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

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SACRAMENTO, CALIFORNIA

MONDAY, MARCH 18, 2024

9:17 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 Deborah Gallegos

Fiona Ma, represented by Frank Ruffino

Lisa Middleton

Eraina Ortega

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Dan Bienvenue, Interim Chief Investment Officer

Michael Cohen, Interim Chief Operating Investment Officer

Matt Jacobs, General Counsel

Michele Nix, Interim Chief Financial Officer

Scott Terando, Chief Actuary

Daniel Booth, Deputy Chief Investment Officer

Peter Cashion, Managing Investment Director

Sarah Corr, Managing Investment Director

Amy Deming, Investment Director

Sterling Gunn, Managing Investment Director

APPEARANCES CONTINUED

STAFF:

Drew Hambly, Investment Director

Jean Hsu, Managing Investment Director

Anton Orlich, Managing Investment Director

Lauren Rosborough Watt, Investment Manager

Tamara Sells, Associate Investment Manager

ALSO PRESENT:

César Aguirre

Michael Angulo, Worker Power Institute

Valeria Alvarez, UFCW

Doug Bloch, Unite Here Local 19

Jesus Cacho, ACCE

Ana Ceballos, SEIU USWW

Tammy Dhanota, SEIU Local 521

Britt Dowdy, CFT

Miriam Eide, Fossil Free California

Jovana Fajardo, ACCE

Jordan Fein, Unite Here

Christy Fields, Meketa Investment Group

Kathy Finn, UFCW

Steve Foresti, Wilshire Advisors

Jared Gaby-Biegel, UFCW

APPEARANCES CONTINUED

ALSO PRESENT:

Davie Huerta, SEIU USWW

Joy Hunt, SEIU-USWW

Michael Hutnick

J.J. Jelincic

Allie Lindstrom, Sierra Club

Wendy Lopez, SEIU USWW

Michael Marc, Smart Sheet Metal Workers 104

Luis Martinez, Fossil Free California

Steve McCourt, Meketa Investment Group

Richard McCracken, McCracken, Stemerman and Holsberry

Susan Minato, Unite Here

Nova Morales, SEIU USWW

Jennifer O'Dell, Laborers International Union of North America

Andre Olivera, SEIU 521

Jason Opeña Disterhoft, Majority Action

Matt Pina, Unite Here Local 11

Yvette Simon, VITA, SEIU Local 521

Sara Theiss, Fossil Free California

Pinky Toney, ACCE

Tom Toth, Wilshire Advisors

Maritza Villeda

Margarita Virrueta

APPEARANCES CONTINUED

ALSO PRESENT:

Yvonne Wheeler, La County Federation of Labor

Beverly Yu, State Building and Construction Trades Council

INDEX

INDEX CONTINUED

PROCEEDINGS

CHAIR MILLER: Good morning. I'll call to order this Investment Committee meeting and the first order of business is roll call.

BOARD CLERK ANDERSON: David Miller?

CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Theresa Taylor?

VICE CHAIR TAYLOR: Here.

BOARD CLERK ANDERSON: Deborah Gallegos for Malia Cohen?

ACTING COMMITTEE MEMBER GALLEGOS: Here.

BOARD CLERK ANDERSON: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Present.

BOARD CLERK ANDERSON: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK ANDERSON: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Present.

BOARD CLERK ANDERSON: Yvonne Walker?

CHAIR MILLER: Excused.

BOARD CLERK ANDERSON: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Here.

BOARD CLERK ANDERSON: Dr. Gail Willis?

CHAIR MILLER: Excused.

Okay. The next order of business is the election of the Chair and Vice Chair of the Investment Committee. For this, I'll hand the gavel over to Theresa Taylor.

VICE CHAIR TAYLOR: Good morning. So I will now -- I am on, right?

Okay. Sorry about that. I will now take nominations for Chair of the Investment Committee. And I would like to nominate David Miller for Chair of the Investment Committee.

Are there any other nominations?

Are there any other nominations?

Are there any other nominations?

I have a motion to approve David Miller as Chair for the Investment Committee. Can we do a roll call vote on that?

BOARD CLERK ANDERSON: Theresa Taylor?

VICE CHAIR TAYLOR: Aye

BOARD CLERK ANDERSON: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK ANDERSON: Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: Aye.
BOARD CLERK ANDERSON: Lisa Middleton?
COMMITTEE MEMBER MIDDLETON: Aye.
BOARD CLERK ANDERSON: Eraina Ortega?
COMMITTEE MEMBER ORTEGA: Aye.
BOARD CLERK ANDERSON: Jose Luis Pacheco?
COMMITTEE MEMBER PACHECO: Aye.
BOARD CLERK ANDERSON: Kevin Palkki?
COMMITTEE MEMBER PALKKI: Aye.
BOARD CLERK ANDERSON? Ramón Rubalcava?
COMMITTEE MEMBER RUBALCAVA: Aye.
BOARD CLERK ANDERSON: Yvonne Walker?
Mullissa Willette?
COMMITTEE MEMBER WILLETTE: Yes.
BOARD CLERK ANDERSON: Dr. Gail Willis?
VICE CHAIR TAYLOR: All right. Motion carries. Congratulations, Mr. Miller.
(Applause).
CHAIR MILLER: Thank you. Appreciate it.
VICE CHAIR TAYLOR: I'm going to pass it back over to you.
CHAIR MILLER: Okay. So I will now take nominations for Vice Chair of the Investment Committee.
Mr. Palkki, let see, if we can...
COMMITTEE MEMBER PALKKI: Thank you, Mr. Miller.

I'd like to nominate President Taylor for Vice Chair. Thank you.

CHAIR MILLER: Okay. A nomination is made.

Are there any other nominations?

Are there any other nominations?

And are there any other nominations?

I have a motion to approve Theresa Taylor as Vice Chair.

Please do the roll call vote.

BOARD CLERK ANDERSON: Theresa Taylor?

VICE CHAIR TAYLOR: Aye.

BOARD CLERK ANDERSON: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK ANDERSON: Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

BOARD CLERK ANDERSON: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK ANDERSON: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK ANDERSON: Yvonne Walker?

Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

BOARD CLERK ANDERSON: Dr. Gill Willis?

CHAIR MILLER: All right. The motion passes. Congratulations, President Taylor.

VICE CHAIR TAYLOR: Thank you.

CHAIR MILLER: Okay. Moving on. Our next item, Item 3, the Executive Report from our Interim Chief Investment Officer. Dan, over to you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Thank you, Mr. Chair. And good morning, Mr. Chair and Madam Vice Char. Congratulations on your re-elections and good morning all members of the Committee.

On the topic of congratulations, I also do want to take a moment to congratulate our private equity team for being recognized as Limited Partner of the Year for North America by Private Equity International and this for the second year in a row. They specifically called out three areas that are among the team's real areas of focus that was especially gratifying, namely those are scaled co-investment, diversifying our portfolio exposures, and then backing emerging and diverse managers. So it's always gratifying to see your efforts recognized. So a real heartfelt congratulations to Anton and the whole private equity team.

I'd also like to note that while this award showcases the collaborative spirit and really the excellence the defines the private equity team, that attitude and spirit of hard work really exhibit -- is exhibited across the entire Investment Office. And as I've mentioned in the past -- as I mentioned in November specifically, our leaning into our strategy and the real momentum that we see building in the team. And I'll talk a bit more about that in Agenda Item 7b, our semi-annual trust level review.

But today, we have a very full agenda, so I'll keep my comments brief and just call your -- to your attention what's in front of the Committee today. And we have one action item, and we have five information items. We start with an action item on the mid-cycle ALM review, where Sterling Gunn will walk us through updated capital market assumptions and a recommendation to update the strategic asset allocation. The next two items are information items and those are part of our semi-annual cycle of the trust level review. And March is when you -- if you'll recall is when your Board independent investment consultants go first followed by the investment team. So those are items 7a and 7b.

From there, we move on to information item 7c and Drew Hambly will join us to provide an update and a preview on the upcoming proxy season. And we'll close open session with two policy items, both of them for first read. And note that those are first reads, so we're looking for Committee feedback that we can incorporate into a second read for June, the first of which will be presented Amy Deming to my right here. And I'd like to thank Amy again for joining me up and tracking Chair directed items and just keeping things on track. And this first policy item is a first read with a couple of specific changes around the subasset classes, first in private assets and then second -- I'm sorry, real assets and in private debt.

The second, and this one is at the request of the Board, Tamara Sells will join us to present the first read and potential updates to the responsible contractor policy. So as I say, these are both first reads. We're soliciting Board feedback that we can bring back for a second read in June. And that's our open session agenda item -- agenda today, Mr. Chair. And with that, I'll turn it back to you.

CHAIR MILLER: Okay. Thank yo. I'm not seeing any questions from the Board. So I think today we're going to take things in a little different order. And I think because we have a lot of interest, a lot of public comments, I think we're going to move the public comments up in the agenda. And we'll take public comments now. And so I don't have a list in front of me.

Okay.

VICE CHAIR TAYLOR: She's printing it right now.

CHAIR MILLER: Putting that together.

Yeah, so we didn't want to wait till the end of the day and make everybody wait that long. I know people are eager to share their thoughts with us, and so we'll --

VICE CHAIR TAYLOR: What happened to your folks?

CHAIR MILLER: -- move that up.

Yep. And if anybody else to public comment shows up, we will take them later.

(Pause in the proceedings).

CHAIR MILLER: Okay. We'll call the first of our public commenters. First, we have J.J. Jelincic followed by Jared Gaby-Biegel.

There you go.

J.J. JELINCIC: Okay. J.J. Jelincic, beneficiary.

I have 12 trustees who are individually and collectively have a fiduciary responsibility for investing and protecting my trust assets. In june and November of last year, they discussed and awe unanimously approved weakening the policy against insider trading. One trustee had a higher priority and did not join the November Investment Committee until after the vote. I wrote the other 11 and asked them why they or their designees supported the amendment. Seven of the trustees chose not -- just chose to ignore the opportunity to explain why they had chosen to loosen the insider trading policy. At least four -- four at least bothered to dancer.

One said they were unsure and would have to ask staff. One said they had no comment beyond their vote. One said that because the unions did not object, they didn't think that they could. One did not answer the question but did assure me that the amendment did not quote, "Change the responsibilities of the Legal Office," unquote.

Given that the amendment deleted the words quote, "The Legal Office shall maintain and update the revised -- or the restricted company list," unquote, I can only assume that the trustee either did not read the agenda item or did not understand what they read. I'm not sure which is worse. It's noteworthy that two of the four responded to assure me that the November Perf and Comp Committee, which either did not happen or happened without public notice, was recorded.

When this Board and the system they administer talk about accountability and transparency, it has the same credibility as Donald Trump talking about the 2020 election. Thank you.

CHAIR MILLER: Thank you.

Our next commenter is Jared Gaby-Biegel. I hope I have not mispronounced that.

VICE CHAIR TAYLOR: Say it again a little louder.

CHAIR MILLER: Oh, here he comes. Okay. If you'll just come down over here. And when you begin speaking, the timer will go and you'll have 3 minutes to complete your comments.

Welcome.

JARED GABY-BIEGEL: Okay. Good morning, Chair and Board members. My name is Jared Gaby-Biegel. And I work for United Food and Commercial Workers International Union. As you know, we have an ongoing labor dispute with Cardenas markets, a California grocery chain owned by Apollo Fund 9, a fund that CalPERS has committed $550 million towards. We and Cardenas workers have come before you previously to support CalPERS labor principles and their application to private equity investments. We believe Cardenas markets is an example of why you need to implement them.

As you amend your private debt policies today, we hope you will integrate implementation of those labor principles into your review of investment managers for your private debt allocations. We know that private debt is a new and growing focus of private equity managers as Apollo and other large investment managers focus their fund raising on debt or credit funds. Living up to your principles and Apollo's equity investments should be a condition of committing future funds to Apollo's debt or credit funds.

Cardenas record on labor risks is not good. In August 2023, Cardenas markets settled a class action lawsuit at a cost of $1.5 million without admitting wrongdoing. The lawsuit alleged violation of California's labor regulations by failing to provide seats to cashiers. The settlement covers 8,000 Cardenas workers.

Additionally, Cardenas has agreed to a proposed settlement of a of pair of class action lawsuits alleging pay, overtime, and risk break violations for a total cost of $2.5 million, also without admitting wrongdoing. That proposed settlement agreement is currently pending before the Superior Court of Alameda County and covers 10,000 employees.

The proposed settlement includes similar allegations to a class action lawsuit that Cardenas settled without admitting wrongdoing in 2021 for a cost of 6.5 million. That settlement predated Apollo's ownership of Cardenas and includes allegations of pay and overtime violations, rest break violations, and failure to reimburse employees for safety shoes. UFCW has also filed four unfair labor practice charges with the National Labor Relations Board alleging that Cardenas retaliated against workers for their union or protected activities.

We believe Cardenas poses a risk of litigation over labor issues and that could undermine your investment -- your investment. We support your efforts to address labor risks across your fund and we look forward to further engagement in an effort to hold Apollo accountable to your labor principles at Cardenas.

Also, I just wanted to -- on a note on the agenda item about your Responsible Contractor Policy, in addition to supporting the input you are getting from other unions, we urge you to define neutrality as an obligation of your investment manages and their portfolio companies. Contractors and subcontractors not an obligation of CalPERS itself.

We believe you cannot enforce your labor principles or the neutrality provision of the RCP while also requiring CalPERS staff to remain neutral in the context of union organizing. That is precisely when your labor principles and commitment to neutrality matter most and you need your staff to actively enforce them. We urge you to strike the first six words of Section 6J in the draft.

Thank you so much.

CHAIR MILLER: Thank you.

Next public commenter Valeria Alvarez, if you would come down.

Okay, welcome. And, yeah, and just take those two seats. And you'll have three minutes once you start and you'll also have three additional minutes for the translator, if you're going to use a translator.

ANDREA GARCIA: Okay. I'm Andrea Garcia. I'll be translating for Valeria after she reads hers.

CHAIR MILLER: Great. Thank you.

VALERIA ALVAREZ(through interpreter): Good morning, Chair and Board members. My name is Valeria Alvarez. I have already told you my experience of suffering sexual harassment while working at Cardenas Markets, a company owned by Apollo Fund 9 in your investments. You may remember that I filed a EEOC complaint in March 2023 alleging sexual harassment and retaliation for reporting sexual harassment to Cardenas. A month later Cardenas fired me.

The EEOC found that Cardenas terminated the store manager from his job after the company investigated my sexual harassment allegations against him. However, in

January, EEOC dismissed my complaint and issued me a right-to-sue letter. I am coming back before you today to stand beside some other women who will tell you their experience with sexual harassment while working for a different company in your private equity investments.

Nobody should suffer sexual harassment by work -- at work. I should not have suffered sexual harassment at work. My co-workers at Cardenas Market should encourage to report sexual harassment, but instead they watch me be terminated. I don't believe Apollo is living up to your private equity labor principles and I hope you will enforce your principles.

I also want other women to know how important it is to speak up and tell their experience so we can end harassment at work. We are not done yet.

CHAIR MILLER: Thank you.

Next, I have Mr. Jelincic again on Item 7g.

J.J. JELINCIC: This is on 6a?

CHAIR MILLER: Oh, I had you for 6a and 7g, so --

J.J. JELINCIC: Okay. 7g is what I did earlier.

CHAIR MILLER: Okay. So 6a then.

CHIEF EXECUTIVE OFFICER FROST: Mr. Miller, we can wait on public comment for the actual agenda items, the noticed agenda items, so we could wait for 6a. We're really trying to move 7g to the beginning, but not the actual agenda items themselves.

CHAIR MILLER: Okay. Fair enough. Okay. So we will move on.

J.J. JELINCIC: Marcie, it makes sense.

CHAIR MILLER: Okay. I think we have several on the phone we'll get through while we've got them in the queue.

STAFF SERVICES MANAGER I FORRER: We have Jason Disterhoft on the phone. Go ahead, Jason.

JASON OPEÑA DISTERHOFT: Hi. My name is Jason Opeña Disterhoft with Majority Action, advocacy group focusing on risk to shareholder value, especially climate change and racial inequity and proxy voting tools to mitigate those risks. Thank you to staff and trustees for the hard work on CalPERS proxy voting and corporate engagements, and we look forward to more detailed updates later today.

I also want to recognize and honor the many Californians showing up today to make their voices heard, making clear how seriously beneficiaries take these issues. And I'd like to add Majority Action's voice to the chorus underlining the uniquely important role that CalPERS has regarding ExxonMobil in the coming shareholder season. What Exxon is doing endangers CalPERS' central mission of providing sustainable returns for all its members in at least two ways. First, the largest western oil and gas super major failing to decarbonize in a timely way, as well as actively undermining broader climate progress through it's lobbying is a massive source of climate risk. This threatens the fund's holdings across the board in sectors ranging from real estate to financial.

Instead of becoming a 21st century energy company ready to decarbonize its operations and products, Exxon has run a decades-long effort to deny, disinform, and delay action on the energy transition. Despite the turnover on Exxon's board in recent years, the company clearly remains committed to this strategy.

Second, Exxon's lawsuit against its own shareholders is a fundamental threat to corporate governance institutions that are vital to securing shareholder values. By suing shareholders filing proposals on climate risk in federal court instead of engaging them or challenging them through the SEC's regular no action process, Exxon is mounting an unprecedented attack on shareholders, the proposal process, and the role of the SEC.

It threatens investor's ability to engage with companies to secure returns for beneficiaries going forward. For investors like CalPERS, this means undermining your efforts to address risks and opportunities related to human capital management, climate risk, diversity and equity, executive compensation, and many other critical topics.

For this proxy season, it is vital that shareholders hold Exxon's board accountable both for its continued climate failure and its unprecedented threat to shareholder voice. CalPERS has a long track record of leadership both on climate and on fundamental corporate governance. Regarding Exxon, we recognize CalPERS voting last year to hold accountable a number of responsible directors.

This year, CalPERS has a uniquely important role to play building on that track record, not only continuing its exemplary climate proxy voting, but also stepping forward within the ecosystem. This could include making it clear to asset managers that CalPERS use a response to Exxon is crucial. We applaud CalPERS continued leadership in protecting beneficiaries' returns from climate and other risks. This coming season, we look forward to the fund playing a leadership role on the vital issue of responding to Exxon's irresponsible governance.

Thank you.

CHAIR MILLER: Thank you.

Our next caller.

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We have Sara Theiss from Fossil Free California.

SARA THEISS: Yes. Good morning and I would like to -- this is Sara Theiss. I'm a CalPERS retiree as well as a member of Fossil Free California. And I would like to follow up on the comments that were just made in terms of Exxon. I guess the theme from my remarks is actions speak louder than words.

So I just am again not understanding why you continue to invest in Exxon given what it's been doing. So for example, and these are just -- I'm not an -- obviously an investment professional. These are just things I just read. So Exxon is continuing to invest aggressively in expanding it's oil and gas production. Last October, it announced it was going to acquire Pioneer Natural Resources, almost 60 billion in stock. This is going to double its production volume in the Permian Basin. Also, by expanding it's holdings in Texas close to its headquarters, Exxon seems to be betting that U.S. energy policy will not move against fossil fuels in major ways.

Exxon also made news in early January when it said it would be forced to take a major $2.5 billion impairment hit on California assets. Exxon blamed regulatory excesses. But ExxonMobil stock has returned --

this was a -- from an article in I believe late February, ExxonMobil stock provided year returns since November 6th, 2023, while the S&P 500 grew 15 percent. And as of this last February, just last month, Exxon's latest quarterly earnings missed estimates with revenues declining by 12 percent and adjusted earnings per share shrinking. It's also currently overvalued, according to a -- the dividend discount model analysis. Based on these and other geopolitical happenings, a commentator or analyst from the group seeking alpha concluded that ExxonMobil is a sell.

And just last month, Exxon's CEO washed his hands of responsibilities for the ongoing climate disaster, instead he blamed individuals in government for not being willing to fund the transition. People are generating the emissions needed -- people who generate emissions need to be aware of it and pay the price. That's how you solve the problem. So I think it's pretty clear from this that Exxon doesn't plan to do anything, you know, really to change its business model. It's going to keep growing and creating -- continue to create the climate crisis as it has for its entire existence.

And finally, I urge the Board to follow the path of the New York State Common Retirement Fund, which reviewed the sustainability plans of all oil and gas majors -- majors. Mobil -- ExxonMobil failed to meet the standards, so it is divesting its actively managed holdings from Exxon. So I just -- I just -- as I said, I don't understand why you continue to do this.

Thank you.

CHAIR MILLER: Okay. Thank you. And I think we have one more caller on the phone.

BOARD CLERK ANDERSON: (Nods head).

STAFF SERVICES MANAGER I FORRER: Yeah, Chairman Miller. We have Allie Lindstrom from the Sierra Club to speak to Item 7c.

ALLIE LINDSTROM: Hello. Thank you for the opportunity to comment. My name is Allie Lindstrom. And I'm a strategist at the Sierra Club. I want to speak today about Exxon as the callers before me and the engagement strategy that CalPERS has this year pertaining to Exxon and its unprecedented action to shareholders. We've introduced a resolution requesting the company adopt medium term emissions targets.

And as the caller before me mentioned, not only does legal action deny shareholders the opportunity to weigh in on Exxon's long-term business plan and climate impacts, but the lawsuit challenges the rights that shareholders have at large. Exxon alleges that the proposal, which follows the strong trend of climate resolutions and asks the oil major to catch up to its peers, is not in the best interests of shareholders and is part of an extreme agenda.

This attempt to define who is a legitimate investor and this coupled threat of legal objection will have a chilling effect on shareholder activism and encourage other bad worker actors to follow suit. And we can be sure that climate isn't the only shareholder concern that corporate actors would like to silence.

In November, staff presented a new enhanced engagement strategy to escalate pressure on companies that do not have credible climate transition plans. Exxon's egregious behavior calls for such escalation and that's why I'm calling on CalPERS to commit to vote against the board of directors this May at ExxonMobil and to immediately refuse to purchase new bonds or share issuances from the company to ensure that the company understands that it needs to respect the rights of shareholders and it needs to take climate risk seriously.

Thank you.

CHAIR MILLER: Thank you.

Okay. Now, I have quite a stack of requests to speak, and so I'll call people up several at a time. Come down and kind of queue up here and you'll each have three minutes. And the time will start when you identify yourself and begin speaking. And I'll ask you to -- I'm not going to ask you to not use your three minutes. You get your three minutes, but try not to be repetitious, if you can. If you've got prepared statements, try to -- try to not simply repeat what the previous speakers have said, if you can.

So the first couple people we'll bring down is it looks like Pinky Toney and, César Aguirre, and Jovana Fajardo.

JOVANA FAJARDO: Should we just sit up here until we speak?

CHAIR MILLER: Yeah. Yeah, and then each of you can come up in turn to the microphones. Okay. And yep, your mic on, so you're good.

PINKY TONEY: Good morning. My name is Eileen Toney, aka Pinky. I'm a proud member and Board member of ACCE, as well as Sac CLT, and on the board with the Rio Tierra with Twin Rivers.

I'm here to share troubling information about Blackstone relating to climate change and California's public policy. Blackstone is not only hurting the climate, but their investments include nearly two dozen fossil fuel companies. This includes Gavin Coal Plant in Ohio, which is the ninth largest source of carbon dioxide emissions in the U.S. and it is the plant that should have been retired, but it's been kept running by Blackstone.

And while Blackstone is investing in fossil fuel companies, they're also investing in a disaster restoration industry, profiting from both creating and cleaning up climate disasters. One of the disaster restoration companies they own is SERVPRO with more than 2,100 locations across North America. SERVPRO employees have faced wage theft, health and safety violations, and serious injuries, and exposure to harmful chemicals on the job.

In addition, Blackstone has spent tens of millions of dollars to influence public policy in order to maximize their profits. In California, Blackstone gave $7.4 million in 2018 to stop Proposition 10, which would have provided protections for renters. In 2020, blackstone gave 7 million to the California Business Roundtable to stop Proposition 21, rent control and Proposition 15, schools and communities first, which would have reinstated the fair market value taxes on commercial properties.

Last year, Blackstone gave 3.5 million to the Business Roundtable do fund the Taxpayer Protection and Government Accountability acts, which would then have given the corporations a major loophole to avoid paying their fair share in taxes. We hope that you will work with ACCE and the rest of our organizations that are here today to address these concerns. As low-income people, we need your support, so that we cannot only enjoy our basic rights as tenants, but having rent increases capped at 3 percent and no fault evictions.

Thank you.

CHAIR MILLER: Thank you.

Okay. Next.

JOVANA FAJARDO: Good morning. My name is Jovana and I'm a proud member of ACCE.

You know, we're really concerned because of ExxonMobil, which a couple of the speakers spoke about earlier, in particular, them suing their shareholders because of the resolution they made around climate change. As a mother, me and my family are really concerned about the climate change and what it's doing to harm public health, causing drought, threaten the state's economy.

You know, I do want to say thank you to CalPERS. I know as trustees, you guys have already acknowledged climate change as a great threat the retirement security of millions of Californians, not to mention the planet as a whole. And your leadership is essential to all the people of California and to the people who depend on their pensions through CalPERS. And you are mindful not just to the people who are retired now, but those to come, right, those that are working now, those that haven't even started to the future generations like my kids.

You guys have a lot of power as part of CalPERS to the companies that you choose to invest with. And so I want to make sure that you guys acknowledge that. We have reached a point where we think and plan that climate change is at the center -- should be at the center of financial decision-making and it will change negatively people's pensions and our lives.

And in some cases, some companies we can engage with them and work with them to improve their policies to protect the pensions and the climate. It makes sense. Unfortunately, some companies, ExxonMobil in particular, is refusing to do that. They have already proven that they're not open to engage. And so we want to make sure that you guys are doing your part to hold them accountable.

And so we have a couple questions to ask of you guys. We want to make sure that you guys are open to make an announcement or a statement to denounce Exxon's lawsuit against their shareholders, other shareholders as yourselves, and that you will join Exxon's shareholders in calling for a removal of the current board of directors, and what your exit strategy is. Because at this point, if they've proven a point that they're not going to open discussion, they're not going to work with us, there needs to be an exit strategy for the years to come.

Thank you.

CHAIR MILLER: Thank you. Next.

CÉSAR AGUIRRE: Good morning, Committee members. My name is César Aguirre. I am a proud ACCE member. I am also the child of a retired State worker. And I have many, many family members, active and retired, who work for the State. And it's a place where I would hope to work soon. And it weighs on me heavily that the investments that are there to care for our community members who work through the State would potentially be making funds -- funding companies that cause harm in our community, such as ExxonMobil and Blackstone.

I think we're all well aware of the effects of climate change. And we've heard from speakers today that let us know undoubtedly that ExxonMobil is a corporation that is not doing all that it can to mitigate carbon emissions and reduce the harm that comes from climate change.

So, I look upon you with hope that you will have the courage to make wise decisions, and find ways, and be resourceful in finding investments that again do not perpetuate the harm that ExxonMobil and Blackstone are still now, as we speak, perpetuating.

Thank you.

CHAIR MILLER: Thank you.

Next, we'll have Jesus Cacho, Britt Dowdy, and Susan Minato come on down.

And your time will start whenever you want to begin.

JESUS FIGUEROA-CACHO: Thank you. Good morning. My name is Jesus Figueroa-Cacho. I'm a member of SE -- ACCE and also I'm a member FOR SEIU 2015 and a housing justice.

I help members of my community fight against treatment by corporate lenders like Blackstone. As you know, CalPERS is a major investors in Blackstone, which is now the largest landlord in the U.S. In 2021, Blackstone brought almost 6,000 housing units in San Diego area. ACCE reported a -- last year showing that Blackstone has raised rent in some of these units in March at 64 percent in just two years.

You might have heard about many lawsuit against a company called RealPage and a number of landlords and property managers. The lawsuit accused them to working together to illegally raise rents. This is directly contributing to California affordable housing crisis.

The company that Blackstone used as a property manager it is a San Diego property. It is one of the companies named these lawsuits. We ask that CalPERS, as a major investors, ask Blackstone to report to -- about its uses of RealPage in California properties and what the rent increase at these properties.

In addition, CalPERS is also a major investors in private equity funds that own CalPage. And those funds are named in the many lawsuits which put CalPERS investors at risk. We ask CalPERS ask Thoma Bravo, the private equity firm that owns RealPage to report to CalPERS about the numbers of property in California that use RealPage and that is -- that's real increase were in the -- this property.

And as an example, I am one of the person that I'm living in my car. I'm a health care worker. I'm representative for a union. The rent increase, my income doesn't increase. So we hope CalPERS can listen to this and try to get all these people out of the street. This is -- I'm sorry about this, like I was crying, but thank you very much.

CHAIR MILLER: Thank you.

Next, I have a Susan Minato.

Okay. If Ms. Minato is not here yet, we'll call her up again. So next Yvonne Wheeler.

VICE CHAIR TAYLOR: Here comes, Susan.

CHAIR MILLER: Oh, here comes susan. Okay. I'm told Susan is on her way down.

SUSAN MINATO: I apologize. I didn't hear.

CHAIR MILLER: And Yvonne, you can come up and be in the queue.

There you go and your mic is live.

SUSAN MINATO: So sorry. We were arranging our bus load of people. So good morning. Thank you for allowing me to speak. My name is Susan Minato. I'm co-president of Unite Here Local 11, which represents 33,000 hospitality workers throughout Southern California and Arizona.

And I would first like to begin by thanking the members of this Board, first, for understanding that the interests of private sector workers experiencing abuse at private equity and real estate owned workplaces are, in fact, aligned with the interests of public sector workers who depend on CalPERS for their benefits; second, that the labor principles you passed in 2023 reflect this understanding. So thank you for that.

However, neither the labor -- neither the labor principles nor the staff's proposed changes to the RCP thus far adequately protect CalPERS beneficiaries from the risks associated with strikes, because the changes will not prevent strikes. Over my 34 years as a union leader in the private sector, there are only two ways that I've seen where labor strife can be controlled, one, a collective bargaining agreement, which the fund, of course, has nothing to do with, and two, a labor peace policy where unions give up the right to strike in exchange for economic -- I'm sorry, and engage in economic action.

