON TAYLOR: Voted on, yeah.

11          CHIEF INVESTMENT OFFICER MUSICCO: -- voted on in  
12 November of '21. And the official start date of that SAA  
13 implementation was as of July 1 last year.

14          VICE CHAIRPERSON TAYLOR: Last year. Okay.

15          CHIEF INVESTMENT OFFICER MUSICCO: Um-hmm.

16          VICE CHAIRPERSON TAYLOR: That's where I was  
17 getting --

18          CHIEF INVESTMENT OFFICER MUSICCO: That's  
19 correct.

20          VICE CHAIRPERSON TAYLOR: -- a little bit  
21 confused.

22          CHIEF INVESTMENT OFFICER MUSICCO: Yeah.

23          VICE CHAIRPERSON TAYLOR: So '22.

24          CHIEF INVESTMENT OFFICER MUSICCO: And every two  
25 years we come forward with a gut check, a checkback. But



1 you can assure that behind the scenes we're always, you  
2 know, being mindful of where we are. And so there's  
3 already tremendous work being done so that we're prepared  
4 to come forward and give you a sense of where we think  
5 different opportunities may be or where we may want to  
6 lean into some of the leeway that we already have within  
7 the policy.

8 VICE CHAIRPERSON TAYLOR: Great. And that was --  
9 that's November, right?

10 Yeah, that's what I thought. That was --

11 CHIEF INVESTMENT OFFICER MUSICCO: Correct.

12 VICE CHAIRPERSON TAYLOR: And then I wanted to  
13 ask you, are economic portion -- the macroeconomic view,  
14 you had mentioned a couple of things that were impacting  
15 us that stood out to me. One was the debt ceiling fight  
16 that, you know, might have -- it ended up being  
17 short-term, so yay. But are we looking at the future for  
18 this current budget fight that may shut down the  
19 Government? Is that something we're looking at including  
20 in this? Because it's going to happen like this month I  
21 think or next month.

22 INVESTMENT MANAGER ROSBOROUGH WATT: So there is  
23 a -- and the end of fiscal year funding is September 30.  
24 And there are currently negotiations and discussions as  
25 you can see in the news media. When we look at market

1 commentators, who are experts and focus on this, they  
2 don't anticipate a long shutdown -- government shutdown as  
3 of September or into October. But there is a chance that  
4 there will be a shutdown later on this year or they  
5 anticipate that there is a chance of a shutdown later on  
6 this year, because the Fiscal Sustainability Act, the  
7 agreement post the debt ceiling takes into effect as of  
8 next year when they discuss Fiscal Year 24 funding. And  
9 there's a differing view between parties around what that  
10 might mean. But there is within the legislature some  
11 spending limits for next year, and that's what's going to  
12 be up for discussion. If that's not up for discussion --  
13 or, sorry -- If that doesn't pass, if that's not agreed  
14 through the Senate, then there is the chance of a shutdown  
15 later on this year.

16 VICE CHAIRPERSON TAYLOR: Okay. So that will  
17 impact also our overview, right?

18 INVESTMENT MANAGER ROSBOROUGH WATT: So the  
19 impact, the estimates on growth are anywhere between 0.1  
20 to I think 0.2 percentage points of annual GDP per week.  
21 So it's not huge. But the longer it goes on, the more  
22 likely the larger that gets.

23 I think one of the concerns that the market had  
24 in particular going into the debt ceiling negotiations for  
25 this year was the what if -- in terms of a debt ceiling,

1 what if the government then effectively runs out of cash.  
2 And this isn't the same situation. So it's simply a --  
3 government employees or federal employees will not be paid  
4 until an agreement comes through. Regardless, an  
5 agreement will occur, because the law states that if an  
6 agreement isn't made, then there are contingencies in  
7 place. And so it's just simply a period of a bit of  
8 uncertainty. Perhaps less market concern or uncertainty  
9 than what's caused with the debt ceiling negotiations.

10 VICE CHAIRPERSON TAYLOR: Negotiations.

11 INVESTMENT MANAGER ROSBOROUGH WATT: Correct.

12 VICE CHAIRPERSON TAYLOR: Okay. Thank you.

13 Oops. Sorry.

14 CHAIRPERSON MILLER: Okay. Next I have Director  
15 Middleton.

16 COMMITTEE MEMBER MIDDLETON: All right. Thank  
17 you.

18 Nicole, I'd like to explore specifically the  
19 private debt and your belief in terms of what kind of  
20 growth potential exists in that area and any impediments  
21 for us to address opportunities there.

22 CHIEF INVESTMENT OFFICER MUSICCO: I can start  
23 off, and then maybe I'll have Jean come up. She's the one  
24 who's overseeing the program.

25 I'd say right now we are -- we've been very

1 pleased with and have been very opportunistic to be  
2 leaning in as best we can into the private debt market.  
3 Jean can speak to just banking. Activity generally  
4 speaking in the syndicated loan market has pretty much  
5 dried up, and so it's presenting to us tremendous  
6 opportunity to be leaning more into this program overall.

7 I'll invite Jean up so that -- she's been really  
8 leading the charge on a tremendous effort to make sure we  
9 are taking advantage of the market opportunities right  
10 now.

11 MANAGING INVESTMENT DIRECTOR HSU: So back in  
12 March we talk a lot about like the public market has been  
13 shut down for the more levered companies. And then  
14 debt -- then the private debt is taking the old public  
15 market growth.

16 And then right now you see one more things which  
17 is happening is that the bank is retreating, right. It's  
18 not only on the -- not only on the -- like originated in  
19 the sale side, but it's also on some of the banks.  
20 They're on the balance sheets. They cannot hold it, you  
21 know, their assets. So you are seeing the activity side,  
22 you know, being shut down. And then they're starting to  
23 coming back, try to make fees on that.

24 On the other hand also CT, the asset balance  
25 sheet holding size, is retreating. So this creates

1 another opportunities for like private lenders like us.  
2 The issue is these levered -- very levered companies, they  
3 are paying a very high interest rate right now, because  
4 you see in the private debt side told many, many times is  
5 folding rate -- the majority of them are folding rate  
6 based. So if you think about like the underlying base  
7 rate, SOFR rate, is like 5.3 roughly, right? And then  
8 your spread on these loans are like SOFR plus, let's say,  
9 you know, 575 to 625 spread. Adding together, the asset  
10 itself is like rendering around like 10, 11 percent.

11 So think about the company is paying a 10, 11  
12 percent interest burden is very tasking on the company.  
13 So how long can they hold on to that? Can they have a  
14 revenue and an income which is growing faster than  
15 whatever the interest rate is growing -- the interest rate  
16 burden is growing? I think that remains the key.

17 So far, the default rate has been pretty benign  
18 in giving this high interest rate. But the key is that  
19 can the economics grow out of this inflation, can the  
20 company take advantage of like growing their top line and  
21 then controlling their costs and, thus, be able to  
22 continue to pay this interest? I think that remains to be  
23 something that we want to be very cautious about.

24 Overall I will say the opportunity is plenty,  
25 because right now even the refinancing has been done by

1 private debt. Which was supposed to be like buy -- like  
2 public market. Like, for example, not long ago the  
3 biggest private debt -- debt transaction in U.S. history  
4 is a 5.3 billion transaction. I would never have  
5 envisioned back in March that, you know, there will be  
6 like a 5.3 billion deals to get done by the private  
7 lenders.

8           You remember like back in March we were talking  
9 about, oh, the past, you know, half year we see like 10  
10 more than one-billion-dollar transactions. It has leaped  
11 to 5.3. Yeah.

12           So you will see this dynamic. There are  
13 opportunities. But we want to be very cautious in, you  
14 know, doing the deployment and in very, very selective in  
15 like which manager that we work with in order to have a  
16 better credit selection.

17           COMMITTEE MEMBER MIDDLETON: I appreciate the  
18 answer and I appreciate the direction you're going.

19           Is there anything you need from the Board in  
20 order to be able to execute this policy?

21           MANAGING INVESTMENT DIRECTOR HSU: I think that  
22 we are in a pretty good stage right now. And then our  
23 team is -- we're not able to get the -- like the people  
24 that we want. But we are able to start it getting some  
25 like more junior folks that we can train and then we can

1 grow internally. So I think in this environment, as  
2 Nicole said, that it is not the easiest environment to get  
3 the experienced people. We will do a different strategy  
4 trying to build internally and then go from there.

5 COMMITTEE MEMBER MIDDLETON: All right. Thank  
6 you.

7 CHAIRPERSON MILLER: Okay. I'm not seeing any  
8 other requests to speak from the Board.

9 So I'll thank you.

10 And at this point we -- yeah. So we'll have our  
11 CalPERS Trust Level Review Consultant Report. So I'll  
12 invite up Wilshire and Meketa.

13 (Thereupon a slide presentation).

14 TOM TOTH: Good afternoon. Tom Toth with  
15 Wilshire Advisors.

16 Staff has covered the fiscal year results and  
17 economic context, so I'd ask the Board to turn to Item 5C,  
18 Attachment 3, which provides Wilshire's qualitative review  
19 of INVO's fiscal year activities.

20 I'd like to cover a few primary points that are  
21 particularly relevant today.

22 Past Wilshire reviews have highlighted the  
23 importance of staff's stability, as a successful  
24 investment program requires a true long-term investment  
25 horizon that comes from a consistent and enduring

1 investment philosophy.

2 Over the past 18 months, we have seen positive  
3 trends in the investment culture, and it's important that  
4 staff continue to build on those trends during the search  
5 for the next CIO. The nine strategic initiatives that Ms.  
6 Musicco just highlighted for the Board aim to move the  
7 portfolio forward in key areas. As discussed, this  
8 includes improving absolute returns through portfolio  
9 optimization and asset allocation, targeted private asset  
10 investment, as well as a focus on strong active returns  
11 through risk budgeting.

12 Further, investment in data and technology is  
13 necessary to enhance portfolio insights around risk  
14 exposures, manage data efficiently, and improve platform  
15 integration.

16 These initiatives remain very relevant for  
17 achieving total fund and asset class performance  
18 objectives. Importantly, these workstreams are sponsored  
19 by senior investment team members and they should be  
20 empowered to continue moving them forward.

21 Lastly, investment governance within INVO runs  
22 through three committees that were stood up last year -  
23 operations, total fund management, and investment  
24 underwriting. This governance aligns with the critical  
25 functions necessary to design and build a strong



1 investment program. They are made up of the most senior  
2 investment professionals on the team, across market  
3 segments, and provide diversity of both experience and  
4 insight. We would encourage continuity of this structure,  
5 and are confident in senior staff's ability to manage the  
6 total fund within this construct.

7 Let me pause there and see if there are questions  
8 before I move onto the Universe Analysis.

9 CHAIRPERSON MILLER: I'm not seeing any requests  
10 to ask questions. Oh, no. There we go.

11 Director Pacheco.

12 COMMITTEE MEMBER PACHECO: So, Tom, I just want  
13 to make this clear.

14 Okay. So are we talking about attaching number 4  
15 area right now?

16 TOM TOTH: I am just about to move on to  
17 Attachment 4 for the Universe Analysis.

18 COMMITTEE MEMBER PACHECO: Then I will wait.  
19 Thank you.

20 CHAIRPERSON MILLER: Okay. Thank you.

21 So you can go ahead.

22 TOM TOTH: Okay. On page 3, overall results for  
23 the Total Fund for the last fiscal year ranked at the 75th  
24 percentile. The context for that ranking is illustrated  
25 in the table at the bottom of page 3. As Nicole and

1 Lauren noted in their comments, global equity,  
2 particularly U.S. equity as measured by the Wilshire 5000  
3 equity index, ranks at the first percentile as the  
4 strongest performing asset class, while diversifying  
5 assets like fixed income ranked at the bottom of that  
6 distribution.

7           On page 6, CalPERS higher than average  
8 allocations to fixed income were a drag on relative  
9 returns versus peers over the last fiscal year and  
10 intermediate time periods as effectively any  
11 diversification away from growth risk reduced results.

12           It is worth noting that while challenging over  
13 intermediate time periods, the long-term 10-year returns  
14 of the income portfolio - so fixed income - ranks in the  
15 top quartile versus peers.

16           You also note a higher allocation to real estate  
17 that was also a drag on peer relative rankings, as the  
18 challenges in the sector weighed on results.

19           Real estate returns were negative over the past  
20 fiscal year, while more liquid risk assets rallied  
21 meaningfully.

22           And, finally, globally equity returns ranked at  
23 the 71st percentile over the last fiscal year, which  
24 dragged on the overall fund-to-peer rankings. As Nicole  
25 noted, those captures the shifting dynamics of the

1 outperformance of market cap equity relative to  
2 factor-weighted equity over the last fiscal year.

