MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

MONDAY, NOVEMBER 16, 2015

8:30 A.M.

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

A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Henry Jones, Chairperson

Mr. Bill Slaton, Vice Chairperson

Mr. Michael Bilbrey

Mr. John Chiang, also represented by Mr. Frank Moore

Mr. Richard Costigan

Mr. Rob Feckner

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. J.J. Jelincic

Mr. Ron Lind

Ms. Priya Mathur

Ms. Theresa Taylor

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

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Doug McKeever, Deputy Executive Officer

Mr. Brad Pacheco, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Sarah Corr, Investment Director

APPEARANCES CONTINUED

STAFF:

Mr. Réal Desrochers, Managing Investment Director

Ms. Cheryl Edwards, Committee Secretary

Mr. Curtis Ishii, Managing Investment Director

Mr. Scott Jacobsen, Investment Director

Ms. Divya Mankikar, Investment Officer

Ms. Anne Simpson, Investment Director

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

Mr. Daniel Crowley, K&L Gates

Mr. Allan Emkin, Pension Consulting Alliance

Mr. Neal Johnson, Service Employees International Union, International and Local 1000

Mr. Andrew Junkin, Wilshire Consulting

Mr. Mike Moy, Pension Consulting Alliance

INDEX

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

P R O C E E D I N G S

CHAIRPERSON JONES: I'd like to call the Investment Committee meeting to order, please. And the first order of business is roll call, please.

COMMITTEE SECRETARY EDWARDS: Henry Jones?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY EDWARDS: Bill Slaton?

VICE CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY EDWARDS: Michael Bilbrey?

COMMITTEE MEMBER BILBREY: Good morning.

COMMITTEE SECRETARY EDWARDS: John Chiang?

ACTING COMMITTEE MEMBER MOORE: Frank Moore for John Chiang.

COMMITTEE SECRETARY EDWARDS: Frank Moore representing John Chiang?

ACTING COMMITTEE MEMBER MOORE: Here.

COMMITTEE SECRETARY EDWARDS: Richard Costigan?

COMMITTEE MEMBER COSTIGAN: Here.

COMMITTEE SECRETARY EDWARDS: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY EDWARDS: Richard Gillihan represented by Katie Hagen?

ACTING COMMITTEE MEMBER HAGEN: Here.

COMMITTEE SECRETARY EDWARDS: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY EDWARDS: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY EDWARDS: Ron Lind?

COMMITTEE MEMBER LIND: Here.

COMMITTEE SECRETARY EDWARDS: Priya Mathur?

COMMITTEE MEMBER MATHUR: Good morning.

COMMITTEE SECRETARY EDWARDS: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY EDWARDS: Betty Yee?

COMMITTEE MEMBER YEE.

CHAIRPERSON JONES: Okay. Thank you very much.

Before I call on Mr. Eliopoulos for the Executive Report, I just want to remind the Board members that we do have a time certain at 10:15 for our private equity workshop. So we will be breaking at that time and moving to the room next door to have that workshop, and then returning to the auditorium to complete the rest of our Investment Committee meeting.

So with that, Mr. Eliopoulos.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure, Mr. Chair. Good morning, Committee members. In the interests of time, we have a very, very full agenda today, including the private equity workshop that you mentioned, I will defer my briefing for this morning to get to the other agenda items on the agenda today.

CHAIRPERSON JONES: Okay. Thank you very much.

The next item on the agenda is consent action item, approval of the October 19, 2015 Board Committee meeting minutes.

COMMITTEE MEMBER LIND: Move approval.

CHAIRPERSON JONES: Moved by Mr. Lind.

COMMITTEE MEMBER COSTIGAN: Second.

CHAIRPERSON JONES: Second by Mr. Bilbrey.

All those in favor aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none the -- oh, I'm sorry about that. Mr. Costigan then. Okay. Second by Mr. Costigan.

The item passes.

The next item are consent information items. No request to move anything off.

So we'll move on to the next item on the agenda, which is the Global Governance Policy Ad Hoc Subcommittee. And for that, I call on the Vice Chair of that Committee Mr. Bill Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair

CHAIRPERSON JONES: There you go.

VICE CHAIRPERSON SLATON: Thank you.

The Global Governance Policy Ad Hoc Committee did meet on October 21st. The Committee discussed and approved staff's recommendation for the second phase of structural changes to the global governance policy. This Subcommittee received a presentation on the latest revisions to the global governance principles alignment with the program core issues.

Highlights of what to expect in the next Global Governance Policy Ad Hoc Subcommittee meeting, the third reading of the global governance principles, alignment with the program core issues, a review of the legislative and policy engagement guidelines for investments.

The next meeting of the Global Governance Policy Ad Hoc Subcommittee will be on November 18th, 2015 in Sacramento, California.

CHAIRPERSON JONES: Okay. Thank you, Mr. Slaton.

The next item on the agenda is revisions of fixed income policies, second reading.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Great. Thank you, Mr. Chair. Wylie Tollette, CalPERS Investment Office staff.

I think I'm going to be joined up here with Andrew Junkin from Wilshire. I'm requesting the Committee's approval of the revised Investment policies for global fixed income. And actually, I'll include global equity as -- in the discussion in the interests of time, Item 6a and 6b on your agendas. This is the second reading for fixed income and the third reading for global equity.

Taking these two items in order, the edits made to the global fixed income policy since the first reading are outlined in the agenda item. We'll also be making some additional changes that were -- that were raised in the briefings by several of the Committee members around the way we describe the minimum credit ratings, the permitted sector ranges. And those will be reflected in the final policy. I'm happy to detail those if the Committee is interested, but they basically reflect non- -- I would say non-substantive changes. They don't change the core risk of the program. They just change the accuracy in the way it's described in the policy.

CHAIRPERSON JONES: Okay. Thank you. We have a couple of questions.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Curtis, come on down. The policy on fixed income, what -- are there any things that you would have done in the absence of this policy that -- you know, so the policy became a constraint? And the other question is are there any things that you would not have done, except that they were required by the policy?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I'm going to have to restate your question back to you to make sure I understand.

COMMITTEE MEMBER JELINCIC: Okay. Well, there's actually two questions.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, two questions. So the first is are there things that we would have done in the portfolio if they were not restricted in the policy? Is that --

COMMITTEE MEMBER JELINCIC: Yes.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: -- the nature of your first question?

And then the second one I'll -- for that one and the second one, I think I'll turn it over to Curtis Ishii.

CHAIRPERSON JONES: I'm shocked.

MANAGING INVESTMENT DIRECTOR ISHII: So for the first question, I'm not sure about what's the second question, the policy is sufficiently has been sufficiently flexible for us to do what needs to be done. The changes that were made have not made anymore aggressive or conservative changes to the policy. They are the same, and so that was the directive I had given the people who were creating it. So there is nothing really any different than what has been in the policy probably for the last 15 years.

COMMITTEE MEMBER JELINCIC: Okay.

MANAGING INVESTMENT DIRECTOR ISHII: Your second question?

COMMITTEE MEMBER JELINCIC: The second question was the flip side, are there any things that you have done because of the policy that you would not have done in the absence of the policy? And I'm going to guess the same answer applies.

MANAGING INVESTMENT DIRECTOR ISHII: Well, the policy is more restrictive. I mean, it's -- would we do -- as you well know, post the crisis, we've been given a little bit more restrictive, more focused, more conservative nature of fixed income. So given that directive, we've -- you know, the policy does restrict us.

COMMITTEE MEMBER JELINCIC: So in the absence of the policy, you would have taken a more aggressive position, is that what I'm hearing?

MANAGING INVESTMENT DIRECTOR ISHII: Historically, we have, yeah, taken more aggressive positions. We have cut our risk positions in half, post-2007, given the directive by this Board. This Board we asked specifically this Board do you want us to focus on alpha with more volatility or less volatility and a reduction in alpha?

The direction I had heard was less alpha in order to fulfill your role as a diversifier. So therefore, yeah, we took our risk positions down in half from historic levels.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

MR. JUNKIN: Mr. Jones.

CHAIRPERSON JONES: Yes.

MR. JUNKIN: Sorry.

CHAIRPERSON JONES: That's okay. Andrew.

MR. JUNKIN: Andrew Junkin with Wilshire.

I just wanted to add to that, the policy constraints and whether they are binding or not is something that we do discuss with the CalPERS fixed income staff. And it's part of our annual review and it's part of our regular communications to understand where they're positioning? Are they bumping into any policy constraints. Curtis, is right that change coming out of the global financial crisis was really, in some, ways a tightening of the tracking error of the portfolio to try to allow fixed income to focus on the strategic mission of that asset class within the total portfolio.

For example, this is not what was the case, but you could have a complete high yield portfolio. You're not permitted to, but you could, but that reemphasizes the growth risk that's present with the equity portfolio, so that doesn't make sense. So there are guidelines to prohibit the amount of credit, the amount of high yield, the amount of bank loans in the portfolio to try to make this portfolio effective holistically for the total fund.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you.

I just want to thank you for spending the time to really clarify the framing language in the introduction. I know it's not sort of the meet of the policy, but it is, I think, very important for setting the stage for the context in which this policy operates. And so with that, I will move for approval on both the fixed income policy and the global equity policy.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON JONES: Okay. It's been moved by Mrs. Mathur and second by Mrs. Taylor.

All those in favor -- oh, question. Questions.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I want to look at the liquidity program. I recognize this is not a change, but do we really want to go as low as BBB Minus in a portfolio that is clearly intended to be a very liquid policy? It's on 61 of the iPad. It's on 16 of however many -- 16 of 28.

And then the follow-up question is going to be, why would we want to go that low in credit rating for a portfolio specifically designed for liquidity?

MANAGING INVESTMENT DIRECTOR ISHII: So the intent is A2/P2, which is fairly conventional in terms of liquidity and has been part of it. I think you're thinking should we have BBB minus type of securities in there, and -- in practice, you do not see the short-term portfolio given the liquidity requirements investing down there, but it's a fair point, and I don't think it would eliminate -- it would hurt the program, if we moved it up or anything like that. I just -- we just wanted to give enough flexibility in case there was situations where, you know, we might want to invest in it.

I think what we're hoping is that we've had a 30-year run in managing risk. And I don't think we've taken any losses in the short-term area that I could remember, even through the crisis. The Lehman crisis we did not have exposure. We managed the risk, and so we wanted to give ourselves some flexibility.

But I think if the Board feels, and I think it's a valid point, that you want to restrict this even more, it would not affect the program.

COMMITTEE MEMBER JELINCIC: If we did want to restrict it, what would be a -- I mean, would you suggest going to, you know, the -- into -- eliminating the BBBs completely?

MANAGING INVESTMENT DIRECTOR ISHII: I would just take out investment grade and A2/P2, so -- an A2/P2 rating is sufficient.

COMMITTEE MEMBER JELINCIC: And that's really a rating design for short term than liquidity.

MANAGING INVESTMENT DIRECTOR ISHII: Yes, it is. So the investment grade rating would be something -- some sort of securities outside of corporate securities. It could be -- I can't even think about it, but it -- for instance, it could be corporate debt that was issued 10 years ago that now is one year. And that's a good example. And so it's not -- it does not have a short-term rating. It still has a long term rating, but it's really a short-term security.

COMMITTEE MEMBER JELINCIC: What is the long-term equivalent of A2/P2?

MANAGING INVESTMENT DIRECTOR ISHII: I believe it's around single A.

COMMITTEE MEMBER JELINCIC: I would like to suggest that we limit it to, you know, A2/P2, and single A and above.

CHAIRPERSON JONES: We have a motion on the floor, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Okay. Then I'll move that as an amendment to the motion.

CHAIRPERSON JONES: So it's been moved by Mr. Jelincic as an amendment.

Is there a second?

COMMITTEE MEMBER MATHUR: I'll second it or I'll accept it as a friendly amendment.

CHAIRPERSON JONES: You will accept it as a friendly amendment.

COMMITTEE MEMBER MATHUR: I will accept it.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I might make a small request that if in the case of a downgrade of an existing security that's held to one of those lower ratings, that the policy be allowed -- the program be allowed to hold that security till maturity to not force a divestment of a downgraded security and take the loss.

MANAGING INVESTMENT DIRECTOR ISHII: Could I make one suggestion, Mr. Jelincic?

COMMITTEE MEMBER JELINCIC: Sure.

MANAGING INVESTMENT DIRECTOR ISHII: Maybe we should just, "or A minus", or something like that instead, so that it allows for -- in case a security is not rated as a short-term, and it still preserves your -- the quality of it, and so it allows us to invest in it.

COMMITTEE MEMBER JELINCIC: And I'm comfortable with that.

CHAIRPERSON JONES: Okay. Would you restate your modification -- your amendment, Mr. Jelincic, so we're absolutely clear?

COMMITTEE MEMBER JELINCIC: So the -- I've got to get back to that page.

COMMITTEE MEMBER MATHUR: Sixty-one.

COMMITTEE MEMBER JELINCIC: The minimum credit rating is A1/P2 or --

MANAGING INVESTMENT DIRECTOR ISHII: A2

COMMITTEE MEMBER JELINCIC: -- A2/P2 or A minus and -- or above, A minus or above.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

With the additional amendment around divestment, so we can hold a downgraded security through maturity, if I might request that additional addition to the motion.

CHAIRPERSON JONES: Yes.

COMMITTEE MEMBER JELINCIC: And I have no problem with that.

CHAIRPERSON JONES: Okay. So it's still been moved and so second by Mrs. Mathur.

So all those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none. And that is adoption of A and B the original motion.

COMMITTEE MEMBER MATHUR: Yes.

CHAIRPERSON JONES: Okay. Thank you very much.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you very much.

CHAIRPERSON JONES: The next item on the agenda is an information agenda items, California Public Divest from Iran Act.

Mr. Eliopoulos.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you. I'll be taking that one, Mr. Chairman. Wylie Tollette, CalPERS staff.

This is actually an action item similar to items that the Committee has reviewed in previous years. Staff examined four companies that appeared on the original list of securities considered covered under the Iran Act -- the California Iran act, and determined they could be removed from the list under the requirements of the legislation.

In the interests of time, I'll keep my comments brief and ask if there are any questions on this, as well as ask for a motion to approve the item. The details are actually fairly thoroughly stated in the agenda item. And Anne Simpson and the global governance team helped complete the engagement efforts that the legislation requires. So she's here to answer questions if the Committee has them.

CHAIRPERSON JONES: Okay. Thank you.

We have a few questions. Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I don't have any issues with the action item, but questions about the process. Does the engagement happen after these companies are identified by other sources? Is that kind of how it happens?

INVESTMENT DIRECTOR SIMPSON: Anne Simpson, Global Governance Program. Yes, that's exactly the process. We identify the companies. We then write the companies. Then we wait for a response. If we think there's an issue around language, we translate letters. We also make sure that the communication is couriered to the head offices. We don't just rely on the traditional mail system.

COMMITTEE MEMBER YEE: Okay. So if a company were identified by, like the GAO, would we -- is there feedback mechanisms to let them know the outcome of our engagement?

INVESTMENT DIRECTOR SIMPSON: We don't communicate that to the GAO, because they're monitoring federal legislation. We do stay in communication with the local sources that we cross-reference with, like the DGS. But the situation here is we're complying with a local State law.

COMMITTEE MEMBER YEE: Okay. Right.

INVESTMENT DIRECTOR SIMPSON: And obviously the federal system has been set up around the program of sanctions, but we've regarded that as a trustworthy source of information, of course.

COMMITTEE MEMBER YEE: I see. I see. Okay. And then do you anticipate anything will change given the recent Iran deal with the U.S. and whether there might be another -- should there be another look by the legislature in terms of whether some revisions are needed?

INVESTMENT DIRECTOR SIMPSON: Well, we certainly see the situation getting more complicated, because European sanctions are coming off. The deal in the U.S. is a separate track. And then the Legislature's decision to keep this law on the books is something we haven't looked at, but I'm sure the legislature will be turning to, at some point, to consider, whether the terms have been met. The law, the act, does include a sunset provision, which requires certain U.S. agreements to be in place and its not clear whether the agreement that's being struck by the President actually strictly meats that test.