The starkest example involves Unite Here 11 and SEIU janitors. We have for years now complied with the Los Angeles City Labor Peace Policy at LAX where there are nearly 5,000 affected workers. Before the City of LA passed this policy, Local 11 fought for good wages and benefits, and struck concession companies almost every career turning the airport into a labor war zone.

Eventually, the City of LA had enough. They passed a labor peace policy covering LAX in order to protect the airport from strikes and labor unrest that impacted their proprietary interest to maintain operations at LAX.

In that situation, the Union gave up the right to strike. The City of LA did not get involved in why we gave up that right. They only required that the companies who want to operate there guarantee the City labor peace free from strikes. In exchange, the companies got to get into the lucrative LAX for -- to do business. Negotiating with a company over the weekend, just this past weekend, who -- they were -- they're clamoring for labor peace in

Arizona, because they love the policy.

Local 11 has not struck LAX for 17 straight years now, with one exception where LAX violated their own -- LAX and LA violated their own policy and let a company in without labor peace. By contrast, in 2023, 80 Local 11 contracts and hotel and food service has expired. I've never seen workers so ready to go on strike. Fifteen thousand Local 11 members launched the biggest strike ever in California hospitality in July 2023. And you all know the reason as we know the reason, it's due to obscene inequality call tea, which sadly in this day and age --

CHAIR MILLER: Thank you. Your time is --

SUSAN MINATO: -- is not going away any time soon.

CHAIR MILLER: So if you could wrap it up.

SUSAN MINATO: I will wrap it up. Thank you -- which means that we'll have more labor disruption, continued labor disruption.

And so we need policies to hold these kinds of companies accountable and we urge staff and trustees to look at those comments we sent you in October, for the comments on the RCP and implement a solution-oriented policy which should apply to all asset classes.

Thank you.

CHAIR MILLER: Thank you very much.

Okay. Next. Okay. So next I have a group of folks who we'll take in order. And again, I'll just ask that when you come up and speak, introduce yourself, the time will start. You'll have three minutes from the time you introduce yourself and start speaking. And I'll ask that you each feel free to use your time, but try not to simply repeat the message that was presented by the last speaker as much as we can. We'll try to not just simply be repetitious.

And so the first three will be Yvonne Wheeler, Susan Minato --

VICE CHAIR TAYLOR: Oh, you just did --

CHAIR MILLER: Oh, just did susan.

Jordan Fein and Matt Pina.

YVONNE WHEELER: Good morning. My name is Yvonne Wheeler and I'm the President of the Los Angeles County Federation of Labor. I would like to thank you, the esteemed members of this Board, for allowing me to speak today.

The experience of the Los Angeles County Federation of Labor movement over the last year is a compelling example of what's happening in the labor movement today. Workers are fed up and they are demanding more. At one point this summer, we had members from SEIU Local 721 have a one-day strike. Over 1,000 -- 10 --

100,000 union members SAG-AFTRA, and the Writers Guild went out on strike in Hollywood. As well as Unite Here in Los Angeles, members were striking the hotels in downtown Los Angeles and the Port of Los Angeles in Long Beach shut down by members of the International Longshore and Warehouse Union.

We had a hot labor summer, but it's more important to remember that this was not a flash -- this was not a flash in the pan. Workers across Los Angeles, across California, and across the country are starting to wake up. This summer's explosion of labor unrest followed the heels of a 5-week UC strike, and a strike by 30,000 SEIU members and UTLA members -- 35,000 UTLA members at the LAUSD. It's the largest public school strike in the school -- in the state of California.

During the pandemic, workers were thrown aside like they were nothing or they were told that they were essential, only to be essentially worked to the bone with no real improvements to their pay or benefits. They watched as the rich got richer, while they barely made it. They're fed up and they're not going to take it anymore.

I'm here today to recommend to this Board that you modernize your responsible contractor policy to protect investments for the beneficiaries you represent, many of whom are retired union workers from Los Angeles county. The new day -- this is a new day for labor. It requires a new policy to mitigate the risk.

On behalf of the entire labor movement and the over 800,000 union members of the Los Angeles County Federation of Labor, I want to thank you for your continued work and dedicated leadership on this important issue.

Thank you.

CHAIR MILLER: Thank you.

Next, Jordan Fein.

JORDAN FEIN: Good morning. My name is Jordan Fein and I'm a lead research analyst with Unite Here Local 11. I'd like to thank the Board and staff for soliciting input from stakeholders regarding potential changes to the Fund's RCP and for your continued efforts to mitigate ESG risk caused by strikes, boycotts, migrant refugee abuses, sexy harassment, and retaliation against workers standing up for their protected, concerted, federal rights.

Local 11 members ongoing disputes with Aimbridge Hospitality, which is owned by CalPERS investment manager Advent International and with Blackstone Group through real estate funds not connected to CalPERS, illustrate how the fund's current policies both in the RCP and across all asset classes lack enforceable language that would protect beneficiaries from human capital risks.

Hotel workers have been striking at Aimbridge operated and Blackstone-owned hotels for over 9 months. Thirty-four properties have settled fair contracts, but Aimbridge and Blackstone have made themselves outliers, well capitalized by public sector pensions like CalPERS, but unwilling to provide living wages, health care, and a pension to our private sector members.

As Aimbridge and Blackstone have grown more desperate, they expose CalPERS to more and more risks. Customers and groups have moved from their hotels to avoid picket lines. Local, State, and federal regulators have begun investigating on fair labor practice charges at Aimbridge and Blackstone properties alleging interference with worker's right to engage in protected concerted activity, as well as potential violations of child labor and wage and hour laws, abuses of refugee migrant workers who have testified before this Board, and Allegations that management failed to prevent and address sexual harassment at Aimbridge Properties.

The headlines about these firms mount as do the reputational risks to your managers. We appreciate that CalPERS has engaged with Advent and Blackstone and we ask that you continue to engage, but we've also asked that you withhold further investment until these issues are resolved and these firms demonstrate that they can responsibly manage the fund's money without costly protracted labor disputes or other ESG risks.

Unfortunately, CalPERS has continued to invest with Blackstone committing one and a half billion dollars to Blackstone Real Estate Debt Strategies V in March 2023 and $200 million to Blackstone Capital Partners IX in September 2023. These commitments come with no guarantee that we will not see a continuation of labor strife. Indeed, given Blackstone's track record, there's a high likelihood that the firm will face labor disputes and even strikes in these funds' investments.

We urge trustees and staff to strengthen the RCP and to strengthen total fund policy to more effectively mitigate human capital risk.

CHAIR MILLER: Thank you.

Next, I have Matt Pina followed by Margarita Virrueta.

Is Margarita here?

Okay. And after Margarita, we'll have Maritza Villeda.

Welcome.

MARGARITA VIRRUETA(through interpreter): Thank you. My name is Margarita Virrueta. I'm a cook at the Aimbridge-operated Sheraton Park Hotel in Anaheim. On March 8th, 2024, I sent a complaint to the California

Civil Rights Department alleging that I have faced sexual harassment at the hotel since I started working there in November 2022. Two of my co-workers reported it to the hotel human resources director months ago that they were being sexually harassed by the same male sous-chef. We believe that the hotel did little to nothing to address this situation.

CHAIR MILLER: Yeah, just one sec. I just want to let you know you'll have an additional time allotment for the translator, so don't feel like you're running out of time. When it gets to three minutes, you'll have an additional three.

THE INTERPRETER: Thank you.

MARGARITA VIRRUETA (through interpreter): As a result, the harassment continued. Almost every time that I worked with the sous-chef over the past year and a half, he engaged in unwanted and inappropriate behavior such as looking at my chest, whispering sexually suggestive comments in my ear, and making dirty jokes. On multiple occasions, he has come up behind me and given me non-consensual massages. He has also put my hand -- his hand on my stomach and caressed my waist all the way down to my back.

Once when I was reaching for a box Of strawberries stored above the refrigerator, he came up from behind, grabbed my by the hips and lifted me up. I was so shocked and so scared that I screamed. The sous-chef's actions made me feel uncomfortable and stressed. I often felt physically sick after working with him. And a few times, I had to leave work because I felt so nauseous.

Even though I was nervous to speak publicly, I choose to break my silence, because no woman should experience abuse in the workplace. I also speak today on behalf of Jenny Hong another cook at the Sheraton. She can't be here today, but she gave me permission to share her story.

Jenny also sent a complaint to the California Civil Rights Department alleging that she has been sexually harassed by the sous-chef starting since June of 2023. As Jenny describes in her complaint, the sous-chef frequently made inappropriate often sexual comments to her at work, and at times engaged in unwanted physical touching. This made Jenny feel so uncomfortable and anxious that she seriously considered quitting her job. For months she said she could not stop crying, she had trouble sleeping, and regularly got stress-induced stomach cramps.

In December of 2023, Jenny reported the sous-chef's behavior to three different managers at the hotel. Unfortunately, it seems the hotel took little to no action to investigator to respond. In protest, my co-workers and I have been picketing at the Sheraton. Last Wednesday, hundreds of us marched in the streets of Anaheim to support women workers against sexual harassment. We have called for a boycott of Aimbridge because we believe that it has failed to ensure a safe work environment for me and my co-workers, and in another ways has failed to respect us.

CHAIR MILLER: Okay. If you could wrap it up.

MARGARITA VIRRUETA (through interpreter): We ask for your support in holding Aimbridge accountable and ensuring that future generations of women everywhere feel safe where the work.

Thank you.

CHAIR MILLER: Thank you.

Next, I have Maritza Villeda, followed by Kathy Finn.

MARITZA VILLEDA: Hi. Good morning. Thank you for allowing me to speak. My name is Maritza Villeda and I work for Hampton Inn and Suites Santa Monica, which is operated by Aimbridge Hospitality for about 2 years as a front desk. I worked for about 2 years as a front desk supervisor before I was at other Aimbridge properties for about 9 years. Last month, I sent a complaint to the

California Civics[sic] Right Department alleging that I face a hostile work environment while working there, in that the hotel did not respond appropriately to my complaint. Instead, I was terminated.

As I allege in my letter for more than 6 weeks before I was terminated, I was placed with almost daily verbal abuse including being called a sexist LARP by a valid attendant. When I brought this -- when I brought those issues to the general manager at at least five different occasions, nothing was done to fix the situation. As I complained about in a specific horrible incident of verbal abuse and threatening to my life, I was terminated.

Unfortunately, I am not the only woman at the hotel who has reported sexual harassment in the past few months. My co-worker, Marta Villar recently came forward and also filed a complaint alleging that last year a manager at our hotel would make frequent suggestive sexual comments about her attractiveness and about other men interested in her. She alleged that he would touch the radio attached to the back pocket of her pants twice.

This made her so uncomfortable that she asked to switch to the night -- the overnight shift to avoid him, only to have him show up to his shift an hour earlier so he could keep overlapping with her. Even more shocking, she alleged that a little over a year ago, the general manager of the hotel himself hugged her and called her his sweetheart.

Then later -- then later involved her to his -- and later invited her to her -- to his house telling her he would not tell anyone if she didn't tell anyone. She sent an email to HR to complain, but a few weeks afterwards, HR closed her case without invest -- interviewing her. She felt like no one listened to her.

It is not easy for either of us to come forward, but I choose to break my silence, because no woman not in Santa Monica or anywhere should be forced to take this SLARP of abuse in the workplace.

I am asking the California Civics[sic] Rights Department to investigate the problem that I have endured at Hampton Inn and Suites Santa Monica due to my gender. I am speaking out because no one should have to face ongoing verbal abuse and harassment in order to provide for their families. I firmly believe that the workplace should be a welcoming place where professionalism and respect is priority in all levels.

CHAIR MILLER: Thank you.

MARITZA VILLEDA: I am -- its makes me proud to see so many strong womens labor leaders of the CalPERS Board. I know many of you members face sexual harassment too. Thank you for listening to my story and please hold Aimbridge accountable for the abuse we have endured.

CHAIR MILLER: Thank you.

MARITZA VILLEDA: Thank you.

CHAIR MILLER: Okay. Next I have Kathy Finn, Gwen Mills, and Beverly Yu.

Welcome.

KATHY FINN: Good morning. My name is Kathy Finn. I'm proud to serve as the President of the United Food and Commercial Workers Union Local 770. Our union represents approximately 30,000 workers who work in the -- in grocery stores, drug stores, health care, food processing an packaging, as well as the cannabis industries in Los Angeles County, Ventura County, Santa Barbara County, and San Luis Obispo County.

As more and more workers join the growing wave of strikes and worker unrest, UFCW Local 770 believes that the Responsible Contractor Policy must reflect these increased risks. Labor unrest costs companies money. In 2003, 2004, UFCW engaged in a strike against Albertsons, Safeway, and Ralphs companies in Southern California.

The Los Angeles Times reported that those companies lost a combined $1.5 billion in sales during that strike. The companies also lost market share as rival grocery companies moved in to take advantage of the strike. While Albertsons, Safeway, and Ralphs saw an 8 percent reduction in their market share, the Insurgent companies that were not targets of the strike saw a gain of 6 percent. Since that time, there have been a number of mergers or proposed mergers in the grocery industry with these companies. In 2015, Albertsons and Ralphs -- I mean, Albertsons and Safeway merged. The FTC forced them to divest 85 stores at that time. Haggen that was owned by private equity company Comvest bought those 85 stores and within 6 months closed them all. Thousands of workers lost their jobs and consumers lost 85 neighborhood grocery stores, places to shop.

And right now, Cerberus and other private equity companies are looking to merge Kroger-owned Ralphs and Food 4 Less stores with the Safeway -- with Albertsons, which owns Safeway, potentially risking closure of a bunch more stores in Southern California, which leads to consumers not having as many places to shop.

As a union president, I fight hard so that our members can retire with dignity. Having a safe and secure mention is a vital lifeline for our retirees, knowing that labor strife can impact our members' pensions would make me think long and hard about how to protect them. This is why UFCW Local 770 supports including enforceable language in the Responsible Contractor Policy that will protect the fund from ESG risks associated with strikes.

I would like to thank the Board of Trustees for their work on this policy. I know that you will continue your work to safeguard the retirement of millions of Californians.

Thank you.

CHAIR MILLER: Thank you. Go ahead.

BEVERLY YU: Mr. Chair and members, Beverly Yu on behalf of the State Building and Construction Trades Council. We represent 500,000 working women and men, including 65,000 enrolled in our state-of-the-art apprenticeship programs around the state.

Commenting on agenda Item 7e, we appreciate the opportunity to provide comments to the CalPERS investment policy for the RCP in response to the first policy reading. We would also like to thank the staff for your hard work.

Our unions represent many of the plan participants and beneficiaries in CalPERS, so we have a vested interest in the success of the program. We are here to express our disappointment to that -- to those proposed revisions, because they do not reflect unfortunately our feedback on the administration of the RCP, and we urge you to revisit our letter that we've submitted and to adopt the recommendations we have laid out in our letter. This will be a missed opportunity if we do not ensure the RCP does what it is intended to do.

It's important that we use responsible contractors because violations of the RCP create investment risks for CalPERS as an asset owner. Wage theft, health and safety issues, project delays, and construction defects may lead to fines and penalties by public agencies and litigation by workers and end users. CalPERS ultimately will bear this risk, and, you know, there are costs that come with failing to deliver projects on time.

And so we recommend the CalPERS RCP adopt the following changes. Of top importance, CalPERS should adopt strong labor standards for construction, rehabilitation, and construction maintenance projects located in California. On these projects -- for these projects over $50,000, we ask the Board to adopt a policy so that contractors and subcontractors are required to pay prevailing wages.

On projects over 250,000, we urge the Board to ensure contractors and subcontractors are required to use a skilled and trained workforce unless the work is covered by a project labor agreement that requires the payment of prevailing wages and employment of apprentices. We also urge the Board to adopt local hire goals and an implementation plan, unless the work is covered by PLA that includes local hire goals.

There are strong labor standards that are designed to ensure that responsible contractors can compete on the local level and have a level playing field. And that CalPERS obtains the highest quality of work and contractors participate in State-approved apprenticeship programs. We also urge CalPERS to apply the RCP provisions to commingled funds and other investments where CalPERS does not have a controlling interest. And finally here, we urge CalPERS adopt a labor piece agreement to the current neutrality section of the RCP. The LP -- the labor peace requirement -- excuse me -- for contractors is meant to address the risk of labor disputes, as you heard from earlier speakers, at CalPERS-owned assets. We have laid out the rest of our recommendations in a letter. We look forward to working with you all. Thank you very much.

CHAIR MILLER: Thank you.

Next, I have Gwen Mills and Rich McCracken.

Oh, Rich is by phone. Okay. Can we go to our phone caller.

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We have Richard McCracken to speak to Item 7e. Go ahead Richard.

RICHARD McCRACKEN: Thank you. I'm Richard McCracken, Senior Counsel at McCracken, Stemerman and Holsberry in Oakland. I'm here to describe to you the legal background of the labor peace risk management tools that Susan Minato alluded to.

I developed this concept in the late 1990s and wrote an ordinance for the City of Pittsburgh Pennsylvania inviting the concepts. The city adopted it. It was implemented. It was challenged on a variety of grounds, primarily federal labor law preemption. I defended the ordinance up to and including in the United States Supreme Court. The court denied review of a Third Circuit Court of Appeals decision written my Michael Cherthoff, George W. Bush's Secretary of Homeland Security when he was on the court of appeals.

And Judge Cherthoff wrote the opinion and endorsed the analysis that we've recommended to him, which was that this device is appropriate and not preempted when it's an exercise of protection of the government's proprietary interests that is a investor, landlord, lender, the -- ensuring the same attributes as a private sector practice.

The -- a policy was then adopted widely throughout the country by various different governments for different purposes and our every case to protect the proprietary interests I just described. One of those was LAX. Ms. Minato has described to you the policy which I helped create. And then that was for concessionaires and it was in the first decade of the century. But then it was extended to service providers at the airport. That was challenged as well and went to the Ninth Circuit. I defended the city in that case, in the Ninth Circuit, upheld the policy. And the Supreme Court denied review again.

So just to tell you what it means. It's not about union organizing all. It is simply the government insisting that it's a counterparty in whatever transaction it's involved in, obtained from the union most likely to represent or seek to represent the enterprise's employees, a promise not to engage in strikes, picket, and boycotts and other destructive activities. That's as far as it goes. It is just designed to protect that proprietary interest.

It is also only appropriate in places and times when there is a real risk of a labor dispute that needs to be mitigated. It is tool to minimize the jeopardy that labor disputes oppose to proprietary interests. It is the only known way to prevent injury to investments. That's why it's been adopted by so many different agencies.

CHAIR MILLER: Great. If you could wrap up.

RICH McCRACKEN: Yes, that's -- I'm done. Thank you.

CHAIR MILLER: Great. Thank you.

Okay. I've got -- okay. Let me keep track of all this. So next I have Michael Angulo and Luis Martinez.

MICHAEL ANGULO: Good morning, members of the Board. My name is Michael Angulo and I'm a Senior Researcher with Worker Power Institute, which engages with pension fund boards across the country to address the impact of strikes and other ESG risks on fund investment. I would like to briefly share some research and findings we have published in our new report, "Mitigating Human Capital Risk to Private Equity in Real Estate Investments."

Over the past 10 years, we have seen a steady rise in pension fund investment in the private equity and real estate asset classes. In 2023, these U.S. funds invested about $2 trillion with these managers. These types of investments are uniquely vulnerable to labor unrest. Due to their short-term interest horizon and emphasis on decreasing labor costs. An analysis by researchers from HEC Paris and Penn State University found that private equity-owned hotels experience a significant and lasting improvement in departmental profit margins because the firm slashed labor costs in the rooms department.

A report published in the Human Resources Management Journal concluded that firms subject to a specific type of private equity acquisition, institutional buyouts are associated with job losses, lower wages, and lower productivity. Strikes and work stoppages have been surging in the United States. Researchers from Cornell University and the University of Illinois found that strikes increased by 141 percent from 2022 to 2023, seeing over 24.8 million individual days of work stoppages.

Strikes have vary real financial impacts. Researchers at the State University of New York and the University of Wisconsin examined industry data from the Bureau of Labor Statistics over a 20-year span. They found that the average strike caused a 4.1 percent drop in stock price, equivalent to the loss of between 285 and 344 million dollars in today's dollar.

Other researchers found that the average loss to a company facing a strike ranged between 7.9 million and 51.5 million every day of the strike. Researchers have estimated the impact of recent labor disputes. The Michigan-based independent Anderson Economic Group reported that last year's strike against General Motors, Ford, and Stellantis cost the companies more than $10.4

billion. During the writer and actors strike, SEC filings revealed that Warner Brothers was losing between 300 and 500 million dollars. Entertainment Partners, a leading film production, finance, and management company had its credit ratings downgraded by Standard and Poor's, which also placed them on credit watch negative placement due to financial losses brought on by the strikes in Hollywood.

Unfortunately, staff's recommended changes to the RCP Policy would not adequately protect the fund from ESG risks associated with strikes and labor unrest. We urge CalPERS to strengthen the Responsible Contractor Policy.

Thank you.

CHAIR MILLER: Thank you.

Next, I have Luis Martinez.

Luis.

LUIS MARTINEZ: Thank you. Good morning. My name is Luis Martinez and I'm an organizer with Fossil Free California and I'm here to join my colleagues in calling on CalPERS to create an exit plan from their relationship with Exxon. Exxon is a fossil fuel company that has no regard for their shareholders and their most recent lawsuit shows this. Their share -- their shareholders who called on them to slash polluting practices that's causing climate change, plighting low-income communities of color, and this it's putting benefits for CalPERS retirees at risk.

I am from Los Angeles and a resident of Wilmington, California, a community on the front lines of oil drilling, refineries, heavy truck traffic, and cumulative environmental impacts. I have seen firsthand the damage that dirty fossil fuel practices does on the planet and front-line communities like mine. Many current and future CalPERS beneficiaries live in communities like mine, where residents experience negative health impacts like nose bleeds, headaches, asthma, cancer, and birth defects as a result of living near oil drilling and refineries, practices like the ones that Exxon participates in.

So I'm standing in solidarity today with future and current CalPERS pensioners and front-line communities like mine in calling on CalPERS to exit your relationship with Exxon.

Thank you.

CHAIR MILLER: Thank you.

Next, I have Miriam Eide and followed by Matt Pina.

Go ahead.

MIRIAM EIDE: Thanks. Hello. My name is Miriam Eide. I'm the Executive Director at Fossil Free California.

By now, you're probably familiar with me and my fellow organizers as we've been showing up for nearly 10 years. I'm coming here today hopeful that we might see eye to eye on one issue, Exxon is a risky investment. Exxon continues to double down on their business model of destroying communities for profit. For the past many years, you've been using your power to push back through shareholder activism, but I might ask to what end?

Just recently, we saw that Exxon is suing its shareholders for submitting a climate resolution. You're now fighting -- you're now facing a reality check. You can continue to engage and risk similar lawsuits, a risk, or you can exit Exxon, hold them accountable as you outlined in your recent sustainability plan. If you refuse to take action and passively keep funding Exxon, you're complicit. And it would seem to be in violation of your own policy on climate.

So here we find alignment. It's time to exit Exxon. I hope that you choose to be bold climate leaders by exiting from Exxon and that we can celebrate your actions together soon. Thank you.

CHAIR MILLER: Thank you. Okay.

MATTHEW PINA: Good morning. My name is Matthew Pina and I used to be a cook at the Sheraton Downtown Phoenix in Arizona, which is owned by Blackstone. I'm a proud member of Unite Here Local 11. I'm a proud transgender man and transgender affirming health care and birth control are very expensive, so expensive that I was forced to sell my plasma and get creative on how to pay my health care. I can't do that any more though, because I'm diabetic.

It is a constant struggle to afford my basic needs, keeping a roof over my head, paying for health care, putting food on the table. Rent in Phoenix is skyrocketing. My rent has gone up hundreds over the last few years and I have been forced to move back in with my parents. My parents -- it shouldn't be this difficult. This is why I'm fighting for a living wage, affordable health insurance, and a pension so that one day I may hope to retire.

Blackstone is the largest investment company in the world with a trillion dollars. They can afford to pay us fairly. The question is why are they choosing not to? Last summer, even when temperatures were almost 100 degrees in the mornings, my co-workers and I held picket lines outside of the hotel informing guests and the public about the labor disputes. The labor disputes are not good for business.

Most recently, I believe that I have been unjustly discriminated against for my protected union activity, as a union committee member. We have filed an unfair labor practice charge against the Sheraton Phoenix with the Labor -- the National Labor Relations Board alleging that I was unjustly suspended and fired. The longer the hotel drags out this fight, the more they and their investors stand to lose in the upcoming months from reduced earnings. Please tell Blackstone that they can only make good on their investment by resolving the labor dispute with a just contract.

CHAIR MILLER: Thank you.

Okay. It looks like we have two more comments on phone.

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We have Jennifer O'Dell from Laborers International Union of North America to speak to item 7e.

Go ahead, Jennifer.

JENNIFER O'DELL: Thank you. Thank you. Good morning. As you said, my name is Jennifer O'Dell from the Laborers' Union. I want to thank you, and the rest of the staff, and the Board of trustees for taking the issue of the Responsible Contractor Policy so seriously. We appreciate the time you've spent looking at this, you and the staff. And as you know, we submitted a letter with 10 other signatories to comment on the proposed changes. I'd like to highlight just three that we think you all missed the mark on and we'd like you to revisit.

One, the labor peace agreement, which Mr. McCracken and Sister Susan have already spoken to at length. We ask you to revisit that and take a deeper look at it. Second, we went back and looked at all the notifications that we have received for jobs to submit our contractors to over the last two years and we found that a hundred percent of the time, we did not receive any work at any of those jobs. So let me just repeat that. We looked back at 2 years worth of notifications along the Responsible Contractor Policy and never received -- none of our contractors ever won any work, and that's after successfully bidding on jobs, but we've never received them, including one just recently in Northern Virginia where we lost all three bids.

And finally, I'd like to underline that we would like to see some sort of bid credit given to responsible union contractors when they bid on the jobs. Currently, as my previous statement stands, the -- we have -- it's a race to the bottom. Really just whoever has the lowest bid seems to be the one who wins the contracts. That seems to fly in the face of the notion of what the Responsible Contractor Policy is for.

So we urge the Board of trustees and the staff to take a closer look at those three pieces of the

Responsible Contractor Policy. We look forward to working with you on that and we're available at any time for more questions and comments about our statement. Thank you so much for your time. We appreciate it.

CHAIR MILLER: Thank you.

And our next caller.

STAFF SERVICES MANAGER I FORRER: Yes, we have Doug Bloch from Unite Here Local 19 to speak to item 7e. Go ahead, Doug.

DOUG BLOCH: Good morning and than you for the opportunity to speak on this important issue. My name is Doug Bloch and I'm here on behalf of the Unite Here Local 19, which represents more than 8,500 workers employed in hotel, restaurants, airports, sports arenas, and convention centers throughout Northern California.

Under the Biden administration, we are witnessing historic investments in climate and infrastructure. Attached to these are labor standards aimed to create good paying union jobs for workers in disadvantaged communities. The reforms that we are proposing here today are very much in line with the administration's goals. In my three decades in the labor movement, I cannot remember any instance when we've been able to take advantage of the existing Responsible Contractor Policy.

This was an issue that the California Future of

Work Commission looked squarely at. The recommendations today will change that. From labor peace to commingled funds and construction work, these policies will change workers lives and we can do it in a responsible manner that protects our investments. We strongly urge you to adopt them. Thank you for your time this morning.

CHAIR MILLER: Thank you.

I believe that's the end of our phone callers for the moment.

Okay. So next I have Michael Hutnick followed by Michael Mark.

MICHAEL HUTNICK: Good morning. My name is Michael Hutnick. I am not affiliated with any particular group, organization, but I am a State employee and a CalPERS member.

And I wanted to speak on just the nature of investment and how it's principally an exercise in reading the future. And the future isn't always easy to see, but other times it gets quite clear, and knowing history helps us to recognize those patterns to help us be able to see the trends that will play out in the future as well.

So I want to, for a moment, ask you to imagine that this is the early 1940s and I'm here asking the Board to divest from IG Farben. It's a chemical manufacturing company. They produced the Zyklon B gas that was used on the victims of the Holocaust. They utilized 83,000 forced laborers in their business. And I think if I was here asking you if we should continue to invest in that company, hopefully your response wouldn't be, well, I have a fiduciary responsibility, because businesses is booming, and our returns are guaranteed and they're quite rich. I think we can see in hindsight the flaw in that reasoning.

So when the writing was on the wall -- you know, that's a -- that's a hypothetical, but when the high -- when the writing was on the wall in the 1990s about the death of the tobacco industry as a good investment to make, CalPERS disinvested from tobacco. And so considering the investment in fossil fuels that have been spoken on today, I think that the writing is chiseled into the wall now, so we cannot deny it.

And for -- you know, for the perpetuation of life as we know it, fossil fuels must dramatically fall. And the best case scenario we'll have a dramatic reduction in the use of fossil fuels, which means that the value of our investment will concomitantly fall with that demand. In the worst case, the fossil fuels will not fall. They will stay a strong investment, but everything else is going to lose its value as investments, real estate and everything -- everything across the board and we see that. We that across -- it's undeniable.

So attempts to create change from within have not been successful. So I urge the Board to get out while the getting is good. As I understand it, divestment means selling of stock. You want to sell it before its worth nothing, which, you know, fingers crossed will be in the near future and reinvest that money into technologies that will be the future -- that will be the industries that are growing to be the future best investments. And so that's the -- that's the future that I want my pension investment, my pension contributions to go to for myself and my family.

Thank you very much.

CHAIR MILLER: Thank you.

Next, Michael Mark followed by Britt Dowdy.

MICHAEL MARK: Good morning, Board members. My name is Michael Mark. I'm with Sheet Metal Workers Local 104. I believe there is a hard copy of a letter that I will be -- staff is distributing. First and foremost, I appreciate the time and opportunity to speak in front of you and Board members hearing us, hearing what the unions are asking for for in terms of proposed recommendations.

We have had the chance to be stakeholders in this comment process. We met with staff back in October and November and provided recommendations. Within this letter that's before you is some of the recommendations that we as Sheet Metal Workers Local 104 who have 10,000 members that live here in California, which is your neighbors, and obviously the participants of this plan within the same community.