3 So I'd be happy to stand for questions before we  
4 turn it over to Meketa for comment.

5 CHAIRPERSON MILLER: Okay. Director Pacheco.

6 COMMITTEE MEMBER PACHECO: Yes. And now we're on  
7 Attachment No. 4, so I can get some clarification.

8 TOM TOTH: Yes, sir.

9 COMMITTEE MEMBER PACHECO: So, Tom, thank you for  
10 your comments.

11 I wanted to talk about the independent  
12 verification and verification of the performance  
13 examination report on Attachment 4. May I ask what is the  
14 significance of the independent Global Investment  
15 Performance Standard, or what they call a GIPS report, for  
16 the period of July 1st of 2016 through June 30 of 2023,  
17 and the relevance of it with respect to our -- to the PERS  
18 system?

19 TOM TOTH: Sure, Mr. Pacheco. He's referring to  
20 a -- I'll call it an audit report that covers the  
21 calculation and -- of performance for the Total Fund and  
22 what is the relevance for the Board. So, the Global  
23 Investment Performance Standards is -- it is kind of the  
24 benchmark for both consistency and transparency of  
25 performance results for both asset managers and asset

1 owners. It is an arduous process that takes a lot of I  
2 think time and bandwidth from staff to ascribe to it. And  
3 I think the importance from a board perspective is that  
4 you can be confident that the numbers - and there are a  
5 lot of numbers in your board package - are accurately and  
6 consistently reported so you can feel comfortable that the  
7 decisions that are being made and the evaluation that's  
8 being done around those numbers are true.

9 So that's the significance of the GIPS report.

10 COMMITTEE MEMBER PACHECO: Just one more clar --  
11 you said that we do this on -- it takes a long time and a  
12 lot of resources.

13 What was the last time we did this?

14 TOM TOTH: So this is done on an annual basis.

15 COMMITTEE MEMBER PACHECO: Okay. So an annual basis.

16 TOM TOTH: Yes.

17 COMMITTEE MEMBER PACHECO: Thank you very much.

18 TOM TOTH: Um-hmm.

19 CHAIRPERSON MILLER: Okay. President Taylor.

20 VICE CHAIRPERSON TAYLOR: Thank you.

21 Hi, Tom.

22 Real quick. So fixed income did really well for  
23 us when we had an up year, it did really poorly for us  
24 when we did -- had a down year. So I'm just -- what's  
25 your thoughts on that and why -- is it interest this time?

1 Is it --

2 TOM TOTH: So, Ms. Taylor, the big change and the  
3 challenges for fixed income really occurred because of the  
4 diversification benefits of fixed income relative to risk  
5 assets did not materialize particularly in 2022, with  
6 rising interest rates impacting mathematically fixed  
7 income but also risk assets.

8 I think going forward it's useful to keep in mind  
9 that historic correlations or the diversification of fixed  
10 income is going to be impacted given the new interest rate  
11 environment. But it's our belief that it over the long  
12 term will continue to provide -- you know, to serve its  
13 strategic purpose, that being downside protection relative  
14 to risk assets over a market cycle, income and liquidity  
15 for the total fund.

16 So certainly a topic of discussion as we talk  
17 about portfolio optimization and asset allocation around  
18 the ALM cycle. But we do not think that it in any way  
19 is -- the utility of fixed income -- that it lacks utility  
20 in a portfolio construction context.

21 In fact, with the new environment as we look  
22 forward, we would argue that its utility has increased  
23 meaningfully relative to where we were during the last ALM  
24 cycle.

25 VICE CHAIRPERSON TAYLOR: Then I had another

1 question on real estate. And we know that our commercial  
2 real estate in our bigger cities is having some drag on  
3 it, based on numerous factors, one of which being people  
4 are not so much in the office anymore.

5 Do you have any ideas on how we could improve  
6 those returns? Are we looking at just holding off on any  
7 more of those office spaces and putting money elsewhere?  
8 Are we looking at getting rid of the off -- what are we  
9 looking at here? Is this a permanent thing?

10 TOM TOTH: So that is a great question, Ms.  
11 Taylor, and certainly I would invite Meketa to provide  
12 their outlook as well. But from our perspective, I do  
13 think it's been a sea change in terms of the underlying  
14 fundamentals for real estate and the demand, and where  
15 that ultimately ends up in this post-COVID world  
16 particularly for office is a big question mark.

17 I think in terms of how do you drive improving  
18 results, it's probably looking at, let's call them  
19 non-core real asset opportunities. That could be in areas  
20 like infrastructure, data centers, health care,  
21 self-storage as another example. And the challenge I  
22 think for CalPERS in particular is finding appropriate  
23 opportunities at scale to drive that portfolio going  
24 forward. Offices, likely to remain under pressure. There  
25 could be the need to invest additional capital to

1 reposition or redevelopment -- redevelop certain  
2 properties. And that's -- you know, the underwriting of  
3 that has to be done at kind of an individual  
4 property-by-property basis.

5 VICE CHAIRPERSON TAYLOR: Thank you. I will  
6 definitely ask Meketa when they come up.

7 Thank you.

8 CHAIRPERSON MILLER: Great. Thank you.

9 I'm not seeing any other lights here for a  
10 request to speak. And so I will thank you very much --

11 TOM TOTH: Thank you.

12 CHAIRPERSON MILLER: -- for your statement. Very  
13 helpful.

14 And we'll welcome Meketa up now.

15 Welcome, Steve.

16 STEVE McCOURT: Good afternoon, everyone. Steve  
17 McCourt with Meketa Investment Group. Behind me are Steve  
18 Hartt and Christy Fields of Meketa.

19 Our reports are attachments 5, 6 and 7 to Item  
20 5C. I'll provide a fairly brief review of those reports;  
21 and we're available to answer any questions about any  
22 information in the reports.

23 Starting with private equity. Private equity is  
24 your asset class with the highest long-term expected  
25 returns. And today it represents about 13 percent of your

1 total fund, roughly in line with the long-term asset  
2 allocation target.

3 Your private equity program has achieved its  
4 performance objectives over the long term, returning 11.8  
5 percent per year over the past decade; 40 basis points  
6 higher than the benchmark; and well above the long-term  
7 expectations of the asset class.

8 Shorter term private equity valuations have been  
9 compressed somewhat. After a very strong 2021 and 2022,  
10 the one-year return through June 30th was negative 2.3  
11 percent. But for comparison, the three-year return  
12 smoothed out over the prior three years is 19 and a half  
13 percent per year on average.

14 So much of what we saw over the last year was  
15 a -- was a compression of valuations that had been  
16 elevated previous to the last fiscal year.

17 Importantly, to maintain the progress in the  
18 private equity portfolio, your team continues to execute a  
19 long-term strategic plan, and a number of areas of that  
20 plan were very well executed this past year as has been  
21 noted already by staff.

22 First of all, the amount of capital deployment  
23 has increased significant aligned with the now higher  
24 target allocation to private equity. Your staff has  
25 deployed roughly \$15 billion a year to the asset class the



1 last two years.

2           Secondly, in increasing proportion of those  
3 commitments you're going to more cost-efficient vehicles  
4 to get exposure to private companies. 41 percent of the  
5 capital in the last fiscal year was allocated through no-  
6 or low-cost investment vehicles.

7           Staff has worked to increase the diversification  
8 of the Private Equity Program, adding to exposure in  
9 venture growth equity in middle market buyout, areas which  
10 previous to the last couple of years CalPERS has been  
11 somewhat under-represented in the marketplace.

12           Staff continues to enhance relationship with  
13 strong sought-after partners in the asset class.

14           The program at the end of the fiscal year was  
15 invested within all policy parameters and is performing  
16 within expectations of -- within your expectations of the  
17 asset class.

18           I'll move on to real estate infrastructure and  
19 then we're happy to take questions on any of them at the  
20 end.

21           Real estate is an asset class for you with a role  
22 primarily of providing income and diversification. Today  
23 it represents about 12 percent of the total portfolio, and  
24 the large part of the real assets asset class.

25           Over the long term real estate's achieved its

1 objectives, returning 7.8 percent per year over the past  
2 decade; more than two percent higher than the current  
3 long-term expectations for returns in the asset class. It  
4 has also generated significant income over this time  
5 period.

6           Near-term returns have been more challenged for  
7 the asset class and for your portfolio as a consequence.  
8 Largely the consequence of the pandemic and the structural  
9 changes and the way that people utilize real estate in the  
10 economy today, there's been a significant dislocation in  
11 certain real estate sectors, most importantly the office  
12 sector, which been noted already.

13           In the last year your real estate portfolio  
14 returned negative 5.1 percent, about 1.1 percent below the  
15 return of the benchmark. The three-year average return  
16 however was 7 percent per year over that three-year  
17 period.

18           As we've noted before, one of the we think strong  
19 protections of your practices within your real estate  
20 portfolio is an independent valuation process of your  
21 properties which we believe is more conservative than  
22 those practices across the industry broadly. So much of  
23 the underperformance of your portfolio this year could  
24 very well be a consequence of valuation assumptions as  
25 opposed to actual performance per se.

1           We'll know a lot more once the dust settles in  
2 the asset class.

3           The real estate portfolio was invested within all  
4 policy parameters. And staff continues a strong focus on  
5 core-income-oriented properties in the strategic plan.

6           Highlighting a couple of characteristics of the  
7 industry more broadly and speaking to Ms. Taylor's  
8 questions before on office. There continues to be  
9 relatively few transactions in many sectors of the real  
10 estate marketplace. And without significant transactions,  
11 pricing and knowing where the real estate market is today  
12 is more challenging than it is when transactions are  
13 more -- at a higher volume.

14           But a couple of notes of importance. The office  
15 sector in particular has seen significant write-downs  
16 across the industry this year. Which seem appropriate.  
17 And most of the information that we receive from asset  
18 managers in this space would lead one to believe that  
19 we're a good part of the way through the write-downs that  
20 are necessary in the office sector. Doesn't mean it's  
21 going to turn around tomorrow, but it means a lot of the  
22 pain has been felt already.

23           Secondly, office as a institutional sector of the  
24 real estate market has significantly diminished in size  
25 over the last couple of decades. There's a chart in the

1 material we put together that goes back to the early  
2 2000s, 20 years ago. Office was a bit more than 40  
3 percent of the overall real estate marketplace at that  
4 time. Today, office represents about 15 percent of the  
5 overall industry, and roughly that in your portfolio as  
6 well. So the impact of office, strong or negative, simply  
7 isn't as significant today as it was 20-plus years ago.

8           And other sectors, like multi-family and  
9 industrial, have taken a much stronger position within the  
10 industry as a whole.

11           And I'll summarize as well by saying that outside  
12 the office sector, there are other sectors of real estate  
13 that continue to have strong characteristics in terms of  
14 tenant demand and rental income growth. So the  
15 dislocation within real estate is an asset-class-wide, is  
16 within specific sectors within real estate.

17           Final comments are within infrastructure, which  
18 is the other component of your real assets asset class.

19           Like real estate, infrastructure is intended to  
20 provide diversification and income to your overall  
21 portfolio. Today it represents 3 percent of your total  
22 fund and 21 percent of the real assets asset class.

23           Infrastructure has achieved its long-term  
24 investment objectives, having returned 11.2 percent per  
25 year over the past decade; 5.2 percent above the return of

1 the benchmark over that time period; and roughly 6 percent  
2 per year higher than the long-term return expectations of  
3 the asset class.

4           Near-term infrastructure has been more resilient  
5 than both real estate and private equity in this market,  
6 having returned 4.8 percent in the last fiscal year and  
7 8.8 percent on average over the last three years. Both  
8 above benchmark.

9           We note, as you noted before, that the benchmark  
10 that you use for infrastructure is the real estate  
11 benchmark, so it's a little bit like comparing apples to  
12 oranges. But nevertheless the returns relative to  
13 inflation and other benchmarks that Meketa looks at are  
14 quite competitive as well.

15           Infrastructure continues to be a strong focus of  
16 the real assets team, and the portfolio has grown  
17 considerably in recent years. In the last two years  
18 alone, infrastructure assets as a proportion of your total  
19 portfolio have increased from 1 percent to 3 percent. So  
20 very large increase particularly in the context of your  
21 total fund having increased over those -- that time period  
22 as well.

23           Infrastructure continues to be invested within  
24 all policy parameters that you've set forth.

25           I'll conclude my remarks there, and we're happy

1 to take any questions.

2 CHAIRPERSON MILLER: Great. Thank you.

3 Okay. We'll start with President Taylor.

4 VICE CHAIRPERSON TAYLOR: So thank you, Steven.

5 I know you kind of commented on this, and I know that we a  
6 couple of times have already done our write-downs and  
7 stuff. So we are probably experiencing the downturn a  
8 little quicker than everybody else.

9 What do you see or what do you think it would  
10 take to improve or make it more sustainable in commercial  
11 real estate in general? I know that that's the main part  
12 we're having trouble with is office space.