However, if a company is going back into Iran, they're going to be weighing the balance what's happening with Europe, where sanctions are listed, in the U.S. where the situation isn't as clear. So we're heading into some uncharted waters.

COMMITTEE MEMBER YEE: Okay. Thank you.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

I think it's important to note that Assembly Bill 221, which the California Public Divest from Iran Act, did not provide for any funding of the efforts that we undertake in this regard, but yet we do our level best to get the best information, but we do rely upon the responses from the companies themselves. We don't have the funds to pay for some independent verification, for example, of the information that we are provided.

So we rely on this public process as a means of sort of fact checking --

INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER MATHUR: -- what we get back from the companies.

Just with that -- given that statement, I will move staff's recommendation to remove the four portfolio companies listed in the agenda item.

COMMITTEE MEMBER YEE: Second.

CHAIRPERSON JONES: Okay. It's been moved by Mrs. Mathur, Second by Mrs. Yee.

We have a question.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Is the list that we are removing them from public?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Yes, it is.

COMMITTEE MEMBER JELINCIC: Okay. And so I assume it's on our website some place, so I can go find it?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: It's on the GAO website. And there's another list that's actually on the Department of General Services website of the companies that are implicated in doing business in Iran.

COMMITTEE MEMBER JELINCIC: Okay. And since I don't think we ought to be -- we ought to sell securities for investment reasons, not necessarily political reasons. I will certainly support the motion to take them off this list.

CHAIRPERSON JONES: Okay. Thank you.

Yeah, I have a follow-up question to Mrs. Mathur's question about the funding for -- and I understand that various deals that are approved, they carry with them a mandated cost element that says that if you have -- you're directed to do something, you shall be reimbursed for the associated costs related to those efforts. Is CalPERS eligible to have that kind of language in bills for the work that we do?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think that's a good probably inquiry or follow-up question for the future to take up with our Legislative Affairs Branch. In the sort of divestment bills that affect the CalPERS investment portfolio, I do not believe we've been successful in having the legislature provide for our costs in conducting the various analyses.

Those costs are borne by our beneficiaries through the monitoring of the investment fund. So I do think that's a worthwhile inquiry and discussion to have with our Legislative Affairs going forward, certainly if there are other bills that are coming forward in this regard.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. On your question those mandated provisions usually are for a higher level of service provided by local agencies, that the State would be on the hook for paying mandated costs. But I hope that our analyses and bills of the sort really do highlight the fact that it is our beneficiaries who are bearing the costs.

CHAIRPERSON JONES: Thank you very much.

So it was moved and seconded.

And those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none, the item passes.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you.

CHAIRPERSON JONES: Thank you.

The next item on the agenda is proposed update to the legislative policy engagement guidelines, disclosure of charitable and political contributions.

Who's taking that one?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll do a brief introduction, then I'll hand it over Anne.

This is a update to our legislative and policy engagement guidelines with respect to the disclosure of charitable and political contributions. This is an item that the Investment Committee asked us to take up.

If the Committee will remember, some two years ago when it adopted -- this Committee adopted this policy, it, at that time, stopped short of supporting SEC, Securities and Exchange Commission, rule-making on this topic, and adopted a policy that really applied to CalPERS engagement with the public companies that are within our portfolio.

We've now had some history of that engagement and we're coming back with a proposed action to seek the Investment Committee's approval to allow us to support SEC rule-making on this topic.

I suppose if there are questions from the Committee --

CHAIRPERSON JONES: Yeah, we've got a questions.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- And Simpson and us are ready to answer.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Yes, I think when we first considered this issue, it was fairly early in the process and a lot of thinking and work has been done throughout the industry since then. So I think it's really timely that we sort of take next step and really support the SEC's activities and rulemaking on disclosure on -- and particularly for it -- to get consistency around the disclosure and some kind of comparability.

So I would move staff's recommendation on this item.

CHAIRPERSON JONES: It's been moved by Mrs. Mathur.

COMMITTEE MEMBER LIND: Second.

CHAIRPERSON JONES: Okay. Let Mr. Linn. Okay.

We have questions.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: I was actually going to thank the Committee for bringing this forward. I just -- I think that we are a little behind the times, so I'm glad to see that we have taken this step to support the SEC rule-making.

And I was wondering is -- maybe, Anne, if you had any -- I know it's the legislative -- it's our federal legislator that does this, but is there -- we've already done the engagement part. Is there anything that we're doing here in our global governance to forward this as well? Are we writing a letter? I mean, I was just wondering if that was something that was going on.

INVESTMENT DIRECTOR SIMPSON: Yes. Anne Simpson. Thank you for question. As Ted said, step one is to seek permission to amend our legislative guidelines that currently silent on this issue. We do see an opportunity coming up shortly in the SEC's disclosure effectiveness review. It's about to turn to the question of corporate governance disclosure. And we've got a number of issues there where we'll be coming back on matters that we've already raised like board diversity, climate risk. And therefore, it does seem timely for us to reconsider private ordering versus rule-making.

I also want to say that this is very consistent with the original court case Citizens United where the justice, speaking for the majority on the case, highlighted that should shareholders want to find this information, they had the ability to do so.

Well, without a rule and with rather messy private ordering, it's not been easy. So I think this initiative is very consistent with the original legal case. And the timing, I think, is good in that its disclosure is about to be considered on corporate governance again by the SEC.

COMMITTEE MEMBER TAYLOR: And for your shop, is there any additional resources needed to forward this path?

INVESTMENT DIRECTOR SIMPSON: Depending upon what further activities discussed, I think this is going to be a good topic. Corporate reporting will be one of the -- is one of our five core issues.

COMMITTEE MEMBER TAYLOR: Right.

INVESTMENT DIRECTOR SIMPSON: And we think it would be a good topic to look at the workshop in January.

COMMITTEE MEMBER TAYLOR: Excellent.

INVESTMENT DIRECTOR SIMPSON: But right now, we think in the December comment letter that we write to the SEC, should the Committee approve, it would be appropriate to call for this to be included in any new rule-making on disclosure.

COMMITTEE MEMBER TAYLOR: Great. Thank you, Anne.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: When we discussed this several years ago, did we actually talk about the SEC rule-making or did we just not really deal with that issue?

INVESTMENT DIRECTOR SIMPSON: Anne Simpson.

This is -- as Ms. Mathur mentioned, the focus at that time was on private ordering. It was ensuring that we had a principle in the global governance principles, which were then called the Principles of Accountable Corporate Governance to say that we wanted board oversight and full disclosure both for charitable and for political donations. So that was the first step.

And I think, as Ted mentioned, it's actually been good to give this a few years to see how that principle has settled in. We voted in favor of shareowner proposals, which are in line with that principle, and we can see a lot of response in the corporate community, but it really is not consistent and it's not clear, and we're not sure we're getting the full picture.

And, of course, some companies still aren't disclosing, so it's not a comprehensive response that we've had.

COMMITTEE MEMBER JELINCIC: Given that we didn't say don't support rule-making, I mean, we just didn't deal with that issue, I'm not sure that this is actually necessary. I'm certainly not opposed to making it very specific. But, you know, the other issue that is out there is we have consistently, in all of our policies, said we support full funding of the SEC. And yet, the position that the staff has taken, well, since you haven't specifically authorized us to lobby on that behalf, we're not.

I've asked to have that put on the agenda a couple of times, but I think -- I will clearly support this motion, but I think at some point, you know, if we have adopted a policy that we are in favor of something, I think there's an implication that unless we've said otherwise, those things that enhance that forward, I think the staff ought to assume they have the authority and ought to proceed.

If they feel uncomfortable, you know, bringing it forward and saying -- raising their hand and saying, "Hey, is it okay if we do this?", is, you know, certainly something you can do, because we want you to be comfortable. But at some point, you know, if we said we're for something, we're for it. And that which implements it ought to be included in that. So I will support this motion.

CHAIRPERSON JONES: Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.

So I will be supporting the motion as well, but I just have, I guess, some more specific questions. So first of all, have we -- and I know we're going to have a workshop on this in January. So one thing I would like to know is how does this differ from current reporting requirements in California?

So the FPPC already at least requires contributions -- political contributions, independent expenditures. So I'd like to know is this more narrow, is it broader than the FPPC? Because I don't think this Board would want to take a position on something that actually is weaker than California. So that's should be our base, because you're deferring to some folks from back east who are actually driving the process.

When you look at the three bullet points that are outlined, I would like more information or to see -- so, for example, bullet point number 3 seems to refer to independent expenditure campaigns, IEs, were provided to or through a third party to influence elections of candidates or ballot measures of governmental action, then those expenditures should be included in the report. So is that a reference to an independent expenditure? So you don't have to answer that now, unless you know, but that would be one of it.

And number one, when we look at underwhich are charitable and political contributions, while I won't say who I'm referencing, if you were to do a quick Google search about what's currently going on in California, I would like to know would those groups be covered? It's what's deemed as an educational organization now. And I'm sure if you were to look right now, you'd see there were a couple going on, as to whether those would be covered or not.

Because, Ms. Simpson, one of the things I would say is if we're going to look at supporting this, I don't want to necessarily be -- we are the front-runners, not coming up behind, just like on the action item just before us. So while these are fairly broad, I would like more specificity, particularly what is the cross-reference? Again, if you look at this past session, and I'll look over at leg, the Governor I believe vetoed a piece of legislation on further disclosure this year with a minimum threshold I believe of $5,000.

So, one, is look at the policies of California, and then just a report back is where does this conflict with the FPPC, because we've not done that unless has your office done the analysis looking at the FPPC and whether these fit within?

INVESTMENT DIRECTOR SIMPSON: No. Our reference has been the petition to the SEC that it received shortly after the Citizens United case. So that would be something certainly for us to look at.

COMMITTEE MEMBER COSTIGAN: Because again I would want to ensure, and I would assume the rest of the Board is, at a minimum does it meet where California currently is or are we supporting a weaker version?

Thank you, Mr. Chair.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. When I made the motion, I neglected to make one recommendation or -- and that is in the language that is on page 223 of the iPad, and page three of five the agenda item, under section ii, Board Monitoring, Assessment, and Approval, the last sentence talks about alignment of interests between the company and its shareowners, and I was hoping that we could add the word "long term" in there, "...aligned to the long-term interests of the company and its shareowners". And I wanted to see if that was acceptable to the staff?

CHIEF INVESTMENT OFFICER ELIOPOULOS: No, it was a good point. Well taken, yes.

COMMITTEE MEMBER MATHUR: Okay. So if it's okay with the seconder to the motion, I would like to incorporate that language.

COMMITTEE MEMBER LIND: Fine.

CHAIRPERSON JONES: Okay. That's -- okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. I'd like to respond in part to Rich. This would -- you know, Fair Political Practices is concerned with California elections. This is obviously much broader. The -- so we would -- and quite frankly, if we own these companies and the management is using our money to support a campaign, a charity or something, we ought to be aware of it. And, you know, this doesn't limit what they can do, but it does say you've got to tell us what you're doing with our money. And so I would be very supportive of this.

CHAIRPERSON JONES: Mr. Costigan, do you have an additional comment?

COMMITTEE MEMBER COSTIGAN: I do.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER COSTIGAN: Because I've not had enough coffee this morning. The second question is directed towards Ted, is -- and actually, Mr. Jelincic, just made another point for me about it's our members' money. At some point, when this goes as it requires the public, will we -- and I know we're going to have a private equity workshop, but that is another equation. So at some point, in the proposals that would be adopted as it relates to a publicly traded company, is that something down the road that we would -- any privately held company, sort of the same rules, and you look at the amount of resources, but it that something we're all -- because again, you're looking at a very narrow niche of just publicly traded companies as opposed to there are many assets and may facets as it relates to political contributions.

I mean, again from a narrowness of this, I know there are several publicly traded companies that don't do contributions, but their executives do, for example. It wouldn't be covered by this. I think part of this is while you're looking to change the behavior, you may be shifting. And again, I look forward to a further discussion is what's the ultimate goal? If the ultimate goal is transparency and knowledge, there are other assets inside the portfolio that probably need that same type of scrutiny.

Thank you, Mr. Jones.

CHAIRPERSON JONES: Okay. Thank you.

Okay. So the -- it had been moved and it's been modified by Mrs. Mathur and the second.

So all those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none. So the item passes. Thank you.

And I'm just going to highlight a couple items on this, because we have this long workshop and I don't want to forget at the end of the agenda, I will be summarizing the summary of direction. And I just want to do this now, because I may forget.

On this item here, we did have requests, but you indicated we're going to have a workshop on this in January. So at that time, you would be able to respond to Mr. Costigan's questions regarding the reporting requirements how we differ from other agencies, what is included as an educational supporter or expenditure, also dealing with independent expenditures.

So just know that I'm just moving this off the table, so that we don't have to remind ourselves at the end of the day about this particular item, since we will be having a workshop on this in January.

So thank you very much. Okay. So the item passes.

The next item on the agenda is Contract

Administration, General Pension Board Investment Consultant.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yes. Thank you, Chairman Jones.

CHAIRPERSON JONES: Okay. Just one minute.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I just think we ought to point out that the workshop is at the Board off-site, because I'm not sure everybody is aware that that's --

CHAIRPERSON JONES: Okay. Good point. Yes, the workshop that I'm referring to and Mr. Costigan is referring to and we're all referring to is the off-site workshop in January.

Thank you.

COMMITTEE MEMBER JELINCIC: I think everybody here knows that, but --

CHAIRPERSON JONES: Yeah, right. Good point.

COMMITTEE MEMBER JELINCIC: -- people listening may not.

CHAIRPERSON JONES: Okay. So proceed.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you. Wylie Tollette, CalPERS staff.

This is the final action item on the agenda today. The action is presented to address the recent key person change at Wilshire Associates, your primary pension consultant. Your contract with Wilshire provides for the Board to approve any changes in key persons providing that approval may not be unreasonably withheld. Andrew Junkin is here from Wilshire and he and I are both happy to take any questions from the Committee.

And with that, I'll ask for a motion to approve the changes outlined in the agenda item.

Thank you.

CHAIRPERSON JONES: Okay. Seeing no questions, I will entertain a motion.

COMMITTEE MEMBER BILBREY: Move approval.

VICE CHAIRPERSON SLATON: Second.

CHAIRPERSON JONES: Move approval by Mr. Bilbrey and seconded by Mr. Slaton.

All those in -- discussion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none. The item passes. Thank you very much.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you.

MR. JUNKIN: Thank you.

CHAIRPERSON JONES: Okay. We'll move on to the next item, Federal Investment Policy Representative Update. And we do have Mr. Crowler[sic] on the phone, is that correct? So that if --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Crowley.

CHAIRPERSON JONES: Crowley. Okay. Thank you. Okay. So proceed with this item.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you. And Doug McKeever here, CalPERS Legislative Affairs Staff as well, to answer any questions. Mr. Crowley, are you one the line?

MR. CROWLEY: Yes, I am.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Great. Please proceed.

MR. CROWLEY: Yeah, sure.

So you have the written monthly report. I won't regurgitate everything that's in there, but will hit some of the highlights in each of the areas that we've been focused on.

With respect to derivatives, the Senate Agriculture Committee is expected to finally move forward with a markup of the reauthorization of the CFTC. So we've been monitoring those developments closely with an eye toward CalPERS ability to continue hedging portfolio risk and related issues.

There have been some other recent developments in terms of a cross-border inconsistencies between the U.S. and the EU and we're optimistic that those negotiations will resolve the current conflicts.

Housing finance reform continues to be the topic of discussion. Although, it is unlikely that there will be comprehensive legislation in this area in the current Congress. Nonetheless, there are a number of things that are currently being worked on, one of them the common securitization platform will ultimately replace the separate issuance by the GSEs of their own securities and ideally become a common platform for private issuances as well. There have been some updates to the mortgage disclosure rules that are helpful, put-back policies have been revised as well.

The one issue that is also under discussion is what to do about credit risk transfer. A lot of discussion about upfront risk transfer from the GSEs, which might very well create additional opportunities for institutional investors to invest in residential mortgage-backed securities.

On the securities front, probably the most significant development is the White House nomination of two new Commissioners, Lisa Fairfax a Democrat, and Hester Peirce a Republican to replace the retiring outgoing

Commissioners Aguilar and Gallagher.