So what I want to make sure I'm really clear on is this RCP will provide opportunities for Californians and throughout the nation. One thing that I want to make sure we're very clear on and is one of the recommendations from Sheet Metal 104, and if you heard our -- Beverly Yu from State Building Trades, is the ability to have a prevailing wage on CalPERS-related projects in the state of California. Having prevailing wage -- wages really benefits and uplifts the entire community.

Number two, as my brothers and sisters before me earlier have said, labor peace it's really important to have a labor peace policy within the RCP policy as a whole within our bullet points.

Number two, how do you create more opportunities is the ability to make sure this RCP applies to more funds, which is in my bullet point 2, commingled funds, right? Right now currently, the RCP only applies to funds 50 percent and plus 1. But if CalPERS is really, really partnering and choosing great partners that has an RCP that is just as great as CalPERS, so then when you're having commingled funds, you're actually getting a win-win. So when you're choosing partners that have a great RCP in place already in the real estate investment policies in their internal RCPs, you have that chance to have a double win.

So I'm getting close on time. In the full letter, there is seven recommendations, labor peace, prevailing wages, creating those opportunity for apprentices in the state of California.

With that, I will close and thank yo. Please read the entire letter. Thank you.

CHAIR MILLER: Great. Thank you.

Okay. Next, I have Britt Dowdy.

Welcome.

BRITT DOWDY: Hello. I'm Dr. Britt Dowdy. I am the co-chair of Retirement Policy Committee with CFT, a union of educators and classified professionals. And while we have many union members that are part of a different pension system across the river from here, we have over 9,000 active employees in CalPERS and several thousand retirees who receive CalPERS pension benefits.

Our members, very clearly want our pension funds to divest from fossil fuels. And while we're waiting for that to happen, they want our pension funds to take actions, such as you have to engage and provide positive corporate behavior. So we want to thank you for taking actions to try to steer ExxonMobil to invest more heavily in alternative forms of energy and to try to change their leadership.

So we want to continue to -- the CalPERS Board to take bold actions to have responsible ESG policies, which you've put into place, and continue to follow those, and to help to influence corporations to help create a better planet so we have a place to retire. And it also creates fiduciary opportunities for -- to protect your investments, which benefit all of us. So again, thank you CalPERS. If you're not aware, there is a group rallying in your support outside for taking that action and standing up to ExxonMobil.

CHAIR MILLER: Thank you. I believe that includes the -- concludes the public comments we have right now. And who knows, we may have some additional ones later.

And I think at this point, we'll take a brief break of what -- 10 minutes?

VICE CHAIR TAYLOR: Yeah.

CHAIR MILLER: Yeah, we'll take a 10-minute break, get reorganized and let everybody take a quick stretch and then we'll get back to it.

(Off record: 10:54 a.m.)

(Thereupon a recess was taken.)

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

CHAIR MILLER: Okay. We're back in business here. It turns out I do have a few more public commenters that were in the queue. So we'll go ahead and allow them to have their opportunity to comment before we move on to our regular business.

So I'll call up Pablo Sandoval, Yvette --

CHIEF EXECUTIVE OFFICER FROST: It's 7e.

CHAIR MILLER: Hmm? On 7e, yeah.

Pablo Sandoval, Yvette Simon and Andre Olivera.

Welcome.

VICE CHAIR TAYLOR: They're going to do it on 7e.

CHAIR MILLER: Oh, they're going to do it then. Oh, okay. Well, that's -- that will be fine. We will do it then. So we'll hold them till the end.

Okay. I stand corrected. So let's jump back in then. We've got action consent items.

VICE CHAIR TAYLOR: Move approval.

COMMITTEE MEMBER PALKKI: Second.

CHAIR MILLER: Moved, second. Moved by Taylor, seconded by Palkki.

So all in favor?

(Ayes.)

CHAIR MILLER: Any nays?

No abstentions.

The motion carries.

Information consent items. I haven't had any requests from anyone to pull anything and I'm not seeing any.

So we'll move on to our action agenda item 6a.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Thank you, Mr. Chair. This is agenda item, as you say, is an action item. It's our mid-cycle ALM review. I'll ask Sterling Gunn and the team to join us up here. And Sterling is going to walk us through updated capital markets assumptions and a recommendation to update the strategic asset allocation, with the most notable change being to further increase our weights in public market and private credit funded from their public market equivalents.

So, Sterling, I'll turn it over to you.

(Thereupon a slide presentation).

MANAGING INVESTMENT DIRECTOR GUNN: Thank you, Dan. Chair and Committee members, good morning. I think it's still morning. So I'm joined here today with my colleagues Michele Nix who's the CFO and Scott Terando, who is our Chief Actuary. And we're presenting the results of our mid-cycle review.

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MANAGING INVESTMENT DIRECTOR GUNN: Okay. That's good. So during the ALM review, we felt our capacity to deploy private assets was limited. And as a result of that, we limited the allocation to our private assets. And in the last two years, our capital deployment capacity expanded faster than we expected. And with that increased capacity to deploy capital, and the opportunity to deploy significant parts of that capital to value-add and co-investments, we will be recommending our private equity and private debt allocations be increased.

Now, at the conclusion of this presentation, we'll ask the Board to adopt the CMAs that we're presenting here and to approve candidate portfolio A, which incorporates those assets class changes. Now, before making that request, let me summarize the ALM review reprocess and the results of our review.

So next page, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR GUNN: Now through our focus today that's on the investment portfolio, the ALM process does involve several parts of CalPERS. That includes the actuarial, the communications areas, finance, and investment offices. The roles, we work together to make sure that both the work is clear and transparent, that we've heard stakeholders, and that the result is communicated as clearly as possible.

Now, earlier I'd mentioned this is the second mid-cycle review. So let me quickly outline the ALM process.

Next slide.

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MANAGING INVESTMENT DIRECTOR GUNN: Thank you.

Now, this ALM cycle began in 2021 when the CalPERS Board adopted the current PERF strategic asset allocation. Last year, we began this mid-cycle review starting with a review of the ALM process and background materials. And we concluded 2023 with a discussion of three candidate portfolios.

Now, looking forward, we see work on the next ALM cycle. It begins February of next year. You see that in the chart there. And that work starts with education sessions, reviewing the framework, actuarial and capital market assumptions, and developing candidate portfolios. And it's hoped that the Board will approve the strategic asset allocation in November of 2025.

Next page, please

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MANAGING INVESTMENT DIRECTOR GUNN: Now, in this mid-cycle review, we're focused on the capital market assumptions and the assumptions related to the construction of the PERF strategic asset allocation. The

Actuarial Office has determined that currently there is no need to change the actuarial assumptions, nor a need to change the discount rate. Both of those assumptions will be reviewed in the ALM cycle coming up next year.

So let's move on to the CMAs we've used during the 2023 ALM mid-cycle review.

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MANAGING INVESTMENT DIRECTOR GUNN: Now, our capital market assumptions, or CMAs, are based on a quarterly survey of 15 external managers. We regularly review the CMAs and any implications for the strategic asset allocation. In November, we presented the Board with a Q2 2023 survey results for projected 20-year returns. Now, we use those results here as the most recent results are very similar and did not affect our analysis. So it seems though the Board was familiar with these CMAs, we thought we'd leave them as is.

This chart summarizes three types of information for each asset class. The blue box represents the range of results from the survey. The blue dot represents the median result for the current survey. And the orange dot represents the median values used in the 2021 ALM study. Our own CMA estimates tend to lie near the median result.

One of the most important results of the survey is the August diversity of opinion held by managers. We incorporate this uncertainty into our analysis by not relying on a single manager. Rather, we use the median values of the survey as a starting point for our analysis. We then test both the sensitivity and the -- of the asset allocations and the total portfolio risk and return characteristics due to uncertainty of our CMA assumptions.

We find that total portfolio risk and return is less sensitive to the CMA assumptions than are the actual allocations. So that means allocations can change quite a bit without necessarily affecting the total portfolio risk and return. Our private equity returns, though lower than the projection in 2021, are still projected to be one of our highest earning asset classes and still projected to outperform public equity.

The projected returns for fixed income assets, including private debt, have increased since 2021. Our capital market assumptions also included projected covariances for the asset classes, which we'll find on the next page.

Now, as we're often reminded, past performance need not be indicative of future results. And the coming years are likely to be different than the past 10 years or so. So it's not surprising our forward-looking capital market assumptions have differed from the experiences we've had for the last 10 years.

If we can go to page eight. Thank you.

[SLIDE CHANGE]

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MANAGING INVESTMENT DIRECTOR GUNN: Now, I just quickly wanted to go over some of those past returns, because stakeholders have asked about them. So the fixed Income historical returns for the last 10 years were about 2.4 percent consistent with the low interest rate environment that persisted for that -- much of that 10-year period. Interest rates are now higher and are expected to stay higher. As a result, we believe long-term fixed income returns will be higher going forward and the CMA survey has the same view.

Private equity, has provided the highest returns over the preceding 10 years with returns of 11.8 percent outperforming public equity by 2.9 percent. Now, during shorter periods, private equity may underperform public equity. Last year is an example of that. In 2023, public equity outperformed private equity by over 13 percent. Specifically, during that period, public markets returned 22.3 percent well above our expectations for public equity. It was a great year.

During that same year, private equity returned 8.8 percent closer to our long-term expectations. Now, that's a one-year period. If we look back over 3-, 5- or 10-year periods though, we do see a story that's more consistent with our expectations about private equity outperforming public. So just very quickly, over the last 3 years, private equity has outperformed public by 6 percent. Over the last 5 years, it has outperformed publics by 4.5 percent. And over the last 10, as we saw in the chart, by about 3 percent. So let me just summarize the reason for increasing our private equity allocation.

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MANAGING INVESTMENT DIRECTOR GUNN: First, our long-term CMA projections to private equity returns exceeding public equity returns. The CMAs alone support the increase to the private equity allocation. Our private equity strategy with its focus on co-investments and avoiding fees is expected to add significant value over and above the CMAs.

In 2021, we constrained the private equity and private debt allocations to be consistent with our ability to deploy capital. As I mentioned, since then, we've expanded our capability to do that. We are now recommending the private equity range be 12 to 22 percent with target of 17, so that's an increase of 4 percent.

We also find the PERF will have more than adequate liquidity to support this change. We manage liquidity over multiple horizons from days to decades. Our liquidity objective is staying on strategy, even during stressful events. Staying on strategy means we pay benefits and we maintain all of our investment strategies. Staying on strategy is a much higher liquidity bar than just ensuring we pay benefits.

Based on our liquidity analysis, we are comfortable with the liquidity of the proposed candidate portfolio. Increasing the allocations to private equity and private debt is a good use of PERF liquidity. These increases are supported by the CMAs and by our private asset strategies. Our recommendations is a natural progression of the work that you started in 2021.

Next page, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR GUNN: So the current and candidate portfolios consist of equity, fixed income, and real estate exposures. The total equity exposures include private equity and two segments of public equity. The market cap-weighted segment and a multi-factor segment. The proposal increases the private equity allocation to 12 to 22 percent with a target of 17, up from 13 percent. The public equity as a result would be reduced to 37 percent, down from 42. The total equity exposure of candidate A is 54 percent, down from 55 percent.

The fixed income exposure includes private debt along with treasuries, investment grade, mortgage-backed securities, high yield, and sovereign segments. The private debt allocation we're proposing be increased to a range of 3 to 13 percent with a target of 8 percent. That would be a target increased by 3 percent. The total allocation to the other fixed Income segments is 28 percent, down from 30 percent. Candidate portfolio A has a slightly higher total fixed income exposure of 36 percent, up slightly from 35 percent. The real asset allocation remains the same at 15 percent.

Candidate portfolio A is designed to have the same level of risk as the current Board-approved strategic asset allocation for the PERF, having a slightly higher projected return. Candidate A with its increased allocation to private equity and private debt also has the greater potential for co-investments and accompanying excess returns.

Finally, just a note here on that table, you'll see the CMA survey results provide an estimate of the uncertainty of projected expected returns ranging from 5.6 to 7.7 percent. That uncertainty raise the expected returns, and that's very distinct from volatility.

So to conclude, we are asking the Board to adopt CMAs and approve Candidate Portfolio A as the PERF strategic asset allocation. Thank you for your time. And I'm happy to address any questions you may have.

CHAIR MILLER: Okay. First question, Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Sterling, thank you. And I'm going to preface my question by saying I've been -- since I've been on the Board, a very consistent advocate for us maintaining a private equity exposure and in reasonably consistent one. But as we heard this morning in great detail, every time we make a direct investment in private equity, there is a frictional cost associated with it in terms of the management and our direct reputational exposure to these investments. So help me understand how we are going to manage the process of making sure that as we -- if we expand the amount of private equity that we have that we are able to do so with organizations that are going to be consistent with the values that this Board has said we must have?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: You know, Director Middleton, I think Anton would probably be best to answer that. If that's all right, I'll ask Anton to join us and take that question.

COMMITTEE MEMBER MIDDLETON: Sure.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you for the question. What I would highlight is the transfer of equity risk from the public to private side comes with obligations to make sure that the investment partners we engage with uphold our values. And as we've heard today, there are absolutely circumstances where, on the public and private equity side, we need to be vigilant to a uphold those values. Staff on both the public equity and private equity side pursues that engagement, and we're very proud of that work in conjunction with sustainable investments.

And on the private equity side, I would also flag that we are shifting the proportion of the portfolio away can from buyout, which tends to disproportionately have headline risk to CalPERS and moving it toward growth and venture, which is based on creating opportunity and adding value through growth, not cost cutting.

So at a high level, I think this change would actually reduce our headline exposure and give us good opportunities to engage to uphold CalPERS values.

COMMITTEE MEMBER MIDDLETON: That's a very good point, Anton. What kind of numbers do we have that would tell us the extent of our private equity investment that are in growth and venture as opposed to in buyouts and how are you going to be tracking that moving forward?

MANAGING INVESTMENT DIRECTOR ORLICH: Since the current strategy was implemented in the fall of 2022 with the combination of the growth and innovation platform and the private equity asset class, we've gone from a run rate of about 80 percent buyout, 20 percent growth venture to 60 percent buyout, 40 percent growth venture, so slightly below the stated target on a strategy basis from the Board.

The target for buyout is 65 percent.

COMMITTEE MEMBER MIDDLETON: Um-hmm.

MANAGING INVESTMENT DIRECTOR ORLICH: And we historically have been running at about 75 to 80 percent. We're bringing that down to 60. And we have been able to achieve that run rate over the last almost two years.

COMMITTEE MEMBER MIDDLETON: All right. And projecting forward the next 2, 3 years, where do you see that finishing?

MANAGING INVESTMENT DIRECTOR ORLICH: We would continue with that run rate and over time the portfolio net asset value would reflect several years of commitments at those target levels.

COMMITTEE MEMBER MIDDLETON: All right. I follow the direction you're going. My concerns are helped, but they're not alleviated that as we get more into private equity, we're going to find ourselves more frequently facing questions around the organization's that we've partnered with. And that's going to require a tremendous amount of commitment within the Investment Office to avoid those kinds of exposures.

CHIEF EXECUTIVE OFFICER FROST: Yeah. Anton, it might be helpful just to preview the June agenda item on the Labor Principles and how the private assets will be implementing those.

MANAGING INVESTMENT DIRECTOR ORLICH: And you know, Peter, from Sustainable Investments is welcome to join me on this characterization of the work that we will -- oh, perfect. But, you know, just speaking from the private equity segment, I would say the engagement across privates with the leadership of Sustainable Investments is creating uniformity in our engagement without asset managers, whether they're in real assets, private equity, or private debt. So with that, I'll hand it to Peter.

COMMITTEE MEMBER MIDDLETON: Thank you.

MANAGING INVESTMENT DIRECTOR CASHION: Thanks, Anton. For the June meeting, we will provide an update on the implementation of the Labor Principles where we are today. So today, we're preparing a communication that would go to all of our existing managers that would require a request that they acknowledge receipt of the Labor Principles, so that there's an awareness on their side. And we'll have that documented and be able to track these acknowledgments as we work towards a full set.

On the -- in terms of new investments, we will be including this in the documentation. And for new investments, we don't have a specific start date yet, because we're still working with Legal and even IT on how this specifically will be implemented. But our plan is before the Board meeting in June, that we will be able to have provided a specific date, after which we are incorporating Labor Principles for new investments.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. And Mr. Chair, thank you.

CHAIR MILLER: Okay. Next, I have Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you.

I want to thank staff for this report. The thoughtfulness is really appreciated. I also want to thank their consultants for weighing in in their analysis in the supplemental information.

I just want to make a couple comments. I think reducing the fixed income targets right now doesn't seem like it matches the treasury yields, which are now close, right? We had projected lower. And I think even on one of the slides, it showed that the projected fixed income would be higher. So it feels like we should lock in the rates at the 4 to 5 percent and get those safe returns. And so I'm not sure I'm comfortable with reducing the fixed income target.

And when we're talking about private equity, so currently, our range does allow us to go up to 18 percent. And it seems that we've only kind of gotten near the 13 percent because of the market downturn. Is that -- how much of it was our ability to deploy and how much was it just the market conditions and the adjustment in the percentages because of the overall fund?

MANAGING INVESTMENT DIRECTOR ORLICH: I would say it's roughly half and half. What has created the opportunity is the ability to deploy cap -- private equity capital into no management fee, no carry structures, which is associated with putting dollars in the ground sooner and reducing the exposure of the fund to fees on unfunded commitments. So roughly speaking, in our standard target year, we should have an increase of private equity of just over 1 percent from putting dollars in the ground in no management fee, no carry private equity opportunities.

And then in terms of the first part of your question, staff views fixed income and equity as being an exposure that overall we're maintaining at the same level and doing a minor shift from the public side to the private side. So in terms of taking advantage of the opportunity of rates on a net basis, there's actually a percentage increase that is going toward fixed income with private debt going up three and fixed income going down two, for a net increase to capture the rate opportunity of 1 percent. But this is not a tactical view. This is a strategic asset allocation view that will, on a net basis, be increasing our exposure to the opportunities that you highlighted.

COMMITTEE MEMBER WILLETTE: Okay. Thank you. I just -- to go back to our Wilshire and Meketa comments, I think with the upcoming 2024-25 full ALM cycle to assess the progress, I'm more comfortable waiting for a new CIO to come on board, look at these asset allocations, and then we'll be doing this all again in 18 months. That's just my only comment.

Thank you.

CHAIR MILLER: Okay. Next, I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. First of all, thank you very much for the presentation. I really do appreciate this.

So I also want to concur with Director Middleton on the importance of the private markets. I think overall in the long run, it will be -- they will have provided us the alpha that we need to make sure that our members retire with dignity and respect. However, I do want to understand with the allocation from 13 to 17 percent, you know, how are we able to measure it? And I believe it's my understanding that we do have a framework. The -- I believe it's called the ESG Data Convergence Project. And I know that we had -- it started about 2 years ago. We have six or seven categories.

And how would -- how would this particular framework provide some sort of structure for us to understand -- have more understanding of the funds and the portfolio companies within it, and provide us necessary metrics moving forward. If anyone can elaborate on that, it would wonderful.

MANAGING INVESTMENT DIRECTOR ORLICH: I'll tackle since data convergence is actually created by CalPERS out of the Private Equity Unit. And we continue to be engaged in its advancement. And we encourage our partners to participate. Their participation is a consideration in our decision to have an ongoing investment relationship. We have been able to get steady improvement in that metric. The key area for that is the participation in our buyout portfolio. And we stand at about 60 percent of our core active relationships - I'm using those as synonyms - participation in EDCI.

We have a target list of managers who are currently not participating in which we're, you know, heavily engaging to encourage their participation.

COMMITTEE MEMBER PACHECO: With respect to now the movement toward growth and venture capital, is there a target around that as well?

MANAGING INVESTMENT DIRECTOR ORLICH: The relevance of the EDCI is much different for growth and venture. It's buyout where our partners have controlling interests in the portfolio companies where it's most relevant.

COMMITTEE MEMBER PACHECO: Um-hmm.

MANAGING INVESTMENT DIRECTOR ORLICH: And also those are the mature industries that are part of this transition for climate-focused future. So we focus on buyout when we think about participation in EDCI. And its inception and creation were really around changing buyout. You know, by and large, you'll see that venture and growth firms are disruptive and net contributors to these transitions. So we think that we benefit from focus on buyout when we're trying to advance this point.

COMMITTEE MEMBER PACHECO: Very good then. Thank you very much for your comments.

CHAIR MILLER: Okay. Next, I have President Taylor.

VICE CHAIR TAYLOR: Yes. Thank you for your presentation, Sterling. I appreciate it and all the work that went into it.

So we're looking at Candidate Portfolio A. I know I saw in the appendix a couple of other ones, but the suggested adoption is for Candidate Portfolio A, correct?

MANAGING INVESTMENT DIRECTOR GUNN: That is correct.

VICE CHAIR TAYLOR: Okay. So -- and I just sort of want to sort of repeat what Director Middleton talked about. I think that it's really important that we really nail down the labor principles, as we implement this, as we heard all this morning, right, that lots of folks that work in these, you know, that private -- work at places private equity owns has -- have a lot of problems, whether it was harassment or, you know, being fired for trying to unionize, or poor wages and benefits. I just want to really make sure that we are aware that this asset class has problems, and that as you said, we are reducing our buyout and moving into growth, and we are also moving into the co-investment rather than the commingled funds.

But I also think that part of that should include -- if we're going to include commingled funds in any fashion, right, that we should be looking at being able to apply those Labor Principles to those commingled funds, right, so that we're not -- so that if we're not doing that in the RCP or something at a later date, then we need to make sure that those Labor Principles apply to that.

And then in addition, I think I asked this question before, so I'm just going to ask it for the audience, why up to the 17 percent now, rather than waiting for the ALM? So if we could get kind of --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yeah. Maybe I'll take a first stab at that.

VICE CHAIR TAYLOR: Yeah.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So first of all, with the first half of your question -- or your comment, we agree. And Labor Principles will be back in June to demonstrate that agreement and we'll make sure that you're comfortable. And as Anton said, we have similar issues in the public markets. And that's what, you know --

VICE CHAIR TAYLOR: Sure.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: -- the Item 7c will be about is all the proxy voting --

VICE CHAIR TAYLOR: Proxy voting, yeah.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: --

because we know that that's one of our responsibilities is to make sure that all of the organizations that we do business with are operating as -- in alignment with our principles.

To the why now? And this actually goes back to Director Willette's question also. If you'll recall the implementation time frame from November of 2021, while we're ultimately getting to 13 percent, right now, the target is 10 percent, because it started at 9 in 2022, went to 10 in 2023 -- July 1st of 2023, so now we're at 10, which means that in our existing 14, we're at 14 versus 10. So we're up approaching the ranges. We're not there yet, but we're approaching the ranges. We think the transparent way to handle that is to actually move to 17 given the increased traction around co-investment.

And I would say importantly, we actually do view that as the consistent way. Anton and team in the Private Equity team have been allocating at about a $15 billion allocation budget year by year over the last couple of years. That $15 billion allocation budget gets us to the 17. And if we were to stick with 13, we would actually have to back off from that. And I think it's important to note that if we were to back off of from that, what suffers is the co-investment, that the fund investment would stay the same and co-investment would drop off. And that's one of the reasons why we're so focused on staying at $15 billion allocate --

VICE CHAIR TAYLOR: So are you saying we'd get to the 17 before the next ALM?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Probably not before, but we'd be approaching it. And we --

VICE CHAIR TAYLOR: Okay. So we could reconsider it, if we needed to.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Absolutely. Absolutely. When we come back to the next -- well --

VICE CHAIR TAYLOR: For the -- for the next ALM.

So in other words, if we stayed here -- I'm just trying to allay some fears on the Board. If we stayed here at 13, we have the plus or minus 5. And then if -- in the next ALM, as we work through this, then we could move to the 17 or do you foresee that -- Anton or whomever, that not being enough in the next ALM, if we waited till the 17 percent for the next ALM.

MANAGING INVESTMENT DIRECTOR GUNN: I think it would be prudent to move to the new ranges. So if we're at 14 now, we're likely to get to 15 or 16 in the next couple of years. And I think following the target range, it is consistent with what we're trying to accomplish with the private equity. We could defer. And in a downturn, we might end up with -- if you remember the discussions of a denominator effect --

VICE CHAIR TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR GUNN: -- we'd be coming back perhaps under those circumstances and saying, oh, by the way, we're now through that upper band. So I think the bands are really there to let us navigate through those downturns without a lot of noise. So in moving the target, I think it gives us that opportunity, one, to do something which I think, by and large we're comfortable with doing. We see the value of it for the portfolio and gives us the maneuverability we'll need depending on what the markets are doing in the future.

VICE CHAIR TAYLOR: Okay. So then finally, if -- and Anton, if you want to add to that, you can. But also I just wanted to make sure that we understand as we move forward, what is -- if we -- if we say yes now, right, and we go ahead and say, yes, 17 percent plus or minus 5, and then 2 years down the road we're looking at is there a possibility of more money, how much -- how much are we going to tie up in illiquid private equity. And if you could talk about what you and I had talked about earlier, that would be helpful I think for the rest of the Board.

MANAGING INVESTMENT DIRECTOR ORLICH: So our goal is to be consistent in implementation on a dollars basis. And if you look at the pacing models that we as practitioners employ, they employ four major issues that we model and we really only have control over the dollars that we commit and put in the ground. We don't have control over the denominator, the size of the portfolio, which could dramatically change if there's a drawdown. We don't have control over the rate of appreciation. Thankfully, over the last couple of years, we actually have been appreciating better than expected. It's a great problem to have. And we can't control the rate at which our managers ask for capital. But that's the advantage of the co-investment structures, we get to be consistent in that co-investment amount.

So the messaging here is we're actually being consistent in deploying dollars and we're being prepare -- we're preparing for the fact that there could be a drawdown event, which, you know, puts the plus or minus 5 percent around the 17.

I expect in a normal market environment, normal appreciation of the total fund, we would be just below the 17 percent target by the next ALM, if there was a change here. And the consistency and the co-investments is how we do that build. So each incremental dollar that we're putting into the ground is at the advantaged cost structures, no management fee, no carry.

I think the consistency -- and this relates to the second part of your question. The consistency is so critical, because we want to, year in year out, put dollars into the ground so that 4 to 5 years from now our future co-investments are paid for by harvesting of the co-investments that we have made over the last couple of years and will be making in the upcoming year.

And that is the state of a healthy portfolio where we have a majority of our net asset value in attractive cost structures and then the harvesting of those investments pay for our future investments to pay pensions for the long term.

VICE CHAIR TAYLOR: Which doesn't raise our percentage, right, therefore at that point?

MANAGING INVESTMENT DIRECTOR ORLICH: Correct.

VICE CHAIR TAYLOR: Okay.

MANAGING INVESTMENT DIRECTOR ORLICH: We reach a steady state.

VICE CHAIR TAYLOR: Correct. All right. Thank you.

CHAIR MILLER: Okay. Next, I have Mr. Ruffino.

Let me -- there we go.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. Thank you also, Mr. Gunn, for your presentation and to all of you. A couple general questions that I would like to ask. How should the Investment Committee think about the uncertainty in inherent in capital market assumptions and how does this uncertainty impact asset allocation decisions?

MANAGING INVESTMENT DIRECTOR GUNN: That's a very good question. Thank you for that. We try to incorporate it in a number of different ways. First, we have to think about it. It's a real thing. We can't ignore it. So the way we manage it today is we try to take a middle path represented by the median returns, but then we are constantly asking ourselves how sensitive is the choice we are making, if the medians are wrong. So we look at a sensitivity analysis. We look at how allocations might change, if say the real estate CMA was higher by 1 percent or lower by 1 percent. And when we look at that, we might see the allocation changes significantly, but the total portfolio risk and return doesn't.

That being the case, you can kind of say, well, we can hold the current allocation and not worry too much about that variability in the CMAs. So we're always asking ourselves about those sensitivities and about how things occur under stress.

So it's part of the process and this -- you know, the ALM process itself is that ongoing reviewing of our assumptions and testing and so on.

CHIEF EXECUTIVE OFFICER FROST: Sterling, maybe you could talk a bit about how you collect the CMAs --

MANAGING INVESTMENT DIRECTOR GUNN: Yep.

CHIEF EXECUTIVE OFFICER FROST: -- and then how the middle path is chosen from those.

MANAGING INVESTMENT DIRECTOR GUNN: Sure. Yeah, it's the quarterly survey. Currently, 15 external managers and they're all experts, right? And that's the one thing we see, even the experts don't agree on the future. So it's just on us again to test and make sure that we're comfortable that we're not being too extreme in our choices.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Thank you for that. And just a quick other question for anyone in the panel. As an organization, what should we do to repair for the next full ALM cycle?

MANAGING INVESTMENT DIRECTOR GUNN: So I'll answer that. Maybe a little too high level here, but I think there's some education we can do. We can come back and talk about the asset classes and the role of the asset classes. Some assumptions that maybe we're making, which aren't necessarily as clear as maybe we would like them to be, so that would be one part.

I think discussing the methodology. You know, we've talked about risk and the risk measure we chose. So why that particular risk measure? How do we go about building a portfolio I think would also be important, because if we understand I think the asset classes, and if we understand how we're going through a portfolio construction, then maybe that makes the answer a little more palatable, so...

ACTING COMMITTEE MEMBER RUFFINO: All right. Thank you so much and thank you, Mr. Chairman.

CHAIR MILLER: Okay. Next, I have Ms. Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you. A couple questions and then a couple comments. Following on the -- on the asset allocation and capital markets assumptions questions. If you look at page 6 - and I don't have the numbers, so I'm just eyeballing it - it looks like private equity return assumptions are very close to private debt assumptions. So my question is given the risk-adjusted return, why are we looking to increase private equity? I'm very supportive, because we want to get to that return target. But this goes to, you know, part of maybe some education that we need as to why.

And then my second part of that question is are our suballocation return expectations to direct investments higher than what we're showing here in private equity in general?

MANAGING INVESTMENT DIRECTOR GUNN: So just on your first question, they are very similar, the private debt and private equity returns. One big difference is the scalability of the two assets classes, right?

ACTING COMMITTEE MEMBER GALLEGOS: Got it.