13 STEVE McCOURT: Yeah.

14 VICE CHAIRPERSON TAYLOR: But there are other  
15 problems as well because of the interests rates as well.

16 STEVE McCOURT: Yeah. I'll invite Christy up to  
17 make some comments on the market more broadly.

18 CHRISTY FIELDS: Thank you. Christy Fields,  
19 Meketa Investment Group.

20 It's hard to know exactly when the marks are  
21 going to settle out. But you're right, you've taken  
22 several quarters of write-downs, some greater in certain  
23 sectors like office, and some less. In fact, this past  
24 quarter that we have data for, office was down negative  
25 7.3 percent. Multi-family was down 1.2 percent. And you

1 had industrial at a positive 0.2 percent. So there's  
2 quite a bit of variability between the property types in  
3 the marks that are happening right now.

4           And to Steve's earlier comments, some of that's  
5 just we don't have a lot of information. The market's not  
6 giving us a lot of information right now because not a lot  
7 of things are crossing or selling. And then part of it's  
8 just the way that private real estate is appraised, how  
9 the -- what the appraisal process looks like.

10           I think your program has performed well  
11 historically. That said, there are other property types  
12 that heretofore were perhaps too small to access --  
13 CalPERS to access. And those are becoming more  
14 appropriate-sized classes for you to explore and probably  
15 to step into. And that's just part of ongoing kind of  
16 management of your underlying portfolio composition. So  
17 moving a little bit away, lightening up in office and  
18 retail, you've also had some efforts in that space and  
19 strengthening your footings in perhaps data centers  
20 perhaps and affordable housing and some other sectors.

21           So that --

22           VICE CHAIRPERSON TAYLOR: Don't need affordable  
23 housing there. I like the idea.

24           (Laughter).

25           VICE CHAIRPERSON TAYLOR: But go ahead.

1 CHRISTY FIELDS: Well, they're some of the best  
2 supply and demand fundamentals there, as we've heard from  
3 other public commenters today. Affordable housing is --  
4 we're deeply in need of more affordable housing. So  
5 investment there should be sustained for quite a while.

6 VICE CHAIRPERSON TAYLOR: Thank you.

7 CHRISTY FIELDS: Um-hmm.

8 CHAIRPERSON MILLER: Okay. And Director Pacheco.

9 COMMITTEE MEMBER PACHECO: Yes. Thank you.

10 Thank you, Steve. Thank you for this information.

11 I just go back to the -- to your comment -- back  
12 to your private equity part. Given the effects of  
13 inflationary pressure and interest rates and also  
14 geopolitical concerns, you mentioned in your comments in  
15 the near -- in the near term PE returns have been  
16 compressed and evaluations have been sort of in a decline,  
17 you know, recently.

18 What are your thoughts on, you know, PE --  
19 private equity returns and evaluations reversing in the  
20 event that inflationary pressure subsides and interest  
21 rates perhaps plateau? If you can answer that or  
22 elaborate.

23 STEVE McCOURT: Yeah, I'll make a few comments.  
24 And I would like Steve Hartt to come up as well to add any  
25 color to them.



1 Private equity as an asset class saw remarkable  
2 returns and appreciation in 2021 and 2022 relative to  
3 other asset classes. And so a lot of the compression that  
4 we've seen in the last year - and there hasn't been a  
5 lot - simply reflects the equalization of valuations  
6 across asset classes. Whether or not there's more  
7 compression to come, it's hard to know. But you've hit on  
8 the major factors that would inform that, which is --  
9 which is economic growth and inflation, slash, interest  
10 rates.

11 Generally speaking, the asset class as a whole  
12 modestly benefits from lower interest rates, both in terms  
13 of being able to execute deals and doing so at a cost of  
14 capital that's lower, but also with respect to valuations,  
15 which are negatively impacted by rates that are higher.

16 So the longer rates remain high or if they go any  
17 higher, that's probably a sign that there's additional  
18 compression to occur. If we have reached a peak in rates  
19 and inflation has been tamed, and 2024 will see a  
20 combination of continued economic growth with lower  
21 inflation interest rates, that should be a reason for  
22 private equity and broader private market valuations to  
23 expand from here.

24 STEVE HARTT: Sure. Steve Hartt, Meketa  
25 Investment Group. I'd just add a little bit to those

1 comments.

2           What we had observed in 2021, '22 and then come  
3 down '23, '24, a large portion of that has happened in  
4 venture capital and the growth equity markets. Buyouts  
5 have been somewhat more stable. To the extent that the  
6 pressures on interest rates, et cetera, subside and start  
7 to go the other direction, I'd imagine that the growth  
8 equity side in venture capital to some extent to show  
9 disproportionate appreciation out of the whole private  
10 equity area.

11           COMMITTEE MEMBER PACHECO: Thank you for both of  
12 your comments. I appreciate that very much.

13           CHAIRPERSON MILLER: Okay. No more questions or  
14 comments from the Board. So I'll thank you all. You've  
15 been very helpful.

16           And at this point we'll recess for lunch and  
17 we'll come back at 1:30 and get back to it.

18           Thank you all.

19           (Off record: 12:29 p.m.)

20           (Thereupon a lunch break was taken).

21           (On record: 1:31 p.m.)

22           CHAIRPERSON MILLER: We're reconvening the  
23 Investment Committee. So we'll jump right back in. And I  
24 believe we're at 5D, Global Fixed Income Annual Program  
25 Review.

1 CHIEF INVESTMENT OFFICER MUSICCO: Yes, great.  
2 Thank you.

3 So as is required by our investment policy, this  
4 agenda item provides information on global fixed income's  
5 role in the overall portfolio, the benefits and the risks  
6 of investing in income and the current market environment  
7 of the asset class.

8 And Arnie Phillips is up here to walk us through  
9 that.

10 Thanks, Arnie.

11 MANAGING INVESTMENT DIRECTOR PHILLIPS: Great.  
12 Thanks, Nicole.

13 Good afternoon, everyone.

14 I guess I'll start off with a quick -- I ran into  
15 our old friend Rob Feckner on Friday. He looked good. He  
16 was in good spirits. It was good to see and chat with  
17 him. So very unexpected and nice. So...

18 Probably more enjoyable to talk about Rob than  
19 fixed income the last couple of years.

20 (Laughter).

21 MANAGING INVESTMENT DIRECTOR PHILLIPS: But  
22 that's why we're here today. So let me see if I can --

23 COMMITTEE MEMBER TAYLOR: Did you golf? That's  
24 the question.

25 MANAGING INVESTMENT DIRECTOR PHILLIPS: He was

1 volunteering at the golf tournament. I was simply  
2 watching.

3 CHAIRPERSON MILLER: Ah.

4 MANAGING INVESTMENT DIRECTOR PHILLIPS: So, yeah.  
5 (Thereupon a slide presentation).

6 MANAGING INVESTMENT DIRECTOR PHILLIPS: So today  
7 we're going to go through the fixed income asset class.  
8 We'll do a quick overview.

9 The market environment's been hit pretty well by  
10 Nicole and Lauren, but I did have a couple quick thoughts  
11 there. We'll go through performance and risk analysis,  
12 which has also been hit a little bit, but we'll get a  
13 little bit more micro into the actual segments. And then  
14 at the end we'll go through some operational updates and  
15 some of the initiatives.

16 --o0o--

17 MANAGING INVESTMENT DIRECTOR PHILLIPS: So I  
18 think it's always good to -- I always remind myself why  
19 we're doing what we're doing. And for me it starts with  
20 the strategic asset allocation and our role in that. And  
21 the one that I always think of and the one that frankly  
22 hasn't worked the last couple years has been to be an  
23 economic diversifier. I guess diversification means doing  
24 something different. And being down the last -- you know,  
25 in 2022 and flat this year I guess is something different,

1 but it's not what we're trying to do. But it is part of  
2 the role of fixed income; and history says - and I agree  
3 with Tom - that, you know, we think at these interest rate  
4 levels we can be that diversifier going forward. But  
5 liquidity has become more paramount as we put leverage on  
6 as we go into more private assets. So that role will  
7 continue; and then at the interest rates we're at, we  
8 actually can provide some income now.

9 But for me, whenever I start to doubt things, I  
10 come back to why we're here. And those are really the  
11 three reasons why.

12 So originally when I started here hundred years  
13 ago we had just a single portfolio. We've now broken that  
14 portfolio into five portfolios. We have a U.S. Treasury  
15 segment, a mortgage segment, an investment grade corporate  
16 segment, a high yield segment, and the new -- to the most  
17 recent year, the emerging market debt segment.

18 Plus we have an opportunistic mandate which we'll  
19 talk a little bit about in closed session.

20 So let's see.

21 --o0o--

22 MANAGING INVESTMENT DIRECTOR PHILLIPS: So I do  
23 really like the format that the private asset's used. I  
24 think it flows really nicely. And, you know, as we go  
25 through each of these pie charts you'll be able to get a

1 little bit better idea of each of the segments and how  
2 they're diversified or not, how they're built.

3           So this pie chart just shows that currently fixed  
4 income as of June 30th was about 27 percent of the total  
5 fund assets.

6           The biggest change here is our increased use of  
7 external managers. We've historically been about 95  
8 percent internally managed. The number's about 78 percent  
9 today. We've funded external managers in both our high  
10 yield and emerging market debt segments. Simply, we see  
11 opportunities in both of those segments. For us it always  
12 comes down to identifying the opportunity and then  
13 figuring out the implementation. And in both of these  
14 cases, given the resources needed, we felt it was best to  
15 do them externally. And, you know, with the move to  
16 active management in the high yield segment, which  
17 occurred July 1st of this year, all of our segments are  
18 now actively managed except for the treasury segment,  
19 which is largely used as a financing vehicle for the  
20 leverage and to provide liquidity.

21                           --o0o--

22           MANAGING INVESTMENT DIRECTOR PHILLIPS: So Market  
23 Environment. Lauren and Nicole covered this quite a bit.  
24 Like everybody in the world, we're watching inflation to  
25 see if and when that continues to fall.

1           The -- I guess the data point that is maybe new  
2 from when these slides were created - and I didn't hear  
3 mentioned earlier - oil is up about 30 percent in the last  
4 three months. I think we all see it when we go to the  
5 pumps. Especially at the pump, the gasoline can act like a  
6 tax for people. And so, we're definitely monitoring that  
7 to see how that may impact the economy going forward and  
8 if people start having to substitute away from doing  
9 something else to put gas in their tank. But a 30 percent  
10 rise in 30 months is pretty aggressive.

11           Jean mentioned the private debt, and Ms.  
12 Middleton asked the question. And we do view that as a  
13 diversified version of fixed income, certainly the  
14 floating rate aspect. And I was thinking as Jean was  
15 answering that question - and completely agree with  
16 everything she said - one of the things we've been  
17 watching is the fallout from the Silicon Valley Bank and  
18 the finan -- the banking crisis back in March. And it  
19 appears we're going to get more of regulatory environment  
20 around banks, more capital required. That's likely to  
21 push landing more towards Jean's private debt market. And  
22 so I think we'll continue to monitor that. But, you know,  
23 Jean mentioned getting a floating rate plus 6 or so  
24 percent. That can put a lot of pressure on weaker  
25 companies, and so that is something we'll definitely be





1 fund actually has some tracking error. It's very low  
2 tracking error and it's facilitating our use of liquidity  
3 and leverage in our total fund. But that's why we have a  
4 little bit of tracking error and what is marketed as an  
5 index fund.

6 --o0o--

7 MANAGING INVESTMENT DIRECTOR PHILLIPS: Did I go  
8 too far. I can't see.

9 All right. So the other risk-free, for the most  
10 part, segment we have is our agency mortgage-backed  
11 securities segment, also extensively used in our liquidity  
12 and leverage program. In a lot of cases, agency mortgages  
13 can be even more liquid sometimes than actual U.S.  
14 Treasuries, and so our total fund team does use our agency  
15 mortgages as part of our financing and leverage book.

16 The mortgage segment, as the pie chart shows,  
17 it's primarily, you know, about 92 percent agency  
18 mortgages. So Fannie Mae, Freddie Mac and Ginnie Mae.  
19 There are some commercial mortgage-backed securities in  
20 there and some asset-backed securities. And so while  
21 there's -- those are technically credit assets and have a  
22 little bit more risk, they're a very small portion of that  
23 portfolio. So this highly liquid segment has very little  
24 risk overall.

25 --o0o--

1           MANAGING INVESTMENT DIRECTOR PHILLIPS: So you're  
2 going to hear the same message on these charts for each of  
3 the segments. It shows return relative to volatility.  
4 What it doesn't relay very well is if you look at the X  
5 axis, the volatility line, the scale's while it looks big  
6 is actually very small. You know, 5.0 to 5.1 is a pretty  
7 sharp pencil. And so what it really shows on -- and  
8 you'll see it in all the other segments too -- is that  
9 there's not a lot of tracking error relative to the  
10 benchmarks; and we have performance on top of that. So  
11 risk-adjusted returns are quite strong.

12                   --o0o--

13           MANAGING INVESTMENT DIRECTOR PHILLIPS: So this  
14 slide shows the different breakouts of tracking error and  
15 the different risk attributes. The mortgage segment is  
16 actively managed but doesn't currently have a lot of risk  
17 in the portfolio, which is shown by the low expected  
18 tracking error.