We continue to monitor the question of the Chair of the PCAOB, which remains pending, and we are monitoring quite a number of legislative provisions in both the House and the Senate in trying to gauge the likelihood of enactment. We believe that at the end of the day, there will be a number of changes to Dodd-Frank and the JOBS Act. And we're trying to handicap those outcomes and keep the staff and the Board apprised.

Two notable legislative provisions we're monitoring closely. One has to do with efforts to have the SEC rescind the pay ratio legislation, HR 414. This is an issue that CalPERS has had a position on for a long time, and repeal would not be consistent with CalPERS objectives. However, at this point, that legislation has not been considered on the House floor. It has passed the House Financial Services Committee.

Similarly, the fiduciary duty legislation, HR 1090, the Wagner bill, would restrict the DOL's ability to move forward on the fiduciary duty regulations, which we are also monitoring quite closely.

Those are the highlights of the report. I'd be happy to respond to any questions Board members may have.

CHAIRPERSON JONES: Okay. Yes, we do have a couple of questions.

Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. Just two questions. One, just in general, any -- and I'm sure it's too soon, but any sort of sense in how the leadership change in the House is going to impact the work that we do and the things that we care about?

And the second, a little more specific, question, while it doesn't -- it's not directly related to us, recently the Department of Labor issued a new ruling about the ability of ERISA funds to do economic and targeted investing and implement ESG considerations. It seems to me that while it doesn't directly impact us, it's going to have an important indirect impact, because it's obviously some of the work that we already do. So any sort of buzz about that, any sort of thoughts about that issue?

Thanks.

MR. CROWLEY: Sure. Well, taking them in turn, changes in House leadership obviously widely publicized, the implications have yet to be determined. Although, I will say that there does appear to be more unity in the House Republican Conference, the process through which they decided to nominate Paul Ryan as Speaker, I think, was somewhat healing in the divisions of the conference. Paul Ryan, of course, is a highly respected legislator for his focus on policies. He's more policy oriented than political, and has a keen interest in things like fundamental tax reform.

So I think, you know, going into the new year, that significantly increases the chance that we will be focusing on some of the macroeconomic issues that have been sort of intractable problems up to this point. The federal budget issue, you know, requires revenue. And I think all, on both sides, would agree that additional revenue is going to require fundamental tax reform, both domestically and internationally. And I think the chance for comprehensive tax reform increases with Paul Ryan as Speaker.

It's also notable, of course, that the House Majority Leader Kevin McCarthy continues in that roles. And, of course, he's the most senior -- actually, California has a number of senior members of Congress, Nancy Pelosi, Ed Royce, and many others, but it certainly is in CalPERS interest to have the House Majority Leader be a Californian.

On the DOL rule on ESG investing under ERISA, I think that is a helpful new dimension to the governance agenda in this area, particularly with respect to climate risk disclosures and some of the other things that the CalPERS Board has been focused on over time, probably on the leading edge of that governance movement. And I think that the DOL has taken a step in the right direction, and it has been, I think, rather well received. It's more of an incremental change, but consistent with the evolution that we're seeing on disclosures around sustainability generally.

CHAIRPERSON JONES: Okay. The next is Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I had a number of questions, but I'll start with the Public Company Accounting Oversight Board. There's some pushing and shoving going on over the appointment. Can you give us a flavor for what that pushing and shoving is about, who's doing it, why?

MR. CROWLEY: Well, sure. I think ordinarily you would expect the Chair, who is interested in succession to be reappointed without a great deal of controversy. I think there have been some governance issues that were controversial. Probably the biggest one is the mandatory rotation of audit committee chairs for public companies.

But, you know, I think it ultimately is up to the SEC. And I don't have any reason, at this point, to conclude that Jim Doty will not be reconfirmed, but we shall see.

COMMITTEE MEMBER JELINCIC: And then in the -- your comments about the CFTC markup, you said one of the issues is funding. And, you know, clearly we have consistently said we support full funding of the regulatory agencies. You also called to the pay ratio legislation and the fiduciary rule. And clearly this Board has taken positions on both of those.

Are you doing any lobbying on our behalf, and -- at this point? And if not, why not? Do you think you need more explicit authority to be able to do that or -- you know, what's going on there?

MR. CROWLEY: Well, first of all, with respect to funding, it has consistently been the position of CalPERS and of K&L Gates on your behalf that both the CFTC and the SEC should be fully funded. This is something that is absolutely essential given the increased regulatory mandate of both agencies, significant unprecedented numbers of rule-makings, and the ability to have staff in place for enforcement is absolutely essential from the standpoint of investors. It is investor confidence in the integrity of the markets that makes the whole system work. So we will continue to advocate full funding.

With respect to legislative efforts to rescind the pay ratio rule, or the DOL fiduciary rule, our operating principle has been to monitor the legislative developments closely, and where it seems that legislation may be getting legs to then discuss with the staff appropriate steps to go on record, either in support or opposition for a particular proposal.

As I said, with respect to the pay ratio legislation, so far there is one bill that was passed through committee along party lines, which means unlike most of the other provisions we expect to be enacted, there is no bipartisan support for that effort. Therefore, it may very well make its way through the House, but we expect it to stall in the Senate, absent some emerging bipartisan agreement that it should move forward.

On the fiduciary rule, we have essentially the same dynamic where it is a party-line vote, and therefore we think it is unlikely that it will make its way through the Senate. There is a greater chance that the provision, if it is -- continues to be discussed, might be the type of thing that would be included in a broader bill, an appropriations bill, an omnibus funding bill, and so we will be on alert to keep the staff apprised if something like that were to happen.

Although, I think on that particular issue the administration has made it quite clear that they see the DOL fiduciary rule as a legacy issue, and they will almost certainly veto any legislation that includes an effort to derail the DOL rule. So we are -- the short answer to your question is we are monitoring both issues very closely, keeping staff apprised and stand ready to weigh in when directed

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: My question is oftentimes our policies and agenda are diametrically opposed to the current leadership in the House and Senate, so -- and I think J.J. just asked this, but what -- you said that you were -- you asked staff for input to move forward if there's something we need to move, such as, for example, if -- if the pay ratio or any of our other programs that we're watching actually get legs, can you give me an example of something K&L might be doing or has lobbied on our behalf to move our policies forward?

MR. CROWLEY: Well, sure. You know, we were very engaged in Title 7 issues. That's the new over-the-counter derivatives regime established by Dodd-Frank in working with the CFTC to implement the special duties owed to entities like CalPERS, and I think had a significant impact on the final regulations that were issued.

Right now, there is a lot going on. And, you know, if I go back to the point that was made -- that the CalPERS policies and agenda are diametrically opposed to the House and Senate leadership, I don't see these economic issues or financial services regulatory issues as inherently partisan. I think there were a number of provisions that were enacted as part of Dodd-Frank very quickly in the midst of a crisis that were not, because of the limitations of time, fully thought through and there are implementation issues, and by partisan agreement on the need for technical fixes.

And so where we distinguish the legislative agenda, in terms of what we expect to be enacted, are those things that are clearly bipartisan and technical in nature - and again, we're keeping the staff apprised of those issues - on the one hand, as opposed to the more controversial or partisan issues on the other. And in that case, we try to determine what's the likelihood that the legislation will move forward in is getting legs.

I mean, we obviously don't want to waste a lot of time weighing in on things that are never going to happen. So hopefully that answers your question. I think, you know, we stand ready to weigh in on any of these issues, at the appropriate point in time.

COMMITTEE MEMBER TAYLOR: Yeah, that does answer my questions. I just want to make sure that we're not creating too much of a bureaucracy for ourselves to be able to step in and stop or help legislation move along, because that would be what we hired you guys to help us do.

MR. CROWLEY: Sure.

COMMITTEE MEMBER TAYLOR: Thanks.

MR. CROWLEY: Thank you.

CHAIRPERSON JONES: Okay. Thanks. Dan, you probably were listening to our earlier discussion on the -- regarding political contributions by corporations for various activities, and the Committee just adopted a policy regarding that issue. And I note in your report you make reference to 58 members of Congress, including House Services Committee Ranking Member Maxine Waters having signed a letter to ask the -- Chair White to reconsider removing that item from the agenda. Could you give us an update on where you think that's going?

MR. CROWLEY: Well, sure. This one is, at this point, highly partisan. None of these signatories of the letter or other communications were Republicans. So, you know, we did work with staff in the formulation of this recommendation of the Board. I think it's an important issue to address because of the now unlimited and sizeable contributions by corporations into things like super PACs, and other undisclosed political vehicles. And, you know, for all of the same reasons that the Federal Election Campaign Act and the Lobby Disclosure Act, and other laws, the federal bribery statutes all require some transparency around contributions for the purpose of influencing a federal campaign, because of the potential for corruption or the appearance of corruption.

And so I think it is clearly in the long-term stakeholders' best interests to know whether there are issues there for both purposes of monitoring and the governance issues that were addressed in the recommendation, but also the potential for litigation or shareholder suits for wasting of corporate assets. For all of these reasons, I think it is a wise step in the right direction.

CHAIRPERSON JONES: Okay. Thank you very much. Seeing no further questions, then we thank you for the report.

Okay. We will move on. We're going to jump Item 11a on the agenda, because we have a little time before our workshop is to begin.

So we're going to take up Report of Global Equity Portfolio Carbon Footprint.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Anne is going to make her way over to the regularly appointed spot --

(Laughter.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- to take up this footprint.

As the Committee remembers, CalPERS was one of the first U.S. public pension funds, if not the first, to sign up to the Montreal Pledge. And one component of that pledge was to select a methodology, and then subsequently report on the carbon footprint in our global equity portfolio by December 1st. This agenda item fulfill that requirement and I'll turn it over to the team.

INVESTMENT DIRECTOR SIMPSON: Thank you very much. Anne Simpson, Global Governance. I'm joined here by Divya Mankikar, and Dan Bienvenue, Managing Investment Director of Global Equity.

(Thereupon an overhead presentation was presented as follows.)

INVESTMENT DIRECTOR SIMPSON: If I have the little buttons. Thank you.

So this is a new and innovative piece of work. And there's nothing like being first to a new idea to have to do the figuring out and the thinking through. So I'd like to say from the start, this has really been a partnership with global equity, but also with our asset allocation and risk team. And we're glad that other funds have been coming to CalPERS asking, well, what have you done, and how did you do it?

And I think this is the start of a new era in reporting on portfolio risk, which has got a lot of potential benefit for CalPERS

--o0o--

INVESTMENT DIRECTOR SIMPSON: So what we'd like to do in short order this morning is update you on what we've accomplished so far. I'm glad to say that we will be meeting the commitment that CalPERS made through Priya Mathur representing us at the Montreal meeting of the PRI in 2014. We'll be releasing this information to the PRI. And they in turn plan to have this ready with the other signatories for the climate change negotiations in Paris, other wise known as COP, Convention of the Parties 21.

We also just briefly want to explain where this initiative fits in with CalPERS overall climate change strategy, because it's an important piece of our integration work looking at where climate risk and opportunity has an impact on our portfolio.

And then Divya is going to be taking us through the scope, the methodology that we've developed, and also talk a bit about the data constraints that we have at the moment, and we'll give you the initial findings.

--o0o--

INVESTMENT DIRECTOR SIMPSON: So first, what is the pledge? It essentially sets us for doing an annual assessment of carbon per revenues of companies that we invest annually. So this first one is our baseline. And as the pledge explains, the purpose of a carbon footprint is to better understand, quantify, and manage the carbon and climate change related impact, risk, and opportunity in the investments. And, as you know, we were the first U.S. fund to become a signatory.

--o0o--

INVESTMENT DIRECTOR SIMPSON: It's been encouraging though to see the global interest in this PRI initiative. And we've just highlighted on slide four of the presentation some of the other major global funds and fund managers which are also committed to mapping their footprint in this first asset class.

When we were putting the presentation together, it was over 100 signatories representing some $8 trillion in assets. So we think this certainly is building momentum.

--o0o--

INVESTMENT DIRECTOR SIMPSON: So where does this fit in with the overall CalPERS commitment on investment -- sustainable investment?

The first is climate change was specifically called out in our Investment Beliefs, first, as an issue in our statements around long-term value creation, but also around the multi-faceted nature of risk. We also see this work fitting into our commitments as a signatory to the PRI, particularly principles to 2 and 3, where we'll be active owners and incorporate issues into our practices, and also seeking appropriate disclosure on ESG issues.

--o0o--

INVESTMENT DIRECTOR SIMPSON: And finally, it's obviously consistent with the global governance principles.

So Slide 6 is a new version of an old story that we've told you on several occasions, which is when the international community looks at climate change and we see some of the challenges ahead, it looks like a daunting prospect, but we are -- I'll start that there are very clear models being developed, which show how we make the transition over a 30-year period.

Previously, we've shown you some 2010 data, which show that over 20 years, the role that various transition elements will play in getting us to stay within the goal of global warming at no more than two degrees. This is a more up-to-date picture, but along the way, the color scheme has changed, and also we've reversed the way we're explaining what's going on.

But this really just shows in our portfolio if the world economy stays on track with the climate change agenda that the Paris meeting wants, this is what will take -- it will take to get us there by way of increase in renewables, carbon sequestration, power generation efficiency and so forth. If you'd like, this is the to-do lists for global companies.

--o0o--

INVESTMENT DIRECTOR SIMPSON: The next slide I'm going to skip over, but it just explains that integrating the Investment Beliefs and ESG risk into the portfolio is part of the INVO Roadmap.

--o0o--

INVESTMENT DIRECTOR SIMPSON: And then I'd like to turn to Divya who's been leading this project with our colleagues in global equity and asset allocation and risk to take us through what the footprint is and how we've gone about measuring our shoe size, I suppose.

Thanks, Divya.

INVESTMENT OFFICER MANKIKAR: Thanks, Anne. Divya Mankikar, global governance.

So this slide is meant to help you differentiate between carbon footprint for a company, but then how we actually roll that up for a portfolio.

So just to make sure that we're sort of on the same page here, a corporate carbon footprint would potentially include Scope 1 emissions, which are emissions from assets that owned by a company; Scope 2, which is purchased electricity; and, Scope 3, which could be upstream related to the supply chain or downstream related to product in-use.

And we bring this up because there is a difference across the 10,000 companies that public equity invests in in terms of corporate reporting on Scope 1, Scope 2, or Scope 3. And this comes up again at a later date, so I go through that now.

The way that we then take these corporate carbon footprints and relate it to the CalPERS portfolio is by looking at the percent of investment in each of these companies. So based on shares outstanding, because we're looking at public equities, for example, if we invested in one percent of a particular company, we would attribute one percent of their carbon footprint to the CalPERS public equity portfolio. So that's just a simple overview of how a portfolio carbon footprint is actually done.

--o0o--

INVESTMENT OFFICER MANKIKAR: And on the next slide -- thank you -- you have examples just to lay that out graphically what Scope 1, Scope 2, or Scope 3 would potentially include.

--o0o--

INVESTMENT OFFICER MANKIKAR: So going to the next slide in terms of the scope of the actual footprint that we did. We worked across teams within CalPERS. So working with global equity, asset allocation, and risk, the global governance group, and actually three external providers of carbon footprints, what we looked at was a public equities component of the Public Employees' Retirement Fund as of June 30th.

And across these three external providers that provide carbon footprinting services, they were able to estimate or measure the footprint for over 97 percent of the portfolio value. And we chose to include Scopes 1 and 2 in this analysis. So again, the assets owned by those companies and their purchased electricity, because that's where the most data is currently available. So we do have a slide coming up on the actual results.

--o0o--

INVESTMENT OFFICER MANKIKAR: But just to go a little further into the methodology and the data constraints, one of the areas where we saw across the providers was an area for improvement in this process is that about 30 percent of firms by portfolio value do not actually report their emissions. And so each of these three providers have different models for estimating those emissions. And that's an area that we think we can help the market improve on both disclosure from such companies and also having a consistent model that is used by the various providers.

And so we bring that up to say that as more companies are disclosing as these models become more aligned across different providers, this footprint will likely change in the future and it may not change in linear ways. Effectively we'll be changing potentially from companies that are not disclosing and are currently being estimated to self-reported data, and potentially the scope would also change.

So just to highlight that this number may -- of the total portfolio footprint may change in the future in non-linear ways.