MANAGING INVESTMENT DIRECTOR GUNN: So happy to do what we can. So that's an important part of that question. And then your second question had to do I think with the segments. And we can --

ACTING COMMITTEE MEMBER GALLEGOS: The subasset class of direct investment, no cost, no carry, does that increase the return?

MANAGING INVESTMENT DIRECTOR GUNN: It absolutely does, as I mentioned earlier. These are just the CMAs for basically generic, private equity. And we expect to do far better, given the scales and so on that the team has demonstrated in getting better co-invests and selecting good managers.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And, Anton, maybe you can talk to what we anticipate in terms of gross-to-net spread in private equity.

MANAGING INVESTMENT DIRECTOR ORLICH: I think you're putting your finger on a really important topic here. So what you see in this CMA slide is the median return of private equity with full management fees and full carry. So at our run rate of 50 percent of commitments going to no fee, no carry co-investments, we're adding on that portion of the portfolio approximately a 4 percent tailwind to returns. So at 50 percent, that would be a 2 percent increase to the numbers you see here. And that market opportunity, the ability of staff to execute on that scale investment opportunity is a way for us to add significant value for pensioners and a key reason behind the asset allocation recommendation.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thanks.

And then just going back to our earlier comments, and I don't want to reiterate too much, but I want to make sure that we're clear that it's not just the headline risk that we're worried about, but the actual practices at the private equity just for lack of doubt, the actual practices. And it takes place in buyout and growth shops. It's really about the actors as opposed to the asset class. So I just want to make sure that we get some sort of readout on how we're addressing these concerns and what the feedback is from the funds who have had concerns pointed out and how they're addressing them. At some point in the future, I'd love to hear some feedback on how they're being addressed --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yeah. Ms. Gallegos --

ACTING COMMITTEE MEMBER GALLEGOS: -- what the response it.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: -- we completely agree with you that it's the behavior that matters. Maybe, Peter, can you talk a second about our sort of process when we engage with, you know, managers where we hear public comment, and then sort of how we bring that back to the Board.

MANAGING INVESTMENT DIRECTOR CASHION: Yes, certainly. So we have a very formal engagement process that has five different steps. I think we presented it back in September. And Tamara Sells is leading that unit. And basically we either become aware of a -- of a concern or we are following it ourselves. And then we will engage with both the firm, the investor, and the union or the stakeholder that has raised the issue. And we follow through up to five steps depending on how far we need to -- we need to go. So this is documented, and we follow it, and we're happy to report back.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you. As the new designee, I'll go back and do some research on that. So I appreciate that. Thank you, Chair.

MANAGING INVESTMENT DIRECTOR CASHION: Absolutely.

MANAGING INVESTMENT DIRECTOR ORLICH: And I would just add to that that we're incorporating the findings from those stakeholder engagements into our decisions about which partners to invest with and by how much.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you.

CHAIR MILLER: Okay. Director Ortega.

COMMITTEE MEMBER ORTEGA: Thank you, Mr. Chair.

Just share some of the hesitation that you've heard from the other Board members, I want to start with that. Can you talk, Anton, a little bit about what you described as -- it seems like the way you're describing it is sort of outperformance versus the median returns that we see in the capital market assumptions. Will the Board see that at some point in terms of a review of the performance of the asset class and be able to be confident that that is, in fact, how the returns are performing? Because I think that's part of the balancing act that we have to consider when we're looking at the concerns that we heard this morning and why we're continuing not only to invest in the asset class, but to grow the asset class is being able to really see the labor market -- the Labor

Principles in practice and all of those things, but also seeing that the performance is there.

MANAGING INVESTMENT DIRECTOR ORLICH: Yes. So at the June meeting, there will be the annual program review, which we -- which will have significant information about the success of the strategy that began in the fall of 2022. For example, we know from analysis done by the Total Fund group that if you look at the history of CalPERS private equity on a 20-, 10-, 5-, 3-, and 1-year period, the 1-year period is the first where CalPERS is outperforming the private equity universe. In other words, it's the first year on all those time periods where the capital markets assumption for private equity, if you will, we are doing better than.

Now, typically, we talk about the performance of private equity versus public equity. And that data has been clear consistently on all the time periods I described, except for the 1-year. So 20, 10, 5, 3, private equity has added value for our pensioners relative to public equity.

With the new strategy, what we're seeing is the beginnings of our private equity implementation also outperforming the private equity universe. And we can combine those two things on an ongoing basis and we'll see at the June meeting that that's actually what's beginning to happen, then we will be able to deliver significant value for the pensioners.

COMMITTEE MEMBER ORTEGA: Thank you. Can I have one more question?

Just going back to one of the questions that Ms. Willette asked was about the incoming -- the CIO process and a new person coming in. So I would like a little more information about the kind of need to act now, both in light of that and also that there have been now several mentions of information that's going to be presented in June that seems like it will address some of the issues that are being raised here. And so I think just fundamentally would ask the question do we need to act today, or is any delay acceptable, or are you recommending this action needs to be taken today?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I mean, we're making the recommendation for this action. A delay could be acceptable. We would prefer -- and as I said, we believe the more transparent way to go is to move the range to the 17 target within an implementation plan that we'll talk about in closed and keep ourselves on that $15 billion a year pace.

The reason for that is that the mid -- we're at that mid-cycle point. And we think that's the right time to do it. Anything is acceptable, but we do believe the right thing to do and the right timing to do it is to do it now and to do -- and again, in the most transparent way possible, because remember that the target right now is 10 percent not the 13. It's the 10. So we're at 14 and we're bumping up against that target. And if we were to -- if we were to have a drawdown, then we would be in a position of either continuing to allocate sort of outside of policy range or having to back off of allocation, and we think that would be a highly suboptimal outcome.

COMMITTEE MEMBER ORTEGA: Dan, can I ask a clarifying question real quick on the 10 percent question. So on the table that was on -- I don't remember what page it was on now. The table that was up just before this and it shows the 13 percent with the plus or minus 5 next to it. Are you saying it's really 10 percent with plus or minus 5?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I'm saying that in November of 2021, we adopted the strategic asset allocation of the 13 percent.

COMMITTEE MEMBER ORTEGA: Um-hmm.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: We also adopted strategic leverage of 5 percent at that time. In closed session though, we also talked about the time line of implementation plan. And we did that in closed, because we both want to talk about the asset segments and the subasset class breakdown and then also the time to implementation. And we by believe that is investment strategy and appropriate for closed.

In that conversation, we put ourselves on a path to get from the -- and remember we -- at that point, we thought our deployment capability was not what we're finding it is now. We put ourselves on a path to get from -- it was originally an 8 percent allocation, and as of 2021 it went from 8 to 9, to 10, to 11, to 12, to 13. Where we are on that timeline from 2021 is at 10.

COMMITTEE MEMBER ORTEGA: Right.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So where the ultimate destination is 13, but right now, the current policy benchmark has 10, plus or minus 5 and then I --

COMMITTEE MEMBER ORTEGA: Okay. It just makes it harder for me to understand why we need to get -- when that -- we would be well within the range the plus or minus 5 even with the Policy A Portfolio, so that's why it's a little confusing to me why it -- the sort of urgency question. I get that we want to stay on track. And maybe some of that can be answered in closed, but the pacing piece feels like it's already within the existing policy, so -- I think you -- my last question was still on the -- kind of the impact of a new CIO coming in and whether it still makes sense to move forward.

MANAGING INVESTMENT DIRECTOR GUNN: So I think, you know, we were comfortable in 2021, adopting an increase in the private asset classes. At that time, we had an acting CIO. I'm still comfortable doing that. I think when we look at the world and how -- where the world is going for the most part, I think most CIOs would be comfortable with this.

CHIEF EXECUTIVE OFFICER FROST: Yeah. I think what I can say is that I've spent considerable time with the finalists we'll say, and all of those finalists are supportive of this change.

COMMITTEE MEMBER ORTEGA: Okay. Thank you.

CHAIR MILLER: Okay. Next, I have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Chair Miller. Couple comments and questions. Some of these questions have been asked. The first one I have was why now, you know, as Trustee Willette, Trustee Taylor, and Trustee Ortega have raised? And I guess the answer that makes sense. The whole think about transparency I think is the one that I sort of understand.

But the other thing is precedent. We never, as far as I know, have made an adjustment mid-year. There's been a mid-year review, and -- but we've never made an adjustment to the portfolio that we're using. One question I asked earlier to Dan when we were having our briefing is about why now is there was something about the market conditions have changed or something like that. And to me, that sounded too much like market timing. So maybe I wasn't clear on the answers. Can -- explain to me why this isn't market timing or is it?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. So let me take both of those in order. First of all, the last mid-cycle review Mr. Rubalcava, we did not make a change. But in mid-cycle -- and remember, you're talking to someone who's been here for 20 years.

COMMITTEE MEMBER RUBALCAVA: Right.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: In previous mid-cycle reviews, we have -- we have made changes in mid-cycle reviews over the past, you know, previous cycles going back years.

As far as the market timing comment, I don't believe that this is market timing. And I agree with you, strategic asset allocation by definition should be strategic. Our capital market assumptions are 20-year capital market assumptions. I wouldn't view -- I would this as us being continue to leaning in to a set of asset classes that we find very attractive, the private asset classes. We began that -- you know, we were at 8 percent, as I said, in 2021. Moved to 13 percent. This is on a trajectory towards increasing the private asset classes, given the attractiveness of those asset classes, returns, returns per unit of risk, and then the way that they co-vary with the other asset classes and the diversification that they offer.

COMMITTEE MEMBER RUBALCAVA: Thank you.

MANAGING INVESTMENT DIRECTOR ORLICH: And -- I'll just add one point to that. I think that the key to show that it's not market timing is the point that the dollars committed every year are consistent.

CHIEF EXECUTIVE OFFICER FROST: And Dan, I think it would be worthwhile to spend a little more time talking about the constrained upper limits on private equity from the last strategic asset allocation, and that without those constraints what would have been the recommendation from staff regarding private equity.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yeah. That's a great -- it's a great point. So the way that the optimizer is run, and this is a strategic asset allocation optimizer, is to load in all of the capital market assumptions, so those are returns, volatilities, and then covariance with the others, shoot for a -- either shoot for a target return and minimize risk or shoot for a level of risk and maximize return. But all of that happens subject to constraints. So in the past, we have always put a constraint on how much private equity the optimizer can have. If you run it in an unconstrained way, it wants more than the liquidity can support. And frankly, we won't let it go to 50 percent private equity and 30 percent private debt and the like, because we -- because we need the public assets.

However, the optimizer always goes to the constraint that we give the optimizer. And that's the same here, that even at 17 percent, that's the constraint that we give it and the optimizer goes right there.

COMMITTEE MEMBER RUBALCAVA: Thank you. I want to follow up on the -- I had a question. Speak to the answer but being able to be consistent in our commitment dollar amounts. Because one thing that this -- in the Wilshire letter about some -- something -- alerts or concerns is that there's language about staff's ability to deploy private market commitments more rapidly than has been done. And then there's something about a level -- you know, that we should be -- ask about the level of comfort with -- you know, they accelerate -- they use the term accelerated implementation plan. So when I asked Dan, I asked especially about it with the pace, you know, are we increasing the pace of allocation, because it seems contrary to what you said is that it's still commitment of the same dollar. So I'm not sure. And I didn't quite understand the answer, but it's a longer runway. So if you could explain --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Mr. Rubalcava. Yes, I'll -- we'll ask Anton to do that. You mentioned Wilshire. And I would love to see Steve Foresti join us and kind of give his comments, because I know he's -- you've got the letter, but to hear directly from him I think would probably be helpful. So maybe Anton, can you talk about the pacing and then Steve we'll ask for your comments.

MANAGING INVESTMENT DIRECTOR ORLICH: The goal is to consistently commit 15 to 16 billion dollars a year, which we have done over the last couple of fiscal years and our on track to do for this third fiscal year. And I think that the confusion is coming from the commitment amount and then the manner in which and structure that we use to make that commitment. So what has happened, and this speaks to the point the CEO made, we historically have made those commitments almost exclusively through high cost traditional fund investing, which creates an unfunded commitment, and then gradually that commitment is drawn down.

And the difference between today and 2021 and prior was we felt -- or the CalPERS staff was only able to co-invest a certain proportion of those commitments. Today, that 15 to 16 billion dollars is approximately 50 percent through low-cost structures.

And the way those structures work is they don't generate an unfunded commitment on which you pay management fees. They go into the ground immediately. And that opportunity is what we're looking to continue to seize on. So the commitments are the same. There's been a mix shift in the structure. Those dollars go in the ground faster without management fees, and at the time of realization without carry, but then that's harvested sooner. And this speaks to the point that at about the high teens, the program would be self-sustaining and we would pay for future co-investments through harvesting current co-investments. So consistency and commitments, a mix shift in the structure to lower the cost of the program and enhance the returns getting us to a consistent overall strategy.

COMMITTEE MEMBER RUBALCAVA: Thank you.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Steve, do you want to comment on Wilshire's perspective?

MR. FORESTI: Yeah, I'd be happy to. Steve Foresti from Wilshire Advisors.

You know, what we called out as an area to probe is exactly the exchange that you just had. And I think a really important point that Anton made earlier that I'd like to just underscore right now is what you can control and the things that you can't control with respect to the evolving and ultimate weight of private equity within the portfolio. And that's why I focus on the dollars put in the ground is the critical aspect to focus on. I think it would be imprudent to say that that's the number no matter what, but it shouldn't be highly sensitive to the other variables, right? Over time, there can be adjustments.

And that's simply, you know, aspect number two of the element of our letter that was raised was about having opportunities through time, not every quarter, not every year, but through your ALM cycle and mid-cycle to look at the success rate of getting those dollars in the ground. And the principle part of the comment that we made is the view right now is substantially different than it was a couple of years ago in terms of what the limits and the capability of - and I want to underscore the word "successful" - to successfully deploy dollars in the private markets.

So that -- that's what we were calling out. But you know I was happy to see as I sat in the bullpen here, you know, again the thing that we called out in the area to probe is exactly the conversation you've been having for the last, you know, 20, 30 minutes. So, happy to talk to anything else within that letter. But with respect to private equity, this was, this is the biggest shift in the -- in the recommended portfolio. As Sterling has mentioned a couple of times, you know, when -- and, you know, I think CalPERS recognizes the multifaceted nature of risk. When you look at these pieces together and you just look at the aspects of what's the expected return, what's the expected risk, you don't see a lot of change there, but this is very consistent with for years what the organization has talked about in terms of goals. And it was really just the capacity and the constraints around private equity that limited that aspect.

The one last thing I'll say before -- you know, looking for any other guidance you'd like from me, I think -- and it's probably true if we went down the panel here -- I'm not suggesting we do it, but I think anybody who looks at this question might come up with a slightly different portfolio. I might, Sterling might, Dan might. I think where you have big issue if those things are completely different.

But what I want to do is take a little bit of the burden off of each one of you in thinking about, boy, if I think there should have been a percent here or a percent there, that -- I don't think that's the critical part of this. I think the critical part of this is in this opportunity in the mid-cycle adjustment, are there shifts that make sense that appropriately capture with all the uncertainty around the capital market expectations, attempt to capture that environment, do it in a way that keeps the system on its long-term objectives, takes advantage of opportunities that the market gives you? And I think, you know, I'd put a check in all those boxes, even though if you asked me or anybody else, they might have a slightly different view on what that actual allocation should look like to the basis point.

So I'll pause there, but happy to respond to any other questions.

COMMITTEE MEMBER RUBALCAVA: No. I appreciate the response and I want to go back to your letter, you asked if there was anything. The other thing I think that was discussed was liquidity. So could you speak to that, that might be more -- there will be less liquidity, right, or potential to less liquidity?

MANAGING INVESTMENT DIRECTOR GUNN: I can speak to that. So we do an awful lot of analysis around liquidity. What I would say is at the moment we have more liquidity than we know what to do with to some extent. So this is putting that liquidity to work. We're very comfortable with it. When we look at liquidity, we look at both short-term and very long-term, and we're very, very comfortable with the proposal that we have here.

MANAGING INVESTMENT DIRECTOR ORLICH: And then just to add to that, specifically within private equity, the fact that we're shifting the structure to this low cost is not the only advantage. There's also the fact that we are generating a much better ratio of unfunded commitment to net asset value. All else equal, we will have a lower unfunded relative to the net asset value, which for private equity's contribution to the liquidity puzzle puts us in a much stronger position, because we don't have these outstanding obligations to the market to provide capital. We know exactly what our exposure is with more precision than we do when we're predominantly investing with funds.

So we're going from a world where we were 85 percent funds and 15 percent co-investment with a massive amount of unfunded commitments, where the manager could request capital was legally allowed to ask for capital at any time from us, to approximately 50 percent funds and 50 percent co-investments, where our unfunded commitment goes down.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So, Mr. Rubalcava, I think what you're hearing us say is the liquidity is the right question to be asking, and yet, we are very comfortable with the liquidity. And by we, I would say the entire senior investment team. We now manage liquidity in a completely total fund way and we're all very comfortable with the liquidity of this recommendation.

COMMITTEE MEMBER RUBALCAVA: Well, thank you for that clarification. I have two little comments -- questions still. If we could go to page 6 of 16, that football field sort of. I -- some trustees addressed it, but not exactly what I wanted to ask. It was pointed out that on -- well, let's -- again, it's the same comparison that was raised, private equity versus private debt. But my question is on private debt, the expected return, I guess, if we can use that term, increased for private debt but it lowered for private equity. And yet, we're -- the proposed shift is - I don't have it in front of me here. I lost it - is a little different. So why -- or well, they're both increasing, I think, private debt and private equity.

But I understand that private equity is still the highest return compared to all the asset classes, but the expected return is still dropping based on all these experts, these capital market assumptions that 15 people looked at. So it seems counterintuitive. So tell me why we should be comfortable with that.

MANAGING INVESTMENT DIRECTOR GUNN: It does seem counterintuitive, but the private equity is still the top returning asset class for us. And we've mentioned a few times in 2021, we capped how much private equity we would do. We did that because of the internal capabilities that we had to originate the assets at that time.

So you're quite right, returns for private equity have come down, returns for private debt have gone up, and that has to do with the new environment we're in, where rates have gone up, so the cost of borrowing has gone up. That doesn't help leveraged buyouts. It does increase the returns in the fixed income space.

The reason for the allocations has to do with constraints. How much can we actually do of these asset classes. It's more difficult to originate assets in the private debt space than in the private equity space today. So we do have a limit on how much we can do there. We also have to be mindful of again just diversification effects and so on across the portfolio. So a lot of factors come into play through the allocations, but an important one here is constraints.

COMMITTEE MEMBER RUBALCAVA: Thank you.

MANAGING INVESTMENT DIRECTOR ORLICH: And just two supplemental points. The first is the reduction that you see in the capital markets assumption in private equity is offset by the higher expected return that we have internally from reducing the fee and carry load. And so on an internal basis, within these capital markets assumptions, we have an enhancement by reducing what we call the gross to net spread.

The second point I would make, and this echoes a point Sterling made earlier, this is not a choice between private equity and private credit. This is a choice between public markets and private markets with a marginal increase, which is part of a long-standing migration, to the private markets where there's a little bit taken from public equity and put into private equity and some taken from fixed income and put into private debt.

And private debt is growing meaningfully in the recommendation, you know, from 5 to 8 percent. By some measures, it's actually growing more than private equity, up -- you know, up in terms of the proportion of the portfolio in private debt, but it's consistent with the internal view on how much we can deploy in private debt.

COMMITTEE MEMBER RUBALCAVA: Thank you for that, Anton. My question was not directed that maybe we should be putting more in private debt than in private equity. My question was how do we -- why are we treating them different when the assumption went up for one and down for the other? But I think your answer about that there's an offset by the internal -- what we can do internally, that's very important -- very convince -- not convincing, but it's helpful. Thank you.

And my last comment -- point was just I want to echo President Taylor's comment that we should -- we must make sure that the Labor Principles also apply to the commingled funds, especially if we're going to do this.

Thank you. Thank you, Mr. Miller -- Chair Miller.

CHAIR MILLER: Okay. Next, I have President Taylor.

VICE CHAIR TAYLOR: Just a couple more things, and I'm sorry. So I just want to make sure I've got this right. So we're doing a reduction in private -- I'm sorry, public equities, fixed income, and that's it. Every -- private debt is getting a little more. And my understanding earlier of private debt was that it's not getting a lot more, because it's harder to get private debt, because everybody is in it right -- or trying to be in right now, because of the interest rate issue, is that correct?

MANAGING INVESTMENT DIRECTOR GUNN: That's correct. It reflects our ability to originate those assets.

VICE CHAIR TAYLOR: Which is -- and our ability, Anton or Sterling, to get our co-investments right now have increased greatly, is that correct, and that's why we're able to do this so quickly?

MANAGING INVESTMENT DIRECTOR ORLICH: Yes.

VICE CHAIR TAYLOR: Okay. And that's why we're where we are right now, because we were able to co-invest and not do the leveraged buyouts as much, but -- which take time to also put the money on the ground. So we actually have money on the ground from the co-investments right now that are being used.

MANAGING INVESTMENT DIRECTOR ORLICH: That's correct. The increase in the private equity portfolio to a large extent is through successful co-investment.

VICE CHAIR TAYLOR: Okay. And then I had -- so I think there's some tactics that we may need to hear that I think I've heard maybe in closed session that we can't discuss here, but I did have another question. Dan, I've been here for 9 years. Did I miss when we did a mid-cycle change?

(Laughter).

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: If I recall correctly, we did one very early after you gotten here. Maybe --

VICE CHAIR TAYLOR: I don't remember that. Did we? We did that big reduction in our rate of return.

CHIEF EXECUTIVE OFFICER FROST: I believe it was 2019.

MANAGING INVESTMENT DIRECTOR GUNN: Yes.

VICE CHAIR TAYLOR: Okay. I couldn't remember. I did not remember that. What did we do then? Do we remember?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: We reduced our weightings in equity and increased our weighting in fixed income.

VICE CHAIR TAYLOR: Okay. Okay. So Steve, I just -- a real quick question. Is Meketa -- I'm sorry, is Wilshire saying, yes, this is a great idea, go for it?

(Laughter).

VICE CHAIR TAYLOR: Put you on the spot there.

CHAIR MILLER: There you go.

MR. FORESTI: We're comfortable with the recommendation.

VICE CHAIR TAYLOR: Okay.

MR. FORESTI: We just highlighted what the risks are. And I think there's -- there's mitigates to those risks, but, you know, just one of the things. You've found -- the markets moved your weight in some of these private assets up. That can happen again and you can find yourself well above the target down the road. So just -- you know, these are things to be aware of. I just would keep continuing to underscore dollars versus weight, focus on the things you can control, keep an eye on the other things for sure. But yeah, that -- that's what I meant to convey with the comment about we all might quibble about a percent here or a percent there, but we're comfortable with the recommendation

VICE CHAIR TAYLOR: Okay. Let me make sure that was it.

That was everything I wanted to cover that I heard other people asking and covering.

I think our discussion in closed session might also be very productive. It's up to the pleasure of the Board. I'm wondering if -- how does the Board feel about moving this to June or taking this vote right now is what I would want to know, because I would like to make a motion, but I don't want to yet.

CHAIR MILLER: Yeah, I'll just weigh in a little on this. I mean, I'm perfectly comfortable with moving this now. I'm -- I think the issues of the transparency, the pacing, I mean everything we've talked about. And in terms of the potential for denominator effects changing market values, whether we did this or not, that can happen, and whether it was impacting us when we are at the top of that 5 percent wiggle or not, it would still potentially -- we could end up overallocated basis. And we'll be back to do that asset allocation. And it might be predicated on that kind of information a couple months from now.

But it seems to me that, you know, now is the ideal timing to do that. The reasons are all there. But, you know, again, if -- I would ask my colleagues if you don't feel that you understand this well enough and that you're well enough prepared to make this decision today, then, as Dan said, you know, it's not a make it or break it that we could -- we could take this up in June. So I will refrain from making a motion until I hear from the rest of you a little bit first.

Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Yes, I was -- just a thought here. Would it be more appropriate to wait until after closed session, because we understand that some of the -- especially the discussion about the fixed assets, that the implement -- the strategic implementation, that's why certain things were split certain ways?

CHAIR MILLER: Yeah. Matt --

COMMITTEE MEMBER RUBALCAVA: I wonder if that would be a problem.

CHAIR MILLER: Yeah. I think that's a question to Matt whether we could --

COMMITTEE MEMBER RUBALCAVA: But on the other hand I want to make sure that we make a decision based on what's been discussed and deliberated publicly. So that's what I'm trying to make sure.

VICE CHAIR TAYLOR: And there's other stuff too.

CHIEF EXECUTIVE OFFICER FROST: You can pend the decision until after closed session.

CHAIR MILLER: Okay.

VICE CHAIR TAYLOR: Okay.

CHIEF EXECUTIVE OFFICER FROST: Yeah. So Chair Miller, just recess the item, and then you can return to the item after closed.

CHAIR MILLER: Okay. I'll hear the rest of our discussion here and then we'll potentially do that.

Director Middleton.

COMMITTEE MEMBER MIDDLETON: With the decision to defer -- to recess and come back, I'm very comfortable with where we're at.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: I also concur with Director Middleton as well. Very comfortable with the proposal and the recommendation, given the issues with respect to denominator effects that may happen, again like what happened about 2 years ago I believe. So -- but also would like to chime in on what would be discussed in closed.

Thank you.

CHAIR MILLER: Okay. Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you. I would like to recess until after closed session.

CHAIR MILLER: Okay. Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you. First off, let me just really quickly say -- so I was looking at like the total asset over the weekend and it's grown substantially since I started on the Board here. And IT was based on the weights that we have currently. So thank you for that. I know the constituents that I -- that I speak with are very thankful of that growth as well too.

However, knowing that we don't have a crystal ball, the -- I think the question really is are we going to -- would we miss out on opportunities if we don't approve? But I think moving to closed session to get a little bit more answers will help solve that crystal ball question that I have. Thank you.

CHAIR MILLER: Okay. Back to President Taylor.

VICE CHAIR TAYLOR: So I'll make the motion to recess this item until after closed session.

CHAIR MILLER: Okay. Do we have a second for that?

COMMITTEE MEMBER PACHECO: I'll second.

CHAIR MILLER: Seconded by Director Pacheco.

I'll call for the question.

Any discussion?

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

(Ayes.)

CHAIR MILLER: Any opposed?

Any abstentions?

Okay. It's 12:26. We are recessed to closed session and when --

CHIEF EXECUTIVE OFFICER FROST: Mr. Miller, did you want to take public comment on this one prior to the recess?

CHAIR MILLER: Or do we want to do it before we take action?

CHIEF EXECUTIVE OFFICER FROST: Up to you, yeah.

CHAIR MILLER: Yeah, I think we'll do it before we take action when we come back.

Okay.

CHIEF EXECUTIVE OFFICER FROST: Yeah. So Chair Miller, I think it would be appropriate to take public comment on 6a and then was the break for the lunch period or --

CHAIR MILLER: Okay.

CHIEF EXECUTIVE OFFICER FROST: So then break for lunch and then come back to Item 7 and then stay on schedule with your closed.

CHAIR MILLER: That makes sense.

So I've got two public commenters on 6a. I've got J.J. Jelincic and Britt Dowdy. And if you would come down and you'll each have three minutes. Your time will start when you begin to speak.

J.J. JELINCIC: J.J. Jelincic, beneficiary. The fundamental problem is the long-term expected return. A more realistic discount rate would probably anger the employers and Master Terry. So the alternative has become to discover new economic and investment theories. First, discover that increasing leverage decreases risk. Now, we're looking at investing more in higher risk assets, which increases return, increases volatility, while at the same time reducing the risk of loss.

I went to school in the stone age. I'm an old guy. I studied for my CFA in the dark ages. These new theories violate everything I learned in undergraduate and graduate school, as well as everything I learned studying for the CFA. I feel I should nominate the Board and its staff for an award on their new discoveries. I'm not sure if the domination should be for Pulitzer or a Booker prize.

Please don't increase the risk at this time. Thank you.

CHAIR MILLER: Thank you. Next, we have Mr.

Dowdy.

BRITT DOWDY: Hello. So I am Britt Dowdy with CFT. And I also want to echo that concern of please don't increase the investment in private equity and private debt. There were some of the Directors that made the same comments that I recognized. And I am by no means an expert in this area, but as I went through and prepared for this meeting, I reviewed the slides, and it came out to my like on slide 6 of the PowerPoint presentation how it had the larger blue band for private equity, and that the blue dot was below the orange dot. And those were the -- those were the two standouts in all the asset allocations.

And basically what it told me, a lay person, is there was increased volatility in that -- in that asset, that there was greater uncertainty in that, and that it had underperformed compared to the 2021 assumptions.

That was also echoed on the next PDF attachment on pages 4 and 5, where it said that same concept in words. And so, recognizing that there is a small benefit perhaps in the payoff, there also is a tradeoff for the ESG, and labor management, RCP policies that this Board has worked hard to develop.

And earlier today, and you have referenced this, there are many, many hard working people of California that have come to this Board to speak about the issues that they see in their workplace and how it is directly tied to the money that they invest, their own money that's invested by CalPERS towards their retirement.

And we're looking for public accountability of our investment of our funds, not private, because as soon as you go to private, you lose that ability to see what's going on. The reporting mechanisms are not consistent. They're not the same. You're having to base things on trust, as opposed to what you can see that's through a regulated system. And that is a concern.

You would have little assurance other than the word of the private equity partners that they're following the policies that you want them to follow. You're not going to have that secondary regulated agency that's overseeing what's actually happening.

There are many different ways that private equity is invested, and as commented by one of the directors, liquidity could be a problem. So if you see that they are not following the policies that you want them to, if they're not behaving in an appropriate manner towards employees or in the ESG policies, you might have your money locked up with that private equity investment for several years. You may not be able to pull out and you definitely would not have the ability to have a proxy vote to influence change.

So our ask is don't increase that private equity allocation. It may not be worth the small gain in performance for all the other secondary risks that occur. There may be alternative mechanisms to increase your profitability.

CHAIR MILLER: Thank you.

Okay. Okay. I turned myself off there. I did.