19                   --o0o--

20           MANAGING INVESTMENT DIRECTOR PHILLIPS: Then it  
21 gets a little more interesting as we get away from our  
22 more risk-free segments into our kind of credit segments.  
23 So slide 11 here covers our investment grade corporate  
24 segment. And you can see now the pie charts actually  
25 start to show something different than one or two items.

1           This one shows at a kind of high level the  
2 different industries and sectors we're exposed to. And so  
3 you can see, you know, pretty well diversified, the  
4 largest piece being the financials, which unfortunately  
5 did ding us a little bit in March. But overall, a very  
6 well diversified by an industry standpoint segment.

7           The upper right - and Nicole touched on it, Tom  
8 touched on it from Wilshire - that shorter periods can  
9 sometimes yield results that we don't like. And, you  
10 know, Tom pointed out that income was, you know, on a  
11 10-year basis in the top quartile, but much lower given  
12 our duration profile in more recent periods. And I think  
13 this IG segment is a -- in that same kind of vein of  
14 thinking. When you look at the 10-year and five-year  
15 returns, they're extremely strong.

16           We were defensive this year in this portfolio.  
17 You know, Lauren laid out all the reasons why you might be  
18 defensive. Federal Reserve raising rates over 500 basis  
19 points, inflation, a war - all those kind of things led us  
20 to be pretty defensive in this portfolio, and frankly  
21 hasn't played out yet. And so that explains sort of the  
22 one-year number of down about 40 basis points. We did get  
23 hit a little bit through the -- probably half of that  
24 through the banking crisis in March.

25           But overall again, long term, one of the better

1 managers out there; but investing is a lot of "What have  
2 you done for me lately," and unfortunately this was the  
3 one segment that within this year struggled.

4 --o0o--

5 MANAGING INVESTMENT DIRECTOR PHILLIPS: So again,  
6 this one shows, you know, our fund -- our segment has had  
7 higher returns with lower volatility. But again that  
8 volatility measures pretty precise and so doesn't tell me  
9 a lot other than the risk-adjusted returns are good over  
10 the five-year period.

11 --o0o--

12 MANAGING INVESTMENT DIRECTOR PHILLIPS: And 13  
13 here. So again, I mentioned we were defensively  
14 positioned earlier in the year. Given how the economy has  
15 performed, how employment has remained pretty strong, this  
16 portfolio has been repositioned to a lot more neutral than  
17 it was in, say, the first half of the year. And so when  
18 you look at a tracking error of 43 basis points, pretty  
19 low, because at June 30th we had gotten to a much more  
20 neutral position.

21 --o0o--

22 MANAGING INVESTMENT DIRECTOR PHILLIPS: So slide  
23 14 covers our high yield segment. So going back to the  
24 2017 strategic asset allocation was when the high yield  
25 segment was created. At the time, it was really just

1 trying to harvest the high yield risk premia, the beta  
2 there. And so it was run passively, except we tried to  
3 cover the transaction costs. And high yield is one of the  
4 less liquid fixed income assets, so the transaction costs  
5 can be large at times. But as you can see, we've been  
6 able -- through the 1-, 3- and 5-year area been able to  
7 cover those transaction costs and add some value.

8 Nicole mentioned this was our best performing  
9 segment this year. And it -- but also it -- you know, as  
10 we reevaluated opportunities, while it was set up to be  
11 sort of passive beta focused in 2017, we think the right  
12 positioning in high yield - and you'll see it in EM debt  
13 also - is to be more active. And so as of July we moved a  
14 vast portion of this segment to more actively managed.

15 --o0o--

16 MANAGING INVESTMENT DIRECTOR PHILLIPS: So you  
17 will see tracking error -- again, risk adjusted, good --  
18 but tracking error which shows at only 18 basis points  
19 in -- at June 30th. There's about three times that today,  
20 which is still very low. I think -- we have about 90  
21 percent of the assets now externally managed. In talking  
22 with those managers, they're pretty defensive also. And  
23 so -- waiting for better opportunities. And so that would  
24 explain -- we would expect tracking error to be in the low  
25 hundred area. So them being call it 45 or 50 shows

1 they're pretty defensive also at this point.

2 --o0o--

3 MANAGING INVESTMENT DIRECTOR PHILLIPS: So EM  
4 Sovereign. So this was the new segment, Nicole mentioned  
5 it in the trust level review. It was our second best  
6 performing segment. It got masked a little bit in the  
7 income returns, kind of hurting us in a sense. The first  
8 six months of the year, as we were building out this  
9 portfolio very large size, we were using a total fund  
10 transition account. As you're getting lumpy positions  
11 relative to a benchmark, you do it outside of the asset  
12 class. It was a very solid performer in the first six  
13 months of the year. That performance shows up at the  
14 total fund level, does not show up in the income level.

15 It wasn't going to take our income level from  
16 flat to five percent. It was going to add, you know, 10  
17 or 20 or 30 basis points. But some of that performance at  
18 the income level was lost.

19 --o0o--

20 MANAGING INVESTMENT DIRECTOR PHILLIPS: So  
21 looking at this one, you can see the diversification by  
22 global region. Again pretty well diversified. The  
23 difference from our old sovereign benchmark, which was all  
24 investment grade, this is call it 50-50, kind of half  
25 investment grade, half non-investment grade but pretty

1 well diversified geographically.

2 --o0o--

3 MANAGING INVESTMENT DIRECTOR PHILLIPS: Again,  
4 looking at the -- because it's an active segment, actively  
5 managed and a more volatile asset class in general, you  
6 would expect to see higher tracking error. It is higher  
7 than the other segments. But has been very well  
8 performing.

9 --o0o--

10 MANAGING INVESTMENT DIRECTOR PHILLIPS: Which  
11 brings me to the last slide. Well, next to the last  
12 slide.

13 So looking back at the past year, it certainly  
14 was a rough year from an absolute return basis. But some  
15 of the things that frankly you guys did with the SAA were  
16 actually very beneficial. The -- when you look at our  
17 SAA, every quarter we go through and our total fund group  
18 rebalances. So anything that's done very well gets sold  
19 to buy the things that didn't do as well. And so that's  
20 been happening since post-COVID when -- you know, 10 years  
21 we're at 1 and a half percent, 30 years we're at 2  
22 percent.

23 As those asset classes were doing well as  
24 equities were doing poorly, we were selling bonds and  
25 buying equities. And I think that gets lost just because

1 it's sort of business as usual for us. But there is that  
2 kind of, you know, sell high, buy low mentality in our  
3 quarterly rebalance.

4 But when I look at what all of you and your  
5 predecessors did in 2021 was that the segments that we --  
6 within fixed income that we lowered, which were treasuries  
7 and mortgages, were our two worst-performing assets this  
8 year. When you look at what did well, which was high  
9 yield, which the SAA increased, the creation of the  
10 emerging market debt segment, those were our two best  
11 asset classes within fixed income.

12 So the SAA in '21 -- 2021, at least for the  
13 current year, was actually beneficial. It lowered our  
14 worst performing segments and increased our highest  
15 performing segments. So time will tell if that holds  
16 longer term, but it was certainly beneficial this year.

17 --o0o--

18 MANAGING INVESTMENT DIRECTOR PHILLIPS: The other  
19 area that I -- you know, I'm very proud of is our  
20 investment grade analyst team. They did fundamental  
21 analysis on these companies. And you'll see on the next  
22 slide all the ESG considerations we do when deciding  
23 whether to buy a company or not. But that expertise is  
24 available to our private assets also. And so Nicole had  
25 an opportunity to look at a large check in the private



1 equity arena and our analyst in Lou Zahorak's investment  
2 grade team spent a couple months and hundreds of hours  
3 helping to analyze that opportunity. And so from a total  
4 fund standpoint, I think that's -- you know, what we  
5 started working on when Ben got here, we continued with  
6 Nicole. Just getting the right people at the table to  
7 make decisions. And in this case, we have fundamental  
8 analysts that follow sectors that when we get an  
9 opportunity in a private asset, it may be just questioning  
10 the assumptions of our general partner: Are they being  
11 conservative? Are they aggressive? You know, what do we  
12 think? Or it could be literally "I like this company" or  
13 "I don't like this company."

14 And so we have been doing that and continue to do  
15 that and look forward to doing it. It's a lot of work in  
16 addition to a day job, but it's actually pretty  
17 interesting for the folks when they get to do it; and I  
18 think it's really helpful to the total fund.

19 And then the thing we're going to be focused on  
20 is, you know, the dollar value-add concept and just  
21 looking for ways like we've done in private equity -- or  
22 in high yield what we did in emerging market debt to just  
23 find ways to potentially add more alpha.

24 --o0o--

25 MANAGING INVESTMENT DIRECTOR PHILLIPS: And then

1 the last slide is -- I think there's two more slides  
2 actually.

3 No, this is the last slide.

4 So what are we going to be doing going forward?  
5 So, you know, a lot of the work we do gets supplemented  
6 with what everybody else is doing. And so we're working  
7 really close with Peter Cashion's team on sustainable  
8 investing. We're working close on the ESG project to kind  
9 of standardize everything a lot -- you know, it's --  
10 again, for us ESG is sort of business as usual. It's how  
11 we look at every company. But it -- we can learn from  
12 what the other asset classes are doing too and find a  
13 better way to build the mousetrap, and so we continue to  
14 do that work.

15 Strategic alliances, we're -- you know, Dan's  
16 leading the effort to get some partners out there that we  
17 can leverage their expertise, whether it's accessing their  
18 staff, getting knowledge transfer, getting training -  
19 whatever it may be - you know, we're looking at that and  
20 would anticipate we implement some of those opportunities  
21 this year.

22 And then, you know, the last thing I mentioned on  
23 the prior slide, we're just looking for ways to continue  
24 to add alpha and take what we knew yesterday and hopefully  
25 apply it better today to do a better job.

1                   --o0o--

2                   MANAGING INVESTMENT DIRECTOR PHILLIPS: And then  
3 the last slide, which I've now mentioned three times the  
4 last slide - this one actually is the last slide - shows  
5 the work we're doing in the ESG and the sustainable  
6 arenas; and just really appreciate the partnership with  
7 Peter's team to do this. We're also trying to leverage  
8 external partners. If we don't have to rebuild the wheel  
9 on something, there's no sense to do that. So there's a  
10 lot of work going on there. But, you know, the  
11 sustainable side and finding a way to the net zero '30 and  
12 '50 is somewhat new to us. The ESG work is business as  
13 usual.

14                  With that, I think that truly is the last slide,  
15 so I'll stop there.

16                  CHAIRPERSON MILLER: Okay. Thank you.

17                  I've got Director Pacheco.

18                  COMMITTEE MEMBER PACHECO: Thank you, Arnie, for  
19 your presentation on the fixed income.

20                  I want to go back to the market environment  
21 slide, I think page five of 21. On the third bullet you  
22 said: "The impact on consumer spending following the  
23 resumption of the student loan repayment."

24                  You know, I read an article recently over the  
25 weekend of the student loan re -- re -- starting up. And

1 actually it stated that it would -- there'll be a drag on  
2 the economy.

3           How would that play out in terms of our -- with  
4 respect to our portfolio in the fixed income area?

5           Thank you.

6           MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah.  
7 And Lauren's probably better positioned to answer. Yeah,  
8 I've seen numbers as much as maybe four-tenths to half a  
9 percent on GDP if -- in longer term. But I think it's  
10 broader than just fixing them. It's really its impact on  
11 the overall economy.

12           COMMITTEE MEMBER PACHECO: Right.

13           MANAGING INVESTMENT DIRECTOR PHILLIPS: And the  
14 area that we're continuing -- you hear that stat that  
15 something like 40 percent of Americans can't handle a, you  
16 know, 400-dollar surprise payment.

17           Resumption of a student loan payment will not  
18 help that cohort. So we're certainly monitoring that; and  
19 again Lauren can answer better. But it appears -- you  
20 know, and I think the -- frankly the part we  
21 underestimated when we had our defensive position was the  
22 amount of fiscal stimulus that came through. You see the  
23 monetary increase of interest rates, and it's pretty  
24 straightforward that's a negative.

25           But I think we severely underestimated how much

1 money was put into people's pockets. And it appears at  
2 the lower income level that's starting to dwindle. And so  
3 if you have that, you know, money in your bank going down,  
4 filling up your gas tanks going up, you now have to start  
5 paying student debt, it's probably going to matter. And  
6 again, probably doesn't matter as much to everybody,  
7 but -- but a lot of times the economy moves at the  
8 marginal area, and so it's definitely something we're  
9 monitoring and it's not a positive.

10 COMMITTEE MEMBER PACHECO: Right.

11 MANAGING INVESTMENT DIRECTOR PHILLIPS: And the  
12 lagged impact of monetary policy, we may or may not still  
13 see that come. But if that comes in addition to this hit  
14 to resumption of payments, it could be just another sort  
15 of negative to the general economy, which any of our risk  
16 assets will be exposed to.