And the final point before we go to the results is that the carbon footprint is one element of climate risk. When you look at the portfolio that CalPERS manages, there are other significant areas that we would like to look at potentially in the future, for example, the impact of drought or water availability, a physical impact on assets in terms of sea level rise. So just to note that a carbon footprint is one element of understanding climate risk, but it's not the whole story.

--o0o--

INVESTMENT OFFICER MANKIKAR: Moving to page 12, you have the three carbon footprint numbers. Again, these are initial findings, but they cover Scope 1 and 2 emissions. And those numbers were measured or estimated by South Pole, Trucost, and MSCI, which are three leading providers of carbon footprinting.

The numbers are in a similar range, but you see there is differentiation at the total aggregate portfolio level. Whereas, when you normalize these numbers to revenue, they're quite a bit more similar. So in one sense, this is encouraging that the three providers are coming to similar numbers, but on the other hand, they are also starting from a similar data set collected by the carbon disclosure project. So not entirely surprising that the numbers are somewhat similar.

--o0o--

INVESTMENT OFFICER MANKIKAR: In terms of how we would use this information, what we found very interestingly is that across the three providers in the range of 80 companies out of the 10,000 companies that are invested in, about 50 percent of the carbon emissions actually arise from just 80 companies.

So that gives us a clear target for engagement. What you'll see is that those 80 companies fall into a variety of different sectors. And so what we're thinking about now are sector and corporate engagement strategies, which of those 80 would be the highest priority, which overlap with other initiatives like the carbon asset review and proxy access initiatives that we have going to further prioritize those 80.

And in addition to that, we already see that a third of our holdings by portfolio value have carbon reduction targets. And that is something that we would like to see improve over time. And again, we would engage companies on that front.

And then finally, about six percent of the footprint would be reduced through existing pledges by these companies to reduce their emissions. And those are over different time scales. So that's again another indicator that we would like to track over time.

--o0o--

INVESTMENT DIRECTOR SIMPSON: Thanks very much, Divya. So just to flag next steps. Following discussion today at the Investment Committee, and any further development of the analysis that we've done that you'd like us to carry out, we'll be filing this with the principles for responsible investment. And we will repeat the carbon footprint analysis for global equities annually, which is in keeping with the pledge.

Secondly, the PRI itself, as I mentioned, will publish this data along with that of our fellow asset owners and managers. And then thirdly, we really think this is a useful piece of work to feed into our workshop in January thinking about how do we best use our resources at CalPERS to have the most impact on the issues, which are material, and really are important for CalPERS to pursue.

So with that, we'd be happy to answer any questions.

Thank you

CHAIRPERSON JONES: I think every member of the Committee has a question starting with Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: You had talked about self-reporting of carbon footprints. Is there any auditing of that self-reporting or do we take it at face value?

INVESTMENT OFFICER MANKIKAR: It's quite a mixed bag. So of the self-reported data, a significant percentage we'd have to really look at how much is verified, but it's not a -- you know, the majority yet. So that is another thing that we would want to verify. There is a protocol, the Greenhouse Gas Protocol, that defines what best in class reporting looks like. And there are verifiers that can look into whether a company is, you know, calculating those emissions accurately and for the right scope of their operations. So absolutely, that would be something that we would value highly.

COMMITTEE MEMBER JELINCIC: Okay. And, you know, you said that, well, 50 percent of the carbon emissions come from basically 80 companies, and what is that eight industries. One of the things that I frequently wonder. If you're an oil and gas company, carbon is your business. You know, how do oil and gas companies really reduce their carbon emissions?

I mean, it's sort of -- I mean, I can understand how food and beverage can work at it, but what do we ask oil and gas companies to do?

INVESTMENT DIRECTOR SIMPSON: Anne Simpson.

This is a question which is at the heart of the carbon asset review, which is the engagement strategy we've been pursuing, led by Ceres. We've identified the 46 larges oil and gas companies in the world. And with our fellow asset owners, if we'd been asking that companies identify for us the risk reporting which will show their business strategy over the next 30 years during this transition.

Now, as I mentioned at the last Board meeting, BHP Billiton, which is the largest mining company in the world, has just actually produced that report. And they're showing scenarios for their business all within the global warming target of two degrees. That's exactly the sort of model that we're looking for. We've also now got majors like Shell and BP and Statoil agreeing to do this following a joint effort by management and shareholders on risk reporting. And we're now seeing companies like Shell actually the CEO saying, well, solar is the energy of the future

Now, we have other companies which do not have a diversified portfolio, for example, like Exxon, where to be blunt, the company is accepting there needs to be a price on carbon, but they are also providing very little credible data to investors in response to this engagement. So I think you're aware that we filed proxy access. I should say New York City filed proxy access, and we carried out proxy solicitations for company proposals on proxy access. And the idea here is that we want boards of directors who have the vision, the competence, the ability to actually take on this forward looking 30-year challenge.

We as shareholders, this is not our job. The board's job is to oversee management's development of strategy. And if it seems to us a company is not reporting on strategy, on a shift of this scale and significance. That's a weakness in their risk reporting.

And we won proxy access at companies like Chevron are Occidental. And we missed by a whisker at Exxon. So I think continuing to not just engage and talk, but vote and use our ability as owners to hold boards accountable, this is how we're going to get the conversation moving to a 30-year, you know, not a three year or 30-day conversation about their business strategy.

COMMITTEE MEMBER JELINCIC: So in a company like Exxon, we're asking when -- report on what you're doing and what the risks are. But are we ultimately asking Exxon to get out of the business it'a in and go do something else?

INVESTMENT DIRECTOR SIMPSON: We're asking Exxon to report on how they have a 30-year strategy for the company in their risk reporting, which is consistent with the international community's target of keeping degrees of global warming to two. We're currently at one, so there's not a lot of scope here. And obviously, the future regulatory impact on this industry is uncertain. We don't know what will come out of Paris, but what we want is boards of directors who are producing risk scenarios for us, which show that they've modeled these risks into their long-term future.

And then they're making CapEx decisions on the back of that. They're making compensation decisions to reward people for that strategy. But if we don't have the information and we can't see that plan, I think it just gives a level of discomfort for investors.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Mr. Slaton.

VICE CHAIRPERSON SLATON: Yeah. Just to -- I've got a question, but just to address the issue that J.J. raised, you know, these firms are in the energy business. I would suggest they're not -- you know, oil and gas is the vehicle they use to be in the energy business. And I think that you're going to start to see more and more pressure in transitions of those businesses models to other forms of energy that can help us meet this particular goal. And we just need to keep the pressure up.

And I think that we, along with many others, are doing exactly that. And this is part of that task. So I compliment you on this effort.

Let me come to my question, which is on page 12. It's very interesting to me that all three of these have come up with essentially very similar projections. Even though 30 percent had to be estimated, their methodologies aren't that far off. So it gives us that basis.

But if you turn to the next chart on 13, my question for you, of the 80 companies out of the 10,000 holdings, what is that -- that's 50 percent of the carbon emissions. What do those 80 companies represent in terms of percentage of assets at CalPERS?

INVESTMENT OFFICER MANKIKAR: Thank you for the question. It's between five and six percent of the asset value of this public equities component.

VICE CHAIRPERSON SLATON: So our -- that would tell me that our carbon intensity of our investments is pretty concentrated. And I'm little bit surprised by that, but that it's that small a percentage. It's still a big number.

INVESTMENT OFFICER MANKIKAR: Yeah.

VICE CHAIRPERSON SLATON: Okay. Thank you very much.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Taylor.

COMMITTEE MEMBER TAYLOR: Yes, I wanted to thank Anne Simpson and Divya great work. It's really exciting to see this. One of the things that I wanted to point out that you said earlier, Divya, was that there's also other components of the climate risk, which was impacts of drought and -- on food and beverage, apparel, mining, utilities. I think these are real things that we have to start considering.

But the fact that we are moving at looking at a carbon footprint is really excellent work. And I'm very happy to see this happening. And, Anne, you talked about next steps at the January off-site. And I would love to see all three forms of capital talked about at the January off-site, not just our climate, but all three forms of capital.

But one of my questions is what are our plans to measure our carbon footprint in other parts of the portfolio? How are we -- you know, real estate, fixed income, infrastructure, how are we going about that?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure. I'll jump in here. So as part of -- as a part of the pledge, we will take up each of the asset classes in the future -- future years. Next year, the target is to review fixed income portfolio, review the methodologies, this methodology, how it might compare, and bring back an item to the Committee next year analyzing the fixed income portfolio.

The theme you'll see with each of the asset classes as I walk through them is their -- they have some distinctions and characteristics that are unique. So for fixed income, one of the uniquenesses, the difference between our corporate bond portion of the portfolio where the methodologies will be similar to what we use here in the public equity portfolio as compared to the sovereign portfolio of, you know, government holdings, treasuries, and other things, such as that.

So we'll take up those topics and issues there.

In real estate, that's likely -- real estate and infrastructure will likely be the next asset class and component asset portions of that asset class that come forward to the Committee in following years. And there, we have a head start, in that for many years, now the real estate portfolio has been a member of the GreenPrint methodology, which tracks a number of these emission and other -- actually other things, such as water use, and -- et cetera.

So we'll be bringing that back for real estate. And infrastructure, we just signed up to the GRESB protocol. So again, another head start for CalPERS in this regard. But there is work to be done to look at this notion of methodology and standardization and unification across other investors. That is important work to be done before we bring that forward.

The last of the asset classes to come forward will be private equity. In there, that will --

COMMITTEE MEMBER TAYLOR: This is more difficult.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- more difficult. So that lines up, you know, a level of work over the next two to three years to bring forward each of the asset classes.

COMMITTEE MEMBER TAYLOR: So with -- some of that makes me think that we might possibly need more folks to help with that, because it sounds like a huge undertaking.

But one of the other questions -- or one of the other things I thought was interesting is that it's only five percent -- five to six percent of our holdings is the 80 companies. And they do 50 percent of our carbon -- yeah, carbon emissions. What is the monetary holdings, do we know, that five or six percent?

CHIEF INVESTMENT OFFICER ELIOPOULOS: So it's five -- I'll just -- five to six percent of our global equity portfolio. So if the global equity portfolio is about $150 billion, just to give you a sense, 10 percent of that would be 15 billion, so seven to eight billion dollars.

COMMITTEE MEMBER TAYLOR: Okay. Thank you.

CHAIRPERSON JONES: Okay. Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I also want to add my thanks to the staff for this great work, and obviously just a slice of what we're needing to do in the climate risk area. My question has to do with what we do with this information, and whether this information could be useful to begin to enforce some sustainable investment expectations with our managers.

And I know this is just a slice of the picture, but is that something we can expect to put this information to use?

CHIEF INVESTMENT OFFICER ELIOPOULOS: That's one of the questions that we'll be taking up at the January off-site is looking at our overall strategy for ESG, and corporate governance in general. And one of the questions that will be asked there is whether or not our strategy is complete, or comprehensive? And certainly one of the components of that is the difference between engagement and perhaps manager expectations, and then manager directions. And we'll be taking that up at the off-site.

COMMITTEE MEMBER YEE: Okay. And maybe one of the ways to look at the cost issue with respect to how we get to our goal. And then I guess just for Anne and the crystal ball, any movement on either a U.S. or global carbon price

INVESTMENT DIRECTOR SIMPSON: There are many prices under discussion --

COMMITTEE MEMBER YEE: Yes, yes.

INVESTMENT DIRECTOR SIMPSON: -- from, you know, pennies to $100 So I think all eyes are on Paris, at the moment.

What's interesting, I think, in the run up to Paris is every country has to put forward its plan for what its going the do and set a target. And for many of those countries who are new to this, carbon pricing is in the kit -- the toolkit. And Anne Stausboll, our CEO, has been supporting a carbon pricing panel formed by the World Bank and IMF, and OECD. Sorry, lots of acronyms, but the international agencies, which are there to give the practical help to countries in getting their -- there's also been a lot of work at subnational level.

So California Governor Jerry Brown has been working with states and subnational entities, such as cities, internationally. So I think what we're seeing at the moment is a lot. But whether this all adds up to enough, well, the jury is out. We'll have to show see how these negotiations fall in the end.

But looking at what came out of the last round of bargaining in Bonn. I think, you know, we're feeling cautiously optimistic. This will be a step forward. It won't be a bust like some previous rounds of negotiation. But really the private sector has a huge role to play. And that's why the work with investors and with companies I think is going to be critical. It can't just be done by the governments of the world. It's a three-way -- it's a three-way responsibility

COMMITTEE MEMBER YEE: Thank you.

CHAIRPERSON JONES: Okay. Mr. Lind.

COMMITTEE MEMBER LIND: Thank you, Mr. Chair.

My question actually got answered, so I'll -- but I want to take the opportunity to say how impressed I was with this report. You know, it's a great example of how, you know, it's fairly easy for the Board to make policy and give direction. And this kind of shows all the research and work and math and science and everything that goes behind producing this sort of thing, you know, as a result of Board direction.

So, you know, a great, as I said, example of it. A couple other people alluded to the fact that, you know, we have to be pretty thoughtful, I think, going forward as a Board and maybe have a longer term discussion about matching resources with our policy directives, you know, particularly in this area of global governance. So I look forward to having that, you know, discussion with the Board in the future.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Yes. Well, I want to congratulate you for this work. I think it is -- first of all, it stands out because it was developed in-house in collaboration with three vendors. Whereas, I think, other asset owners have -- you know, have contracted with one vendor to do -- to produce the report for themselves.

So I think that is really important. And I also think it's important for CalPERS, as a sort of -- to take stock of where we are, first in our public equities portfolio, and then as has been discussed in all of our other asset classes, but also collectively as part of this whole Montreal Pledge that asset owners broadly are taking a look -- taking stock and are going to hopefully be collaborating and working together towards a common interests to really price these externalities, which are so costly for us in the long term, but aren't quite yet appropriately factored in to the financial markets. I think it's a very important step forward.

Obviously, this is not the end of the road for us. We don't produce this report and stick it on the shelf and say good work. There's clearly a significant body of work that comes out of this. And certainly, the fact that 80 companies, as you've noted, account for 50 percent of the emissions in our public equities holdings, that's quite striking, and certainly calls for a very strong engagement strategy with those companies and sectors.

We have -- I don't think you mentioned this today, but you've mentioned it before, we have been advocating for an elimination fossil fuel subsidies. I think we also need to think about agricultural subsidies, particularly as they sort of promote certain chemical fertilizers in some industries. And those also have a role to play with emissions and pollution of groundwater.

So just to think about that as a component as well. And clearly, chemical companies are some of the top polluters here.

You mentioned Exxon so I will just note that Exxon is currently under investigation for having done a lot of research around climate change, and understanding internally that climate change is a problem beginning in the 70s and certainly is -- or in the early 80s, and yet still being a climate denier and not providing enough disclosure to shareowners.

So this is a very current and real issue for us, both on -- in terms of the environmental side, but also in terms of the corporate governance side and accountability to shareowners.

So with that, I will just again thank you for your report. I think we couldn't have done without Divya Mankikar here and her expertise. So really glad to have you on the team, and congratulations again.

CHAIRPERSON JONES: Okay. Thank you very much for a very well thought out report. Very well received, as you can tell, by the Committee members.

We're, at this time, going to recess this committee, and we're going to convene in Room 1140 at 12 -- I mean, 10:15 for the private equity workshop.

See you there.

(Off record: 10:00 AM)

(Thereupon a recess was taken for Private Equity Workshop.)

(On record: 3:33 PM)

CHAIRPERSON JONES: We would like to reconvene the Investment Committee meeting. Do I need to take roll again?

Why don't we just take role again, please.

COMMITTEE SECRETARY EDWARDS: Henry Jones?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY EDWARDS: Bill Slaton?

VICE CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY EDWARDS: Michael Bilbrey?

COMMITTEE MEMBER BILBREY: Good afternoon.

COMMITTEE SECRETARY EDWARDS: John Chiang represented by Grant Boyken?

ACTING BOARD MEMBER BOYKEN: Here.

COMMITTEE SECRETARY EDWARDS: Richard Costigan?

COMMITTEE MEMBER COSTIGAN: Here.