Okay. So that -- I don't believe there's any more public comment requested for item 6a. So at this point, we will recess for lunch and we'll go into closed session. And so we will plan to be -- 1:15 for our closed session, and --

VICE CHAIR TAYLOR: Yes.

CHIEF EXECUTIVE OFFICER FROST: Chair Miller, you don't want to finish open session and then go to closed session on schedule?

VICE CHAIR TAYLOR: Oh, that's fine. Yeah.

CHAIR MILLER: Sure. Okay. That's what we'll do.

So we still have -- yeah, we'll still have the remainder of our --

VICE CHAIR TAYLOR: That's a lot, yeah.

CHAIR MILLER: -- agenda. That's a lot.

VICE CHAIR TAYLOR: Yeah. So just take a recess.

CHAIR MILLER: Okay. Well, we are recessed.

(On record: 12:33 p.m.)

(Thereupon a lunch break was taken.)

(On record: 1:18 p.m.)

CHAIR MILLER: Okay. Well, we are reconvened. I hope everyone had a nice break and lovely lunch.

So we'll jump in here to our information agenda items starting with our CalPERS trust level review consultant report.

(Thereupon a slide presentation).

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Thank you, Mr. Chair. So we're moving on to our semi-annual trust level review items for 7a and 7b. Our consultants will lead us off, so we'll start with Tom from Wilshire as the general pension consultant and maybe we'll ask Steve to join us in the front row here, so that when Tom finishes, Steve McCourt from Meketa -- so that when Tom finishes, we can go right on to Steve to give us our private assets report.

So Tom, over to you.

TOM TOTH: Thanks very much. Good afternoon. If we could flip forward to the thematic review page.

[SLIDE CHANGE]

TOM TOTH: There we go.

So we're going to start off with just a few comments on high level economic and market performance. As you can see from the table there, as you look across different risk assets, different market segments, 2023 represented a nice rebound from the challenges of 2022. That was true both for more equity-oriented assets, as represented by the growth statistics there, but really across the board. U.S. Equity returns in particular were a standout performer as large cap more volatile equities increased strongly. The so-called magnificent 7 and investor enthusiasm around artificial intelligence were prime drivers of this dynamic. NVIDIA being one of the stocks making headlines throughout 2023, and as it happens as we started 2024.

Other assets were also positive, as you can see there. Real assets, while modestly positive, were impacted by falling inflation, while defensive assets like core fixed income were whipsawed by volatile interest rate Markets. If we flip forward to slide 3.

[SLIDE CHANGE]

TOM TOTH: Let's go -- sorry, go ahead a little bit further.

[SLIDE CHANGE]

TOM TOTH: There we go. With a decline in inflation, which has fallen from a high of 9 percent to closer to call it 3.4 percent, you'll see the impact that

that has had on interest rate markets. The 10-year treasury specifically is there in blue and you can see how it moved through 2023. It peaked in late October at about 5 percent before declining meaningfully to below 4 percent at the end of -- at the end of 2023. And this decline towards the -- at the end of the year was really in response to Federal Reserve messaging that interest rate cuts were possible sooner rather than later.

And so the shift in market expectations for where interest rates were heading was one of the key tailwinds for assets as we move through the end of 2023.

And if you flip to the next slide --

[SLIDE CHANGE]

TOM TOTH: -- this illustrates that shift. And what we're showing here is the change in the median expectation for short-term interest rates by the Federal Reserve. And you'll note that that median shifted from right to left from a bit over 5 percent to 4.625 percent. And that's the expectation for where interest rates were likely to be at the end of 2024.

On the following slide --

[SLIDE CHANGE]

TOM TOTH: -- this the looks at the markets expectations for the same area, short-term interest rates at the end of 2024. These also fell, but even more aggressively than the Federal Reserve's own prognostications, i.e. the market expected more significant -- more significant number of interest rate cuts than the Federal Reserve did itself. And so you can see the expectation for where federal -- where short-term interest rates were going to be actually was below 4 percent. It's probably worth noting that that has changed as we've moved through the first couple of months of 2024, as the Federal Reserve has indicated they'd like to see additional improvement in inflation statistics before actually moving into a rate-cutting phase.

You'll recall that coming into 2023, there was significant concern around the risk of recession due to higher interest rates. And if we flip forward a couple of slides to slide 9, I think it's fair to say that those -- those concerns about the risk of recession were -- have proven to be premature. We point to here the substantial fiscal support equating to about $2 trillion a year that supported consumer activity and helped the economy post stronger than expected growth numbers. And we remain attuned as we move through 2024 about the risks to markets with fading support and the impact that might have on economic activity.

If we flip forward a couple of slides to Wilshire's asset class assumptions on page 12.

[SLIDE CHANGE]

TOM TOTH: There we go. And it's a big table of numbers. I won't point to too many specifically. But I think it dovetails well with what we were talking about just before we broke around expectations for asset class risk and return. We touched on the expectations from the broad survey that are inputs into the specific ALM agenda item. But for here, we provide context with just a few slides on Wilshire's specific portfolio return and risk expectations.

It's worth noting on this page that our expectations for private assets do show a premium, an expected return premium, as well as admittedly higher risk for both private equity and private debt. The comparison specifically as you look at private equity, which is about a third of the way from the left-hand side at 8.6 percent is about a 3 percent premium versus public equity expectations. And for private debt, that premium is about 2 and a half percent over and above publicly traded security.

If we move to slide 13 --

[SLIDE CHANGE]

TOM TOTH: -- I'll just focus our attention on the actual allocation, which is on the right side there. This shows our expectations for the portfolio. And you'll note over a 30-year time horizon there in the light blue an expected return of 7.35 percent with meaningful contributions from the expected return of private assets both on the equity and the private debt side.

Now, turning to the portfolio's performance on slide 17.

[SLIDE CHANGE]

TOM TOTH: I'll focus on calendar year performance, so that's the 1-year number there three columns in from the left-hand side. The PERF was up 10.3 percent, driven by strong performance in public equity as well as private debt. The income portfolio rebounded in 2023 after a very challenging period in 2022 with rising interest rates. And the performance in the income portfolio was positively impacted by exposure to credit across the rating spectrum, so both investment grade credit as well as high yield and emerging market debt.

Real assets were a drag on absolute returns as real estate valuations continue to struggle in the face of significant demand uncertainty in the post-COVID environment. But it is worth noting that real assets did outperform its benchmark as exposure to infrastructure assets offset that weakness in the real estate portfolio.

On a relative basis, over the last year, the total fund underperformed its benchmark by 1.1 percent, while outperforming over longer term time periods of 3, 5, and 10 years. The relative underperformance over the last year was driven wholly by the private equity portfolio comparison. And that's the private equity portfolio in comparison to the public equity plus a premium benchmark. And it's worth noting that private valuations do tend to lag public markets, particularly when equity markets are rising as strongly as they did in 2023. But we do expect that should be a tailwind moving forward for private assets as those valuations catch up. And this is a pattern of performance that investors across the institutional spectrum have experienced in the past and is not indicative of issues related to the specific private equity underlying private portfolios.

Indeed, as has been pointed out a couple of times at this point, over longer time periods, private equity has outperformed public equity by 3.5 percent over the last 10 years with a return of 11.4 percent versus 7.9 percent, and have been a strong driver of longer term absolute returns.

With that, I'll stop and see if there are any questions on the portfolio or markets before I turn it back to staff for their report.

CHAIR MILLER: I have a question from President Taylor.

VICE CHAIR TAYLOR: Hi. Thank you, Mr. Toth. I appreciate your report. I will say that of the two reports with 120 pages, you could probably give us less next time. Just saying.

(Laughter).

VICE CHAIR TAYLOR: And what would -- so you kind of highlighted what you wanted to highlight. Did you -- do you see that as your three big takeaways from your report, basically the interest rates, the policy on the trust fund and --

TOM TOTH: I think the big takeaways I think are strong rebound in 2023, but significant uncertainty as we move through 2024, given the potential impacts for fading stimulus. Valuations remain elevated, depending on which segments of capital markets you look at. Those are probably the primary takeaways from a markets perspective.

From a forward-looking-portfolio-construction perspective, very pertinent to the ALM discussion that's -- that is ongoing, I would point to our expectations for that return premium associated with private equity as well as private debt as an important building block for building a portfolio that can help you meet your return objectives.

VICE CHAIR TAYLOR: Okay. So you -- so that was my next question was, so then I think what I'm hearing, and I should have asked you when we were in that session, was that given the report -- the importance of our sustainable investments, right, how do you see us proceeding with the PE increase?

TOM TOTH: In terms of implementation?

VICE CHAIR TAYLOR: Yeah.

TOM TOTH: Well, I think, you know, it's been laid out certainly by staff the care and deliberation that's given to implementation moving forward and the -- and the shift that has gone from being primarily a fund investor to one with a significant focus on co-investments at attractive fee rates and the additional control that that provides from a portfolio construction perspective.

So integrating those principles, and in private assets, the Responsible Contractor Policy - we'll talk more about that a little bit later - as well as the Labor Principles, I think that those more direct levers through co-investment allow them to be incorporated even more thoughtfully. And I think that's an important component is you align your -- the portfolio partners with, you know, your objectives around those topics.

VICE CHAIR TAYLOR: Okay. I appreciate that. Thank you. And then I guess I'll be a little nicer than I was to poor Steve.

(Laughter).

VICE CHAIR TAYLOR: Do you feel comfortable with the direction we're going with this interim ALM with private equity?

TOM TOTH: Chair Taylor, I do. Wilshire was very involved in a lot of back and forth with staff around modeling, around constraints, and had a lot of back-and-forth discussions about things like liquidity for the total portfolio management of it, as well as the ability to deploy capital at the scale necessary to move towards the higher targets. And we're comfortable that there's a very well thought out plan in place.

VICE CHAIR TAYLOR: Okay. Thank you.

CHAIR MILLER: Okay. Next, I have Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. I've got a quick question. On your slide, I think it's 17, if I'm not -- which clearly shows that the public equity outperformed private equity over the last year. I mean, just big time, right, 7 - 19.1 percent public equity versus 8.8 percent.

What drove that dispersion?

TOM TOTH: The dispersion is primarily driven by the lag in valuation inherent in private asset investing in private equity. So when markets move as quickly as they did, and a significant portion of that performance was concentrated even in the fourth quarter of 2023, the underlying private valuations never moved that fast.

Typically, general partners are going to be slower to mark up their portfolio holdings. And that's the primary driver of that dispersion is public assets mark every day -- every trading day. Public assets are not only valued quarterly, but even that quarterly valuation doesn't tend to move as quickly as public market valuations. So that's the primary driver.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Thank you. Thank you, Mr. Chair.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you, Tom, for your presentation. I just want to go back to page 9 of 62, the recession risk. How did we all get it so wrong? You mentioned with respect to so much fiscal support, you know, especially during the COVID period and afterwards, do you see -- you mentioned -- do you see this as being sustainable over time or on the converse side, because we are -- we had this fiscal stimulus, it would provide -- it would also create a lot of the budget deficit on the federal side. So can you elaborate a little more on that?

TOM TOTH: Sure. I think the -- thank you for the question. I think the short answer is, no, I don't feel that it's sustainable at these levels. And you can see actually the deficit numbers there in red. And you can see where those were for I'll say the COVID and sort of immediate years after. But even the most recent reading and projections for that deficit, they're not -- they're not particularly constructive, I'll say likely to continue to increase.

All else equal, there's the possibility that that leads to higher interest rates as lenders demand more compensation for continued debt issuance. And that's going to be -- make things more challenging and kind of bake in a higher level of interest rates certainly relative to where we were prior to -- prior to the COVID environment.

So, we wanted to acknowledge, and I was -- I was up here. I've made presentations to the Board about the elevate -- what we thought was elevated risk for an economic slow down in 2023 specific to interest rates. And what has happened is with the support and the cushion that consumers have had in place and the fact that higher interest rates don't necessarily impact consumers in -- without a meaningful lag. A simple example. If you own a home and you have a fixed interest rate mortgage, and it's at 3 percent, just because interest rates on mortgages went to 7 percent, if you don't move, that doesn't matter to you. And so you've seen a slow down in turnover in terms of housing. So that's one example of the lag inherent in changing interest rates.

But in terms of sustainability, we are starting to see challenges with elevated credit card delinquencies, auto loan delinquencies. Those loans which do change interest rates over time, they're not fixed rate. And that could put some pressure on the U.S. consumer, which has really been the primary engine of growth domestically.

COMMITTEE MEMBER PACHECO: Thank you very much, Tom, for that -- for that input.

CHAIR MILLER: Okay. Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Could we go back to the last slide before this? No, it was the one that shows the total PERF.

TOM TOTH: Performance.

COMMITTEE MEMBER MIDDLETON: Yeah.

TOM TOTH: That would be page 17.

COMMITTEE MEMBER MIDDLETON: There we go. Thank you. The long-term results in fixed income. We've had a very volatile couple of years now. How do you see that market moving forward in the next couple of years as we begin to get closer to having inflation under control?

TOM TOTH: So I would expect a more, I'll call it, normal interest rate environment, which I would compare and contrast to the zero interest rate policy that has really been pretty commonplace since the Global Financial Crisis. So it -- the reason I draw that comparison is that almost given how long that lasted, there's a tendency to maybe consider that normal. Historically speaking, over much longer time frames, it was decidedly not.

So I think from a forward-looking expected return perspective, fixed income assets are more useful from a portfolio construction standpoint. So I think that's probably the baseline expectation going forward is that there's actually -- as the saying goes, there's actually some income in fixed income now, which we had really not seen for a significant period of time.

COMMITTEE MEMBER MIDDLETON: Okay. So does that argue that we should be leaving fixed income in terms of the asset allocation where it is or the modest decrease that is called for or being recommended is within range that you're comfortable with?

TOM TOTH: So Dan, did you have -- did you want to say something or -- because I've got an answer for you, Ms. Middleton.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Just that what we're calling for in the recommendation is a modest increase, a very slight increase. So public fixed income going down by 2 percent with private credit going up by 3 percent, so a slight increase in it. Sorry.

COMMITTEE MEMBER MIDDLETON: Very good.

TOM TOTH: And maybe the one -- so that is a good point, Dan. The other point I would make is that the allocation of fixed income within the PERF portfolio has remained reasonably constant. And I make that specific point because the PERF did not meaningfully de-emphasize fixed income and is now in a place where it can, or should, reemphasize fixed income. It's remained relatively steady. The underlying makeup of that fixed income portfolio has shifted based on market conditions. But at a high level, the allocation has remained reasonably consistent. So just a long-winded way of saying I am comfortable with the specified targets in the current ALM recommendation.

COMMITTEE MEMBER MIDDLETON: And this may be a Meketa questions, but any comment on real assets and when we might get to some stability in the real assets market?

TOM TOTH: So I'd bifurcate real assets into two components there with infrastructure and real estate. Real estate is a big question mark. Clearing prices are not -- are not particularly clear at this point and there's likely to be further distress in areas like office. But the reason I want to draw a distinction between infrastructure and real estate is infrastructure actually has been a nice highlight for the real assets portfolio. And with the investment necessary within infrastructure across different types, both the energy transition being, you know, one broad theme, that's likely to be a very fertile area for continued investment.

And currently, that exposure in the portfolio is an out-of-benchmark exposure, which is entered into opportunistically by the real assets team. I would expect, as we move through the next ALM study, that that will be a point of discussion, whether it should be a dedicated allocation for the PERF as opposed to a more opportunistic allocation.

COMMITTEE MEMBER MIDDLETON: Very good. Thank you.

TOM TOTH: Um-hmm.

CHAIR MILLER: Okay. I don't have anymore questions from the Board at this time.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Next, we'll ask Steve McCourt from Meketa to come up and go through the private assets part of the trust level review.

STEVE McCOURT: Good afternoon. Shall I start in?

Great.

Steve McCourt with Meketa Investment Group. I have with me to answer questions Steve Hartt and Christy Fields. I'll go through each of our quarterly reports for you in summary. I think in the -- in the interests of efficiency, I'll go through them fairly briefly, and then we'll open it up for questions afterward.

And I'll start with private equity. Private equity performance has been quite strong on an absolute basis over all time periods. Over the past 10 years, private equity as an asset class for you has returned 11.4 percent per year, exceeding its benchmark by about 70 basis points annually.

It has also exceeded the benchmark by even larger amounts over the trailing 3 and 5 years. As has been noted a couple of times 2023 was a bit of a catch-up year for the public markets. And because your policy benchmark for private equity is a public market benchmark plus a premium, the private equity portfolio underperformed the policy benchmark for the 1-year period. But as you can see from the longer term performance, returns are quite strong over all meaningful time periods.

The private equity portfolio was valued at $67.9 billion on December 31st. That represented 14 percent of the overall portfolio.

By sector, roughly 70 percent of the portfolio's net asset value was invested in buyout strategies. And by structure, 57 percent was invested in funds, 32 percent invested in customized investment accounts, 9 percent in co-investments, which is a number that has increased significantly over the last several years. I highlight that across different fund structures. The performance has been quite strong, as -- while it's early, it's a nice early sign that the co-investment portfolio within your Private Equity Program was the highest performing segment over the trailing 1-year and trailing 3-year periods, at a time when co-investments have been scaled upwards as well.

Geographically, about three-quarters of your private equity program remains invested in the U.S. and performance has been quite strong across both U.S. and developed markets outside the U.S.

In terms of implementation, as has been discussed a bit today already, the 12 months ending December 31st was a very active month for your investment team, including commitments to 60 new funds, two new customized investment accounts in nine co-investments. Forty-seven percent of the capital deployed in 2023 was deployed into no fee or low fee investment structure in line with the strategic plan that staff has presented to you.

The Investment team continues to execute the strategic plan reflective of that plan and also reflective of the policy changes that the Committee made to private equity asset class one year ago.

And then finally, the portfolio was invested within all policy parameters for the year.

Moving on to real estate. Real estate, as an asset class for CalPERS is focused on core stabilized income-producing properties. And at the end of 2023, the real estate portfolio was valued at $52.3 billion or 11 percent of the total fund.

As we've reported and you've heard from your investment team over the last several meetings, performance for the real estate asset class has been challenged in 2023. Your portfolio returns negative 13.1 percent for the calendar year. That compared to a return of negative 12.8 percent for the benchmark over the same time period.

What's interesting to note is that the returns within the real estate asset class have been quite varied with the most meaningful losses being in the office sector, which clearly has been the most significantly impacted by dislocations from COVID. Office properties for the year were down roughly 30 percent, while other sectors have held up fairly well within real estate.

Over longer time periods, 3 to 10 years, real estate as an asset class has returned between 4 and 7 percent per year, between the returns of stocks and bonds, which is where your capital market assumptions assume real estate returns will reside over the long term.

We note that CalPERS core real estate portfolio, which represents 90 percent of the real estate assets, has been the focus of the Investment team since the Global Financial Crisis. And that component of the portfolio has met or outperformed the benchmark overall periods 3 years and longer.

We also note that while the benchmark takes into account the mark to market effect of debt within properties, CalPERS valuation policy does not revalue debt in the properties that they own. And as a consequence when rates go up, the valuation of debt, which is higher than it otherwise would be would otherwise be a positive impact on the real estate portfolio. So some portion of the performance of CalPERS relative to the benchmark is explained through valuation policy.

Moving on to implementation. Staff continues to invest the real estate portfolio within all policy parameters and within the long-term strategic plan that staff has communicated to the Investment Committee.

Finally, I'll highlight infrastructure, the third asset class. As Wilshire noted just a few minutes ago, infrastructure has held up much better than real estate in the last year or so. And your portfolio has done particularly well. For 2023, your infrastructure portfolio returned 5.2 percent. Over more meaningful time periods, 5 and 10 years, the infrastructure portfolio returned 6.9 percent and 10.6 percent per year respectively. Both of those figures meaningfully above the benchmark for the infrastructure asset class.

In terms of implementation, your real asset staff continues to implement the infrastructure portfolio well and in aligned way with your strategic plan. The NAV of the portfolio is now $15.2 billion or 3 percent of the total fund. That's about triple as a percent of the total fund that Infrastructure was just 5 or 6 years ago. So meaningful deployment over the last -- over the last 5 years.

There's one policy item, which we'll -- which is agendized later in this meeting related to policy limits within infrastructure across value-added and opportunistic categories. Your infrastructure asset class has a allocation to value-added infrastructure of 27 percent, slightly above the current policy limit of 25 percent. Staff has appropriately notified Meketa and the Investment Committee of that event and is recommending a policy change to the Committee later in this meeting. Other than that, everything is invested within policy parameters.

So with that quick overview, let me -- let me stop my comments there and we're happy to answer any questions that anyone might have about any of these three areas.

CHAIR MILLER: Okay. We have a question from Director Ortega.

COMMITTEE MEMBER ORTEGA: Thank you, Mr. McCourt. A question about real estate and just thinking about the -- kind of the future outlook around office issues. And as we're seeing a lot of the kind of long-term effects of the office market, anything you would advise we should be asking, we should be looking at, things we should be thinking about as a Board?

STEVE McCOURT: Next to me is Christy Fields who heads our real estate area and is the resident expert in the space. So I will -- I'll gladly hand that question over to Christy.

CHRISTY FIELDS: I wish I was more expert on office valuation at this very moment, but unfortunately the -- there is very little clarity around office valuations right now. Part of that is attributable to the fact that there's very little transaction value -- or transaction volumes happening, so people are not buying and selling office. They're not buying and selling most real estate right now. And so there's really a lack of comparable sales to inform people's opinions around value.

That said in office specifically, we see a real dispersion between high quality desirable office that's occupied these days and then more commodity type office in markets that are really struggling, where there's almost no occupancy. And so, while on the one hand we'll see degradation in values of somewhere between 20 and 40 percent, at the lowest end, we may see values drop to land value, and then we'll see those buildings being scraped and repurposed.

So there is a -- it's hard to know where any individual asset will fall on that. There are some indications, but I think some offices are in for quite a lot of pain still.

COMMITTEE MEMBER ORTEGA: Thank you.

CHAIR MILLER: Okay. Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you. Thank you so much for the -- for the information in these reports. I'll just say as having worked in the assessor's office for 10 years, I don't think there's any expert on commercial office valuations.

CHRISTY FIELDS: Thank you.

COMMITTEE MEMBER WILLETTE: It's more of an art than a science. So I just wanted to look at private equity for a second and in the context of lots of good data and information provided in public comment this morning. We know that we have to ensure sustainable, repeatable investments for the long-term horizon and our long-term obligations to our beneficiaries. So how do you see our conversations going with the industry partners relative to the incorporation or the future -- the implementation of our sustainable -- sustainability principles into their investment approach, so that we can have -- make sure we have that alignment.

STEVE McCOURT: So from our perspective, CalPERS is now at the leading edge of institutional investors that are looking at labor practices and other factors that can affect the sustainability of long-term investment returns. As has been noted, staff at the June meeting will be providing detail on the implementation of those practices. Meketa has not had any communication with staff about that yet, but we certainly applaud staff's effort in what they've done so far in developing the principles and acknowledging the importance of the principles to sustainability of what is clearly an ever more important asset class to CalPERS.

COMMITTEE MEMBER WILLETTE: Thank you.

CHAIR MILLER: Okay. I'm not seeing any other requests to speak.

So I do believe I have a public comment on item 7a before we move on to 7b.

Joy Hunt. Great.

Welcome. Down here on the corner. And you'll see the time clock will begin when you start. You'll have 3 minutes from the time you begin talking. And there you go.

JOY HUNT: Ready?

CHAIR MILLER: Yeah.

JOY HUNT: Hello. Good afternoon. My name is Joy Hunt. I'm a proud member of SEIU USWW and a security officer in a State building here in Sacramento. My union represents nearly 50,000 private security officers, janitors, and airport workers across California's most lucrative industries, including commercial real estate, tech, biotech, film studios, and others. Union security also protects various government and -- excuse me -- various public government buildings and industries.

I've been a security officer at the legislative data center for over 5 years. I'll be 64 in a little over 2 weeks. I have 4 children, 4 grandchildren, and 3 great grandchildren. As a security officer, I enforce rules, maintain order, and serve as a helpful and joyfully approachable presence for everyone in the building.

You all saw what I did, right?

(Laughter).

JOY HUNT: I also help legislative employees Feel safe and supported and I often interact with our unhoused population. I treat everyone with as much compassion, and security and respect as possible, even when I'm telling them they can't use the restrooms in our buildings. I sympathize with anyone who struggles, partly because I was once homeless myself. As I did security at Sacramento City Hall, I was a homeless person, yet no one knew.

Now, I'm fortunate to just be housing insecure, but it shouldn't be that way. I work full time serving pubic employees. And because of loopholes in the law, I'm paid well below industry standards. I shouldn't have to choose between my blood pressure medication in groceries or paying rent and for my utilities.

I'm here today to support my union janitorial and airport colleagues, but I also want to address security industry standards that may pose a risk for investors like CalPERS. I know the value of a strong bargaining committee agreement, which is why I support my union brothers and sisters during their contract bargaining negotiations. I also urge you to reach out all building owners and companies within your investment portfolio across California to tell them you support living wages for janitors and security officers and the right for these workers to have representation on the job.

CalPERS has the power to ensure that resources of working people are invested in companies that value our work, pay us a living wage, and respect the humanity of working people. I urge you to do the right thing and adopt a responsible contracting policy.

Thank you.

CHAIR MILLER: Thank you very much.

JOY HUNT: Thank you.

CHAIR MILLER: Okay. And I don't believe I have any more public comments on that item, so we'll move to 7b, trust level review.

(Thereupon a slide presentation).

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Thank you, Mr. Chair. Yes, now it's the Investment team's turn to cover our semi-annual trust level review. And I see Lauren Rosborough Watt has joined me up here. As with the consultants this covers, the period to the end of December 2023, so the calendar year.

Can I get the next slide, please?

[SLIDE CHANGE]

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So I'll start with a quick summary of some of our key metrics for the PERF and then I'll turn it over to Lauren to provide some high level comments on the economy and on markets. And then from there, we'll dig into some of the details on the PERF, both how it's performing currently and then how it's positioned to perform in the future.

Next slide please, Laura.

[SLIDE CHANGE]

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Okay. So this past year, we continue to make progress on some of our key investment priorities. And on that theme, I'll highlight some of the boxes on this page. But before I get to the boxes and as I mentioned in open session, I would like to dig a bit into some of the great work that's being done by the investment team and some of the real momentum that we're seeing. And if you'll recall in November, I had said we're leaning into the strategy was our team strategy. We're really seeing momentum in driving that strategy.

So really kind of in addition to the sort of day job of managing the $500 billion plus portfolio -- and I say $500 billion plus, because that's inclusive of both the PERF, but then also the almost $30 billion affiliate trusts. This team has really made some great progress on driving really our five key strategic initiatives. And if you'll recall, those are pension resiliency, sustainable investing, stakeholder engagement, operational excellence, and then people and culture. And there are 18 underlying workstreams there and the progress is really reflected on the boxes in this chart. So that does take me to the boxes.

We ended the calendar year with a net asset value of a touch over $480 billion after very strong performance as discussed in the last item of 10.3 percent for the calendar year, which was really driven by the public equity markets. That takes the 10-year number to 6.5 percent, which is just shy of our 6.8 percent assumed rate of return and discount rate.

The portfolio's forecast volatility remains in the low teens at the 13.6 percent and actionable tracking error, which is a measure of how different the public assets portion of the portfolio is from the benchmark. That nudged up to 15 basis. And this increase in actionable tracking error is a result of our continued prudent but persist expansion of our active risk profile with the goal of really adding a diversified source of return to the PERF.

That 15 basis points is really quite modest relative to the policy limit of 100 basis points. That said, we now have more than 50 percent of the PERF's assets being actively managed, which is up significantly over the past 3 or 4 years.

And the final metric I'll call your attention to on this slide is our ongoing increase in our allocation to private assets. We ended the year with over 30 percent of the portfolio allocated to private assets of private equity, private debt, and real assets. And this increase in allocation is a result of both positive returns in the private assets part of the portfolio, especially private equity and private debt, but then also substantial net new invest flows into these programs during the year.

As I say, in particular, we executed on our buildout of private debt, which, of course, is a newly adopted asset class in the 2021 ALM cycle, along with making significant progress as described by both Sterling and Anton, and continuing to allocate in scale to private equity, and doing so in that really cost effective manager.

So those are some of the key metrics about the PERF. And unless there are any questions at this point, I'll turn it over to Lauren to give us some highlights on what's going on in the global economy and in markets.

Lauren, over to you.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you, Dan. Good afternoon, Chair, Vice Chair, the Board. Lauren Rosborough Watt from the Investment Office.

So my role here is to speak to you around some of the macroeconomic and market drivers of asset returns over the last calendar year, so calendar year 2023. You'll recall around this time last year, I spoke around the regional banking crisis here in the U.S. And this, in conjunction with the post-pandemic recovery in 2022, resulted in a high starting point for growth. So economists thinking around the regional banking crisis, including the FOMC, so the Federal Reserve Board members, which is shown on this chart here, you can see that market pricing, which was similar to FOMC Board members, expected U.S. economic growth to slow towards the end of 2023.

Throughout the year, there were three primary channels -- broad primary channels that supported the robust U.S. growth and exceeding expectations of growth relative -- sorry, growth relative to expectations over 2023. And the year ended in the U.S. at a revised 3.1 percent real economic activity growth for the year. It was quite an impressive pace, as shown in the blue bar on the chart there on the left.

So what are these three channels. The first was liquidity support for financial institutions in the wake of the regional banking crisis. And this allowed the economy to continue to grow and banks to continue to lend albeit at a slower pace than what they had previously.

The second was fiscal support. And Tom from Wilshire spoke to this. More broadly, you know, thinking about the forms of fiscal support, there was federal infrastructure, investment legislation, so the IRA - there was still some of that support coming through in 2023 - State and local government spending, and also negotiations that held off the government shutdowns. And you'll recall middle of last year I spoke around the risk of that here to the Board. Government employment has been one of the consistently positive contributors to the labor market strength in the 2023 year, which in turn has boosted incomes and supported spending.

The third sort of channel is the pace of monetary policy tightening, which did continue over part of 2023, but certainly was slowed compared to 2022. Importantly, the monetary policy rhetoric swiveled from a higher for longer mantra to one that was, you know, one solely inflation fighting to one that was balancing growth and inflation prospects.