17 COMMITTEE MEMBER PACHECO: Okay. And so it would  
18 be something we would have to be monitoring and  
19 constantly. Thank you for that. I just have one more  
20 question.

21 Back on page 21 of 21 under your MBS portfolio,  
22 there's something called we're participating a new  
23 issuance of high social bond -- for the housing -- Home  
24 Ready and Home Possible program.

25 Can you elaborate a little bit about that

1 program.

2 MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah. My  
3 mortgage guy could do it better.

4 But Ginnie Mae actually came out today with a  
5 program where they're going to start providing more social  
6 data --

7 COMMITTEE MEMBER PACHECO: Okay.

8 MANAGING INVESTMENT DIRECTOR PHILLIPS: -- which  
9 is really helpful, as I think we've all heard through all  
10 these -- any time we get into whether it's emerging  
11 managers or sustainable, it's getting access to data is  
12 often our biggest challenge. So it appears Ginnie Mae's  
13 going to help out there.

14 But a lot of times in the mortgage side the  
15 social investing has to do with low income housing access.  
16 And so it's something when we're looking at our social  
17 impact, we're trying to get more of that data. And if we  
18 just own a generic pool of a thousand loans, it's  
19 sometimes hard to tell. You can take -- okay, so if  
20 Fannie Mae does 18 percent social -- and we could just  
21 assume it's 18. But the reality is our thousand loans  
22 might have none. So Ginnie Mae's effort to increase this  
23 transparency should help us do a better job there.

24 If it's simply a Fannie Mae, Freddie Mac or  
25 Ginnie Mae loan, it -- in essence we can -- those

1 borrowers will have a different prepay profile, which  
2 could be advantageous or not depending on what we're  
3 paying for the pool. But it's something that -- I won't  
4 say we can get it for free, because people will price  
5 accordingly. But if it's packaged in something that's  
6 guaranteed by government, it's something we can  
7 potentially take advantage of. But the first real part of  
8 it is getting the data to be able to analyze it. And it's  
9 certainly getting better over time. But we're always  
10 cautious of -- and I think we've seen it through all of  
11 the ESG market, the kind of greenwashing of, you know,  
12 it's not really what it said it was. But I -- I think if  
13 it's coming from the either Fannie Mae, Freddie Mac or  
14 Ginnie Mae, hopefully it's something we can trust.

15 But new product literally as of today in Ginnie  
16 Mae's situation. So it's something we will -- we'll take  
17 an eye on. But generally it has to do with low income  
18 housing.

19 COMMITTEE MEMBER PACHECO: Very good then. Thank  
20 you very much, Arnie.

21 MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah.

22 CHAIRPERSON MILLER: Okay. President Taylor.

23 VICE CHAIRPERSON TAYLOR: Thank you, Chair  
24 Miller.

25 So generally it has to do with low income

1 housing. So okay. So that's a good thing I guess.

2 I was going to ask you -- you had mentioned - and  
3 I think you were looking at market environment at the  
4 time, but you mentioned - which, yes, I've seen it too -  
5 fossil fuel up 30 percent.

6 So what is currently driving this? Because  
7 there's usually a reason.

8 MANAGING INVESTMENT DIRECTOR PHILLIPS: So simple  
9 supply and demand is the obvious answer, but --

10 VICE CHAIRPERSON TAYLOR: Yes. But have they  
11 choked off supplies?

12 MANAGING INVESTMENT DIRECTOR PHILLIPS: A little  
13 bit. And I think it's -- again the transition from brown  
14 to green, from fossil fuels to not, we knew was not going  
15 to be smooth. And typically what happens when oil prices  
16 go up is you see the less efficient, whether its fracking,  
17 whether it's older wells that don't yield as much, but at  
18 a certain dollar price become usable again. A lot of that  
19 capacity has gone away. And, you know, in the long run is  
20 good thing because we're trying to transition. But in a  
21 supply-demand imbalance it can cause the supply side to  
22 kind of drag a little bit longer or more than it would  
23 have. And so the Saudis and others have cut back  
24 production, which has really driven up the price.  
25 Traditionally you would have seen a reaction from these



1 sort of at-the-margin players. And we're seeing less of  
2 that at least currently.

3 And so, again, I think it's a -- as Nicole said,  
4 we don't get straight line 7 percent returns every year.  
5 But the transition to a more sustainable world probably  
6 will have some volatility with it. And I think that's a  
7 little bit of what we're experiencing today.

8 VICE CHAIRPERSON TAYLOR: Okay. So basically  
9 what you're telling me is that the old fracking or the old  
10 wells that would cost too much to use but would be used in  
11 a time like this are not there now?

12 MANAGING INVESTMENT DIRECTOR PHILLIPS: Again,  
13 way out of my area of expertise to know that --

14 VICE CHAIRPERSON TAYLOR: But we don't know that  
15 for sure?

16 MANAGING INVESTMENT DIRECTOR PHILLIPS: -- and we  
17 should get our oil and gas person. But that's what I'm  
18 reading, is that -- you know, that usually that swing  
19 capacity is either slower to come in or is not going to  
20 come in. And the reality is is a lot of the -- the owners  
21 of these companies have gotten the message too that the  
22 transition's coming. I mean we even see what the Saudis  
23 doing, a lot of diversification of their economy, that the  
24 stock market and others have rewarded companies that have  
25 taken a lot of this capacity off line and not done

1 exploration. And so I think it just -- you don't know the  
2 extent of it until you start to see a supply-demand  
3 imbalance, and --

4 VICE CHAIRPERSON TAYLOR: There's a long  
5 conversation about that, because I'm well aware that  
6 there's lots of new exploration going on. So that sounds  
7 a little iffy. But I am seeing it at the gas pumps,  
8 that's for sure.

9 MANAGING INVESTMENT DIRECTOR PHILLIPS:

10 Absolutely.

11 VICE CHAIRPERSON TAYLOR: It's almost six bucks a  
12 gallon right now. So --

13 MANAGING INVESTMENT DIRECTOR PHILLIPS: Yes.

14 VICE CHAIRPERSON TAYLOR: All right. Thank you.

15 CHAIRPERSON MILLER: Okay. Director Rubalcava.

16 COMMITTEE MEMBER RUBALCAVA: Thank you, Mr.

17 Chair.

18 I want to follow-up back on President Taylor's  
19 question a little bit. In your response you mentioned the  
20 transition from -- I guess from oil to green economy is  
21 not going smoothly. So my question I guess is, are there  
22 opportunities -- are we seeing opportunities to facilitate  
23 bonds or fixed income to those companies I guess who are  
24 working on that transition? And if not, we have policies  
25 or what can we do in that arena?

1 Thank you.

2 MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah. So  
3 if -- I misspoke if I said it is not going smoothly,  
4 because I do think the transition is working. But where I  
5 think it -- you get the wiggleness is when you get the --  
6 either the supply or the demand side changing and we just  
7 have less players there to maybe equalize it.

8 As far as opportunities, I mean, we've seen the  
9 lawsuit this week on some of the promises of some of the  
10 oil companies in California going after them. So again, a  
11 lot of it comes down to data and being able to, I guess,  
12 trust and verify in a sense. And for us, the -- certainly  
13 the green opportunities present themselves -- and maybe  
14 Nicole or Dan's even better prepared to answer this -- but  
15 will present themselves in probably a lot of our asset  
16 classes. You'll see those opportunities and equities.  
17 Hopefully we'll see them in the infrastructure area.

18 Certainly we could see them in the bond area. But  
19 they'll often be, you know, a company raising debt that  
20 probably isn't specifically targeted for a certain project  
21 sometimes and we just know they're going to ultimately use  
22 those proceeds to do what they're doing.

23 But I do think we will continue as an  
24 organization see those opportunities across all of our  
25 asset classes. And, you know, for us it's the ESG part

1 going into our evaluation of the fundamentals of the  
2 company and then, given our view of that, do we think  
3 we're being appropriately compensated at whatever level  
4 the bond is trading at.

5 MEMBER RUBALCAVA: Thank you.

6 CHAIRPERSON MILLER: Okay. I don't see any more  
7 requests from the Board to speak.

8 And thank you. Great presentation again. I  
9 really enjoy this style of presentation and the kind of  
10 dialogue that we can have around it. It's very helpful.

11 MANAGING INVESTMENT DIRECTOR PHILLIPS: Me too.  
12 I enjoy the Q&A. So thank you.

13 CHAIRPERSON MILLER: Thank you.

14 Okay. And next up we'll have Global Public  
15 Equity Annual Program Review.

16 CHIEF INVESTMENT OFFICER MUSICCO: Excellent. So  
17 of similar fashion where we're going to review -- give you  
18 an update market environment portfolio performance in this  
19 analysis as well.

20 Oh. Wilshire's -- I believe Wilshire may be  
21 commenting on fixed income. Sorry.

22 Okay. Sorry about that.

23 TOM TOTH: Good afternoon. Tom Toth with  
24 Wilshire Advisors. I will keep my comments brief, as you  
25 have Wilshire's opinion letter in your package as

1 Attachment 2.

2 Just to summarize, we believe the global fixed  
3 income program is managed in an effective and risk  
4 conscious manner, leveraging the expertise of the senior  
5 management team.

6 We did want to point out that the size of the  
7 internal fixed income team remains a risk factor,  
8 something we've talked about in past reviews in  
9 continually to successfully manage the portfolio.

10 The team is actively bolstering the resources  
11 through a request for new positions and recruiting to fill  
12 open positions. However, the tight labor market and a  
13 lengthy recruiting process does remain a challenge.

14 On page 4 of the opinion letter, you'll note a  
15 chart measuring the rolling correlation of CalPERS income  
16 and growth portfolios. And this goes a bit to Chair  
17 Taylor's question. Correlation measures, the degree to  
18 which assets move together. A lower level of correlation  
19 is more diversifying when constructing a portfolio. And  
20 as I mentioned earlier, we expect that correlation to  
21 moderate, improving the diversification benefits of high  
22 quality fixed income.

23 Utilizing Wilshire's manager research scoring  
24 framework, which is the same framework we've used in our  
25 reviews in years past, it looks at the investment team,

1 their sources of information, how they forecast security  
2 prices going forward, portfolio construction and  
3 implementation. Our assessment of the program places it  
4 in the third decile. The score reflects a reduction in  
5 information gathering resources and a modest decrease in  
6 forecasting. The program continues to exhibit very strong  
7 portfolio construction and implementation scores. And  
8 overall a third decile score is, to be clear, a very  
9 strong score, reflecting the experienced team in place and  
10 their success and managing the portfolio over a long  
11 period of time.

12 Be happy to stand for questions.

13 CHAIRPERSON MILLER: Okay. I'm seeing no -- oh.

14 No. Okay.

15 No questions.

16 TOM TOTH: Thanks very much.

17 CHAIRPERSON MILLER: Thanks.

18 CHIEF INVESTMENT OFFICER MUSICCO: So now we will  
19 ask Simiso join us to review our global equity program.

20 Thanks, Simiso.

21 (Thereupon a slide presentation).

22 MANAGING INVESTMENT DIRECTOR NZIMA: Thank you,  
23 Nicole.

24 Good afternoon, members of the Investment  
25 Committee. Simiso Nzima, CalPERS staff.

1           Today I'm going to walk you through the Global  
2 Public Equity Annual Program Review.

3                           --o0o--

4           MANAGING INVESTMENT DIRECTOR NZIMA: I'm going to  
5 cover the overall program review, talk a little bit about  
6 the market environment, spend some few minutes on  
7 portfolio performance and then on operational updates.

8                           --o0o--

9           MANAGING INVESTMENT DIRECTOR NZIMA: So starting  
10 with the role of global public equity. Global public  
11 equity provides exposure to economic growth. It is a core  
12 role for the total fund portfolio: One, to deliver  
13 capital appreciation over the long term and the operative  
14 way they're being in long term; and, two, as a source of  
15 liquidity for total fund cash flow needs.

16           The 2017 asset liability management process  
17 divided global public equity into two distinct segments,  
18 the cap-weighted segment and the factor-weighted segment.  
19 The two portfolio priorities that drove that decision were  
20 protecting the fund -- funded ratio that is mitigating the  
21 impact of severe drawdown risk on total fund; and the  
22 second priority too was on stabilizing employer  
23 contribution rates.

24           At the time when the segments were created, the  
25 funded status for the PERF was at 68 percent and there was

1 concern and fears that if the equity market were to  
2 experience a severe drawdown, the funded ratio could fall  
3 below 50 percent, into what is known as a death spiral.  
4 As a result, the two segments were created and the  
5 factor-weighted segment was purposefully built to have a  
6 lower volatility and lower beta than the cap-weighted  
7 segment.

8           Moving on to the key metrics. 73 percent of the  
9 portfolio is in cap weighted and 27 percent is a factor  
10 weighted. Most of the assets are internally managed,  
11 which is really a low cost way.