COMMITTEE SECRETARY EDWARDS: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good afternoon.

COMMITTEE SECRETARY EDWARDS: Richard Gillihan represented by Katie Hagen?

ACTING COMMITTEE MEMBER HAGEN: Here.

COMMITTEE SECRETARY EDWARDS: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY EDWARDS: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY EDWARDS: Ron Lind?

COMMITTEE MEMBER LIND: Here.

COMMITTEE SECRETARY EDWARDS: Priya Mathur?

COMMITTEE MEMBER MATHUR: Here.

COMMITTEE SECRETARY EDWARDS: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY EDWARDS: Betty Yee represented by Lynn Paquin?

ACTING BOARD MEMBER PAQUIN: Here.

CHAIRPERSON JONES: Okay. Thank you very much.

Okay. I think I'm right, we pill pick up at Item 9, Private Equity Annual Program Review. Private equity again.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Desrochers.

(Thereupon an overhead presentation was presented as follows.)

MANAGING INVESTMENT DIRECTOR DESROCHERS: Thank you very much, Mr. Chair and Ted, Investment Committee members.

I'm here to present the -- Réal Desrochers, Managing Investment Director, private equity.

I'm here to report on the annual program review for the year. I have with me Sarah Corr, Investment Director; Scott Jacobsen -- closer to the mic. Is it better?

Sorry about that

And I would like also to point out that Mahboob Hossain and Christine Gogan sitting in the back, our investment director, the senior team of the Private Equity Program.

On the annual program review, we will cover basically four things. One in terms of performance, the program has met the --

--o0o--

MANAGING INVESTMENT DIRECTOR DESROCHERS: -- the return expectation of the ALM, asset allocation workshop. Over the last year there was significant restructuring that we continued to do with the program. To major secondary interests were done -- were sold.

On the investment front, the team committed $5.1 billion from an allocation of $7 billion. And this was don't to, what we believe, are very good performing fund, customized investment account.

And finally, which is very important also, is I think significant progress were made on the PEARS, what we call PEARS for Private Equity Analytics and Reporting System that we have been working on for three years. The program came live I think on October the 1st, and this is phase one of the program. The team -- it has taken significant resources from many part of the CalPERS house. There is two more phases to go on with this.

I would like to turn on to the Investment Belief.

--o0o--

MANAGING INVESTMENT DIRECTOR DESROCHERS: I want to point out that there were changes. I compare it to 2014. So if you look on the right-hand side of the slide, I put, number 1, liabilities, number 3 and 4, we feel that they move, and number 10, as we have an arrow down there.

So number 5, we keep the two red, which is accountability, because of the benchmark that needs to be reviewed, and also the program review, the performance review, PEARS is still not fully operational.

Number 3, in terms of an investment process, we have increased, because we think we did good improvement or meeting the ESG, which is environment, social, and governance. We have part of that or part of our process.

Number 4, which is three forms of capital. The team, in our opinion, is operating at capacity right now. We have about 50 people. They're recruitment in place, but we think that the team has been after four years operating well. We feel we're at capacity to really manage the three parts of the house, which is research by Sarah underwriting, with Scott Jacobsen and Mahboob Hossain, and all of DMG monitoring with Christine Gogan.

If we turn to the role of the program, the program role is to enhance the equity return of the total fund.

--o0o--

MANAGING INVESTMENT DIRECTOR DESROCHERS: This is not to generate cash. This is the growth and what we expect to have is growth.

And I would like to point also the risk as we see it, which is high growth risk. It's an illiquid portfolio. It uses leverage, and it has about $14 billion of unfunded commitment.

-o0o--

MANAGING INVESTMENT DIRECTOR DESROCHERS: Program Philosophy. It's a -- we invested portfolio -- commit to this portfolio as a long-term investor. What has been changed, as you saw in the workshop, is really to concentrate the portfolio with fewer managers doing much more due diligence, trying to get the better term. So that's our philosophy on how we run that portfolio.

And lastly, costs matter. We really, as you saw on the slide there, I think we have been able to make progress onto the management fee and the carried interest.

--o0o--

MANAGING INVESTMENT DIRECTOR DESROCHERS: The current policy benchmark is a global equity benchmark with a premium of 300 basis points. As indicated in the investment belief, and I think Rick and his team and the program, that the benchmark will be reviewed in the next asset allocation workshop.

This is -- this is what we see on a big picture from the program. I will turn to Sarah Corr that will talk about portfolio construction and the risk in the portfolio and the diversification. And then Scott will come in with the business model that we have.

Sarah.

--o0o--

INVESTMENT DIRECTOR CORR: Thank you, Réal. Sarah Corr Investment Director in private equity.

If you move on to the portfolio construction slide, based on staff's forecast of when managers will be raising fund and expected allocations, staff expects to commit between 6 billion and 9 billion per year over the next five years. These are forecasts and could change, given market conditions, or changes to allocation of private equity. Staff uses these commitments to simulate cash forecasting, which you can see on the next slide.

--o0o--

INVESTMENT DIRECTOR CORR: Given the concerns at the PERF level about liquidity, staff intends to manage the program to be cash flow neutral to positive. Given the commitments on the previous slide and multiple cash flow simulations, staff believes that being cash flow neutral is an achievable goal.

--o0o--

INVESTMENT DIRECTOR CORR: Moving on to program characteristics. The Private Equity Program is within range for all substrategies. It is likely that as staff moves to concentrate the portfolio, that buyouts will represent a larger portion of the commitments and that will come at the expansion -- at the -- with a decrease from expansion capital.

--o0o--

INVESTMENT DIRECTOR CORR: Moving on to the structures. As was stated earlier, commingled funds represent the largest portion of the exposure within the private equity portfolio. Over time, we expect the fund of fund exposure to decrease as new commitments to fund of funds will only be made in limited circumstances. Additionally, as the co-investment program matures, it is likely that co-investments will represent a larger portion than the current five percent.

--o0o--

INVESTMENT DIRECTOR CORR: Moving on to the company level characteristics, you can see that roughly two-thirds of the portfolio is in the United States with 12 percent of that being actually -- exposure to California. It is also well diversified by industry as you can see on the chart to the right.

--o0o--

INVESTMENT DIRECTOR CORR: When you look at the investment process, there is a robust process in place that involves participation from all functional areas within private equity. The Investment Review Committee allows for the participation and perspective of other areas of the Investment Office to be incorporated into the decision-making process.

Additionally, as research and IMG items are discussed at the IRC, there's a form for senior staff to review the portfolio and the investments throughout the investment lifecycle.

--o0o--

INVESTMENT DIRECTOR CORR: Staff's follows a disciplined process when reviewing all investment proposals. For an investment to be considered, it must be submitted through the web submittal process and is reviewed initially using the MAT, and eventually goes to the Investment Review Committee. It may be reviewed there many times before a decision is actually made. This robust process results in roughly 10 percent of the submissions received being approved by the staff.

--o0o--

INVESTMENT DIRECTOR CORR: Moving on to the investment review, a similar slide was shown earlier today with the blue box representing the expected return and risk of the private equity portfolio used in the asset liability management workshop from 2013.

As you can see by the yellow triangle, the program has actually produced a higher return with lower risk that was expected in those assumptions. Additionally, as you can see by the red diamond, it has produced a higher return at a slightly less risk than the global equity portfolio.

--o0o--

INVESTMENT DIRECTOR CORR: Given, the current market dynamics, limited partners, including CalPERS, are receiving more capital backed from general partners selling assets than is being called to make new investments. Over the past 36 months, CalPERS has invested roughly $9 billion and received $24 billion in distributions.

--o0o--

INVESTMENT DIRECTOR CORR: Moving on to the next slide, CalPERS made very few commitments in the 2009 to 2012 time frame. However, you can see that approximately $20 billion was invested in that time period from commitments that were made in the 2007 and 2008 time frame.

--o0o--

INVESTMENT DIRECTOR CORR: Performance was also discussed earlier today. Although the Private Equity Program has not met the policy benchmark, it has exceeded the expected return for the asset class and has produced a return in excess of 300 basis points over the global equity portfolio, which is a stated performance objective for the program.

--o0o--

INVESTMENT DIRECTOR CORR: In the current market environment, it is difficult for a private equity portfolio to outperform the public market. Private market valuations do not adjust as quickly as they do in the public markets.

--o0o--

INVESTMENT DIRECTOR CORR: The active risk in the portfolio is the result of mismatch between the constituents of the benchmark and the private equity portfolio. It demonstrates the challenge of using a public market benchmark for private market portfolio analysis.

--o0o--

INVESTMENT DIRECTOR CORR: Staff continues to review the liquidity of the program and monitors the diversity as it moves towards concentrating the portfolio.

--o0o--

INVESTMENT DIRECTOR CORR: Going forward, staff will continue to look for ways to reduce the complexity and the cost of running the portfolio by focusing on lower cost investments, such as co-investments, customized investment accounts and compounding capital. Compounding capital has been discussed with the Committee in the past, and is essentially a buyout strategy with a longer hold period and a cash deal component that is missing from most traditional buyout strategies. We'll also be working with the ILPA and other industry participants to increase the transparency in the private equity markets.

With that, I'll turn it over to Scott to talk about the business review.

INVESTMENT DIRECTOR JACOBSEN: Great. Thanks, Sarah. Scott Jacobsen, CalPERS staff. I'm going to talk to you a little bit about our business model, how we access the private equity market, as well as our organizational design and also an update on our strategic plan.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: As you've heard earlier, our business model is primarily to invest in commingled funds that will continue to be the case going forward, which makes manager selection very important. As Sarah mentioned, we have a robust process for evaluating managers. We'll seek to work with those managers in additional areas, such as co-investments and customized investment accounts.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: On page 27, you see our organizational design. We are unique from a lot of private equity programs in that we are organized by functional area. As you can see, we have co-investments and underwriting, as well as investment management, risk research, analytics, and performance. Each one of those areas is led by an investment director, and Réal oversees the entire program.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: We have a large team that's well credentialed, as you can see from the bottom right, with the alphabet soup of CFA, CPA, CAIA, as well as MBAs, Ph.Ds. and JDs. In addition to that, we are particularly proud of the diversity of our team. We have over 12 languages spoken on the team, over 10 countries of origin, and a good balance between the two genders.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: Four years ago, we came to you guys with a strategic plan that really focused on five key areas. One we wanted to have a more active and concentrated portfolio. We wanted to internalize a lot of the functions that were outsourced to consultants. We wanted to have a reliable consistent source for data. And we wanted to have a larger team based on functional areas, as opposed to a generalist model.

As you can see, we've made progress in all of these areas. We've increased the control of our portfolio by doing more co-investment and more customized investment accounts, where we have more control over the deployment of capital. We've concentrated the portfolio around fewer general partners and we'll continue to do that going forward. We've gone from 132 down to 100. And as Ted mentioned earlier, we'll get to 30 by July 1st, 2020.

(Laughter.)

INVESTMENT DIRECTOR JACOBSEN: We have a large team, as I mentioned before, over 50 people on the team. You've heard about the implementation of PEARS, and I'll give you further details on that in a minute. And then you just saw that our team has been built out around functional areas.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: Looking forward for Vision 2020, we'll continue to implement that strategic plan. We'll have a strategic portfolio built around our core partners, where we'll continue to invest in funds, customized investment accounts, compounding capital, and co-investments. At the same time, we'll actively manage out our legacy portfolio and turn that portfolio into cash.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: A couple of updates. One, I think you've all heard plenty about the transparency initiative that we're working to implement through ILPA. I don't need to go into anymore detail on that, I don't think.

On the PEARS front, we have gone live with release one. We're currently scoping and planning the timeline for release two, and we should have more details for the Committee in the next few weeks.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: Réal mentioned earlier about the ESG focus within the Investment Office and private equity is no different. We are implementing ESG into our overall investment process, and making sure that our partners and contractors are doing the same. It starts with our screening through the Manager Assessment Tool. We go from there into due diligence, where we question the managers about their focus on ESG and how they implement that into their investment process. We do the same thing with our contractors. And then we monitor the portfolio to make sure that the managers are doing what they've told us they're planning to do.

As Réal mentioned, this is a relatively new phase for the Investment Office. And so we're committed to a one year test in pilot and we'll come back with further enhancements as we implement ESG.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: As you've heard throughout the day, private equity is an expensive asset class. We think we've made good progress on trying to reduce some of those fees and expenses and we'll continue to do that going forward.

I want to make two points on this slide. One is that it does not include profit sharing or carried interest. We plan to publish those numbers in the future. The other thing is that this is net of all management fee offsets, but it does not include any portfolio company fees paid to the general partner that we're not privy to.

As you can see, we've reduced our overall expenses in the aggregate to 414 million -- I'm sorry 431 million from 456 million. On the other hand, because we've received so much cash back from our portfolio and the net asset value has shrunk, the fees paid as a percentage of our portfolio has gone up from 144 basis points to 149 basis points over that time period.

--o0o--

INVESTMENT DIRECTOR JACOBSEN: In conclusion, the private equity program has met the return expectations of the ALM workshop. We continue to make progress with our restructuring and rebalancing. We're continuing to implement PEARS and enhance that functionality going forward. And I think we're making good progress reducing costs and reducing complexity in order to improve performance going forward. With that, I'll turn it back over to Réal for questions.

MANAGING INVESTMENT DIRECTOR DESROCHERS: Thank you very much, Scott and Sarah. We're here to answer questions that you may have.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. I had a number of questions. On 8, slide 8, where you talk about the benchmark, you made a comment that the benchmark creates unintended active risk. Can you expand on that a little bit? What kind of active risk are we imposing via the benchmark? It was slide 8, if that helps you.

INVESTMENT DIRECTOR CORR: Yeah. So the active risk comes from a mismatch between the public market benchmark and a private market portfolio. Just as an example, banks are not something that private equity investors can invest in due to the Bank Holding Company Act. So while that's over nine percent of the benchmark, it's roughly one percent of the portfolio.

Another example would be Japan. There is a very, very small private equity exposure to Japan in the portfolio, less than one percent, yet it's almost six percent of the benchmark. So there's that mismatch that causes the active risk.

COMMITTEE MEMBER JELINCIC: Okay. So it's not that we're taking additional risk. It's that we're not tracking the benchmark as closely.

INVESTMENT DIRECTOR CORR: No, it's that there's a mismatch between the companies that are in the portfolio versus the companies in the benchmark.

COMMITTEE MEMBER JELINCIC: Okay. And then on slide 15, which is the process, can you talk a little bit about this senior team screening, because when we get to the report, I always ask, well, what's this screening mean?

MANAGING INVESTMENT DIRECTOR DESROCHERS: Yeah, if you don't mind, I will ask Scott, because this is under his group of people that review all of the IPTS.

Scott.

INVESTMENT DIRECTOR JACOBSEN: Yep.

COMMITTEE MEMBER JELINCIC: Can you describe what they are doing?

MANAGING INVESTMENT DIRECTOR DESROCHERS: Oh, you mean on the process of the IPTS?

COMMITTEE MEMBER JELINCIC: Well, particularly in this senior team screening, I mean they're not just -- I mean what is they are --

MANAGING INVESTMENT DIRECTOR DESROCHERS: Yeah. Okay. Scott will...

INVESTMENT DIRECTOR JACOBSEN: Sure. Thanks, Réal. So after we do our initial screen, which is really a Stage 1 Manager Assessment Tool screening, we then take those results and the senior team screen is really more of a resource allocation meeting, where we look at the overall portfolio priorities, we look what people are working on, and then we assign a team to do further work on that investment proposal.

It then goes into deeper due diligence, which would be the Stage 2 MAT, due diligence questionnaire with the general partner before we bring it back to the full

IRC for discussion of the investment merits.

COMMITTEE MEMBER JELINCIC: Okay. On slide 18, there's -- obviously, multiples are up, you know, 10.1 versus a 15-year average of 8.3. Would that suggest that maybe it's time to be less aggressive, back off a little bit? And how does that factor into that what we're doing.

MANAGING INVESTMENT DIRECTOR DESROCHERS: Yeah, absolutely. It's a -- the market is -- well, we can see on slide 19 the distributions that are coming. So you see CalPERS has received over the last four years, $20.6 billion of cash. This is that the GP are selling these companies. So this is at a market environment which is good for them.