So buy the end of the year, there's an expectation that rates would be declining moderately over 2024. And that resulted in modestly loose financial conditions, and as a result boosted asset returns throughout the year and into the end of the year.

There's a final aspect here and that is continued disinflation. So inflation continuing to form throughout the year, albeit bumpy, both here in the U.S. and also overseas. And that improved incomes in real terms and therefore supported consumption and consumption growth, which is the primary driver of the U.S. economy.

Specifically, with respect to the chart, you can see the FOMC members' expectations at different points in time. So each bar there, there are reported expectations for the December 2023 year, December 2024 year, and also December 2025. FOMC member expectations for growth over 2023 was somewhat similar to market expectations. And you can see throughout 2020 -- throughout the year, the expectations for December 2023 were consistently revised higher. Those upward revisions were most notable in the U.S. compared to other countries round the world. I want to point out that data prints there do remain tepid.

On this chart, finally I want to highlight to you the expectations for 2024 and 2025, so we think about looking forward. While these are the median expectations again of FOMC members, market expectations are broadly consistent both economists and market pricing. So U.S. economic growth is anticipated to continue to grow at 2024 around a 1 and a half to a 2 percent pace, not a recession, but certainly below historical trend before reverting in 2025 towards trend levels around 2 to 2 and a half percent.

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INVESTMENT MANAGER ROSBOROUGH WATT: So back in 2020, I spoke to all around the potential for structural change in the economy given the pandemic. There's been 3 years of data, so there's some information I think we can glean from what's occurred, some changes in some behavioral relationships. Some of these are acceleration Of trends that we've seen before. For example, the demographic and impact on the labor market and we saw -- and we spoke to you about earlier retirees or early retirements. And also the speed of online purchases versus in-store purchases that continues. It certainly accelerated during the pandemic, but has continued along its long-run trend.

If we take a step back from specific sectors when we think about changes in behavioral relationships, at a high level again what has changed both during and post the pandemic has been the monetary policy and fiscal response, both in terms of its size and in terms of its speed, both here and globally, but also the subsequent response by private firms and households.

And collectively, as you'll recall, these are all related to asset returns and also to the relative behavior of asset returns. So to give you some examples here as an illustration, private firms have moved away from supply just-in-time to a just-in-case scenario. Governments are now considering the supply of critical materials for national security. So these are two examples of more permanent changes and these take time to implement, time to change, and see through in the economy.

Now, we don't know the future, of course, talking in the comment before around the crystal ball. But geopolitical tensions are a symptom of some of these more structural changes that we are seeing globally. On the chart, you'll see we have a very long run geopolitical threat index, not so much wars, but a threat. And you can see post the Russian invasion of Ukraine, that level has remained elevated relative to the prior 20 years. And we put this chart up to show a very long run historical context. And to illustrate that relative to the last 20 years, we are in a slightly more elevated situation.

Now, geopolitics is an ever present risk for asset markets, but the turbulence that we have seen recently has certainly increased. Now, a volatile geopolitical backdrop increase is uncertainty for both growth and inflation. And looking ahead, that presents both risks, but also opportunities for the fund.

That's it for me. I'll pass it back to you, Dan.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Thanks, Lauren. And can we get the next slide, please?

[SLIDE CHANGE]

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: So now we'll dig a bit deeper into the performance of the portfolio as well as have the portfolio's position to perform in the future. And starting at the far right side of the chart, and this is the 1-year number again to calendar year 20 -- end 2023. We had positive returns in almost all of the asset segments led be really extraordinary performance of the global public equity segment of the portfolio as Wilshire described. The lone exception was real assets and specifically real estate. And we do all know the challenges there, both in terms of higher interest rates and then post-pandemic influence on supply and demand. As we move to longer periods though, real asset returns are significantly positive.

Now, going after the 10-year time frame, equity returns across public and private equity are the main drivers of positive return with private equity specifically being the highest performing asset class on the balance sheet. And that is consistent with our expectations going forward as we discussed in the capital market assumptions.

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INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Next, I'll move us on to relative return. And by way of relative return here, we're looking at the 5-year number. And the portfolio outperformed the benchmark by 33 basis points or approximately one-third of 1 percent on average for those 5 years. That excess return was largely driven by private equity, though nearly all of the asset classes did beat their benchmarks. Again, real assets being the loan exception underperforming its benchmark by approximately 2 basis points or two one-hundredths of a percent.

This excess return of 33 basis points translates in dollar terms to nearly $7 billion over the 5 years. So this is an accomplishment that the Investment team is quite proud of. You know that $7 billion pays a lot of pensions and that -- paying those pensions is what we're here for. And this value-add is the result of and it's the reason for our continued focus on adding active risk and return in the portfolio and continuing to deploy to private assets in a cost effective and value-adding way.

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INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Briefly turning to portfolio positioning. I'll call your attention to changes in the asset allocation over calendar year 2023. These reflect two main things.

First, deliberate investment activity to implement the Board-adopted strategic asset allocation that started July 1st of 2022, and second, the effective market movements during the year.

In the public markets, we increased our allocation to emerging market sovereign bonds and to investment grade corporate bonds. And in the private markets, we increased our allocation to private equity and to private debt. These increased allocations were primarily driven by implementation of the strategic asset allocation changes.

These increased allocations were offset by reductions in real assets, again largely driven by negative returns, and then by global public equity, which is the funding source for private equity, private debt, and the investment grade corporates.

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INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Actively managed assets of the PERF increased by 2 percent from the prior year level of 52 percent, now up at 54 percent. This increase in active management is due to deliberate increases in public market active strategies. Along with increased deployment to the segments of our portfolio that are completely actively managed, namely private equity and private debt.

In the public markets, global fixed income transitioned 90 percent of the high yield segment to external active managers, having previously been entirely internally managed though in an index like fashion, so now looking to add active risk to that portion of the portfolio.

The Fixed Income team also implemented active management in the new emerging market sovereign bond segment. And public equity also significantly increased its allocation to actively managed strategies and is continuing to do so through ongoing manager searches and allocations.

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INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And finally, I'll close with a perspective on risk in the portfolio. And while long-term returns are our goal, ours is definitely a risks management business. And over shorter horizons, particularly 1-year periods, we need to be prepared to experience turbulence. It's in those long periods that we need to keep our -- in those 1-year periods, sorry, that we need to maintain our commitment to the long term as long-term investors, because ours is a long-term investment horizon.

To give a sense of turbulence we can expect, and as I mentioned in our PERF metrics section, currently our risk model estimates the total volatility of the PERF at 13.6 percent. So mathematically, for a portfolio like ours with a 6.8 percent expected return and a 13.6 percent forecast volatility, we can expect a negative return on the portfolio in 1 out of every 3 years. It's also worth noting that the lion's share of this volatility really comes from the equity asset classes, primarily public equity, but also private equity.

And while the expected returns of those asset classes are quite attractive, this is why the investment team is spending so much time and energy looking at ways to diversify the exposure profile to reduce the bumpiness of the ride.

The main sources of diversification in our current portfolio are global fixed income and then, of course, real assets, inclusive of both real estate and infrastructure, but we're continuously looking for opportunities to improve the diversification by refining our strategic asset allocation, including the use of leverage in the portfolio. This is another reason for our focus on adding active management to the portfolio, as that too can provide a diversifying source of return in value-add.

So that includes our prepared remarks for the overview of PERF and markets, and with that, we're happy to take any questions.

CHAIR MILLER: I am not seeing any questions, which is quite amazing to me.

(Laughter).

CHAIR MILLER: And I think --

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I think it's because Lauren did such a great clear job. That's go to be it.

CHAIR MILLER: I think we're -- (inaudible) I think it's -- yeah, it's been outstanding. Everything has been well presented and well -- hopefully well understood and quite encouraging, so thank you all.

Okay. Last chance.

Moving on to 7c, proxy voting and corporate engagement update.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Something tells me, we may get some questions here.

(Laughter).

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right, so we'll on to Drew Hambly join -- Hambly joining me up here. There he is.

(Thereupon a slide presentation).

CHAIR MILLER: Okay. Welcome, Drew

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Drew is going to walk us through our annual update on our areas of focus for our proxy voting activities this upcoming proxy season, as well as just kind of an update on our work here. This is an annual item, but it's also intended, Ms. Willette, to be responsive to some of the requests that you had asked in the past. So hopefully, this hits the mark, but if not, please let us know. And with that, I'll turn it over to Drew.

INVESTMENT DIRECTOR HAMBLY: Okay. Good afternoon, everybody. Drew Hambly, Investment Office. I'm here today to provide an overview of last year's stewardship activities and a little peek into what we expect for this coming proxy season, which essentially starts this week.

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INVESTMENT DIRECTOR HAMBLY: So first off, I'll talk about stewardship program. It comprises two main functions, one is proxy voting. We are an owner of 6,000 publicly traded corporations and we have voting rights at those companies, and we endeavor to exercise those rights in a fashion that's aligned with our principles and our proxy voting guidelines.

In addition to that, another tool in our toolkit is corporate engagement. We look to speak with many companies in the portfolio to help promote long-term value creation, so not just on, you know, a singular issue, but long term value over time.

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INVESTMENT DIRECTOR HAMBLY: So this is just a quick pictorial representation of some of the activities we did in the last year. My staff worked on 9,000 meetings that we voted. We engaged in over 450 engagements. A couple of key things that we worked on. Director votes on climate. We voted against directors at -- 335 directors at companies that we considered to be high greenhouse gas emitters in our portfolio. Of those, there was about just over a hundred companies of those 355 directors. We have endeavored to engage with all hundred of those companies to explain our vote and hope to seek improvement.

We continue to be a lead at Climate Action 100. We are, I think, the second largest lead engager in that coalition doing 20 lead engagements out of 170 companies in that benchmark.

Say-on-pay. We have been frequent -- once again about 48 percent against say-on-pay. And then board composition, which we've talked about here, endeavoring to have boards have a good process for selecting directors including diverse, equity, and inclusion. Last year, we voted against 922 directors and nomination committees, specifically for lack of diversity and board composition.

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INVESTMENT DIRECTOR HAMBLY: This gives a highlight between shareholder proposals. So I want to say a couple things about this. Shareholders proposals get a lot of attention as you can see in the left-hand panel in 2023. We reviewed nearly 600 proposals supporting 399, so about two-thirds of the proposals we saw. I said we looked at 600. In total, of those 9,000 meetings, we reviewed 89,000 proposals. So it's a very small portion of what we do, but we know it gets a lot of attention.

In the previous year 2022, we supported 75 percent. So there was a dip year over year. But I want to highlight in 2022, we supported 400 proposals. 2023, we supported 399 proposals. What changed was the denominator. That will ebb and flow over year -- year over year, but I want to provide comfort to this Board that we're very supportive of reasonably targeted, well thought out shareholder resolutions. And so our numerator really didn't change year over year. It was just the size of the denominator, which accounts for that drop in the percentage, but the actual number of proposals supported was nearly identical.

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INVESTMENT DIRECTOR HAMBLY: Say-on-pay, similar story here, 49 percent, last year 48 percent. But once again, if you notice, we voted against 515 proposals in the last year, 499 the year before.

So numerator was essentially the same. Denominator was a little bigger. But once again, the policy that we have and our approach to pay has not changed year over year, and we still vote against a fair number of say-on-pay proposals in the U.S.

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INVESTMENT DIRECTOR HAMBLY: Climate Action 100. This is one of our key initiatives. We were one of the co-founders of the coalition. The coalition has over 700 participants and we can certainly talk about if the Board is interested in the Q&A about some of the recent departures. The first phase of CA 100 was about disclosure and target setting. That was the first 5 years of the coalition, where we saw 90 percent of companies in that benchmark, which is about 170 companies agreeing to TCFD and other reporting mechanisms. We saw 75 percent of those companies adopt some type of net zero target, usually around 2050.

So I think phase 1 you -- we could argue has been very successful in terms of disclosure and target setting. As we move into phase 2, the focus is moving to action and what are these companies going to do to meet these targets. So that is the engagement efforts we'll be undertaking over the next 5 years under phase 2.

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INVESTMENT DIRECTOR HAMBLY: And for 2023, as we told this Board, we expanded or universe of coverage of beyond the CA 100 benchmark, about 165, 170 companies to a staff review of 350 companies that we can -- that we have a large ownership stake in and are high greenhouse gas emitters. And those are the companies we focus on in terms of engagement and director elections. That covers about 80 percent of our portfolio Scope 1 and 2 emissions and just over 50 percent of our Scope 3 emissions. So it doesn't get everybody, but we get a fair bit of the greenhouse gas in the portfolio in terms of this program.

And then in terms of the ones we voted against, I mentioned we reached out to 109 companies where we did vote against at least one or more directors, because of the climate issue, and looking to explain our vote, and hoping to seek progress on that company's trajectory.

In 2024, we will continue this 350 companies. We've re-evaluated the portfolio, reran our numbers. We'll have a similar size target list. And we've added some mid-range targets to our valuation that we expect companies to adopt in terms of putting these plans into place. That will be an additional criteria as part of our proxy voting guidelines for 2024. So an enhancement to hold these companies accountable for the progress they make against their own goals.

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INVESTMENT DIRECTOR HAMBLY: So that covers a lot of the environmental stuff we talked about, human capital management. And I know we had some questions last time around. So we did a full review of our proxy voting guidelines. We have always been supportive of freedom of association proposals. So these are proposals that shareholders put forth at companies to make sure companies are managing this. Last year, we saw 11 of those proposals. Not a lot, but, you know, 11. We supported all of those and we had an opportunity to engage with 10 of those 11 companies through our engagement process.

In addition to that, I think there was a report out in the fourth quarter of last year that we had seen, but was also shared by this Board with staff highlighting key issues that certain shareholders thought were important in terms of labor practices. Our voting was aligned with 10 of those 13 items up for a vote. One of the companies we didn't actually own, so there was nothing for us to vote on. And the other company was a small non-U.S. company that has become part of our focus list going forward, but we were not aware of the issues in time. They had an early meeting and so we sort of picked that up post-meeting, but it's on our radar screen. But once again, very supportive of proposals submitted by shareholders that relate to labor related issues. In addition to that, more than a quarter of our engagements touch on some form of human capital management with the companies we engage with.

On human rights standards, we supported 91 percent of proposals. The two that we didn't support, we had an opportunity to engage with the company and are seeing some progress. And we'll, you know, see what happens again at this annual meeting. But once again, very supportive of labor related issues proposed at the ballot box.

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INVESTMENT DIRECTOR HAMBLY: So what do see coming up for the 2024 season? We think it's going to be very similar to the one we just had. Sometimes you'll see big changes year over year. We think we're going to see a very similar season. Our focus again will be on supporting the CA 100 initiative and companies in our portfolio that are high in greenhouse emitters.

We're going to see a couple high profile contested election of directors. Those are also -- always a little bit fun. You may have seen a couple in the news, like Disney and Starbucks for example.

We're continuing our California Fund Initiative, where we reach out to companies that have lack of board diversity in its various forms. We've been very successful with that coalition and we'll continue to work with a number of other California funds in terms of engaging companies on board compensation and diversity.

And that I have some appendix slides just on 5-year history. There's a lot in there. It's up on the website, but happy to -- if anybody had any specific questions in your pre-read of the materials, but those are my prepared comments for today.

CHAIR MILLER: Thank you. I do have a few questions here. I have first up is President Taylor.

VICE CHAIR TAYLOR: Thank you, Drew. I appreciate the report. I'm still -- I was going through the appendix index too.

So I have to bring it up, because it hit the news --

INVESTMENT DIRECTOR HAMBLY: Um-hmm.

VICE CHAIR TAYLOR: Exxon seems to be - along with we had a whole bunch of people here, matter of fact - pretty adamant about where they're at right now and adjusting their business model to misalign with where we were and their commitment to Climate Action 100. So could you -- I guess what I want you to do is, given our engagement strategy, what would you say to that lawsuit where they're suing us shareholders?

INVESTMENT DIRECTOR HAMBLY: Yeah. So I want to emphasize right now this is a sample size of one. So for those who -- just a quick update. There were two shareholders that co-filed a resolution on Exxon talking about their Scope 3 emissions. In a normal process, if a company does not want to include that proposal on their ballot, they can petition the SEC for what's called no action relief. You don't have to do that. You can go straight to a court and get the court to weigh in on whether they can include or not include that on their proxy. That's rarely done.

In this instance, Exxon chose to take that course of action. So they skipped the SEC review process, went straight to the courts. They filed their lawsuit. And in that time, the shareholders said, well, you know what, we don't want to go through this process. We will just withdraw our lawsuit -- or our shareholder proposal. So it was withdrawn.

Exxon decided that that wasn't enough for them, so they are continuing the lawsuit against these two shareholders. And so, you know, we're certainly troubled by this event, and it's one event. We're hoping other companies do not adopt this stance. We think the 14a-8 rules process that the SEC is quite adequate to handle these types of situations. Exxon has a meeting at the end of May is their typical meeting. And their proxy usually comes out about mid-April. We usually seek to engage the company after the proxy has been released, so we can talk about issues like this or anything that may be on the ballot. So that's our current plan in terms of engaging with Exxon. And we fully expect that they will respond and take that meeting as they always have.

Certainly, if this becomes the new rule of the road for companies, and we've talked to a number of companies since this lawsuit, to remind them that we don't think it's particularly helpful for companies to be suing the people that provide their capital. We've gotten some agreement, you know, kind of off-line with other companies we've discussed this issue with. And certainly we'll voice our opinion with the company when we have that opportunity in our engagement.

VICE CHAIR TAYLOR: So what makes you think this would be the only company, because I think we're not reading the tea leaves here. So the EPA got sued and they can no longer make rules. The SEC is in the middle of a lawsuit rather than having them -- it was another shareholder situation. And I forget who it was now. But rather than having the parties come to the SEC and say, hey, don't want to do that, they went straight to court. All of this is part of this anti-ESG movement, right?

INVESTMENT DIRECTOR HAMBLY: Um-hmm.

VICE CHAIR TAYLOR: And this anti-administrative State movement. So they're trying to get -- at the same time, they're trying to get these agencies not to be able to do their job while at the same time trying to stop the ESG strategy. So we had other folks who were incredibly intransigent as well and didn't even let us know. So I mean, how do -- how do -- I don't think just engaging with them. I think we need a plan. So having an engagement -- and by the way, when is our public -- our proxies going to be public?

INVESTMENT DIRECTOR HAMBLY: So for Exxon, they generally submit their proxy in mid-April. Last year, I think they did it on April 15th, so probably about a month from now when they would file their proxy with the SEC. They typically have a meeting at the end of May. That's been their cadence, so we expect that timeline would hold for this year. We don't see any reason why it would be any different.

In terms of -- and I get your point about, you know, other regulatory actions happening, you know, we have a process that has worked for 30 or 40 years. Where companies can petition the SEC --

VICE CHAIR TAYLOR: That's not going to work now. I'm sorry. That's just being -- that's putting blinders on to think that's going to work right now. We are in a really, really imperative moment where all the work we've done for 20 years is being pushed back on. And to sit and think it's just going to work, it's not. It's not going to work. I think we need a plan and that plan needs to include whether or not we keep these people in our portfolios. And I want a plan.

CHIEF EXECUTIVE OFFICER FROST: So I would say we have a plan. It's called the SI 2030 plan, of which this summer, the Sustainable Investments team under Peter Cashion's lead will bring back the framework that the team is currently working on in how you, one, understand that these companies have a transition plan, how are they measuring their greenhouse gas reduction, so that we can monitor and measure whether they're actually making progress. And then that's where we would decide how to weight them in our portfolio. So company A might have a certain weighting today. That may not be the same weight 2 years from now, 3 years from now, certainly by 2030, if they're not managing that transition, if they're we don't see those reductions in greenhouse gas emissions. So that is a part of the 2030 plan.

VICE CHAIR TAYLOR: Don't you think that Exxon might be in an expedited situation, given their sit -- I mean look what he just said in the Wall Street Journal.

CHIEF EXECUTIVE OFFICER FROST: Yeah. So that framework is coming back I think it's at the July off-site for your review.

VICE CHAIR TAYLOR: Okay.

CHIEF EXECUTIVE OFFICER FROST: So you get to see how that process would work.

VICE CHAIR TAYLOR: I appreciate it. Thank you.

CHIEF EXECUTIVE OFFICER FROST: You got it.

CHAIR MILLER: Okay. Next, we have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you, Drew, for your presentation.

I'd like to go back to page 6 of the 17 on the

Stewardship Climate Action 100+ Initiative.

INVESTMENT DIRECTOR HAMBLY: Um-hmm.

COMMITTEE MEMBER PACHECO: Recently, in the news, several high profile organizations such as, I believe, State Street Advisors, JP Morgan, and PIMCO left the organization. I just wanted to know your thoughts on that in terms of -- because we're one of the original signators to this organization and how that would move forward, so if you can elaborate.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah, I'll jump in first and then Drew can take it from there. We're disappointed frankly and we have met with all four of those organizations and we've expressed that disappointment. We have a meeting coming up with our team to figure out how to -- how to actually deal with that. And our plan is to send a note to the Board to help the Board understand our thinking on that, because, Mr. Pacheco, to your point, we were very disappointed by not only the decision but the sort of lack of discussion with ourselves and communication around the decision. And we've ex -- very loud expressed that disappointment, but we need to figure out how to go forward.

INVESTMENT DIRECTOR HAMBLY: And I would just add to that, I think in the last half of last year, CA 100 added 62. So we know of five for which we have discussed with -- I think the fifth one was Invesco that came out a few days after. So CA 100 certainly is picking up many more people than it's losing. And so certainly those are some high profile names, but we don't want to throw this whole thing out just because four or five people out of the more than 700 that are part of this that want to continue to participate.

COMMITTEE MEMBER PACHECO: Do you -- do you foresee any more people exiting in the --

INVESTMENT DIRECTOR HAMBLY: I think it's certainly possible. And I think if I had to guess, they would probably be U.S. based asset managers that might do something like that. But we see very strong from the European partners, the Asian partners. And like I said, we added 62 members in the last half of last year as opposed to five that have left.

CHIEF EXECUTIVE OFFICER FROST: But I would say these are very large asset managers who left that may not makeup the same amount of AUM of the 62 who joined. So as Mr. Bienvenue said, we were very appointed. We did engage and speak with the exiting companies where we have relationships and we'll continue to engage with them.

COMMITTEE MEMBER PACHECO: Excellent then. Thank you very much for your comments.

CHAIR MILLER: Okay. Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you so much for this report. I really appreciate it. I just want to thank President Taylor for her comments on Exxon and I'd love to see that plan too sooner than later.

Following back on Director Pacheco's comments, you mentioned that we're a lead engager on the Climate Action 100. And so not just focusing on those that have left, but how do we -- you said like 62 people just joined -- or 60 organizations have just joined, how are we bringing other investors along so that we're not an outlier leader, and actually part of a team that's lead -- or not a team, but right, as more people can lead so that doesn't leave CalPERS out by itself.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yeah, that was the point of Climate Action 100+. And I'll share, I mean, I think this organization -- you know, this Board nose that it was -- and I can't take any credit for it, because it wasn't my brainchild, but it was a CalPERS brainchild that put that together. It was part of the global equity first carbon footprint in maybe 2015. I'm looking at President Taylor.

VICE CHAIR TAYLOR: Sheehan and Ann working together.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Right. We do think that's where we can be strong is by being a convener and bringing in, you know, sort of collective engagements. That's one of the reasons why we were so disappointed. And as Ms. Frost said, while we have added and we will continue to try to add asset speak -- and I do want to comment that one of the organizations, they stepped away from their U.S. presence. So they maintained their international relationship. So there is still a relationship with Climate Action 100+. But as I say, we were disappointed across the four. And Drew mentioned the fifth. We don't have a relationship with the fifth, so that's the reason we haven't spoken to them, but as I say, we are still going to get together. I'm looking at Peter, because he's convening us here I think later this week for us to come together to talk about how we go forward.

MANAGING INVESTMENT DIRECTOR CASHION: Yes. We're still -- we're very committed, very much involved in Climate Action 100. I'm on the steering committee. And we're also reaching out to our existing asset managers who were members in Climate Action 100 to urge them to also maintain their participation in Climate Action 100 and share with us any concerns that they have before taking any action.

COMMITTEE MEMBER WILLETTE: Awesome. Thank you so much. Looking at -- switching a little bit. Looking at what was slide 8 on the human capital management, if you could just clarify for me, you said that there were 116 engagements. I know we have a five-part engagement process here at CalPERS. And is that 116 individual engagements, or 116 companies, or how many companies were part of the 116 engagements?

INVESTMENT DIRECTOR HAMBLY: So in our total engagement profile, I think we did 330 companies and 553 engagements. So those would be 116 of the 453.

COMMITTEE MEMBER WILLETTE: Okay.

So it's possible that we just -- you know, we have a tracker where we look at things that we spoke about in each engagement. So we didn't try to parse that particular number out by company, but just how many times did we mention bring that topic up in the engagement process?

COMMITTEE MEMBER WILLETTE: All right. Thank you so much and I look forward to the integration of the Labor Principles into, you know, this human capital management process and the engagements.

I saw on slide 9 that we have a key priority is the Board composition and diversity under our governance stewardship. I think as a global investor and in the most diverse state in the United States, we have to be a leader on this as well and we have to really push. I like the word convener. Thank you for that. But I don't see very much reporting on that specifically. Can you comment on our work as a shareholder in the diversity space?

INVESTMENT DIRECTOR HAMBLY: Yeah. So the good news is it's improving, albeit slowly. And so, for example, in our total voting portfolio, if there's no women representation on any board, that would be an automatic vote against. In Europe, for example, most of the large economies in Europe have 35 to 40 percent women representation on boards. They're far ahead.

The S&P 500 is around 33 percent now women on board as one metric. And in the Russell 3000, we're down to about 12 percent of companies. We don't own every company in the Russell 3000, but we're down to about 12 percent that have no visible -- not visible, but identified -- self-identified. We look for self-identification forms of diversity on the board. So those numbers were much lower 5, 6 years ago. So we're going to continue engagement with companies. But as I said, the good news is is we're seeing a lot of progress. We're even starting to see progress in the Asian market, where I believe both South Korea and Japan have gone from from about 3 percent women representation on board up to about 15 percent, so continuing to do in the various markets. So the number of engagements we're doing is going down a little bit, but only because the board representation has gotten better.

COMMITTEE MEMBER WILLETTE: Excellent. That's great to hear. I appreciate that. And that's all of my questions. Thank you.

CHAIR MILLER: Okay. Next, we have Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. I have a question and a comment. I want to maybe start with a question and I want to -- because we've been talking a lot about Exxon, right? And I want to take you back. I think it was a year ago or so when we had Engine 1, the famous and historic campaign that replaced, I think, two or three of the directors, right?

INVESTMENT DIRECTOR HAMBLY: Three directors.

ACTING COMMITTEE MEMBER RUFFINO: And we were so excited that the world will catch on fire after that, and we will save everyone. The question is, you know, given that instead of making progress, it almost appears like we are going backwards, because now stakeholders are getting sued. And even Pope Francis said stop it, Exxon. That's not nice. Withdraw your lawsuit. That has not worked either, by the way.

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: So not even -- not even the Holy -- not even, you know, the Holy intervention at this point seems to work with Exxon.

So that said, I'm just curious, you know, that big campaign, all that money, have we been effective? I mean, how effective has been our tactics? What did we accomplish after that -- you know, after that campaign, other than get good media exposure?

INVESTMENT DIRECTOR HAMBLY: So one of the things we're trying to do with companies like this is where can we be effective. And one of the things we're working on, for example, is having discussions with these companies about methane emissions, which would be a Scope 1 and 2 item for these companies. In those discussions, we think we've been more effective, because there's an incentive for them to reduce things like flaring and leakage. Getting them to, you know, build wind turbines is not their core competency. And so if that was what people thought was going to be effective about that, that's less effective. But getting them to improve operating efficiency in reducing Scope 1 and 2 emissions, getting additional disclosure, which we've seen in the numbers here - I think we're up to 90 percent that have adopted TCFD disclosures, things of that nature - that's the area that we think we can be most effective and we'll continue to work with companies on that.

The campaign you're speaking of was in 2021. I think the price of oil in December of 2019 -- I'm sorry, 2020 was $19 a barrel. It's a little higher than that. And so it's a more difficult challenge with the price of oil at 75 or 80 dollars a barrel for these companies to completely stop doing that business. But where we think we can be the most effective is on the Scope 1 and 2 reductions. And that's part of the engagement plan that we have.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Thank you for that. We'll continue to pray.

Another question quickly, you know, our proxy policy, I know it's over 180 pages. When was the last time did we review it or we needed to validate, or modify, or approve it as the Board, do you recall?

INVESTMENT DIRECTOR HAMBLY: So I don't know what the Board approval is, but I know that the guidelines are viewed on an annual basis. The actual guidelines are a little bit shorter than that. But we review that, staff, on an annual basis.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Yeah. And I would say even just the addition of the Labor Principles to the Governance and Sustainability Principles is one -- is one portion of that sort of review. If we want to take a holistic review, we can. I mean, it's -- as you -- as say, Mr. Ruffino, it's quite a document, but -- and as Drew says we look at it and then we look at our guidelines and how we vote as part of it.

INVESTMENT DIRECTOR HAMBLY: And I would just say, you know, if you look at our record, I mean, strong against votes on say-on-pay, strong against votes holding directors accountable, high support of shareholder resolutions. You know, I think as currently constructed, we are aligned with the Principles and what the Board has articulated to us. But it does get an annual review by staff and if we think there was going to be any major changes needed, and I think the historical voting record has shown that we're pretty aligned, so we don't see any, you know, major things that need to be overhauled, but we can certainly take another look.

ACTING COMMITTEE MEMBER RUFFINO: Thank you for that. And certainly I'm not implying. I mean, we do -- you're doing God's work. Thank you for everything that you do at all. I mean, and I know it's a huge undertaking. When we first heard about this as like, well, why isn't the Board, you know, voting on this thing? And that was actually a question that it was supposed -- well, one of my principles. And they said, well, I didn't -- we didn't real -- well, there's like six to eight thousand of these votes. There's just no way they can come to the Board.