12           And then the Investment Beliefs. The investment  
13 beliefs just touch mostly on our portfolio management  
14 principles around risks - returns, costs and investment  
15 horizon as it relates the sustainability principles.

16           --o0o--

17           MANAGING INVESTMENT DIRECTOR NZIMA: Moving on to  
18 the market environment. You've heard a lot today around  
19 inflation around the Federal Reserve. And here we are  
20 today, we're still waiting for the most widely anticipated  
21 recession in history. Why it hasn't arrived, that clouds  
22 continue to float above equity markets.

23           Talk has moved from a hard landing to those of a  
24 soft landing, and now to no landing at all. The truth is,  
25 no one really knows what will happen given that the



1 different macroeconomic indicators are giving diverging  
2 views.

3           While inflation is decelerated from about 9  
4 percent in June last year to about 3.7 percent in August  
5 this year, it is still materially above the Fed's 2  
6 percent target. It is important though to note that the  
7 Fed's 2 percent inflation target is not mandatory. The  
8 mandate of the Fed is really to maintain price stability  
9 and maximum employment. So there's really no requirement  
10 for the Federal Reserve to get inflation down to 2  
11 percent. So we'll see whether they'll actually do  
12 something about that.

13           The financial markets as of now appear to be  
14 discounting a higher for longer federal funds rate;  
15 instead appearing to expect that the Fed would lower rates  
16 next year.

17           We expect market volatility to continue given a  
18 number of risks associated with the led impact of higher  
19 interest rates on economic activity; geopolitical  
20 uncertainty, which we believe isn't fully priced into  
21 markets; and elevated valuations in certain market  
22 segments; and wavering global growth.

23           From a portfolio perspective, we'll continue to  
24 seek to add value by prioritizing active management in  
25 less efficient markets and using our long-term investment

1 horizon to extend short-term market volatility.

2 --o0o--

3 MANAGING INVESTMENT DIRECTOR NZIMA: On this  
4 slide, I want to spend a few minutes talking about the  
5 equity risk premium. When we invest in equities, instead  
6 of bonds, we expect to be paid a premium to compensate for  
7 the higher risk of equities. This is what is known as the  
8 as equity risk premium.

9 As shown on this graph, over the last 30 years  
10 ending in June 30th, 2023, equities significantly  
11 outperformed bonds. If one had put one dollar in the  
12 S&P 500 Total Return Index on June 30th, 1993, it would  
13 have grown to \$6966. The same dollar invested in bonds  
14 would have grown to \$1263. That's a sixth of what  
15 equities delivered over the 30-year period.

16 On an annualized basis, equities end 10 percent  
17 per annum, compared to 4.4 percent per annum for the bonds  
18 over the 30-year period.

19 --o0o--

20 MANAGING INVESTMENT DIRECTOR NZIMA: Now, turning  
21 on to this slide on -- the slide 7, this chart on slide 7.  
22 This chart shows the same 30-year period where the S&P 500  
23 total return index delivered unrealized returns of 10  
24 percent per annum but instead focuses on the periods of  
25 drawdowns. As can be seen from this graph, the S&P 500

1 suffered significant drawdowns of 20 to 50 percent during  
2 this period despite delivering exceptionally strong  
3 annualized returns over the entire period. So over the --  
4 you know, starting on July 5th, 1993, to June 30th, 2023,  
5 10 percent per annum. But within the period were a number  
6 of periods where you have more than 20 percent drawdowns.

7           The two main points I would like you to take from  
8 this graph, volatility and drawdowns are regular features  
9 of equity markets; and, two, that the short-term focus  
10 would likely lead to some optimal decisions would limit  
11 our ability to add value over the long term.

12                           --o0o--

13           MANAGING INVESTMENT DIRECTOR NZIMA: Now, going  
14 back to look at the market environment: Paraphrasing  
15 Charles Dickens in the Tale of Two cities, it was the best  
16 of times, it was the worst of times; it was a tale of two  
17 halves. So many themes that worked in the first half of  
18 the fiscal year divest in the second half.

19           For example, if you look at the chart that shows  
20 the sectors, the energy sector was the best performing  
21 sector in the first half of the fiscal year; and in the  
22 second half of the fiscal year it was the worst performing  
23 sector.

24           The communication services, worst performing  
25 sector in the first half of the year and second best

1 performing sector in the second half of the year.

2 Same thing if you look at styles. Value is the  
3 best performing in the first half of the year; close to  
4 bottom in the second half of the year.

5 And growth was the worst performing in the first  
6 half of the year and the best performing in the second  
7 half of the year.

8 And the same can be seen where on the bottom left  
9 graph we actually show the returns of our uncap-weighted  
10 portfolio. Where if you look at the substrategies in the  
11 first half of the year, they're actually outperforming  
12 their benchmarks; whereas almost all of them in the second  
13 half of the year underperformed the benchmark.

14 The reason for this really was that -- was an  
15 out-of-market breadth, which is a negative for active  
16 funds in that you have the lower probability of picking  
17 winners.

18 An example of this out-of-market breadth really  
19 is that there were seven stocks, which we call the  
20 Magnificent Seven, which drove most of the returns during  
21 this period. For example, in the second half of the year,  
22 if you look at the return of the public-equity cap  
23 weighted, which was 13.61 percent, the seven stocks  
24 contributed 50 percent of that return. You know, amongst  
25 the seven magnificent -- Magnificent Seven stocks the

1 Microsoft, Apple, Nvidia, and so forth, they contributed  
2 half of that return.

3 The performance of these stocks was driven by a  
4 flight to serve up a more defensive means as fears of an  
5 economic recession loomed at the beginning of the year and  
6 the banking crisis in March and the AI-related tech boom  
7 in late spring.

8 --o0o--

9 MANAGING INVESTMENT DIRECTOR NZIMA: Now in slide  
10 9 we show the difference of components of the cap-weighted  
11 segment. And this can be seen from this -- the  
12 cap-weighted segment delivered strong returns over the 1-,  
13 3-, 5-, and 10-year positive returns.

14 The public equity was the dominant driver of  
15 PERF's total return of 5.8 percent this past fiscal year.  
16 I think Nicole referred to that earlier on. Within the  
17 cap-weighted segment, 79 percent is index oriented; and  
18 the 21 percent is what is active. And if you look at the  
19 actual performance, if you're looking at the contract at  
20 the bottom left, you can see that we actually performed in  
21 line with the strategic asset allocation expectations.

22 --o0o--

23 MANAGING INVESTMENT DIRECTOR NZIMA: This slide  
24 just shows the different subcomponents of the cap-weighted  
25 index. And again to the point I made earlier, they

1 contributed, all of them, positively to the 8.3 percent  
2 absolute return on a five-year basis of the cap-weighted  
3 segment.

4 --o0o--

5 MANAGING INVESTMENT DIRECTOR NZIMA: I'll skip a  
6 few slides and go to the factor-weighted segment.

7 So the factor-weighted segment's about 27 percent  
8 of the global public equity portfolio. Again, if you look  
9 at the absolute performance over the 1-, 3-, and 5-years  
10 positive absolute performance. And if you look at the  
11 contractor, the bottom left, you can actually see that it  
12 performed in line with expectations when it was put in the  
13 strategic asset allocation.

14 --o0o--

15 MANAGING INVESTMENT DIRECTOR NZIMA: I'll jump a  
16 few slides again and talk about the program evaluation.

17 So looking at the things that weren't in the  
18 areas of refinement. So the things that weren't the  
19 implementation of the strategic asset allocation targets  
20 in an efficient and risk controlled manner, working in  
21 collaboration with the total fund portfolio management  
22 team. The deployment of additional capital to active  
23 strategies, which includes the active book from 8 percent  
24 to 16 percent of the global public equity portfolio. And  
25 the strong absolute returns as well as relative returns

1 which I just talked about a minute ago.

2 Areas of refinement will continue to refine our  
3 strategies as process to be able to deploy capital in a  
4 more opportunistic way. And we'll also work with the  
5 total fund portfolio management in the assessment of the  
6 continued activity of the factor-weighted segment. This  
7 is something which the team has been talking about quite a  
8 bit, and as of part of the mid-cycle we're going to be  
9 looking at that again.

10 --o0o--

11 MANAGING INVESTMENT DIRECTOR NZIMA: In terms of  
12 the initiatives for fiscal 2023-24. Again we continue to  
13 work to deploy additional capital into active equities to  
14 diversify the book. We work with Peter Cashion's team in  
15 terms of developing invoice net-zero strategy with a  
16 special focus on both investments and engagements, as well  
17 as we'll continue to refine the strategy search process.

18 --o0o--

19 MANAGING INVESTMENT DIRECTOR NZIMA: Last but not  
20 least, moving on to slide 20, really talking about how we  
21 integrate ESG or sustainability into the portfolio.

22 This slide shows that we continue to support  
23 sharing of proposals that are aligned with the CalPERS  
24 Governance and Sustainability Principles when we hold  
25 Board accountable on a number of things.

1                   --o0o--

2                   MANAGING INVESTMENT DIRECTOR NZIMA: On slide 21,  
3 we show executive compensation votes. Again, we show that  
4 we're voting against the majority of say-on-pay plans and  
5 holding Compensation Committee members accountable by  
6 voting against those Compensation Committee members where  
7 there's no alignment between pay and performance.

8                   --o0o--

9                   MANAGING INVESTMENT DIRECTOR NZIMA: On slide 23,  
10 we highlight our work on climate change specifically from  
11 a strategic perspective through our role in the Climate  
12 Action 100 Steering Committee, as well as from an  
13 engagement perspective where we enhanced of what in  
14 practice on climate and voted against 289 directors at 97  
15 companies.

16                   --o0o--

17                   MANAGING INVESTMENT DIRECTOR NZIMA: On slide 24,  
18 what we wanted to showcase here is two examples of what we  
19 call event-driven engagements. And both of these are  
20 examples associated with our work on human capital  
21 management.

22                   The event-driven engagements really come about  
23 because of staff's continuously monitoring the market on  
24 emerging issues and then taking action in alignment with  
25 the CalPERS Governance and Sustainability Principles. So



1 the two examples here, one, child labor issues and the  
2 freedom of association, I think both of these examples,  
3 you know, you had different speakers early on today refer  
4 to these issues. So we would actually go and engage with  
5 the affected companies and then use that as input into our  
6 proxy voting decisions or monitor the situation and use  
7 that as a -- one of the factors we consider when we  
8 actually vote in proxies.

9 That concludes my presentation for today, and  
10 I'll open up for questions.

11 CHAIRPERSON MILLER: Okay. Thank you. We do  
12 have some questions.

13 President Taylor.

14 VICE CHAIRPERSON TAYLOR: Thank you, Chair  
15 Miller.

16 So there's a lot here, Simiso. Thank you very  
17 much.

18 So you said something I thought was interesting,  
19 because it's also in the presentation, which is you're  
20 reviewing whether or not the factor-weighted segment is  
21 something that's important to the portfolio.

22 Is it dragging on the portfolio.

23 MANAGING INVESTMENT DIRECTOR NZIMA: I think  
24 there are two ways of looking at the factor-weighted  
25 segment. So when it was put into the portfolio in 2017,

1 it is a specific purpose. And the returns that it has  
2 delivered to date matched the purpose that it was put for.  
3 But when you compare the factor-weighted segment to the  
4 cap-weighted segment, it is a lower return than the  
5 cap-weighted segment. This is something which again it's  
6 a portfolio with a beta of 0.7. So it means that if the  
7 cap-weighted segment, for example, is up 10 percent, you'd  
8 expect the factor-weighted segment maybe to be up 7  
9 percent instead of 10 percent.

10 So really it is performing in line with  
11 expectations. But the question really is, do we still  
12 have the same utility, do we still need to have the  
13 factor-weighted portfolio given that when the time it was  
14 put in place, based on 2016 numbers, the funded ratio at  
15 that time was 68 percent. So there was really a lot of  
16 concern about if the stock market went down 50 percent or  
17 something like that, the plan's funded ratio could go  
18 below 50 percent, and that would be difficult to come  
19 back.

20 So really it's about looking at the utility of  
21 that.

22 Dan.

23 DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: The  
24 only thing I would add to that is that recall that in the  
25 2021 ALM work we did take it from 15 percent down to 12

1 percent. So we needed to reduce the weight, but we -- but  
2 12 percent is still a significant weight. And like Simiso  
3 said, back to 2017, we had one set of capital market's  
4 assumptions and we were looking for diversification. So  
5 relative to cap weighted -- and a clear answer to your  
6 question: Relative to cap weighted it's dragging.  
7 Relative to the rest of the portfolio, I would say it's  
8 not dragging. It's doing what it -- as part of the total  
9 portfolio construction, it's doing what it was intended to  
10 do.

11 VICE CHAIRPERSON TAYLOR: So we're not looking --  
12 I guess I was concerned with your verbiage, because I  
13 think maybe I was thinking are you trying to get out of  
14 the factor weighted.