So for -- there is a buyer obviously on the other side. But as an investor, we're mindful about that. It's pricey. The market is pricey. This is why we're extremely diligent into what we do. Try to pace ourself with the money that is being deployed to what we like to believe are the best managers there, but you're right.

COMMITTEE MEMBER JELINCIC: And one of the things that I've noticed is private equity funds selling to other private equity funds. And frequently, my sense is we're probably in both funds, so we're just moving it from the right pocket to the left pocket, but we've now got a higher cost basis. In the meantime, we've paid out carry.

So on 19, and this is just definitional, the commitment bar, that's how much of a commitment we made that specific year?

MANAGING INVESTMENT DIRECTOR DESROCHERS: Correct.

COMMITTEE MEMBER JELINCIC: Okay. Oh, and then on 24, and you don't have to go there, but that had the compounding capital. And I just want to thank you for defining that a little bit, because some MBA student is out there looking at it and saying I know what compounding means. And that's not how we're using it there. So I did want to acknowledge that clarification.

And on slide 31, the PEARS and the progress we're making, early on we were told that the PEARS was going to allow us to do some attribution analysis, how much of it is from growth, how much of it is from the returns from leverage, et cetera. I haven't heard that discussed much lately. Will we, in fact, be able to get that kind of information out of PEARS as we progress?

MANAGING INVESTMENT DIRECTOR DESROCHERS: Sarah Corr is the specialist of PEARS. To the extent we have a team, like I said, Sarah has spent a big portion of her life over the last couple years workings on PEARS dealing with this, so I will let her answer that.

But something I want to -- us -- all of us to understand, PEARS will be as good as we get information provided by the general partners. It's like every system. And this is why we put so much effort today to have the disclosure. We were talking ILPA template, which is great. We also tried to be preemptive getting more information. So I stop here and I'll let Sarah explain what PEARS will do and will not.

INVESTMENT DIRECTOR CORR: So you're speaking about the attribution at the portfolio company level, is that correct?

COMMITTEE MEMBER JELINCIC: Yeah. How are we making our money?

INVESTMENT DIRECTOR CORR: So eventually PEARS will be able to do that. As has been stated a couple times, we've done this in a phased approach. The first phase was to enhance the accounting functionality, and replicate existing reports. And then the other phases are to improve functionality. And the ability to do that is something that we're working on in what we're calling release 2 in this presentation. And so as release 2 comes to its end, we should have reports that would allow us to do that.

To Réal's point though it is dependent on us getting the information from the general partners that we can dissect that are at the company level.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

Well, first, I just want to thank you. And I know it took a lot of effort to put together that workshop today. It was, I think, very comprehensive overview. It took a long time, but it's a complex set of issues that's pretty apparent by the presentations. And I think everybody did a really terrific job on that.

So I do have a few questions today. One -- the first is on page three, I really like -- which is on the Investment Beliefs map. I really like that you put some of the trajectory arrows, Réal, I think that actually helps -- that helps. But I wanted a little bit more explanation of the downward arrow on resources and process.

MANAGING INVESTMENT DIRECTOR DESROCHERS: Yes. Absolutely. And I think I was thinking I skipped that. It's -- we put down, because if you look at it, on a program investment philosophy, we invest in commingled fund. So this is why we -- this is our bread and butter. So it's difficult. You saw today the difficulty. This is why. And there's a lot of -- and the other point is that there is -- I don't know if we can say controversy, but there's a lot of noise in the industry. So this is why it's not green. I don't think it's read. This is why we had the workshop, which I think is good. But there is also -- there's a lot of noise in the -- everywhere. So this is why we put that down.

COMMITTEE MEMBER MATHUR: Okay. Because it sounds like, from what Scott was describing earlier, that you've actually made a lot of progress in terms of the organization of the team and addressing some of these issues. So it actually seems to me like you're on an upward trajectory, even though I can appreciate that the context is really volatile right now.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Ms. Mathur, I'm so glad you emphasized that point, because we do -- we do believe the private equity team, it has made all that progress that you said. It was important for the whole senior investment team. And we meet as a group to review these Investment Belief maps before we present them to the Committee, that as Réal alluded to, in terms of the team work and alignment of the whole institution, CalPERS I think in this past year, this reflects the questions that are being asked about the program, its fit, its role. And we thought appropriate to signal some of that instability in the program by making it yellow to acknowledge that instability that we've had this year.

And our hope is, going forward with forums like we've had today, reviews of our program -- our strategy going forward, that we can turn that arrow around into the future. But we thought it was worth acknowledging the status for the year.

COMMITTEE MEMBER MATHUR: Okay. Thank you. That's helpful. I have a couple more questions.

On page 12, I think it was Sarah who said that you're hoping to expand the co-investment component or direct investment component of our portfolio of the program. One of the things we heard quite a bit during the workshop earlier and that we've heard -- I've heard from others is that co-investment generally has not panned out. So could you talk a little bit about what we're doing differently that's going to make it a more effective component of our program?

MANAGING INVESTMENT DIRECTOR DESROCHERS:

Absolutely. We have a team that is dedicated to co-investment led my Mahboob Hossain here. And that we work as a group. I think it's a good team. We're mindful of what the economic literature is saying, and we also analyze ourselves, like Professor Lerner was saying. We have a work group that would be looking at all of that. The co-investment program, I think, is doing well. I will not say very well. It was doing well. It's still early days. So we're very defensive on what we do also, to the extent that we work strictly with existing general partners that we know well.

The first filter that we have when we look at the co-investment, why do they send that, because typically there is an adverse selection to be made there. People will offer you a co-investment because let's say they are a mid-market player and they want to punch above their weight.

So we look at that. We looked at the sector in the industry where we are, portfolio diversification, portfolio risk from that point of view. And I would say lastly, but not the least, we are trying to pace ourself to do co-investment. What is the exposure we have indirectly to the fund, and that we will have directly through the co-investment?

And I did not want to do more than we look 75 percent to 75 million -- 125 million dollar per co-investment, because it's also to build a portfolio. If we are offered too large of a piece, we will say -- quick answer, it's no. So that's how -- I'm trying to say, I guesses, it's a defensive approach to the partner you are with, risk management, exporters to portfolio, expected return.

And in this pricey environment, we've done a few co-investments also. It's really looking at the -- it's buyout typically. We don't -- we will not do venture. We will not. And what is the cash flow, what is the debt servicing in this environment? Can that company suffer if there were to be a turn down in the economy.

I must admit also that having the IRC that as we have it, we have people from -- we have people from real estate, infrastructure, credit. It really helps also, because we have different perspective on the capital market there.

COMMITTEE MEMBER MATHUR: And when we do a co-investment, what does that mean for the liability that -- do we have the liability? Are we -- is that effectively the GP in that deal?

MANAGING INVESTMENT DIRECTOR DESROCHERS: Very often, the co-investment are wrapped into a partnership, so -- and the 50 series, the GP, the general partner.

COMMITTEE MEMBER MATHUR: Okay. All right. Thank you. I do have a couple more questions. I'm sorry.

On page 17, we talked about -- I think Sarah was talking about the volatility was actually less than we expected and less than the global equity market -- the public equity market. This is the same figure, the observed volatility that was mentioned in the workshop as I -- is that right, the 19 percent?

INVESTMENT DIRECTOR CORR: The only difference is this is a 10-year outlook and in the workshop it was a 20-year outlook, but yes it is the same.

COMMITTEE MEMBER MATHUR: Okay. So could you just define for me what observed volatility is compared to the AL -- sorry. Go ahead.

INVESTMENT DIRECTOR CORR: The observed volatility is the volatility over that 10-year period with the portfolio, relative to the expected volatility that was part of the asset liability management workshop assumptions.

CHIEF INVESTMENT OFFICER ELIOPOULOS: So we use the term -- so we use the term, "observed", rather than, "actual", because of a lot of that controversy that -- during -- that we alluded to during the workshop and came out is what -- was that the actual volatility or due to some of the smoothing and other appraisal based valuations?

COMMITTEE MEMBER MATHUR: Because there's no mark to market in the interim.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Correct, so we say observed rather than actual.

COMMITTEE MEMBER MATHUR: Okay. So it's sort of an imputed or -- observed based on the --

CHIEF INVESTMENT OFFICER ELIOPOULOS: It's what we observed --

COMMITTEE MEMBER MATHUR: -- based on the market --

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- but it might not be the actual. The actual might be much more volatile than what we observed -- that we're able to observe.

COMMITTEE MEMBER MATHUR: Gotcha. Okay. That's helpful. Thank you.

Two other questions. On page 22 and 23, and I've raised this in other reviews, what we're calling risk here, is that actually -- do you actually mean volatility or tracking error.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

(Nods head.)

COMMITTEE MEMBER MATHUR: Yes. So what I'm trying -- what I have been harping on is that risk is -- obviously encompasses a number of different factors. It's not just volatility. So I guess I would just ask, as I've asked other asset classes, to change the terminology just to be clearer about what that is.

And then my final question is on page 32 about -- this is -- I think, Scott, you were talking about this about ESG and the Manager Assessment Tool. I was just wondering what kind of questions are asked through the manager assessment tool and if you ask about -- if you ask to see the PRI reports or assessments that are --

INVESTMENT DIRECTOR JACOBSEN: Yeah. So the Manager Assessment Tool, which is really a preliminary screening tool. It's self-reported from the manager. And it's really do you have an ESG policy -- written policy that you've implemented? As we go further into the due diligence process and we have the manager fill out our due diligence questionnaire, that's where we get a lot more specific as to how they've incorporated or how they plan to incorporate ESG into their investment process, how do they plan to monitor the portfolio companies. We ask them if they've been, you know, validated by any external parties, and so forth. So it's, as you would expect, the further we get into diligence, the more detailed the questions are.

COMMITTEE MEMBER MATHUR: Okay. Thank you. Very helpful.

MANAGING INVESTMENT DIRECTOR DESROCHERS: I think it's -- I will add to that that CalPERS private equity got from PRI an A as a best. I mean we're very pleased with that, so -- no, we -- yeah.

CHAIRPERSON JONES: Ms. Hagen.

ACTING COMMITTEE MEMBER HAGEN: Thank you. I had one of my questions answered already, but I had a question on page 33. I think it was Mr. Jacobsen indicated that profit sharing and carried interest, and I believe you said GP fees aren't included in these numbers. Is that dependent on the next phase of the PEARS roll-out or is that just a reporting mechanism? What's the --

INVESTMENT DIRECTOR JACOBSEN: Yeah. So what I said I think is that these don't include carried interest or profit sharing and that we're going to be reporting that in the future.

We're in the process of collecting that data right now, and it certainly will be a part of the PEARS implementation going forward.

The other thing that I would say -- that I -- point that I was trying to make is that as we learned about in the workshop today, there are certain fees that the GP may take from a portfolio company that aren't offset to the limited partners. And this doesn't capture whatever fee drag that might be. I think the academics have estimated it at about one percent.

ACTING COMMITTEE MEMBER HAGEN: Thank you.

One last question is do you have an anticipated date on when you'll have that information available?

CHIEF INVESTMENT OFFICER ELIOPOULOS: We're expecting on the carried interest to be reporting that next week.

ACTING COMMITTEE MEMBER HAGEN: Great. Thank you.

CHAIRPERSON JONES: Okay. Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. I want to go back to Priya's question on the ESG integration. When does the -- when does the line get crossed from diligence to expectation or demand, right? So let's say we have a portfolio -- we have a manager and we're good with the fee structure, we've negotiated all this out, but we have some, you know, particular issue that we expect them to deal with, maybe in a side letter or whatever, about the ESG integration. I mean, do we get push-back on that or, you know, how does that sort of work?

INVESTMENT DIRECTOR JACOBSEN: I think it depends on the situation, Mr. Lind. I think we do expect that managers are going to incorporate, I forget what our language is currently in our side letter, but there is some language around ESG. And I believe it's how they incorporate it into their investment process. And then certainly as we continue to move deeper into this area, I imagine we'll have some refinements going forward.

I think a lot of the general partners are new to this area as well. And so, you know, we're working with them to kind of evolve with what we all mean by incorporating ESG into the investment process. Certainly, reporting we would expect enhanced reporting at some point in the future as well.

COMMITTEE MEMBER LIND: So it's still obviously a work-in-progress and kind of evolving, right?

INVESTMENT DIRECTOR JACOBSEN: Correct.

COMMITTEE MEMBER LIND: Thank you.

CHAIRPERSON JONES: Okay. Seeing no further questions -- I think I do have one though.

The fund of funds, do they use a similar tool to evaluate proposals as we do with our tracking system or how do you get our interest into their process to make sure that there's consistency in terms of evaluating potential partners through the process?

MANAGING INVESTMENT DIRECTOR DESROCHERS: If I -- I can take this one. Fund of fund we have done two fund of funds in the last four years. They were for emerging manager with Grosvenor. The fund of funds that we have in the portfolio, I think it's four point some billion dollars. Their legacy fund of fund.

So most of them are -- I think all of them I -- subject to Christine's comment, I think they're all fully invested. So we're really managing the after-investment decision in the fund of funds.

If you ask a more general question, I think it depends if the manager -- they have their own process. I think each one has their own process, which are --

CHAIRPERSON JONES: So in other words, an allocation to Grosvenor, we don't manager the process that they use to evaluate managers. Just give them the money and then they take it from there.

MANAGING INVESTMENT DIRECTOR DESROCHERS: Well, not to that extent, giving the money and never look back, but I think they have their own process. They are discretionary -- fully discretionary. They have guidelines as to what we would like them to do with the money. Absolutely, they have their guidelines.

CHAIRPERSON JONES: So you have guidelines.

MANAGING INVESTMENT DIRECTOR DESROCHERS: Oh, yes, absolutely.

CHAIRPERSON JONES: Okay. Okay. Thank you.

Okay. Oh, got another. Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you.

On behalf of the Controller, we just wanted to thank you for all the hard work that the staff put into the workshop. I thought that that was a very good presentation and really appreciated that.

And we're looking forward to hearing the update on ILPA in January. And in addition, the Controller has also written to the SEC and asked them to consider formulating a rule for uniform disclosure. So we're hopeful that that may have some legs to it.

And then finally, I had a question for you. I was curious what the GP reaction has been to your request for additional information for the PEARS system?

INVESTMENT DIRECTOR CORR: I would say that, in general, we have very good compliance. Looking at the requests for detailed information on capital calls and distribution notices, it's, I think, in the high nineties percent that are using those templates completely.

Additionally, when we look at the request for carry information, that was also in the high 90 percent reporting on that. When we get to things like portfolio company level information looking for the details on that, that would allow us to do the analysis J.J. was alluding to earlier, we have a lower compliance. It's mostly in the buyout section that we get compliance in that area, and it's very little in the venture and credit area.

ACTING BOARD MEMBER PAQUIN: That's a high percentage return rate for the first two items. And what is the process for the few companies that are not responding to your request?

INVESTMENT DIRECTOR CORR: We are making -- you know, we'll make future decisions about whether or not to allocate capital to them or to include them in a secondary transaction based on their willingness to be transparent with us.

ACTING BOARD MEMBER PAQUIN: Thank you.

CHAIRPERSON JONES: Okay. Thank you very much for the presentation.

And next on the agenda is the consultant review of Private Equity Program, Pension Consulting Alliance.

(Thereupon an overhead presentation was presented as follows.)

MR. MOY: Mike Moy from PCA. First of all, I want to acknowledge the fact that sitting next to me is our fearless leader, Allan Emkin, not Andrew Bratt. Andrew's wife is expecting a child this week. She went into labor last night. It's ceased at 10:00 PM, but he elected not to come and we advised him he shouldn't come.

(Laughter.)

MR. MOY: That's a bad tradeoff.

(Laughter.)

MR. MOY: It's been a long day. I'm curious as to whether you have this on a slide up there?

Great. Okay. Super.

There's an 11-page report that we submitted. I'm going to summarize what I heard this morning and this afternoon by just basically pointing out most of the issues that were raised are industry-wide issues. They're not investor specific in terms of being with CalPERS, and you need to think about it in that context.

As it relates to your program, we observe on page two that the processes, procedures, and practices that the staff employs meet or exceed what we see elsewhere in the investment community.