INVESTMENT DIRECTOR HAMBLY: We could use some extra hands. I mean, we --

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: Yeah. With that said --

CHIEF EXECUTIVE OFFICER FROST: Drew, you should explain we do this internally. We don't have an outside --

INVESTMENT DIRECTOR HAMBLY: Yeah, this is all done by staff. So we don't rely on any proxy advisory firm's recommendations. This is all internally developed.

ACTING COMMITTEE MEMBER RUFFINO: Okay.

INVESTMENT DIRECTOR HAMBLY: As I said, we review nearly 90,000 management and shareholder resolutions every year across the portfolio.

ACTING COMMITTEE MEMBER RUFFINO: Yep. And again, thank you for that hard work and long, laborious probably -- you know, thank you for that.

But, Mr. Chair, I -- you may recall, I believe it was last year when we spoke about this, I had respectfully requested that we agendize a training for the Board, you know, an education, that we better understand the proxy voting policy. And back then, I think the question was regarding the U.S. executive compensation mode, which is a huge one. And honestly, and I don't mean to be sarcastic, you know, but even with a dictionary on my side, I had a hard time understanding this is 180 page. So perhaps you guys can enlighten us a little bit. At some point, Mr. Chair, I think it would be -- it will be --

CHAIR MILLER: Let's take that as Committee direction.

ACTING COMMITTEE MEMBER RUFFINI: I renew my request to seek if we could do that.

VICE CHAIR TAYLOR: I thought we had that on the agenda.

CHAIR MILLER: Yeah.

INVESTMENT DIRECTOR HAMBLY: We did provide the Board last May -- I believe it was May or early June with a memo, much shorter, highlighting our approach to executive compensation. We're happy to recirculate that and take any additional questions, but we did do that last May.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: But, Mr. Chair, I believe I heard you say we'll take that as Chair direction to actually have a session on it.

CHAIR MILLER: Yeah.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And we'll -- and we'll figure out when it makes sense to do that, whether it's a Committee or an off-site, but we'll figure out a time to make that happen.

CHAIR MILLER: Sounds good.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And we'll --

CHIEF EXECUTIVE OFFICER FROST: Chair Miller, would you prefer to have that at the July off-site? It seems --

CHAIR MILLER: That would be ideal.

CHIEF EXECUTIVE OFFICER FROST: -- like a good agenda item, as we're bringing the framework forward anyway.

CHAIR MILLER: Yep, sounds good.

CHIEF EXECUTIVE OFFICER FROST: Okay.

ACTING COMMITTEE MEMBER RUFFINO: That sounds great. Than you, Mr. Chair. And thank you, staff, again for all that you do and for enlightening on some of this stuff.

CHAIR MILLER: Okay. Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. And I want to second what Mr. Ruffino just said at times, this must feel like a lonely battle --

(Laughter).

COMMITTEE MEMBER MIDDLETON: -- that you have taken on. And I think we have fought a very good fight for a long -- very long period of time. These may be more comments than questions, but I want to pick up on some of the comments that President Taylor were making. What I'm seeing in a couple of different areas is -- and I don't use this word lightly, a radicalization. What we're seeing in the United States Supreme Court is willingness to overturn precedent in any number of different areas and to establish what has been accepted parameters of law, most particularly as it relates to the regulatory state. And many of these organizations that we are engaged in proxy efforts with are the ones who are very actively seeking cases to bring before the court to see how far they can go in dismantling regulation, both in an environmental standpoint and a financial standpoint.

And I wonder to what extent our strategy needs to be revised in the light of the length to which these organizations are willing to go and the length to which it appears this court is willing to go and willing to go for some long period of time into the future?

And I'm not asking for an answer to that question.

(Laughter).

COMMITTEE MEMBER MIDDLETON: Quickly, if you had it, then you should be running for something.

(Laughter).

COMMITTEE MEMBER MIDDLETON: But the other part of that radicalization is many of our sister pension funds in many other states to which it has been very clear that they're taking political stands with regard to what investments they will and will not be willing to consider. And there I think is a direct challenge for organizations like ours to demonstrate in terms of metrics of performance that what we are doing here is, in fact, the strategy that's going to work into the future.

And I see heads shaking and so -- and that again is a longer term response I'm looking for.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: We agree and it is a long road. And I think we share the concerns around the radicalization or the politicization. Ours is an investment role and our job is to take real investment metrics of which ES&G are among them and navigate markets to earn returns to pay pensions. And that's what we're focused on and that's what you'll see us continue to do, and that's what you'll see in our 2030 strategy. You'll hear more about that in June and July and that is our area of focus, Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: I think the issue before us, if other places are going to throw down the gauntlet for us to demonstrate, the strategy we've adopted is the one that's going to succeed over the long haul. Thank you.

CHAIR MILLER: Okay. Next, I have President

Taylor.

VICE CHAIR TAYLOR: Oh. So I just want to -- I thought, and Dan or Marcie, that we were actually having the whole proxy voting policy brought forward to us. Is that what you were talking the framework or is that not correct?

CHIEF EXECUTIVE OFFICER FROST: (Shakes head).

VICE CHAIR TAYLOR: Okay. Can I ask that to happen, because I -- I just -- I think we should see it besides getting a training on it. I think we should be able to read it and see what your policies are on how you do your proxy voting.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: And we're talking the proxy voting guidelines.

VICE CHAIR TAYLOR: Guidelines. There you go.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Yes. That's what I'm --

VICE CHAIR TAYLOR: That's fine.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

That's what I'm hearing as direction --

VICE CHAIR TAYLOR: Yes.

CHAIR MILLER: Um-hmm, yes.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: -- is to come back with the guidelines and, you know, maybe not word by word, but to understand what the themes of the guidelines are, and then have a discussion on them, and get -- spend time on it.

VICE CHAIR TAYLOR: Right. And maybe get the training at the same time. I don't know.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes.

CHAIR MILLER: Yeah. Yeah, include that review along with the training in July.

VICE CHAIR TAYLOR: I'm just thinking that we don't even really know what's in there, so it would be nice if we could see that.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes, and that's what I'm hearing.

VICE CHAIR TAYLOR: So then in addition, I guess I'm a little more adamant about this than you guys are apparently. But I want to be clear that I think that we need to meet these folks where they're at. And they're at -- what did you call it Lisa -- radicalization. So to say that, you know, we are very disappointed, I know we have to be polite, but I also think that to our members, we need to be more than that, right? That to our members in a meeting like this we can be, you know, really upset. We can --

(Laughter).

VICE CHAIR TAYLOR: We can express that we're very upset about this. We can -- our members were just in here talking to us about how important this was to them. You know, I trying to think of how to say this nicely with --

(Laughter).

VICE CHAIR TAYLOR: It's -- we have to be more adamant about this, right? It doesn't have -- I don't expect you to pick up the phone with Exxon and be like, you know, really rude or anything. But with our folks, what are we doing, what is our plan, and we're upset, right? We are agree with our 2 million members this is not tenable, right? Those kind of comments I think is what we need to hear. And I just want to make sure that we're expressing that.

CHAIR MILLER: Okay. Next, I have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chairman Miller. Excuse me, I'm under the weather. I was -- perhaps I spoke too much this morning. I'm tired.

(Laughter).

COMMITTEE MEMBER RUBALCAVA: So I was not going to speak, but I actually put down on my notes before others spoke on this topic a lot more eloquently than I will. But I agree with Trustee Middleton and our President and others have said, we can't underestimate this Exxon lawsuit. I mean, for some time we've been facing congressional elements that are -- you know, this is basically attacking our work we've done on ESG, you know, attacking ESG as a principle. We've seen Congress try to interfere in our work. We've seen corporate players and -- you know, SEC rules are being challenged. And we see these deep pockets -- conservative deep pockets funders working with conservative think tanks to develop other policy.

And we do a lot of work. We submit letters in support of this legislation or speak on this rule. And more importantly, we have done the right things. We have the sustainability investment. We have the labor principles. We're revisiting the Responsible Contractor Policy. And we -- CalPERS has been a leader from -- in many, many initiatives, way before my time. And we applaud that, but we have to be -- continue to be vigilant I would say. And I understand that this is a new situation. This is -- there's -- this could be precedent setting what we're facing, these attacks on ESG, on governance, on how we handle human capital, and how we address climate issues.

So I would ask us to just be cognizant of that and let's work on coming out with a positive plan, so we can work with other potential allies, other pension funds, other committee groups or stakeholders who have common interest with us, because we do need to survive and surpass this moment in time.

So thank you for letting me have a platform. I wasn't going to say anything, Mr. Chairman, but I felt I had to.

VICE CHAIR TAYLOR: Couldn't help it.

COMMITTEE MEMBER RUBALCAVA: Couldn't help it. Thank you, President. Thank you.

Sorry about that, guys.

CHAIR MILLER: Okay. I'm not seeing anything else. I will just again thank you for all the work. I think there's a lot of challenges ahead us of us. And I think from my perspective, as a career scientist in an environmental regulatory agency, sometimes working with the regulated community is, you know, the phrase shaking hands with the devil. But the reality of things are, where we're making a difference by engaging and not walking away, because what would make life easier for the majors, or a company like Exxon, is to have all the activist shareholders walk away and say do as you please.

But it's hard to put that into a perspective that we can share with our -- with our stakeholders and with our valued members who really they just say I don't want my pension money associated with the devil. The reality is, in some cases, just the scale and the scope of the operations of a company like an Exxon, Chevron, BP, the small incremental changes in their practices, even if it's just a matter of it's happening sooner than they otherwise might have done it if driven purely by the short-term economics, is huge.

When our constituent -- our member came and spoke to us about living near refineries in Southern California, the difference it would make for families and their kids if those refineries followed through and a commitment to stop flaring, which without the pressure of activists and -- from neighborhood activists up to institutional investors, that kind of change, which is enormous on the scale -- I mean on the scale of, you know, what does that equal in terms of windmills, like, no contest. Those are huge victories.

But I don't think we do quite as good a job as we could in putting that into perspective in terms of the impact that engagement has, even with -- you know, when we think of the good, bad, the ugly, when we think of an Exxon who's, on one hand, actively trying to thwart our agenda, but at the same time they're being leveraged into making some of these changes that they wouldn't make or wouldn't make as quickly. And that's the value of engagement, even when it feels uncomfortable, and distasteful, and it feels like, you know, wouldn't it be easier to just say, oh, we're done with them and walk away, and let someone else fight those fights. So I hope we can, you know, continue on that road.

And this probably won't appeal to a lot of people, but there's a lot more to the environment than carbon, folks. Please. Stuff that's easy to get to versus getting the people's carbon footprint, we can see what a challenge that's going to be in terms of standard -- but I can go right now and we can sit down at a computer and I can tell you how much hazardous waste, how much waste is being put into our air and our waterways by any company at any given time, and we can normalize that versus their production, versus their dollars, versus any measure you want, and we can instantly see good, bad, and ugly. And that has a real impact on values -- long-term value, risk. Nobody is doing it.

Well, some green-oriented funds started doing some of that, but those are things too that, as we get more sophisticated in the long run, we can start weighing in, so that it's not just about whether they're flaring in Wilmington, it's what are they flaring, you know? What is the impact they're having on communities that are environmental justice concerns.

So I hope that, you know, we continue to be a leader. We continue to evolve and become more sophisticated, and have more of an impact, and be able to really explain that to our stakeholders, especially those who are committed and energized enough to come and, you know, protest, and show up here, and share their concerns with us, because I think we're on the same team. It's just, you know, there's not a full appreciation, because it's an all or nothing kind of model for a lot of folks.

So that's my rant for the day.

(Laughter).

VICE CHAIR TAYLOR: I think we all have that.

CHIEF EXECUTIVE OFFICER FROST: If I could just a moment. Thank you, Mr. Miller. I just -- you know, responding to Theresa's comments, the team, you know, just because they have a very, you know, even tone does not mean they do not care about these issues. And I think the engagements that we had with these companies who exited CA 100 recently were done by Dan and by Michael. And the expression of our disappointment we'll say was very clear that we were -- we talked with them about now is not the time to walk away from a coalition that is really trying to understand how to manage risks in these large pools of capital. That is our job. And sometimes we have these time horizon issues where, you know, if we don't have a plan, absent a plan, then one does get created for us. I think our plan will work. I have lot of confidence in the plan. There's still some underlying elements that need to come back to the Board, so that you feel as confident as I do about it.

But we have been an active owner. We've been an active owner for a very long time during proxy season. In private capital, you know, the creation of the Data Convergence Project, where we're getting transparency around those portfolio companies and how they're managing these risks related to climate, human capital, or governance.

So the team is on this. We understand the values of CalPERS. We are also in talks -- and I'll just make it public here. We are also in talks to resume the Chair of Climate Action 100 again, so that we could be more actively involved in some of those discussions. We think phase 2 was the right -- it was the right approach, and just further understanding the impacts of moving forward into this next phase of Climate Action 100+. I think that's an area that we could have been really additive to more additive to.

So there are a lot of things happening. Again, the professionalism of the team and how we engage privately with a company, we typically don't talk about that as -- you know, as publicly. But don't mistake that for the fact -- or for thinking that we don't care about these issues. The team cares about these issues and we know you do as yell.

CHAIR MILLER: Okay. I've got Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you. Yeah, in light of that, I just wanted to make a comment, not to speak for my colleague, Mr. Palkki, but we were -- had the opportunity to be at a training last October with one of your staff on the proxy voting, and I won't name names, but he was phenomenal, and I know your staff are really dedicated. And he really sat down and helped us go through the proxy voting process at calPERS. And we were just so impressed with his knowledge base, his dedication. And so, yeah, I just wanted to speak to we know the staff is doing phenomenal work and we want to highlight that and recognize that. We don't always remember to say that in the heat of conversations, but we do -- we do recognize that.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Thank you. Thank you for saying that.

CHAIR MILLER: Okay. I see no more requests to speak on this item. And I think we're coming up on almost 2 hours without a break, so why don't we take --

VICE CHAIR TAYLOR: What about public comment.

CHAIR MILLER: Oh. Do we have public comment on this one?

7e, I've got a whole --

VICE CHAIR TAYLOR: No, they have to -- okay.

CHAIR MILLER: Okay. We're going to take a break since it's been almost 2 hours and we will be back -- let's see, do we have to do 15 minutes?

I think so, yeah. Yeah, 15 minutes. So, we'll see you back in 15 minutes and then we'll jump back in.

(Off record: 3:08 p.m.)

(Thereupon a recess was taken.)

(On record: 3:21 p.m.)

CHAIR MILLER: Okay. I think we are all back and ready. We've got our next agenda item is 7d, Total Fund Policy Review, first reading.

(Thereupon a slide presentation).

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

So this takes us to item 7b which is our first reading. And I say, this is a first reading. We're looking for Board feedback on the Total Fund Policy with a couple of sets of changes. So I'll turn it over to Amy to lead us through. So Amy, over to you.

INVESTMENT DIRECTOR DEMING: Thank you. Good afternoon. So as you all remember, the Investment Committee approved a new strategic asset allocation in November 2021 that increased allocations to our private markets across the board and established private debt as a new asset class.

The teams have been focused on deploying more capital to meet the new targets. And the portfolios have evolved, the markets have evolved, we recognize the need to fine-tune our policy at this juncture, in particular for private debt and real assets. As Dan said, this is the first read, so really the goal is collect your feedback and then bring it back in June incorporating that feedback for ideally your approval.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: So the first changes have to do with the Real Assets Policy, in particular, the risk classification. So if you note, there's a current and a proposed table, but on the left-hand side of both of those, you'll see risk categories. In the current table, core at the very top is least risky, value-add is medium risk, and opportunistic at the bottom is most risky.

What we propose today is to update the two, value-add and opportunistic, collapse them, combine them as two non -- as a -- as a collective non-core category. Now, with that change, the range for core, or the least risky, in each portfolio within real assets, so portfolios being the real estate and restructure forestland, are unchanged, except where infrastructure, the lower end of the core category goes from 60 to 50. So this is a minor tweak, but it's an important one for us, because the proposal to allow for up to 50 percent non-core assets in the infrastructure portfolio will allow the team flexibility to deploy more capital in the higher risk return opportunities, especially as we look at energy transition projects.

And this change is consistent with the real assets strategic plan. And we feel that it presents minimal risk -- an overall risk to the -- to the profile of the portfolio.

Something Meketa mentioned that we should raise to your attention as well here is that we currently are exceeding our value-add upper limit of 25 percent for infrastructure. And with this change, it also would cure the current policy breach that we have right now.

And with that, I will switch to private debt.

So next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: Private debt as a market has evolved in addition to our own portfolio. And at this point we're looking to fine-tune the substrategies and their ranges. The proposed strategy buckets are consistent with broader market terminology and they very much mirror the opportunity set in front of us right now. The minor changes to the ranges themselves aren't real material, and for this reason, direct lending is the bulk of the portfolio. Think of that as your corporate loans that can still be up to a hundred of that -- 100 percent of the portfolio. The other areas, specialty lending, real estate, financing, and mortgages, we have standardized those other buckets as we would like to opportunistically use them in the future.

I think it's also important to note that these proposed changes do not diminish the overall diversification of the portfolio. When you look at these figures, you might think, wow, that looks like large concentrations, but beneath the hood, there are literally hundreds and hundreds of underlying counterparties that we're exposed to. So we don't feel like this is much of a risk play per se, but more of a aligning with market, aligning with the opportunity set in front of us, and standardizing the buckets, if you will.

With that, I would love to hear any questions or feedback that you might have.

CHAIR MILLER: Okay. First, I have President Taylor.

VICE CHAIR TAYLOR: So I was looking at this over the weekend. Mortgages as a new strategy, what does that mean? What's the mortgages, because we got in trouble once.

INVESTMENT DIRECTOR DEMING: Jean might want to come up, but I believe it's commercial.

VICE CHAIR TAYLOR: It's commercial. It's not single-family homes.

INVESTMENT DIRECTOR DEMING: But let me let Jean speak to it.

VICE CHAIR TAYLOR: But there's problems with that right now.

(Laughter).

MANAGING INVESTMENT DIRECTOR HSU: Okay. So if you can all recall like 3, 4 years ago, we did some education sessions for the Board. So what we defined the private debt is actually a mirror image of what we have in the public debt. So if you look at our fixed income index, a big portion of it is treasuries. And we cannot do that, because we are private. So we would -- there's no way we can issue any like governments things.

But other than that, we have -- you know, mortgages is the next big one. In the public market, you have Fannie Mae, Ginnie Mae, Freddie Mac. And in the private side, it's everything before the securitization. Bank hold it in the hold long format. For example, Bank of America, your -- if you borrow from Bank of America for your mortgages, it is actually sitting on Bank of America balance sheet. That is hold long and that is private. It can also sit on a lot of other financial institutions as a hold long.

And along this, some day in the future when there is some like shaking up opportunities in the government agency when you can see Ginnie Mae is selling a lot of non-performing loans, and then those non-performing loans goes back to the private. So there are opportunities that is just a mirror image of whatever we have in the public before they securitized. And then the next one is commercial real estate. And so in the public side, you have CNB is actually in your fixed income index. In the private side, everything insurance companies doing real estate loans, holding their portfolio. It's very low yield for those like, you know, trophy assets.

But there are also transitional properties that, you know, it's not -- it's like only like 85 percent and is in transition to more 90, 95 percent occupancy that we can lend to, that is also private opportunity.

The very last bucket is the specialty lending. It's actually the mirror image of whatever the ABS markets in the index. Okay, so credit cards, student loans, and then that is also the area that, you know, potentially in the future we can capture some of the carbon emission quotas, like the solar panels that will be in that area. So that tells you the four parts of our portfolio construction.

VICE CHAIR TAYLOR: Okay. Thank you.

CHAIR MILLER: Next, I have Director Ortega.

COMMITTEE MEMBER ORTEGA: Thank you. I think my question was pretty similar. And after hearing the answer, like it might be helpful to either have a glossary included or maybe something that maps what the relationship is between the public equity and these, because I don't know that anyone would know what specialty lending means either, just as a phrase here. So either a glossary or some other way of mapping it to what we already know is part of our portfolio.

INVESTMENT DIRECTOR DEMING: Noted. Thanks.

COMMITTEE MEMBER ORTEGA: Thank you.

CHAIR MILLER: Okay. Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. Just to be clear, Ms. Deming -- thank you for your presentation, but are you confident that the proposed changes to the real asset risk classifications and private debt strategy table maintain an appropriate level of diversification and risk management?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: In short, the answer is yes, but I'm happy to have Sarah and

Jean dig further, if you'd like, but yes, the answer is yes.

ACTING COMMITTEE MEMBER RUFFINO: That's great. Thank you. Thank you, Mr. Chair. That's all I have.

CHAIR MILLER: Okay. I think that's it for questions. I'm seeing no more, so...

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Terrific. Thank you.

CHAIR MILLER: Okay. Thank you.

Our next item is 7e and I believe we have quite a few public commenters. And so I'll be calling you up. I'll read a few names at a time. If you weren't here for this -- the little primer on this. You come up. We'll have seats down here on my left. You'll have 3 minutes to speak and your time will start -- your time will start when you begin speaking. And introduce yourself and your time will start.

And so -- and I would ask try not to repeat the same points. You know, try to not all give the same testimony. You'll have your 3 minutes, but I'll just ask you in the sake of time try not to be totally repetitious of each other.

And the first three people to come down, I'll call Pablo Sandoval, Yvette Simon, and Andre Olivera.

And these commenters are all going to be commenting on Item 7e, policy changes to the Responsible contractor Policy, which we'll be doing after they've given us their thoughts.

VICE CHAIR TAYLOR: Are they out of the room? Pablo is not here.

CHAIR MILLER: Oh, he's not speaking. Okay. Well, Yvette and Andre. Okay. Welcome.

YVETTE SIMON: Good afternoon.

CHAIR MILLER: You have to -- the mic. There you go. You got it.

YVETTE SIMON: My name is Yvette Simon. I am an SEIU 521 member and I work at Santa Clara Valley Transportation Authority as a vault room worker. And I want to say I very much appreciate the work you as Board members and the CalPERS staff do every day to help ensure that my co-workers and I can count on you on a secure retirement.

Today, I want to express my support to the work this board has done and the fund how it is doing to incorporate standards for responsible business practices into its investment approach.

CalPERS has a long history of understanding that as a fund that needs to invest for the long term, its investments are only sound ones if they provide returns in a manner that can be sustained for the long term. As this

Board has made clear on many occasions, a short-term predatory approach to investment returns will not allow this fund to meet its fiduciary obligations to the 2 million people counting on you to ensure we receive a secure retirement.

In that context, I want to express support today for your ongoing work to fortify your investment approach that lifts up the workplace safety standards and the safety rights, and brings safety and dignity on the job as core values that are central to any sustainable business practice. In that light, I encourage you to build off the strong history you have in proxy voting and responsible contracting, both of which you are discussing in detail today and work to fully implement the Labor Principles you passed late last year in a robust manner that protects workers on the job and my retirement security from the risks for -- from the risks of irresponsible, unsafe business practices.

An unsafe workplace where CalPERS has investments is one that leaves our pensions unsafe, but a secure workplace where CalPERS investments is one that leaves ours pensions secure.

Thank you.

CHAIR MILLER: Thank you.

Next, your mic is on, so...

ANDRE OLIVERA: Thank you.

Good afternoon, Board members. Hey, Mullissa. My name is Andre Olivera. I work as a janitor at O'Connor Hospital from Santa Clara County.

First of all, like my colleague here, I would like to say how much we appreciate the work that all of you do, not only the Board members, but also the staff to ensure that people like myself, like Ms. Yvette, when we eventually retired, we have a secure pension. So for that, we thank you all.

On the same contact, I also want to say that I express my support to the workers you've heard from or will hear from today who carry out essential roles in business operations in the airline industry, janitorial industry, in the security industry, and the hospitality industry between much others. From their testimony, we can all see that predatory business practices that don't value and respect workers are not sustainable or repeatable. They are short-term in nature and threaten the long-term health of the workers and the businesses itself.

I also want to know that as a plan participant, I believe that it is your fiduciary duty to take the data these workers are bringing to you and fully incorporate it into investment processes to ensure that our investments are safe and secure by working with all stakeholders, including workers and corporate management to ensure workers and these workplaces and industries have dignified and safe conditions that allow them to do their jobs successfully.

We all benefit when people are positioned to succeed. CalPERS has shown great leadership in this area and encourage you to continue to do so with the full support of plan participants like myself.

Thank you all so much.

CHAIR MILLER: Thank you.

Next, we have John Dalaymple, Tammy Dhanota, and Nova Morales.

TAMMY DHANOTA: Good afternoon, CalPERS Board members. My name is Tammy Dhanota and I'm a member of SEIU Local 521 for 29 years. I work as a public communications specialist for Santa Clara Valley Transportation Authority, also known as VTA. I, too, very much appreciate the work you as a Board member and CalPERS staff do every day to ensure that my co-workers and I can count on a secure retirement.

I want to express my support for the other workers who are spoken -- have spoken and will speak today, including SEIU USWW President and SEIU California State Council President David Huerta, who is also sharing comments today. As the workers and President Huerta's comments convey, in order to meet this fund's goal of providing pensions to California's public servants for generations to come, CalPERS invests in ways that build a sustainable, healthy economy. One of the greatest threats to our pensions is investment practices that are short term and predatory that Mistreat workers, communities, and the environment.

A short-term view leaves companies to violate workers' rights, abuse communities, and mistreat the environment. This threatens the sustainability of the investments themselves over the long haul, as we saw with the great financial crash of 2008. And we see now with extreme wealth inequality, the rollback of racial equity initiatives and the environmental crisis we face.

The fiduciary duty of CalPERS aligns with the interest of workers, such as myself, the diverse communities that make up our amazing state, and healthy environment to organize commerce in a sustainable manner. As CalPERS plan participant, my sisters and brothers from SEIU 521, support the Board's adoption of an investment approach that understands this alignment and the need for sustainable cities, counties, and communities, and workplaces across our state.

We Absolutely believe that our retirement security is aligned with the respect for labor and community rights and workplaces and communities worldwide where pension funds are invested. Thank you again for all the work you do as we -- as plan participants are encouraged by your actions to lift standards and to protect our pension.

Thank you.

CHAIR MILLER: Thank you. Next.

NORA MORALES: (Spoke in Spanish).

CHAIR MILLER: Thank you. Go ahead.

THE INTERPRETER: Hi. Good afternoon. I'm going to be translating for Ms. Morales.

NORA MORALES(through interpreter): Good morn -- good afternoon. My name is Nora Morales. I work as a janitor in Silicon Valley. I have worked for more than 20 years in the industry. I am also a proud member and leader at SEIU USWW.

My body is tired. I am injured due to the excessive workload and I have cleaned the wealthiest companies on this planet. My body may be tired, but my spirit it is stronger than ever. I am here along with my co-workers to urge you to implement a Responsible Contracting Policy. This policy is essential for it will guarantee that we are treated with the respect and dignity that we deserve. As a janitor, a woman, and an immigrant with many years of experience in the cleaning industry, I can attest to excessive workloads and the exhaust -- exhausting nature of our job.

Many of my co-workers depend on painkillers to get through our shifts. Some have had to have surgery to address injuries that don't quite heal despite medical treatment. These are the challenges we face and we still work tirelessly to clean the most prestigious buildings in the world, often at the expense of our bodies. At this time, we are bargaining for better wages and better working conditions. On average, each janitor cleans the equivalent of one and a half times The White House every single day. And if that wasn't enough, the rampant abuse behavior and lack of adequate standards have forced janitors to wage a campaign against sexual harassment and sexual violence in the workplace.

Enough is enough. For too many years, there has been a lack of accountability in the cleaning industry and it's us with our bodies that have to endure so much abuse. That is why you must uphold a responsible contracting policy. We ask this committee that you direct investments of workers to companies that respect the dignity and the rights of workers. It's a moral obligation. Thank you.

CHAIR MILLER: Thank you.

Okay. Next, let's see, do we have John

Dalaymple?

Wendy Lopez and Andy -- Ana Ceballos.

Okay. It looks like we've got some people coming down.

Welcome.

THE INTERPRETER: And I will be translating for Ms. Ceballos.

ANA CEBALLOS(through interpreter): Good afternoon. My name is Ana Ceballos. For the past 6 years, I have worked at the Oakland Airport cleaning planes for Southwest Airlines. I am a proud member of SEIU USWW and I am on the bargaining committee as we fight for our first contract.

Even though I clean the planes for major domestic airline, I struggle to make ends meet. It's very hard to afford the cost of living in Oakland with my pay. We hardly get any time off. I do not have health insurance though I am diabetic. I have to limit how often I see a doctor and I import my medicine from Mexico. There is a high turnover. As a cabin cleaner, I am often overworked, understaffed, and asked to clean the airplane cabins very fast. There are limits -- there are time limits for each plane, which make it extremely challenging to adequately clean them in that time. We deserve a safe and healthy work environment.

Thank you.

CHAIR MILLER: Thank you.

WENDY LOPEZ: Good Afternoon. My name is Wendy Lopez. I work in the Oakland airport as cabin cleaner. And I'm a member in the CEIU[sic]. In warm months -- warmer months, we have the -- to clean the unsafe -- sorry safe temperature. The doors are kept closed and the planes do not have air conditioners, so we have to do our jobs in the extreme heat. I use certain chemicals that may require proper training and protective equipment. These chemicals are using -- are causing skin irritation for me and my co-workers. Southwest has a human right policy that outline its commitment for its direct employees, but this policy does not apply to its contractor workforces, like me, including me and my co-workers, who are critical to the successful operations of the company may put Southwest stakeholders, including contractor workers, and investors at risk. In my opinion, Southwest policy and participants do not align with CalPERS recently adopted Labor Principles.

We play an essential roles in ensuring Southwest operation in light of the potential risk involved for us as workers and for you as investors. We are here to ask Southwest Airlines to update this human rights policy to include contractors, workers. We deserve a safe and healthy work environment.

Thank you.

CHAIR MILLER: Thank you.

Okay. And next, I have David Huerta.

DAVID HUERTA: Good afternoon. I hope you don't mind. I'm go a little bit over 3 minutes, so please, if you'll allow me the time.