15 DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: It  
16 will -- that will be part of the review that Sterling and  
17 team are going to lead us through in November is whether  
18 we -- whether -- especially with the change in interest  
19 rates, it's a different -- it's a different lens to look  
20 at it through, and the question is --

21 VICE CHAIRPERSON TAYLOR: Right.

22 DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE:  
23 -- whether we still have utility and how much  
24 utility?

25 VICE CHAIRPERSON TAYLOR: And will that change

1 the dynamic later on for that particular factor-weighted,  
2 right?

3 DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE:

4 Correct, correct. Because, remember, when it  
5 went in interest rates were lower. Now, that interest  
6 rates have gone up as they have, it may be that we have  
7 other ways to get that diversification. But all of that  
8 work is the work that will go on.

9 VICE CHAIRPERSON TAYLOR: Okay. Great. Thank  
10 you.

11 CHAIRPERSON MILLER: Okay. I have Patrick  
12 Henning for Fiona Ma.

13 ACTING COMMITTEE MEMBER HENNING: Thank you so  
14 much.

15 I noted on the -- just the slide that's up there  
16 from the 12 portfolio companies had reached in allegation  
17 to child labor issues. It's troubling to me. I imagine  
18 over the years we've seen numbers that hopefully are less  
19 than that, but I can't imagine unfortunately.

20 You said that we've gone after them and talked to  
21 them about their third-party vendors. In all the cases,  
22 they were third-party vendors?

23 MANAGING INVESTMENT DIRECTOR NZIMA: I would have  
24 to ask -- let's if Drew is here, who leads our corporate  
25 governance team with total investment --

1           ACTING COMMITTEE MEMBER HENNING: That's all  
2 right. And as he's coming up, I guess the logical  
3 follow-up question is, so we've said, "Hey, knock that  
4 off," I imagine, or stop using them. Have they stopped  
5 using them? Have our -- have our efforts borne fruit that  
6 we know of as of yet?

7           INVESTMENT DIRECTOR HAMBLY: Good afternoon,  
8 everybody. Drew Hambly, head of stewardship and  
9 governance.

10           So what we did -- there was an article in the New  
11 York Times I believe it was late February of this year  
12 that outlined 12 companies that had been caught with some  
13 type of child labor in their supply chain. So what we did  
14 is reached out to those 12 companies. I believe we --  
15 yeah, we talked to all 12 that were there, and talked to  
16 them about, you know: "How did this happen? What is your  
17 supply chain management rules? Are you doing site  
18 visits?"

19           I think all 12 companies were surprised that in  
20 the U.S. they had this as well. I think they were all  
21 embarrassed by it. So first of all, yes, we did say, you  
22 know, "Knock this off." But we got some com -- well, not  
23 comfort. But what we understood the biggest issue was  
24 them using third-party staffing people that were causing  
25 the issue. So to give an example is he'd have an employee

1 who had a badge and they'd come to the factory or the  
2 warehouse, wherever they're working, and they might have  
3 given their badge to somebody else and nobody was sort of  
4 spot checking. So the badge was valid. But maybe they  
5 gave it to their son or their nephew, who was underage, to  
6 go fill out that shift. And nobody was looking. You  
7 know, the badge worked but they weren't doing kind of site  
8 practice visits.

9           So all 12 of those companies have, you know, at  
10 our request gone out and to, you know, get on-site, talk  
11 to these vendors.

12           What we also don't want is we don't want them to  
13 just fire the vendors. We want them to work with these  
14 vendors so they improve their overall practices. Because  
15 if these big companies fire these, you know, staffing  
16 vendors outright, they're just going to go to another  
17 company. We want them to use their power to improve this  
18 so it doesn't happen again.

19           And so that's what they were working on. So we  
20 had some -- and these were all companies named in the  
21 article: Ford, General Motors, WalMart, Fruit of the  
22 Loom. And so we want those companies to work with these  
23 third party vendors to improve their practices as well.  
24 We don't to just push further into the shadows.

25           So it was the -- you know, the engagement we did

1 this which Simiso talked about. And then driven. You  
2 know, we learned of some news and we sprung into action on  
3 behalf of the portfolio.

4 ACTING COMMITTEE MEMBER HENNING: And so above  
5 and beyond relying on the New York Times, is there any  
6 other periodicals that we use or the Department of labor  
7 or things like that that we --

8 INVESTMENT DIRECTOR HAMBLY: Yeah, we have two  
9 primary vendors that we use that comb new stories. They  
10 have sort of AI that are -- comb through new stories, and  
11 then we've uploaded our key portfolio companies into this.  
12 So we track what we call potential controversies. And  
13 when something pops up, that's when we'll evaluate what  
14 the nature of that controversy was, seek to start  
15 engagement with that company.

16 So we're using two vendors on that right now,  
17 just sort of comb new source that they go out. I think  
18 one of them's looking at like 6,000 new sources across the  
19 globe to provide us with those potential controversies.

20 ACTING COMMITTEE MEMBER HENNING: Okay.

21 CHAIRPERSON MILLER: Next I have director  
22 Pacheco.

23 COMMITTEE MEMBER PACHECO: Yes. Thank you, Drew.  
24 Thank you, Simiso.

25 I want to go page - I think we skipped it - page

1 21 of 24 on the executive compensation votes. So I just  
2 noticed I mean I guess since 20 -- since Fiscal Year  
3 2016-2017 we've had this increase in compensation voting  
4 from 19 percent to up to 52 percent, and then it kind of  
5 hovers around there until like 49 percent. And is that  
6 something we're going to be seeing? I mean I'm just  
7 trying to understand why it hasn't gone up more or gone  
8 less more. If you can explain that perhaps and the trends  
9 around that.

10 Thank you.

11 INVESTMENT DIRECTOR HAMBLY: You want to stay.

12 Yeah. So part of my comment, in the 2018-2019  
13 season, we -- CalPERS put in a model using a vendor called  
14 Equilar to proxy statements to provide compensation data.  
15 So we use that model to help drive our decision making.  
16 So that's where you see the spike from sort of 19 all the  
17 way up to 52 in that time frame.

18 You also notice that at that time we're voting  
19 about 2500 a year. With the trimming of the portfolio you  
20 can obviously see a drop down to, you know, just about  
21 1100 companies that we have reviewed over -- or almost  
22 1200 in this last season.

23 Two key components of this are, as owners we  
24 seek - and we're one of the few that seeks this - is sort  
25 of a five-year vesting schedule for equity awards for



1 chief executives. The common vesting schedule for most  
2 executives in the U.S. is three years. So we're trying to  
3 create an ownership culture at the company so we -- we  
4 find companies that have an ownership mentality do better  
5 over the longer term.

6 But we're sort of stuck with the de facto 3-year  
7 vesting, which we believe is too short-term. So that  
8 helps drive a lot of the against votes that we see.

9 Now, over time we think -- you know, I was just  
10 at CII. Nice to see you there. And we had some fruitful  
11 discussions with other managers and owners that are coming  
12 to similar conclusions. So we're hopping over time to see  
13 some improvement in that structural piece of executive  
14 compensation.

15 The second part of that is, I think in the U.S.,  
16 especially pay, is very high for chief executives relative  
17 to other countries. And so -- well, we had a bad stock  
18 market year last year, so the actual meeting was down just  
19 slightly. Still very high, but it was down a little bit.  
20 And so, you know, we'll see over time how that pay  
21 movement goes up. We're hoping to slow the rate of it,  
22 you know, through our engagement efforts. But I think  
23 right now we should be relatively stable until we see a  
24 wholesale change in sort of the ownership mentality that  
25 we're pushing for.

1 COMMITTEE MEMBER PACHECO: And the owner -- with  
2 respect to the 3-year to 5-year --

3 INVESTMENT DIRECTOR HAMBLBY: That's correct. But  
4 right now the de facto -- you know, so when these  
5 companies do the peer analysis say, "Well, we're competing  
6 against all these firms everybody uses three years, we're  
7 going to use three years."

8 We're starting to have a little bit of effect  
9 we're convincing more to, you know, if it's a 3-year  
10 vesting period, maybe a mandatory 2-year hold. So you  
11 sort of get that same benefit of the five year. So that's  
12 something we work on at our engagement program, but albeit  
13 not as successful as we'd like right now because the  
14 market standard is, but they're not getting a lot of  
15 pressure from others other than us and a couple of the  
16 European funds in pushing that ownership mentality.

17 COMMITTEE MEMBER PACHECO: Okay. Very good then.  
18 Thank you very much.

19 CHAIRPERSON MILLER: I thought I saw Director  
20 Willette --

21 VICE CHAIRPERSON TAYLOR: I was next.

22 CHAIRPERSON MILLER: Okay. Okay. So President  
23 Taylor is next.

24 VICE CHAIRPERSON TAYLOR: So just -- it's  
25 interesting couple of things you said, Drew. Simiso had

1 started the whole stay-on-pay thing a long time ago. He  
2 was very passionate about it. I really appreciated that.  
3 Doesn't seem like it's done anything for us unfortunately.  
4 We're still -- in fact, I think it went up some more,  
5 didn't it? The disparity went up kind of a bit.

6 INVESTMENT DIRECTOR HAMBLY: Are you talking  
7 the -- you know, the worker pay ratio?

8 VICE CHAIRPERSON TAYLOR: Yeah, worker --

9 INVESTMENT DIRECTOR HAMBLY: It definitely has  
10 gone up.

11 What we saw were -- I was a little nervous at the  
12 beginning of the year because we were seeing a spike in  
13 what we track is sort of median pay at the S&P 500,  
14 because most people that day was pretty easy to get ahold  
15 of. And it was sort of trailing up at the beginning of  
16 the proxy season and then as some of the later reporters  
17 who had bad years, I think it was around 15-ish million is  
18 the median pay level for like salary, bonus and equity for  
19 an S&P 500 CEO.

20 So I would agree that despite our efforts, pay  
21 keeps creeping up, and we're not seeing a sea change to  
22 the ownership mentality. We're having discussions with  
23 other funds and some other managers that are thinking more  
24 along these lines, so maybe we'll see a little more  
25 progress, maybe some potential --

1 VICE CHAIRPERSON TAYLOR: Some partnerships?

2 INVESTMENT DIRECTOR HAMBLY: -- partnerships.

3 VICE CHAIRPERSON TAYLOR: Yeah.

4 INVESTMENT DIRECTOR HAMBLY: So at the CI meeting  
5 we had a fruitful meeting with about 12 owners and  
6 managers that were particularly concerned about the use of  
7 performance stock units which tends to drive up that  
8 number you're talking about; also with that short vesting  
9 schedule that I'd mentioned.

10 VICE CHAIRPERSON TAYLOR: And, gee, we wonder why  
11 employees want 40 percent raises, because -- anyway.

12 What I thought was very interesting in what you  
13 said earlier is that with these issues that come, right,  
14 you're actually hired a vendor to track news articles.  
15 And it's funny, I think Director Willette and I had talked  
16 about that in a laughing way, like we didn't think that  
17 existed. So -- because we were -- you know, how do you  
18 keep track of it is what we were thinking, you know.  
19 These things happen all the time. It happens in public  
20 equity, it happens in private equity. How do you keep  
21 track of it?

22 So that is interesting, if you would kind of  
23 broaden what you said about it.

24 INVESTMENT DIRECTOR HAMBLY: Yeah. So -- yeah,  
25 so this particular vendor -- we actually have two -- and

1 this one that we just brought on board -- we have 6,000  
2 companies in portfolio, so we're going to, you know, miss  
3 a couple.

4           What we're trying to do is really focus on 50  
5 percent or more of the AUM of the equity portfolio, which  
6 gets us to about 800 or so companies. Now that's still a  
7 lot for my existing team to cover 800. But that's a  
8 significant -- that's over half the assets.

9           Actually, you know, 800 gets us to about 80  
10 percent of the AUM. So that's sort of -- you know, we  
11 might have a company where we own a little bit -- not that  
12 it's an issue we shouldn't be concerned about, but we want  
13 to see effect to the total fund. And so we tracked the  
14 top hundred names in the portfolio. That's a, you know,  
15 watchlist we put in to look for any key issues that come  
16 up there. And so we're able to use this -- these two  
17 vendors with our equity portfolio to sort of flag issues  
18 as they bubble up, and then do the best we can through  
19 engagement to -- you know, work with that company over  
20 time to improve whatever that issue is.

21           But it's very helpful to keep track of a  
22 portfolio of 6,000 companies. We're not going to get to  
23 everyone. We'll miss some from time to time. But we feel  
24 strongly that the most significant names in the portfolio  
25 are getting good coverage by the team.

1 VICE CHAIRPERSON TAYLOR: Well, we appreciate  
2 that.

3 So what would you say would be good resourcing  
4 for that? If you were to like say I need at least X  
5 amount of people to cover those top 100. But if I'm going  
6 to at least touch 800 of them, what would you need?