Number three, the issue of transparency is being pursued in a variety of ways, trying to get more disclosures from a regulatory perspective. The thing that really got the attention of the industry and the general partners was the presence audits that the SEC conducted, where they had a 50 percent failure rate in terms of observing difficulties.

Those presence exams it's my understanding are not going to be able to be continued at the same level or same rate primarily for funding reasons at the SEC.

The SEC has announced that they intend to broaden their mantra in terms of going out and looking at real estate, looking at hedge funds, et cetera, and they're going to be using the same examination team.

We have proposed in this report that you go and -- the limited partnership community go out and seek aid or seek assistance from either independent auditors or other attesters who can go in and look at what's going on in a private equity fund. The current LPAs require independent audits by certified public accountants, but that's at a much -- I would argue that's more at a macro level.

This disclosure issue is much more micro in terms of fees and other items where there's been observed abuses and the need for much more transparency on it. We believe that the SEC or the regulators are not going to be able to get to this as quickly as we think you should -- you should be doing as an industry, which is why we're suggesting that you pursue getting as part of an LPA the ability for the LPs to retain an independent certified public accountant to go in and look at what's being done internally with respect to these areas, from a process perspective and a results perspective.

And the last item I wanted to mention, and it was kind of hinted at here on PEARS, I just wanted to caution everybody in terms of the expected timeline for getting this completed. It's a very complex project. It's been two years in the working to this point in time. To get the next phases done is probably going to take another couple years. So you really -- I don't want you to be thinking that you're going to see results all that quickly, but it is coming. It's just going to take a while.

Remember, there were 700 partnerships and the number is diminishing, but gathering all the data, and getting the LP -- getting the GPs to agree to provide the data, and then getting it processed is just very time-consuming.

Now, you see on the screen ahead of you the SWOT analysis that we did on the Private Equity Program. I guess the strengths are pretty obvious from what you heard today in terms of what the belief of the panel members was with respect to what we should be doing. The weaknesses I think were also pretty well agreed to. The opportunities, we talk about PEARS and ILPA as the opportunities that you are confronted with. Your participation in ILPA is critical. There was a period in time where CalPERS was a very active participant. There was another period of time where it was not as active.

And the idea that ILPA it was not an advocacy group to me is just counterintuitive. The only reason you would have had it should have been for advocacy purposes, because the playing field is very tilted towards the general partners. And the only way the limited partners can level the playing field is to have a more cohesive spokesperson out there representing their interests.

Under opportunities, we also have the new strategies compounding capital. We've suggested that you install a rotation system internally in private equity. Currently, they've been -- people have been separated and put into different groups. And we think it would enhance the total value of the personnel complement if they worked in different areas, so that they get cross-trained in terms of what's going on in the other functional areas.

The threats, this is industry-wide, and some of it's very specific to CalPERS; the lack of complete transparency, the GP/LP imbalance related party transactions. There's -- there -- that goes to something that Mr. Flaherman pointed out earlier with respect to what's going on on these portfolio company fees, where it could be construed as a dividend as opposed to an actual expense.

Internally, the issue of adequate employee recruitment and retention, because what's going on in the industry I think is potentially creating employment sort of questions about whether they're going into this industry or going into this asset sector really long term made sense for people. So you've got -- you've got a mix of things going on that to me suggest you may have issues that you need to think about from a personnel perspective over the next five years, maybe even longer.

You're competing with other large LPs, some of them who have very different investment metrics than you operate with. And that's creating difficulties in getting allocation levels that you need.

The non-investment related time commitments that people have. The amount of time that was consumed in terms of being responsive to the requests that were coming in from the Investment Committee and others has -- creates distractions. People spend 90 percent of their time working on getting ready for something, but the -- let's call it, the deal market that's out there, managers are out raising money, they're doing transactions, et cetera. Your ability to concentrate on those is diluted when you're concentrating on generating internal documents.

The adequacy of regulatory and third -- other third party attention is a threat. And that needs to be -- I think you can actively, like I said, do something about that. You can't influence the regulators very much, because they're driven by budgets and other political issues.

And then the last item I've got down here is Managing Investment Director succession. You can look at Réal, you can look at me, you can look at Allan and say who the hell is going to replace these guys?

(Laughter.).

MR. MOY: And that would be a very logical question to ask. So you have that too, as part of something you need to deal with. I'll be happy to answer any questions.

CHAIRPERSON JONES: Yeah. Excuse me. Yeah, I had a question.

MR. MOY: I think he would like to make a comment.

CHAIRPERSON JONES: Oh, okay. Go ahead, Allan.

MR. EMKIN: If it goes unsaid, it would be unfortunate. Your private equity team is considered by the industry to be one of the best in the world. And they really work hard, and they really care, and sometimes they don't get treated very fairly. And I think it's incumbent upon me to put that in the public record that they deserve a pat on the back. They've done a great job. They've added billions of dollars to the value of the fund to help pay for benefits.

And I think that needs to be put on the record. Thank you, Mr. Chairman.

CHAIRPERSON JONES: Yeah. And I think that the Board, the Committee agrees with that, that they are doing an outstanding job. Two questions. One on the threats, where you mentioned that, oh, none investment related time commitments. And that's why -- and you're right. And it was kind of getting where a number of requests were being made at every meeting. And that's why we instituted this new process at the end of the meeting for the Chair and the staff responsible to that Committee to summarize what direction, so that they're just not responding to every request being made but try and have some kind of coordinated effort in terms of that response.

The other question I have, you mentioned that the data we hope to get we won't be getting a long time, and -- but the PEARS and the template, but the template we're going to look at maybe achieving that by next year. And the other information we're going to get next week. So I don't know what you're referring to about not getting data.

MR. MOY: You're going to get the carried interest information next week. And that has been produced as a result of correspondence between yourselves and the general partners on a couple of iterations, and they've given you the data that you're going to be able to report that. But that was an off-line effort that consumed a fair amount of time for some staff internally.

I'm talking about the relatively routinely generated data that you're expecting to get out of PEARS. If you get an ILPA template, a new one signed off in January, you have existing contracts with managers about the level of detail they will provide. If they don't -- if they say well that's not in our contract to give it to you, you won't be getting it from them. So you have to go through that with all the existing managers.

That's going to take some time. My guess is it could be done pretty rapidly, because you've gotten a very high response rate when you've asked questions. But when you start saying provide data that's different than what other investors are getting, that creates a real internal issue for the general partners in terms of the different, let's call it, responses they have to provide on a quarterly basis to their hundreds of investors.

And then secondly, you have, what I would consider to be, a hardware/software issue. The first couple of years was replicating what you already were getting from Private Edge, so that you would be able to internalize that and manage it.

Now, you have to write software and you've got a couple of vendors working with you to do that, but the fact of the matter is you're going to have to take it through various stages of software writing, testing, running parallel to make you sure you've got the information correctly. And that's going to take some time. That's not going to be done that quickly, because they've -- just the nature of a project like this is not one that's done in two months or three months. It takes awhile.

CHAIRPERSON JONES: Yeah, because I thought we had already run parallel.

MR. MOY: You have, but it's only been on the basic replacement of what you were getting externally, not with all this new information you're going to be seeking.

CHAIRPERSON JONES: Wylie.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: If I might comment. Wylie Tollette, CalPERS staff.

What Mr. Moy is talking about is built into the phase 2 PEARS project plan, which does extend over the course of the next year. So what he's referring to, we have anticipated and built into the PEARS project already.

We are running live on, what we call, the phase 1 element, which is collecting the carry information and the fee information that's included in the current ILPA template. And what phase 2 is all about is getting the portfolio company detail built into new reporting, as well as building any new fee and carried interest information in the new templates.

And so -- and that new template is under development right now with ILPA. So we've anticipated that in the project plan. But he's right, it will take us awhile to really fully flesh that out, but that's built into the current PEARS project plan.

CHAIRPERSON JONES: Okay. Thank you. Thank you.

Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. A couple of things. One is I meant to note in -- when the -- during the staff review that -- I noted that it was mentioned that we -- that the program was going to -- or the portfolio was going to go cash flow neutral or positive, which I think is a really important statement. And I just didn't want it to go by, because it's -- you know, considering where we are in terms of the evolution of our fund overall and the need for really managing the cash flow very carefully. I just think that's a really important piece of the puzzle.

I wanted to just touch on, Mike, you mentioned that you suggest a rotation system for private equity staff. Is that -- I imagine that's something you've already discussed with the team. What --

MR. MOY: We have.

COMMITTEE MEMBER MATHUR: Where is -- what is the -- is team taking you up on that as a suggestion?

MR. MOY: Yes, they are.

COMMITTEE MEMBER MATHUR: Okay. Good, because it sounds like a good plan in general probably cross all the asset classes to have a bit of cross-training, so that there's --

MR. MOY: Particularly when you have the functions divided up like they do in private equity, so that the underwriting group, the risk management group, et cetera. You know, it's really we think advantageous to be cross-trained, so that you are aware of every -- what the functions are and how they work.

COMMITTEE MEMBER MATHUR: Okay. Great. I just had one last question and that really comes out of Don Ochoa's comments at the end of the private equity workshop. He sort of mentioned the competing fiduciary duty of these private equity funds companies that are also public companies, and whether they have a fiduciary duty to us as an investor or if they have a fiduciary duty to the shareholders. Do you have any thoughts on that issue?

MR. MOY: The evolution of managers going public is a phenomena that probably goes back to 2006/7, maybe even one or two or before that. And when that phenomena was starting, there was substantial concern about alignment of interests, because of the very things that Mr. Ochoa mentioned.

And the position that most investors have taken is let's watch performance, and let's see what happens, particularly from the managers that have this.

And to my knowledge, what's occurred is the performance of those managers in the funds that they manage for the investors has maintained its quality and quantity. And when it hasn't, they've -- investors have reacted. So there's been no, let's call it, apparent diminution in their performance on behalf of the investors.

Now, the outlier -- when he talks about the compensation of the top people, I can't go there. I just -- I look at it and say, okay, that's two people, but, you know, Blackstone has got 2,000 people or 3,000, Apollo has got thousands. And the thing is that the group is generating the profits that we as investors are looking for.

And, yes, certain people at that organization benefit substantially more than others, but that's kind of the way the capitalist system works. We are trying to get the maximum return we can get on the investment we're making with them.

COMMITTEE MEMBER MATHUR: Okay. So basically your bottom line is you don't -- you haven't seen a diminishment in the actual performance of these companies since they've gone public. You think they've sustained their level of quality?

MR. MOY: That's correct, but we still -- we still keep watching it.

COMMITTEE MEMBER MATHUR: Keep an eye on it.

MR. MOY: Right.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Having gone through at least most of AREIS, I will be very pleasantly surprised if we get our new PEARS up in a year.

MR. MOY: So you share my pessimism?

COMMITTEE MEMBER JELINCIC: Yes. I would love to see us do it in a year, but I would be surprised.

In your weaknesses on your little table there, one of the things is the issue of staff compensation limitations. And, you know, I have pointed out on more than one occasion this Board has the authority to address that issue, whether it has the stomach to do it is -- you know is another question.

But if we allow the compensation to get in the way of our investment performance, then quite frankly, I'm not sure we're really doing our fiduciary duties, despite what the Sacramento Bee may think.

The -- I do appreciate the time that staff spent getting ready for the workshop. Many of them were questions that I raised, but I think it's important that the Board understand what it is our agents are doing in our name. So on one hand, it's not investment. On the other hand, I'm not -- at least part of it is you're doing it on my behalf, telling me what I'm doing.

You have previously been at least somewhat critical of ILPA for not being aggressive enough in terms of really pursuing the interests of the LPs. Would you like to -- can you expand a little bit on some of that?

MR. MOY: Well, it goes back to earlier this year. And I'm forgetting the exact -- oh, the private equity managers were lobbying to be excluded from registration requirements at the SEC. And I called up ILPA and said aren't you guys going after them? I mean, that's crazy. "We can't do that". I said, "Why? Well, that's not our role".

So they sent out an email to the membership, and this was -- may have been CII. I was looking for someone who was going to actively take on the role of the -- the limited partners and promote the idea that excluding or exempting them from registration was nuts, okay?

And there was nobody out there who was really willing to step up and do it. And I find that stunning, when I think about the amount of money that is being invested by pension funds and institutional limited partners, and there's nobody who's really playing the advocacy role for them. I mean, I don't understand that. I just -- so I -- that's why I kind of say, you've got to step -- the industry has to step up its game if it wants to make progress.

COMMITTEE MEMBER JELINCIC: Okay. And then in your report, you talked about a change in procedure. We used to do skeptic memos, and we ceased doing it. Can you expand a little bit on that? And I will tell you I'm a big believer in skeptic memos or devil's advocate. You know, I've said for most of the things that come to this Board, we ought to also get the skeptic memo on -- but can you expand on the change and why you've encouraged them to go back to it, and are you being at least marginally persuasive?

MR. MOY: The move away from getting the skeptic memo was prompted by the thought that there was going to be a separate committee that would look at and actually challenge the thesis behind a specific investment. But what happened was the attendance at those meetings didn't, let's call it, rise to the level that it should have.

And it was -- the result was that the level of input that was hoped to be achieved wasn't being achieved. And we said, well, go back to the skeptic memo. Réal said, well, we will designate one of those people who is supposed to be at that as the principal skeptic. And I said that's fine, because it centralizes responsibility. People will know who's supposed to be providing that devil's advocate position. And that's what they've intended -- that's what they've said they would be doing going forward.

COMMITTEE MEMBER JELINCIC: And have they implemented that yet or is that something that's coming?

MR. MOY: I'd have to ask Réal. I don't --

COMMITTEE MEMBER JELINCIC: And then the follow-up question was going to be, if they haven't implemented it, how is it working?

MANAGING INVESTMENT DIRECTOR DESROCHERS: Okay. We have a skeptic -- we had someone writing a skeptic memo. Since that -- we haven't done a deal since that's changed, but I wanted to have the portfolio manager at the regroup -- as a group to discuss, and they were minutes taken, so that were brought to the Investment Review Committee.

So at the suggestion of Mike, we have not done a deal, but what's -- we're going back to having the same. It's complicated and we have the portfolio manager getting together. And one person would be designated to go back to a skeptic memo, so that's what we will do.

COMMITTEE MEMBER JELINCIC: So we haven't implemented it yet, so it's hard to say whether it's working.

MANAGING INVESTMENT DIRECTOR DESROCHERS: Yeah, it's implemented. To the extent that we have not done deal, I think we have a couple of things that are moving on that I thought they would be doing.

COMMITTEE MEMBER JELINCIC: Have we not done a deal because the skeptics have been really good.

(Laughter.)

MR. MOY: It's a solution without a problem right now.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. Ms. Hagen.

ACTING COMMITTEE MEMBER HAGEN: Thank you.

First, I want to thank you for the color coded SWOT analysis. It's much more fun than the 11-page memo.

(Laughter.)

ACTING COMMITTEE MEMBER HAGEN: The -- I just had --

MR. MOY: Well, by the way, in fairness to Andrew, who was absent, he really should get most of the credit, because he is the author of this. And I only did a lot of editing along with Allan.

ACTING COMMITTEE MEMBER HAGEN: I just had an observation mostly -

MR. MOY: I know he's watching, so I just want to make that --

ACTING COMMITTEE MEMBER HAGEN: There you go. I think that I immediately, when I see a SWOT analysis, go to risk mitigation. And from my review of this, it appears that for the vast majority of these initiatives, and tell me if you -- or these points in the analysis, let me know if you disagree, but through the CalPERS business plan, the strategic workforce plan that CalPERS has in place, the Investment Roadmap, not to mention the activities being undertaken currently the Board Governance Committee, and the Performance, Compensation, Talent Management Committee where we're selecting a consultant, we're hitting a lot of these weaknesses and threats.

So these are -- I just -- I guess my point is these are not new threats and weaknesses, but these are -- you're affirming these that the staff have identified and addressed risk mitigation strategies for.

MR. MOY: These are our analysis of what's happening as it relates to what we see in the program. We do not have the same visibility on some of the actions which the other committees in the organization may be addressing. And we didn't seek them, but we did want to highlight what we -- what our observations were. And these are, in some manner, shape, or form have been around for quite some time.