Thank you again for this opportunity to speak to you -- to this Board. As President of SEIU USWW, as you heard, we represent 50,000 workers throughout the state of California, service workers, stadiums and arenas, our airports throughout the state, janitors and security officers who work in commercial real estate, high tech, biotech, and the movie industry -- and move studio lots.

Also, as President of SEIU state -- stated -- SEIU California State Council, I'm also the President of the SEIU State -- California State Council. I represent ever 700,000 SEIU members across the state of California, including the SEIU USWW members I just mentioned, as well as health care workers, long-term care workers, day care workers, education workers, and public employees, many thousands of whom participate in CalPERS and other pension plans.

Thank you to the Board members and staff of CalPERS for the work you do to ensure the retirement security of our members and retired members who count on or will count on CalPERS check to ensure a well earned, dignified retirement. Your leadership as fiduciaries is to invest in a manner that is sustainable, responsible, and repeatable so that the behaviors of the companies in which you invest can deliver returns for the long term to match the commitments you have to plan participants to stewards -- to steward this hard one trust fund to pay benefits and retirees today and to position it to pay benefits to current and future public servants who will be counting on the retirement in the decades to come after the years of service.

As you heard from Joy Hunt, our security officer, Nora Morales, our janitorial worker, and Wendy Lopez and Ana Ceballos in our airport workers, we are here today to share vital data in -- date with you about how conditions faced by Essential workers in the airline and property service industries are not setting up the workers or investors for sustainable success.

As you heard in this -- in the airline industry, the airline industry has done a fabulous job at dismantling the jobs that were once core to their mission, such as passenger service workers, cabin cleaners, and workers under the ramp. Those workers now have poverty -- were in poverty wages, don't have no health care, and they work in very, very dangerous conditions, especially below the ramp, where they are subject to respiratory issues.

These same airlines also do not report emissions and are not required to report emissions. And by -- and the workers who not only work at the airports but live in the surrounding communities in the airports are subject to respiratory issues as a result about these emissions that the airline industry doesn't report.

Security officers, as you heard from Joy Hunt, are experiencing more and more, as their called on first responders in many incidents in their buildings. But they're also now being called on to engage in perimeters where they have to engage directly with the issues of mental health and homelessness. Workers are inadequately prepared for these jobs. They're not trained well. And not only that, they're very -- they're paid substandard wages, and many times have to pay for their own health care. And they're experiencing a situation, especially as African American work -- predominantly African American workforce and industry of equitability in their jobs with other service workers.

You heard from Nora Morales a janitorial worker, who right now, we are in the process of org -- negotiating a new contract that is going to expire bt April 30th. And the possibility of a labor dispute is very real. You have situations where in San Diego, Orange County, and Sacramento workers are making barely of 16, 17 dollars an hour, when the fast food workers are going to be going to $20 an hour as of April 1st. You have workers who are right now working fighting to get better wages, fighting to keep their health care, but most important, also to create sustainability on the job. Workers are working upwards of 60 to 80 thousand square feet a night, the equivalent of cleaning 50 to 60 single-family homes in one night.

Their bodies are breaking down. They have inadequate contribution to pensions or secured retirement. And so they are not able to retire in a -- at the and of their careers. They have continued to work to be able to sustain themselves, because they don't have the adequate resources to be able to retire.

These are conditions that we find regularly in these three industries. And on top of that, and we heard about this question about sustainable cities, the question about what's going to happen with commercial real estate. I think this Board needs to be active in that conversation. The reality is that as we see our city centers continue to suffer after the post-pandemic doom loop that's being called, many of these workers -- the service workers, dependent on these jobs, are concerned about the outcome and the future of these -- of these -- of these cities. So I encourage this Board to engage in a conversation, bring together stakeholders, to have a conversation about what the future is on our city centers, considering the amount of investment that CalPERS has in commercial real estate.

It is imperative. It is important. It is critical to see this through. So I also think alignment with investors who value the fiscal health of the State of California is critical to demonstrate responsible contracting in the form of ensuring that workers have the right to unionize without retaliation, that they have the right to dignified wages, employer paid health care, a secure retirement, and sustainability on the job.

To close, we know that as expressed in your business practices, your Investment Beliefs, your labor investment principles in your consideration of important items today that incorporate workforce issues, I would like the Responsible Contractor Policy and your shareholder season report, and that you understand that clear alignment with workers being positioned to have safety, dignity, and security on the job, and your goals of sustainability and repeatedly investing to consistently drive fund performance and a healthy economy that will ensure benefits to plan participants for decades to come.

Thank you again for your work, and we look forward to continuing to work together to ensure CalPERS succeeds in its mission on behalf the public servants of California.

Thank you

CHAIR MILLER: Thank you.

All right. I -- a couple people who either were not here or not responsive. Was there anyone else that wanted to speak on 7e in the room?

Did we have anyone on the phone?

No. Okay. That does it for public comment on item 7e, so we'll actually move on to item 7e now and -- okay.

(Thereupon a slide presentation).

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Thank you, Mr. Chair. And as mentioned, this is a first read of a policy item, so we're looking for the Board's feedback on this policy item. And so with that, I'll turn it over to Tamara to take us through the item. And then we'll get feedback and plan to come back with a -- with a second read in June.

So, Tamara, over to you.

ASSOCIATE INVESTMENT MANAGER SELLS: There we go. Thank you. Good afternoon. I'm Tamara Sells, Associate Investment Manager for the Sustainable Investment Program.

I'd like to thank Chair Miller, President Taylor, and each of you for allowing me to be before you today.

I am pleased to present agenda item 7e, which are the proposed policy changes to the Responsible Contractor Program Policy, a first reading. Today, I will provide a brief overview of the Responsible Contractor Policy and its history. I'll provide an overview of our -- the timeline of the current refresh. I'll walk you through what that policy review process looked like and those proposed updates, and then I'll touch on the policy revisions that were considered, but not proposed for adoption.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: So as slide 2 highlights, in terms of the RCP policy overview, CalPERS has a deep interest in the condition of workers that are employed at CalPERS-owned assets. The purpose of the policy isn't to -- is to ensure prudent and careful action while managing a Responsible Contractor Program and it demonstrates our fiduciary principles to support and encourage fair wages and benefits for workers employed by our managers, contractors, and subcontractors, and further contributing to competitive returns on our real estate and infrastructure investments.

The policy supports hiring responsible

contractors for building and construction related and property related services, maintaining a competitive business -- bidding process, and creates a framework for responsible contracting based on local market conditions. The Responsible Contractor Policy seeks to con -- seeks to secure the condition of workers without adverse effect on our investment returns, access to investment opportunity, or significant costs. The scope of the Responsible Contractor Policy applies to domestic and real estate infrastructure assets where CalPERS holds a greater than 50 percent interest on contracts equal or greater to 100,000. When our real estate and infrastructure investments meet this threshold, external managers are required to provide annual compliance and certification.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: In 1998, the CalPERS Investment Committee approved and established the Responsible Contractor Program Policy. This policy was carefully crafted with extensive input by CalPERS staff, external investment managers, labor and union stakeholders, legal fiduciary counsel, and Board consultants. To the best of our knowledge, it was the first such policy among public pension plans.

Since then, the policy has been reviewed and enhanced two times with extensive engagement and input from labor organizations and investment managers. The last policy refresh was finalized in 2015 following an 18-month review and engagement process. The Responsible Contractor Policy is reviewed on an ongoing basis by CalPERS staff as issues, questions, or concerns are raised regarding implementation of the policy.

In 2023, the Investment Committee directed staff to conduct a formal policy review to determine if additional revisions were necessary.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: This slide should look familiar. I brought this in November with -- an there's an updated line for March to May that I wanted to highlight. So this slide highlights our timeline of activities that are currently underway. Following a series of engagements, conducting detailed research, staff reviewed and assessed proposed updates an drafted the policy revisions. This March item is our first read of the proposed policy updates. And following this presentation, there will be a second round of engagements with stakeholders as well as we seek -- as well engagements with the Board as we seek the Board's feedback.

Staff are planning to return to the Board in June of 2024 with a second read of the proposed policy updates for final adoption.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: Su during this refresh process of the CalPERS RCP, the pol -- the process itself included a series of engagements with labor representatives, external managers, CalPERS Investment staff, Legal staff, as well as consultants.

Stakeholders were asked to provide comments on RCP updates and stakeholders were also invited to meetings with key CalPERS staff to provide their perspectives.

The policy review process included a review of market and industry guidance post the last refresh 2015. There was also detailed pier review and benchmarking analysis done, particularly focusing on those peers that had updated their policies post-2015. And lastly, staff incorporated practical examples of implementation challenges that had been raised with respect to gaps or misinterpretation of the RCP policy using 3-year data that we've been tracking.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: CalPERS staff thoroughly vetted 14 areas for potential updates and are proposing updates to eight areas of the policy. These proposed policy revisions before you today reflect the collective input of staff, the Legal office, the Board's fiduciary counsel, external managers, stakeholders, and relevant consultants. Proposed updates were carefully vetted, and if approved, the revised policy would provide greater clarity on how we define a responsible contractor. It will incorporate CalPERS' Labor Principles within the core requirements of the policy. It would enhance communication between managers and labor organizations, unions, and staff, and also reinforce our expectation for health and safety working conditions, while performing services with respect to RCP investments.

Lastly, the revised policy will also address potential gaps in reporting by our external managers. The RCP Policy will also be improved with other technical and clarifying edits, such as removing reference to a trial program that concluded back in 2017.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: There were policy revisions that were carefully and thoughtfully considered. However, no updates were proposed which are reflected on slide 7. For numbers 2, 3, 4, and 6, it was determined that our existing language remains consistent with best practice policy application. And with respect to the Responsible Contractor Policy scope and labor standard for California construction projects, numbers 1 and 5, it was determined that those issues would be covered by CalPERS' Labor Principles, of which implementation is currently underway, and will cover a larger amount of assets than the RCP.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: The proposed policy updates will strengthen and enhance the policy's risk -- vita risk management function in managing and mitigating labor, financial, and reputational risk. The proposed policy updates will encourage positive relationships and communications with labor, stakeholders, and managers, and will help reinforces -- reinforce CalPERS' leadership role and our sustainable approach to human capital management. And with that, I'd be happy to answer any questions.

CHAIR MILLER: Okay. I've got President Taylor.

VICE CHAIR TAYLOR: I was trying to wait. So thank you, Tamara. We all appreciate this report. Let me go to the revisions not adopted, so that's page 7. So it looks like there's a lot of -- in here that -- it's either market standard or it's going to be in the Labor Principles. What is our current -- so what's our current definition? It says it's with -- the definition is consistent with market standards. Is it like -- does it say prevailing wage? What does it say? I just wondered.

ASSOCIATE INVESTMENT MANAGER SELLS: I'm sorry. Are you talking about the prevailing wage -- number 4, prevailing requirement? Which definition?

VICE CHAIR TAYLOR: Well, definition of fair wages is what I was talking about. The definition -- the current definition is consistent with the market standard and peer comparison.

ASSOCIATE INVESTMENT MANAGER SELLS: Right.

VICE CHAIR TAYLOR: So what is the current -- what is -- what are we using currently that's what I need to know?

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. So I'll be happy to follow up with the exact language, but I will say that each peer fund carefully avoided a narrow definition of fair wages, because this is based on local market conditions. So there's several factors that we have all outlined to be considered when considering what a fair wage or prevailing wage is. And those list of factors include local market conditions, training and experience, and I can provide you with a comprehensive list to follow up as well, but that is consistent.

VICE CHAIR TAYLOR: So it will be in the -- what you actually bring forward? These are just -- because right now we've got ideas. We've got three things that we're going to do and six things we're not going to do, right? So I guess I want to see it in the document is what I'd like to see.

ASSOCIATE INVESTMENT MANAGER SELLS: Okay. Sure.

VICE CHAIR TAYLOR: But additionally, I think what is it, one -- hold on. Yeah, it's quite a few that say that we're going to use the labor standards?

ASSOCIATE INVESTMENT MANAGER SELLS: Um-hmm.

VICE CHAIR TAYLOR: So -- and that's coming in June. So I have a hard time saying whether or not until we see them side by side. So, that's where I'm a little at a loss with this, but I appreciate all the work you put into it in making a determination, but I'm not sure how it's implemented versus, you, know on RCP side versus how it's implemented throughout the portfolio, whether that's inclusive of some of the things we heard in our commentary today. So I think we need to see both.

ASSOCIATE INVESTMENT MANAGER SELLS: Okay.

CHAIR MILLER: Yeah. I think -- as well, once we see them side by side, then we can see where is the overlap, where are the gaps, where is -- you know, how does it all fit together to be integrated.

Okay. Next, I have Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. I have two specific questions and I'm not sure if they are addressed. The first one is with respect to the debarred contractors, right? And you have it under the proposed policy revision, but I don't understand if that -- if that revision includes something. So do we have a mechanism right now in place that prohibits the hiring of any contractor that has been debarred by a federal, a State, or local jurisdiction?

ASSOCIATE INVESTMENT MANAGER SELLS: No. There is currently no mechanism for that, but that is why we'd like to expand the definition to make sure that we are promoting vigilance with our managers when they are hiring to ensure that they use those federal and State resources within their due diligence and selection of the -- selection and hiring of those contractors. So that's what we'd like to promote with adding this change is that they do just that.

ACTING COMMITTEE MEMBER RUFFINO: Got it.

Okay. Thank you for that. And then the second one and this may -- I know that it's been suggested, but I don't see it over here, not adopted or adopted, is the public notification process for RCP project is we understand it. Right now, we give 5 days notification and it's been asked to at least be 15 days. And so what -- is right now 5 days the policy or...

ASSOCIATE INVESTMENT MANAGER SELLS: So currently -- and what you'e referencing is actually on slide number 6, item number 5, around competitive bidding.

ACTING COMMITTEE MEMBER RUFFINO: Oh.

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. And so we aren't proposing any expansion of the preliminary number of days for the bidding. Right now, we actually ask that it's at least 30 days, where appropriate, so it's not five. But in order to try to help facilitate those bidding and notifications, we are trying to explore other options to try to make it a bit cleaner to have a centralized website where we can make sure that those opportunities are posted in one location and everyone has the same notification date at the same time.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Well, 30 days, that's even better than 15. Thank you for that. Since I -- Mr. Chair, if you don't mind, I want to just quickly make --

CHAIR MILLER: You've got the floor.

ACTING COMMITTEE MEMBER RUFFINO: -- a comment on behalf the State Treasurer in which she wants to extend her sincere thank for all the work to staff, to you, and the entire CalPERS team. And so that she is inspired by these efforts that has gone into these Labor Principles to date. She's optimistic, you know, that they can begin to change the way in which businesses engage with labor in our economy.

As the State Treasurer, the fair treatment of labor has been an important topic for her. And as a trustee for the two largest pension funds in the United States i.e., CalPERS and CalSTRS, she's encouraged that private equity-owned businesses are being spotlight. Private equity has become an important asset class for pension funds as it was demonstrated today during our discussion. So private equity is important to us as we seek to achieve the strongest long-term returns and ensuring that the private equity partners to whom we allocate our capital act responsibly with respect to labor is a high priority for the State Treasurer.

So she's a supporter of these principles as a tool to make progress in this area and she very much appreciate all the work that has gone into them so far.

Thank you, Mr. Chair.

CHAIR MILLER: Thank you.

Next, I have Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. And I want to thank staff for all of the work that has gone into this. I know -- and I know you have been very dedicated to making this happen. So now we're about the process of trying to get it right.

Are there any other pension funds out there that we have to use as guides in terms of implementing programs of this nature?

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. Thank you for the question. So we did try to focus our pair benchmarking on policies that were new or had been updated post 2015 just to ensure that we were incorporating kind of the most up-to-date business practices -- or responsible contracting practices. I am happy to follow up with a comprehensive list, but some of the peers that we did review were CalSTRS, New York City Employees Retirement, LACERA, New York State just to name a few.

COMMITTEE MEMBER MIDDLETON: Okay. I think it would be very helpful for us if on some of these issues that we're trying to come to policy decisions on if we could see a chart as to what are the decisions that comparable organizations have made as they try to implement. But I think it's very clear that at the scale that we're trying to do this, that we are breaking some new territory here and that's -- that is something that all of us on the Board I think compliment you and thank you for entering into that.

One of the issues that I was particularly excited about, as I met with one-on-one some of the labor representatives was the labor peace agreement program that -- and the reference pretty consistently is the LA Airport. We're not an airport, but I get that we can branch off from the experience of others. So can you give us some background as to what your exploration on labor peace agreements have been, and if you're not supportive of a requirement, what are the stumbling blocks that you've identified so far.

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. So thank you. And happy to follow up with you on the point about the charts as well. So with respect to the labor peace agreements, we received a number of comments that address labor piece agreements, but also even more importantly resources and reference materials that were consulted with respect to the labor peace agreement. That said, it's an arrangement between the union and the employer, in which both sides agree to waive certain rights under federal law with respect to union organizing and activity. Now, these agreements come in many different forms and can be negotiated voluntarily. The CalPERS's current RCP policy already accounts for situations where labor peace agreements might be pursued. The current policy simply does not mandate labor peace agreements, but it does reference it four times throughout the policy.

So I think, you know, we're happy to discuss further more whether or not mandating it should be something that CalPERS should consider, but our policy has already anticipated those.

COMMITTEE MEMBER MIDDLETON: So I can only speak for myself, and any time you mandate something, one needs to know that we can adequately implement it and make it work over time.

ASSOCIATE INVESTMENT MANAGER SELLS: Right.

COMMITTEE MEMBER MIDDLETON: So I would -- I would be anxious to hear what are the considerations that would go in to implementation of a mandate? I think I would be surprised if my colleagues and I did not, at minimum, want to see extremely strong encouragement of labor peace agreements. And that may not be enough for some of my -- for some folks. And I'm not sure if it's going to be enough for me until I really understand the question of how we would implement it, how we would make sure it's going to work. I never want to ask you to implement something that can't be done and then we end up disappointing everyone.

Picking up on that, the contractors who have reached agreements, who have demonstrated that they are implementing working conditions that are consistent with our values and sustainable, we need to have mechanisms that give them the kind of credit that they deserve moving forward and give them the kind of credit that they deserve as we're making selection decisions for our investments.

And the last thing, we've heard today some incredibly difficult testimony coming from individuals. And individuals being asked to place themselves in working conditions that are -- approach being untenable and in many instances particularly as we talk about abuse of individuals that are untenable.

So as we move forward with this policy, we need to be able to comfortably come back, that we have done everything that we can as an investment organization to ensure that we are not contributing to the kind of working conditions that none of us would participate in, either as a manager or as an employee.

Thank you.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you.

CHAIR MILLER: Okay. Next, I have Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. This is amazing. I mean, I think it's very -- it's historic that CalPERS had this policy some years ago and has revised it twice and we have an opportunity to revise it again or to update it again.

I think my points are more to the way it's presented. You have two charts, one about what changes were acceptable and which ones were not adopted I guess is the term. But it's hard to understand based on the testimony about, for example, thinking about neutrality labor peace just use that as an example. And the other one is prevailing wage perhaps, how people read it.

So one thing that might be helpful is if you make a cross-reference to the actual policy, the redline. I remember seeing. I'm not -- I don't think CalPERS has it, but I remember seeing other actuarial reports where they have like a summary page and they have on the side as to what section and what page to refer to, because sometimes people read things differently, as to -- because you made comment how labor peace is addressed for the first time, and I remember reading it and highlighting it, but it may mean different things to different people.

Like, for example, the whole thing about neutrality, CalPERS labor neutrality, but does that mean if you keep reading and people say take that out, but maybe it doesn't -- do -- I -- you know, I think you have to meet the -- the whole thing about how do we -- there's a history of how it's been read and that's important. And if we're going to make amendments, we have to make sure that it doesn't undermine what the past practices or what have, so -- and if I could just have one more comment. I don't want to repetitive of other people's comments, but I do think that it should be -- well, I'll make the comment.

One, there should some way of encouraging that the people who will have proven -- who have proven records have been responsible should be able to win a bid. And -- and I just forgot the second term, so I will leave it at that, but there was a second. If I come back -- I'll come back to it the second point.

Thank you, Mr. Chair.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you.

CHAIR MILLER: Okay. Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you so much. Thank you so much for this report. I really appreciate all the work that has gone into it and the responsiveness of staff to Board requests regarding the Responsible Contractor Policy. I'm really eager to move this work forward. I do have a couple -- a couple comments or questions -- mostly comments that I'd like to make.

As stated earlier, I reiterate what my colleagues have said. We've heard a lot of public comment today and in the past over the last -- since I've been on the Board, I've heard a lot of public comment. And I do want to elevate that, that our stakeholder concerns are Board concerns, right? Our stakeholder considerations are Board considerations. And so I'm glad that everyone is here, that comment was so eloquent throughout the day.

Meketa did not get a chance to speak before the Board, but I do recognize that they added a memo in addition -- in the -- as part of the package. So I wanted to elevate, I would really like to see, as Meketa noted on their second page -- top of the second page, that we should add language in the voluntary compliance to explicitly include commingled funds and other indirect investment structures in addition to those in which CalPERS holds less than a 50 percent ownership position. I think that that's really important that we need to apply the RCP to those Commingled funds and understanding it's voluntary compliance.

And then another suggestion is regarding that neutrality. I just want to be explicit. I understand that there's -- it's in here and -- but I think it would be better for those who read the policy in the future, that we are very clear, and that our neutrality refers not only to CalPERS but also to our investment partners and the contractors with whom they work. That I think will help us as an organization as investment -- as an investor to manage the risk through this policy and align with labor law.

And then finally, I do think one of the biggest challenges is not just the language of an RCP but the practice and procedures and the implementation, right? That's where we're going to really make an impact. So I'd like to know when we bring this back in June for the second reading, what kinds of resources for effective implementation, and then ongoing evaluation that -- so we can learn from ourselves that we can ensures effective and align with our fiduciary obligation.

And that's all my comments. Thank you.

CHAIR MILLER: Next, I have Director Pacheco.

Director Pacheco, I have you next.

COMMITTEE MEMBER PACHECO: Thank you.

First of all, thank you Tamara and thank you to your staff for this excellent presentation on the first reading of the RCP. I also want to concur with Director Willette regarding her comments. I think those are very valid in terms of what we should move forward with.

I also want to -- just also want to mention with Dr. -- with Director Middleton's comments about the history. I think that was a really good point having an understanding of comparative other systems that have similar RCPs and giving us kind of a comparative analysis of this, so we can kind of get a good understanding of how other systems have done have worked with this and how we can move forward with many of the proposals that are being presented here. So those are my comments.

Thank you.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you.

CHAIR MILLER: Okay. Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you.

This was really good. I don't want to add anything or that hasn't already been said. And I believe Lisa may have touched on it already, but if we could have whatever the proposal is ran through like a risk assessment, that would be really good, because I would hate to do something very positive and then for it to have a negative effect on our members.

Thank you.

CHAIR MILLER: Okay. Next, I have President Taylor.

VICE CHAIR TAYLOR: I think this was asked before, but I just want to make sure, and I know I brought it up with you, Tamara, before, that we have a way of making sure that responsible contractors are getting the jobs -- at least part of the time, right? If they're bidding with everybody else. I'm hearing from a lot of labor folks, and I think Jen O'Dell made a comment this morning, that -- and I know somebody asked this question a minute ago, but that they're not getting any jobs. The last 150 jobs they've applied for, they haven't gotten any. And I don't know how we fix that, but that's got to be fixed. So I don't know what that does for this, but some how or another, that's a big miss in our policy.

ASSOCIATE INVESTMENT MANAGER SELLS: No. Thank you for the comment. And I think what you're touching on too is giving formal hiring preferences to certain contractors. That's something that we've considered, but --

VICE CHAIR TAYLOR: No. And, you know, I see what you're saying there --

ASSOCIATE INVESTMENT MANAGER SELLS: Yeah, and we can't --

VICE CHAIR TAYLOR: -- and I'm not sure they're even -- they're not even getting notified of the bids. And I know that we talked about earlier.

ASSOCIATE INVESTMENT MANAGER SELLS: Right. Right.

VICE CHAIR TAYLOR: They're not -- if they are it's short notice. And then when they finally do get something in, they just -- they don't get it. And I -- and a lot of these companies that get the formal hiring, I think I heard it's the lowest bid, right? But then are they taking into account that those people aren't paying benefits and wages, and do we get a grading system for something like that that sort of makes them even?

ASSOCIATE INVESTMENT MANAGER SELLS: Yeah. So thank you for the comment. The purpose of this policy is to promote a transparent fair process level playing field where everyone can participate. And so to your point, the issues about the bidding and notifications are areas where we can try to address and areas where we have some control over. But the selection piece itself is, I think, a step beyond what would be in our control.

VICE CHAIR TAYLOR: No, but you could make -- you could make the system -- you can make a system where it becomes more fair, so that it's not lowest bid. California no longer accepts lowest bid, right?

ASSOCIATE INVESTMENT MANAGER SELLS: Correct.

VICE CHAIR TAYLOR: So that it's more of a fair process.

ASSOCIATE INVESTMENT MANAGER SELLS: And to be fair, that's actually what we're trying to do by expanding the definition of a responsible contractor and what is not a responsible contractor to make sure that those that are debarred that have violated or some type of suspension of regulations and rules are actually considered in that selection process. So we are trying to make it a bit more fair and promote that vigilance --

VICE CHAIR TAYLOR: Okay.

ASSOCIATE INVESTMENT MANAGER SELLS: -- to ensure that we aren't hiring the wrong contractors for our projects.

VICE CHAIR TAYLOR: Okay. Thank you.

CHAIR MILLER: Okay. Let's see. I've got, oh, Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Two questions. First, is this applicable to all contracts going forward, and does it have any implication on contracts in existence currently? And then my second question is does this apply to all contracts, all asset classes? There's language in here about real estate. And just to the comments earlier about private equity, I want to make sure I understand which contracts this is actually relevant for.

MANAGING INVESTMENT DIRECTOR CORR: It only applies to the real assets program, so real estate and infrastructure. It does not apply to private equity.

ACTING COMMITTEE MEMBER GALLEGOS: Okay. And in terms of going forward versus existing contracts.

MANAGING INVESTMENT DIRECTOR CORR: It would apply -- it currently applies to all of our existing managers and it would also apply to any manager that comes into the portfolio going forward that meets the criteria.

ACTING COMMITTEE MEMBER GALLEGOS: Any new language would apply to existing contracts as well.

MANAGING INVESTMENT DIRECTOR CORR: The policy --

the managers have to comply with the policy. And the way it's drafted is that any updates that are made to the policy --

ACTING COMMITTEE MEMBER GALLEGOS: Okay.

MANAGING INVESTMENT DIRECTOR CORR: -- they then have to abide by.

ACTING COMMITTEE MEMBER GALLEGOS: Abide. Okay. Great. Thanks.

CHAIR MILLER: I think that about does it. I don't see any more requests to speak and appreciate the presentation and thank you very much.

I guess that brings us to -- no I think we already had our public comment. Is there any other public comment?

Then summary of Committee direction and then we'll go to closed session.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: All right. Yeah, we've asked Amy to track it. So Amy over to you.

INVESTMENT DIRECTOR DEMING: Thank you, Dan and Committee. So I took one item of Chair direction and that is that at a meeting in the near future, we will do a deep dive on the proxy voting policy. We'll review it. We'll do an education piece on it and go into the themes and all of that good stuff.

We also heard from some Committee members that we could clarify in our policy on how we characterize some of the private debt terminology. And then there would be a review of performance into private equity fund versus co-investment performance. ESG data convergence update would also come at a future date, likely the June Private Equity Program review. And Tamara just took a number of things to come back with in her second read as well. So hopefully we got that one Chair directed item, but then also just the other things we heard throughout the day.

Please let me know if I've missed anything.

VICE CHAIR TAYLOR: We wanted to see the policy. I'm sorry. I think along with the training on the policy, we wanted to see --

INVESTMENT DIRECTOR DEMING: Review it.

VICE CHAIR TAYLOR: -- review the policy.

CHAIR MILLER: Review it.

INVESTMENT DIRECTOR DEMING: Absolutely, yeah.

VICE CHAIR TAYLOR: Okay.

INVESTMENT DIRECTOR DEMING: Yep.

CHAIR MILLER: Okay.

INVESTMENT DIRECTOR DEMING: Great.

CHAIR MILLER: I think that about does it.

So at this point, we'll recess into closed session for items 1 to 6 from the closed session agenda.

We'll immediately reconvene in open session after the closed session, and I think we'll be revisiting item 6a from the open session agenda when we do that. So thank you. We're recessing -- how long? It's scheduled for 1 hour and 55 minutes. I'm hoping that we will be --

VICE CHAIR TAYLOR: No. How long between now and closed?

CHAIR MILLER: Oh, what --

VICE CHAIR TAYLOR: Ten minutes.

CHAIR MILLER: -- ten minutes. Yeah.

VICE CHAIR TAYLOR: Five minutes. I don't know.

CHAIR MILLER: Yeah.

VICE CHAIR TAYLOR: Okay.

CHAIR MILLER: Ten minutes.

Okay. We're recess -- we're in recess. You want me to hit the hammer?

There we go.

(Off record: 4:32 p.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 6:11 p.m.)

CHAIR MILLER: Okay. We are back in open session and we're going to pick back up with item 6a, the

Mid-Cycle Public Employees' Retirement Fund Asset Liability Management Review. And at this point, since we've already had some discussion on this item, I will entertain a motion, if someone has one.

COMMITTEE MEMBER PACHECO: I'll make the motion.

CHAIR MILLER: Okay. Mr. Pacheco moves approval.

VICE CHAIR TAYLOR: Second.

CHAIR MILLER: Seconded by Ms. Taylor.

So I will call for the question.

Any further discussion?

Okay, I'll call for the question.

All in favor?

(Ayes.)

CHAIR MILLER: Any opposed?

COMMITTEE MEMBER ORTEGA: No.

CHAIR MILLER: Okay. Was that an oppose?

VICE CHAIR TAYLOR: Yeah, that was Eraina opposing.

CHAIR MILLER: Okay. Mr. Ortega is a no.

Any abstentions?

Okay. The motion passes.

And that's -- okay, so that's it. And hearing no objections, I'll call the meeting adjourned.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 6:12 p.m.)

CERTIFICATE OF REPORTER

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of March, 2024.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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