7 INVESTMENT DIRECTOR HAMBLBY: A good engagement  
8 analyst can probably handle about a hundred engagements a  
9 year. And we currently have five people that report to me  
10 and myself. So to do the job well --

11 VICE CHAIRPERSON TAYLOR: You need at least three  
12 more.

13 INVESTMENT DIRECTOR HAMBLBY: I'm not here to, you  
14 know, beg for re -- I think we got -- we have a couple of  
15 people on the team with long tenures that do a really good  
16 job and can handle this. So I'm pretty confident that  
17 we're covering at least 50 percent of AUM if not closer to  
18 60 with the staff we have.

19 VICE CHAIRPERSON TAYLOR: Okay. Thank you.

20 MANAGING INVESTMENT DIRECTOR NZIMA: Yeah, I  
21 think -- I think just to -- to add to that. I think  
22 because we're focused on thematic engagements like board  
23 diversity, climate change, you know, some of the human  
24 capital monies been -- that helps us in terms of how we  
25 can get across to many companies with fewer people and so

1 forth. And also the technology, like Drew saying, you  
2 know, having to use those tech notes called tools to be  
3 able to scour the market and see what are the themes, what  
4 are the issues that I mention. You have the topic, it's  
5 kind of helpful, because I mean, with the size of our  
6 portfolio there's no limit to the number of people you  
7 need.

8 VICE CHAIRPERSON TAYLOR: Sure.

9 MANAGING INVESTMENT DIRECTOR NZIMA: So it's  
10 really -- you know, it's a balancing act.

11 VICE CHAIRPERSON TAYLOR: Sure. But you guys  
12 have a staffing problem anyway. So...

13 INVESTMENT DIRECTOR HAMBLBY: You know, what I'd  
14 say is we have in -- if you look at the age of it, you  
15 have experience on the team. We have five out of the six  
16 people that have been doing -- we have three people with  
17 close to over 60 years of collective engagement experience  
18 on the team. Even a team like BlackRock that might have  
19 40 or 50 people doing this, well, you know, some of those  
20 are two or three years and aren't good at going toe to toe  
21 with a CFO or a board director. That's not the experience  
22 our team has. So we've got a -- it's small but it's a  
23 strong well-experienced team.

24 VICE CHAIRPERSON TAYLOR: Great. Thank you.

25 CHAIRPERSON MILLER: Okay. Next I have Director

1 Palkki.

2 COMMITTEE MEMBER PALKKI: Thank you, Simiso and  
3 Drew.

4 I think President Taylor actually asked part of  
5 my question. So I won't dive into that part.

6 But the discussion on the soft landing, no  
7 landing, what should have happened didn't happen. Does  
8 that change how we look at forecasting and the projections  
9 moving forward? And if so, what is -- what are those  
10 effects on the larger picture of the 10-year forecasting  
11 and things of that sort?

12 MANAGING INVESTMENT DIRECTOR NZIMA: Yeah, I  
13 think -- I will leave the economic forecasting to  
14 economist. And the realities that, you know, a focus tend  
15 to be sort of a median of -- you know, a wide range of  
16 focus. So when people talk about, you know, maybe let's  
17 say GDP growth of, you know, 3 percent or something like  
18 that, there's a wide range around that and those numbers  
19 can be -- you know, can be wrong a lot of the time. But  
20 for us really as we think about a portfolio, because we  
21 are long-term investors, so really we're looking at long  
22 term. The stuff that happens on the short-term is not  
23 really that much of, you know, what changes our portfolio.  
24 So I wouldn't look at returns, for example, looking at  
25 five-year returns -- five-, 10-, you know, 15-, 20-year



1 returns, because we think over the long term the  
2 fundamentals would drive the performance of the companies.

3 So the short-term focus we don't really spend too  
4 much time on that. It's just from a public equity  
5 perspective.

6 CHIEF INVESTMENT OFFICER MUSICCO: I think  
7 we're -- it's important to note though where we do pay  
8 attention is when we have the CMAs. We refer to them as  
9 the capital market assumptions that are fed into our  
10 models, when we're coming up with the asset liability  
11 studies or what sets our strategic asset allocation. We  
12 do pay very good attention to differences between what  
13 assumptions we were using say in 2017, 2018, 2019 versus  
14 where those consensus capital market assumptions are  
15 today. And so Sterling and team are very frequently, and  
16 even more frequently so recently, running scenario  
17 analysis, taking into consideration these new capital  
18 market assumptions. And so when we come back in November,  
19 when we start talking about the midpoint of the strategic  
20 asset allocation, that's an opportunity for us to say, you  
21 know, based on what we've put into the original model  
22 versus what we're seeing now, we are -- we're suggesting  
23 to make some changes.

24 So it's a dynamic way that we are constantly  
25 looking at our portfolio, and there is an absolute

1 opportunity for us to make recommendations to change the  
2 strategic asset allocation if the market is making bold  
3 moves or shifts compared to original assumptions.

4 COMMITTEE MEMBER PALKKI: Thank you.

5 CHAIRPERSON MILLER: Okay. Director Rubalcava.

6 COMMITTEE MEMBER RUBALCAVA: Thank you, Chair.

7 I really appreciate the presentation. I really  
8 like it how we're looking at public equity and what it --  
9 how it evolved in the short term, long term. I found it  
10 very interesting.

11 But I also want to talk about I think we're  
12 doing -- you are doing great work and the CalPERS is doing  
13 great work in integration of governance and  
14 sustainability. And I think that's very consistent with  
15 who we are as a body, CalPERS. And we had a discussion  
16 this morning about the labor principles and there was some  
17 discussion about how sometimes we're -- we don't have any  
18 allies or we have few allies. But I think it's correct to  
19 be the leader and then continue to do that, because we  
20 have -- we feel it's a fiduciary duty to ensure that  
21 there's an investment return the long run and this is the  
22 way to do it.

23 So thank you for the work, and I encourage you to  
24 continue the good work.

25 Thank you.

1           MANAGING INVESTMENT DIRECTOR NZIMA: Thank you,  
2 Chair.

3           CHAIRPERSON MILLER: Thank you.

4           I see no more questions or requests to speak, and  
5 so I will reiterate the thanks for the presentation.  
6 Really appreciate it.

7           And on to our consultants.

8           CHIEF INVESTMENT OFFICER MUSICCO: We're going to  
9 invite a consultant now.

10          ALI KAZEMI: Good afternoon. Ali Kazemi with  
11 Wilshire Advisors. And the comments are going to be  
12 brief, just to cover our scoring for the overall global  
13 equity program. You can see the details of our comments  
14 in the attached materials in your decks.

15          And the summary for us is really that the scoring  
16 overall is largely unchanged from when we discussed this  
17 12 months ago. Shouldn't be interpreted as due to lack of  
18 any action over the last 12 months. You know, the overall  
19 scoring is still relatively high. Tom alluded to the  
20 overall framework in terms of the scoring components. The  
21 global equity team currently scores in the third decile  
22 with the letter grade of a B, and that is consistent where  
23 it's been in years past.

24          One of the areas that we are, you know, pleased  
25 to see is with regards to team resources. So over the

1 last 12 months, four positions were backfilled, including  
2 the investment director for corporate governance withdrew.  
3 As you can see, it's a busy position, and it's nice to  
4 take that off of Simiso's plate. So I'm sure that has  
5 been additive to the overall structure.

6 But in addition to those four hires, two new  
7 positions are currently outstanding.

8 So we've certainly seen stability within the  
9 team, no departures over the last 12 months, and that has  
10 also factored into our overall increase in the team  
11 resources score.

12 Besides staffing over the last 12 months the team  
13 was involved of course in the implementation of the new  
14 strategic asset allocation, and work continues in terms of  
15 the potential expansion of active risk in the portfolio  
16 which has been mentioned several times throughout the day.  
17 We are already starting to see some of that increase. In  
18 our letter you'll note that about 7 and a half percent of  
19 the assets were transferred from index-oriented strategies  
20 over to an enhanced index strategy, along with some  
21 existing active strategies that were high conviction in  
22 nature.

23 We would note that, you know, if the active risk  
24 and the portfolio does continue to grow, you know,  
25 additional resources would certainly be warranted within

1 that team; and I think staff has acknowledged that.

2 So with that, I'll just note that overall again  
3 the score continues to reflect, you know, a very strong  
4 team that is stable and is continuing to deliver, you  
5 know, what's being expected of it.

6 So happy to answer any questions.

7 CHAIRPERSON MILLER: Okay. I'm not seeing any  
8 requests to speak.

9 So thank you. Appreciate that.

10 And I think that brings us to Summary of  
11 Committee Direction.

12 DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: Thank  
13 you, Mr. Chair.

14 And I actually did not take any direction for  
15 follow-up. There were a couple of things that we will  
16 follow up on, but no direction.

17 CHAIRPERSON MILLER: Right. Sounds about right  
18 to me.

19 Okay. At this point, we come to public comment.  
20 And I have -- I do believe we have at least one public  
21 commenter on the phone.

22 STAFF SERVICES MANAGER I FORRER: Hi. Yes, Chair  
23 Miller. We have Sara Theiss from Fossil Free America.

24 CHAIRPERSON MILLER: Okay. Go ahead. You have  
25 the floor.

1           SARA THEISS: Hi. As you know, I'm Sara Theiss,  
2 a CalPERS retiree and a volunteer with Fossil Free  
3 California. I started participating in your meetings in  
4 2018, and ever since then I've wondered why the Board  
5 members seem to be so dead set against divestment. And  
6 I've wondered what information or scenario would change  
7 the Board's mind.

8           So obviously, you could be concerned about  
9 returns, but you know from information we've been  
10 supplying that there's ample evidence that divestment from  
11 fossil fuels doesn't harm a portfolio, will help returns,  
12 and avoids risk. Just this year Waterloo University  
13 looked at eight pension funds, including CalPERS, taking  
14 into account the recent volatility in oil prices. The  
15 conclusion: The value of the funds would have been higher  
16 had the funds divested from energy holdings in 2013.

17           I've heard other concerns that are not related to  
18 your fiduciary duty. For example, the seat-at-the-table  
19 argument that is engagement and -- you know, I know  
20 engagement's a wonderful thing and I'm sure it works in a  
21 lot of situations. But it does not work for the fossil  
22 fuel industry, which has worked for decades to suppress  
23 information. And according to the 2022 net there are  
24 benchmark reports from Climate Action 100. None of the  
25 big 10 oil companies that CalPERS owns have set short or

1 medium term emission goals under the net zero by the 2050  
2 standard. And in fact with this spiking oil prices after  
3 Russia's invasion of Ukraine, oil makers dropped emission  
4 targets they had.

5 So as it stands, rather than having a seat at the  
6 table, it looks to me like CalPERS is the menu item  
7 popular with the fossil fuel industry.

8 Then there's also the question of how much fossil  
9 fuel do we need for transition in the transition plan. To  
10 meet necessary climate goals the International Energy  
11 Agency declared in 2021 that development of new oil and  
12 gas fuel has to stop immediately. Yet, as President  
13 Taylor recognized, exploration and buildup continues. In  
14 fact, there's plenty of oil and gas already developed to  
15 meet the needs for the transition.

16 And really my question is, given all this, why  
17 don't you get input from outside experts other than Mark  
18 Carney from institutions and people that agree to the  
19 financial rewards of investments. There are now over  
20 1,500 institutions divesting over \$4 trillion, so there's  
21 plenty of experts to choose from. And Bevis Longstreth, a  
22 legal expert in fiduciary duty wrote in 2015, given the  
23 absence of material risk to a portfolio from divesting,  
24 the bet in continuing to hold on and try to time one's  
25 exit is an asymmetrical bet that suggests spatial

1 improvement.

2           So we're on a -- we and our plan are on a runaway  
3 train as to the climate disaster. You all have an  
4 engineer and conductor on the CalPERS train. Please take  
5 control. Bring in the experts and hire a CIO that will  
6 help you meet your fiduciary duty with regard to climate  
7 financial risk.

8           Thank you so much.

9           CHAIRPERSON MILLER: Thank you.

10          Do we have any other commenters?

11          BOARD CLERK ANDERSON: (Shakes head).

12          CHAIRPERSON MILLER: No, I don't believe so.

13          So at this point, we're going to recess into  
14 closed session. In about 10 minutes we'll -- 10 minutes  
15 to transition and clear the room and everything.

16          So thank you all.

17          (Off record: 2:53 p.m.)

18          (Thereupon the meeting recessed  
19 into closed session.)

20          (Thereupon the meeting reconvened  
21 open session.)

22          (On record: 4:08 p.m.)

23          CHAIRPERSON MILLER: Okay. We've returned.

24 We're back in open session. We concluded our closed  
25 session. And at this point, unless there are objections,



1 I will adjourn this meeting of the Investment Committee.

2 Okay. We're adjourned.

3 (Thereupon, the California Public Employees'  
4 Retirement System, Investment Committee  
5 meeting open session adjourned at 4:09 p.m.)  
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