ACTING COMMITTEE MEMBER HAGEN: Thanks.

CHAIRPERSON JONES: Okay. Seeing no further questions, thank you for the report.

MR. MOY: Thank you.

CHAIRPERSON JONES: The next item on the agenda is Item 10, that is Revisions of Private Equity Program Policies, First Reading.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you, Mr. Chairman. Wylie Tollette, CalPERS staff. This is the final information item from today's Committee meeting.

This is a first reading. In that spirit, we've already received some good comments from the Committee that will be incorporated into the second reading next month, and we'll -- I'll encourage all of you to continue to submit those challenges to us, either in writing or now.

The format you'll notice now conforms to the format of the other -- of the total fund policies, as well as the other investment policies. We've been in the process of simplifying those, moving procedural and aspirational language out of there, and really focus on the test -- the ability to test program and policy elements within the documents.

There are no significant changes to the risk limits or authorities reflected in this policy from the prior policy. As the private equity team considers the implication of the 2020 Vision that you've heard about and the plan to consolidate with 30 managers going forward, there is the possibility that we may come back next year with some changes related to this policy, but we'll cross that bridge when we get there.

So with that, I'll pause and see if there's any questions or comments the Committee would like to pass along right now.

CHAIRPERSON JONES: Okay. Mr. Boyken.

ACTING BOARD MEMBER BOYKEN: Thank you.

I do have a question, but two caveats first. The first is that the Treasurer and his staff have the utmost confidence in Réal and his private equity team's ability to negotiate LPAs on behalf of the system. And the second is during today's discussion, it's very clear that we have a weak bargaining position when it comes to private equity. But we also have, you know, very much an interest in more transparency around fees.

So I'm wondering -- I just want to throw it out there, would it make sense within the policy to get a little more granular in terms of what should be in an LPA or is that -- well, I guess, I'll just throw that out there and get a reaction.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

I think I'll have to ask Réal for his opinion around that.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Let me short-stop that.

(Laughter.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: It's -- I think it's too granular to place into the policy document, because, one, in terms of actual terms and conditions, you are now at a level of detail that doesn't conform to the rest of the language in the policies. It's one concern or risk. The other is once you set in policy actual terms and conditions, then we're bound by them. And I think we would have to analyze for each one whether or not any single term and condition would restrict the market opportunity available to us in such a way that would limit our ability to invest.

Certainly, it's always within the purview of the Investment Committee to set whatever restrictions, you know, in a policy document or otherwise, but it hasn't been the case that we've gone to that level of detail in our policies to do that.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. I just had one question or comment as part -- on page one of seven of the policy. Under strategic objective, the first sentence there says, "The PE program's strategic objective is to maximize risk-adjusted rates of return while enhancing the CalPERS position as a premier private equity investment manager". And it just seems to me like those two -- in that statement, it seems on parity, but really it seems to me that being a premier private equity investment manager is sort of -- is one of the things that we do in order to be -- in order to deliver the best -- to maximize the risk adjusted rates of return.

So maybe that's too nuanced, but I'm a little bit concerned that it sets them on par with each other.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, I think that's a very fair comment. And, in fact, that's one of the changes that I mentioned earlier that we'd received and plan to strike. And it kind of falls into the category of aspirational language as well, so it was one of the items that we planned to remove for your second reading.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

CHAIRPERSON JONES: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Following up on Grant's issue, I think we clearly need to get a handle on what we're paying in fees. And we recently had the Blackstone case, where we decided, well, it didn't exclude the -- it was -- the discount they'd negotiated on legal wasn't a direct violation of the LPA, and therefore we didn't do anything about it.

But I would actually like to see us adopt language that says we won't sign a new LPA unless the GP has identified those kinds of fees, carry, discounts, and related -- and, you know, other forms of economic rent that they and related parties will receive.

You know, I will leave it to the staff to negotiate what those are and how they're split, but we need to have them identified beforehand. The GPA should not have the right to say, well, I reserve the right to charge you any fee that you haven't excluded. I think we need to flip it and say you've got to tell us what you're going to charge us up front.

CHIEF INVESTMENT OFFICER ELIOPOULOS: We certainly believe that the GP should disclose this information to CalPERS, and we believe this information should be disclosed in a standardized format throughout the industry. Requiring that that happens through policy language, we would have to weigh whether or not that would restrict the marketplace or not. I think what we heard in the workshop throughout the morning is that it's a -- one, these terms are complex, and two, the supply and demand nature of the marketplace is in favor of the general partner.

So by restricting the market opportunity set through policy, though meeting desirable objectives, we might not be able to invest in managers, either individually or at a level for the portfolio that would allow to us meet the return objectives of the overall fund. So we would have to come back and analyze whether specific -- or that specific requirement would restrict us, number one, and two, what impact that might have on the overall asset allocation of the fund and its attendant return and risk? So it is -- that would be a very intensive review that would need to be done before we placed it in policy.

COMMITTEE MEMBER JELINCIC: You know, I'm not sure why we would want to do business with somebody who's not willing to tell us up front these are the kinds of fees we're going to charge you.

You know, if there's somebody who won't live with that, I'm not sure it's the kind of partner we want. I realize we're working with ILPA to try and get a standard format. But at some point, you know, if we're leaders, we need to step out and say this is our standard. We invite you to join us. You know, we -- we did that with public equity fees when we first announced we weren't going to pay more than 50 basis points, even though that was a third of the market at the time. And eventually the market came to us.

So I really think that kind of policy is something that's the right thing to do, and I think it actually helps you with your leverage in negotiations.

I'll leave it floating out there as a suggestion, but next month I may very well make it as an amendment and --

CHAIRPERSON JONES: Right, yeah, because, you know, I think we heard the response from our CIO the impediments that that would impose on their ability to carry out the functions. So it's not a direction of the Chair at this time. But certainly, anytime in the future, J.J., you feel that it's that important, you know, you can make a motion for that action. But at this time, I'm not directing staff.

Mr. Slaton.

COMMITTEE MEMBER JELINCIC: I have another one. I wasn't quite done.

CHAIRPERSON JONES: Okay. A different question.

COMMITTEE MEMBER JELINCIC: Yes.

CHAIRPERSON JONES: Okay. Go ahead.

Turn your thing back on.

Okay. Hold on.

COMMITTEE MEMBER JELINCIC: Now you turned me back on.

The other suggestion I would like to make is that we take the position that we will not enter into any new LPAs, unless the general partner has agreed that, one, they won't eliminate defined benefit plans at portfolio companies, and they won't make the elimination of a defined benefit plan a condition of purchasing a new company.

One of the biggest problems we have is a political issue that, you know, they've -- that defined benefits have been hit big time. And so people are saying, well, I got screwed, why shouldn't you? We certainly shouldn't be the screwer. There's something not very ethical about saying I'm going to define -- fund my defined benefit by eliminating yours.

We have a Investment Belief that says human capital is important, and managing it is important. Now, it doesn't specifically say being -- your workforce is important, but I think that's implied. So I think it's consistent with our Investment Beliefs. And we also have the whole issue of retirement beliefs that we've adopted that says defined benefit provides retirement security as no other pension system will.

So I think we ought to incorporate those things until -- you know, we've said we will not fund people whose model is to eliminate public sector jobs. And I think we ought to expand that to include the defined benefits.

CHAIRPERSON JONES: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Mr. Slaton.

VICE CHAIRPERSON SLATON: No, go ahead.

COMMITTEE MEMBER TAYLOR: Okay. I just wanted to respond on that. While I agree, J.J., 100 percent on that, I think that I would like to see some discussion on that in the future. I'm not sure that putting it in the policy. It gets really granular and expectations of putting it in the policy, and you said for all future -- did I get that right, for all future?

COMMITTEE MEMBER JELINCIC: Yeah. I mean, quite frankly, the ones we've already done, you know, there's nothing we can do about it --

COMMITTEE MEMBER TAYLOR: Too late, right.

COMMITTEE MEMBER JELINCIC: -- but this is just for new ones going forward.

COMMITTEE MEMBER TAYLOR: I mean, I think it's a great discussion. I think we should eventually have that discussion, because I agree, if we're investing in companies that are stripping defined benefit plans, I think that's a problem. I don't know how we go about that. I don't know if staff has any ideas they'd like to throw out. I'm not sure that putting it in here right now would make a differences, but I would like to see something that we could look at in the future for all of our investments, not just private equity, but for all of our investments.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair, so this topic would require substantial review, not only with respect to the private equity portfolio, but our public equity portfolio and our other holdings. The outsourcing policy within the private equity portfolio, which is part of our private equity policy with respect to public sector jobs, went under -- was a process that took quite a substantial amount of time and review of the private equity marketplace to see whether it would put CalPERS at a disadvantage.

And I think the conclusion was that the number of companies within -- portfolio companies within the private equity portfolio that the public outsourcing provision would implicate was small enough, that having a provision within the policy with appropriate outs for certain -- for -- exemption, I should say rather than an out, for allowing staff to consummate an agreement with a private equity firm that did not agree to that language after weighing our fiduciary obligation was put in the policy.

Now, applying that outsourcing to all employment within the private equity portfolio and private companies, as well as in our public equity portfolio, because I think it applies equally in both, that would be a substantial change to our practice currently, and we would need to spend the time to evaluate its impact to the portfolio.

It is not one of our priorities currently, you know, within our workplan. And this would take us -- it would take a substantial amount of work to evaluate and understand what implication it would have. My initial reaction is that it would be a very significant issue for many of the private equity managers as they're in the business of buying and selling these companies. And it would be an issue within our public equity portfolio, where sadly the -- you know, the demise and -- the demise in relative number of defined benefit plans within our public equity portfolio has declined substantially as well.

CHAIRPERSON JONES: Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.

I just want to make sure -- and after listening today, I really came away from this session having learned a lot, and understanding the level of complexity that it takes to try to bend the curve, and at the same time focus on the most important thing which is getting our return, and making sure we're executing deals that are to the benefit of CalPERS.

And so these other concerns that we have, which are valid concerns, I'm just fearful of them getting in the way of -- from the standpoint of staff time and complexity of getting in the way of focusing on how to get good deals done, and how to move the ball in terms of transparency. And I'm convinced that you're working hard at moving that ball. But I don't want to interrupt what you'e doing, so I would advocate what the Chair said, which is, you know, at this time, if -- you know, if this group as a group decides that we want to start putting more constraints on private equity, sobeit. It's going to be a lot of work and a lot of study to understand it, and I'm not sure that's worth the staff time that it would take to do it.

Thank you.

CHAIRPERSON JONES: Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. I wanted to lend some support to J.J.'s second issue with respect to defined benefit plans. Although, I wouldn't be as prescriptive as J.J. is recommending. I think there's ultimately some -- you know, some serious headline risk in a pension fund making money off of eliminating pension funds, right?

You know, we heard the report from -- the program review from the private equity team. You know, they did a good job talking about the due diligence that they're doing around ESG issues. And if we -- so I'd encourage you maybe to think of something that we could put into the policy that would allow them to include this issue in that due diligence. And I think you could make the argument that it's part of the S. Defined benefit pension plans is part of human capital management.

So, you know, I don't how much review and work that would take, but I would like you to think about it maybe and come back to us in the second reading. And maybe there's a way to sort of deal with that, as I said, without being too prescriptive.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Very much appreciate the comment. I guess my -- I think my approach would be to really place that due diligence question and experience in the ESG manager expectations process, this pilot project of finding out and asking these questions and coming back to the Committee rather than place them in the policy, at least, you know, this month. Give us a year to put this into the diligence process, and then we can inform the Committee. It would inform the Committee's decision making at a subsequent time.

I don't know, between now and week when the agenda item is due for next month that we'll have been able to do the type of work and thought in order to feel comfortable that having it as a policy matter is advisable, at least at this time. But the importance of the topic and the value of having that information is well taken.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. Setting it up to -- well, we'd have to do it for public equity too is somewhat of a misnomer. I mean, we're talking about private equity where we have -- hold a significant part of the company, as opposed to public equity where we typically hold six-tenths of one percent of the company. So it's not really an apples and apples.

The -- if the private equity industry comes back and says, you know, if we can't eliminate defined benefit plans, because if we don't do that, we can't make money, then I think that raises a real issue, is this an asset class that we even ought to be in?

I don't think that they would say we can't make money under this restriction. But if they can't, then it's really a serious issue. So I throw it out there and encourage people to think about it.

CHAIRPERSON JONES: Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah. Thank you.

I really learned from your private equity presentation today. And I think I brought up this issue at the retreat. And I've really deliberated it with the fiduciary duty to uphold plans. But in my thinking process, I really decided, as a Board member, my number one fiduciary duty is the ability to pay benefits.

And when I thought about that, and I thought about this particular asset class has enhanced our ability to pay benefits to our members, that I think it made me process it differently, because it's really given us our outside returns.

So if we didn't have it, I think our ability to pay benefits would be diminished and that has its own collateral damages to our members.

CHAIRPERSON JONES: Thank you. Okay. That concludes the questions, and that concludes the comments on that item.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you.

CHAIRPERSON JONES: And we now move to Item 12, Summary of Committee Direction. And I had given you before our break the ones that Mr. Costigan had raised and you indicated. And the only other direction that I'm providing, at this time, is the -- a number of questions were raised by Mrs. Mathur and Mrs. Yee regarding the carbon footprint, but you indicated that that would be responded to in our January off-site. So there's no further direction in that regard.

And the other direction you did say that on this defined benefit, you could look at maybe how to maybe place in a due diligence process. Is that what you were saying?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: In the manager expectations document.

CHAIRPERSON JONES: Management expectation piece to deal with the concerns about defined benefits. So that's the direction that I've provided today for staff.

Okay. We now move to public comment.

Mr. Neal Johnson.

MR. JOHNSON: Thank you, Mr. Jones, members of the Committee. I'm Neal Johnson speaking on behalf of SEIU International.

CHAIRPERSON JONES: Excuse me, Mr. Johnson.

MR. JOHNSON: Local 1000 --

CHAIRPERSON JONES: Mr. Johnson, excuse me.

I'm looking at the clock, I don't see it.

MR. JOHNSON: On there's the clock.

CHAIRPERSON JONES: Oh, it's working. Okay. Normally, I see it there. So I don't know when he's finished. Okay. Go ahead. Now, you may have for a long time to speak, because I can't tell.

MR. JOHNSON: Unfortunately, my colleague Mr. Ring had another meeting, otherwise he would also be here. But we want to thank you, the Board, for holding the workshop today and having this discussion on private, which we -- I know, I particularly think of as a necessary evil. When we went through the ALM process a couple of years ago, it was sort of obvious that there was no way to reach the current return rates without private equity, despite all of its problems, the lack of transparency, the lack of real data, the -- some of the bad characters, as was discussed earlier by commenters at the workshop.

So I thank you for really starting that debate, that discussion that needs to happen. You know, it would be nice if some of the regulatory agencies would move forward and take a more aggressive stance, but that hasn't happened yet, but you're starting that discussion, which needs to happen, and I thank you.

It also kind of reminds me of an event about a year ago when I was driving through the Carrizo plain, which is one of the more unpopulated parts of California in southern San Luis Obispo County, partly because of the lack of rain. And it's one of the most pristine examples of the San Andreas Fault, where you can see the movement of the fault over the last millennia or so, and geologists love it, study it.

But driving on a dirt road in a fog bank trying to get out, and there on the right you can see a bank -- embankment you could hit. The left side is dark and looks like it drops off, but you really don't know. And it's sort of like private equity, we know what the bad part is. We can see that. That wreck we want to avoid. What we don't know is what happens in this darkness? You know, that lack of disclosure, the lack of -- or how the fees are treated, whether it's something really is an expense, it's a fee, et cetera.

And that really, in listening to the workshop and thinking about that drive about a year ago really sort of brought that thought together. And again, we thank you for your work on this, and hopefully we can all learn more about it and become more, I don't know whether to say better investors, but more comfortable with this asset class. And if it really is a bad one, get out of it. But at the present time, it's -- as I say, I think it's a necessary evil.

Thank you very much.

CHAIRPERSON JONES: Okay. Thank you very much, Mr. Johnson.

And that concludes the agenda items for open session, and the open session meeting is adjourned.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 5:09 p.m.)

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 20th day of November, 2015.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063