

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

ROBERT F. CARLSON AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

WEDNESDAY, MARCH 16, 2016

9:01 A.M.

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

A P P E A R A N C E S

BOARD MEMBERS:

Mr. Rob Feckner, President

Mr. Henry Jones, Vice President

Mr. Michael Bilbrey

Mr. John Chiang, represented by Mr. Grant Boyken

Mr. Richard Costigan

Mr. Richard Gillihan

Ms. Dana Hollinger

Mr. J.J. Jelincic

Mr. Ron Lind

Ms. Priya Mathur

Mr. Bill Slaton

Ms. Theresa Taylor

Ms. Betty Yee, 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. Douglas Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

Mr. Doug McKeever, Deputy Executive Officer

Mr. Alan Milligan, Chief Actuary

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

STAFF:

Mr. Brad Pacheco, Deputy Executive Officer

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Ms. Kara Buchanan, Board Secretary

ALSO PRESENT:

Mr. Al Darby, Retired Public Employees Association

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

Mr. Chirag Shah, Shah and Associates

# I N D E X

	PAGE
1. Call to Order and Roll Call	1
2. Pledge of Allegiance	2
3. Board President's Report	2
4. Executive Reports	
a. Chief Executive Officer's Report (Oral)	4
b. Chief Investment Officer's Report (Oral)	11
5. Consent Items	12
Action Consent Items:	
a. Approval of the February 18, 2016 Board of Administration Meeting Minutes	
b. Board Travel Approvals	
6. Consent Items	13
Information Consent Items:	
a. Board Meeting Calendar	
b. Draft Agenda for the April 20, 2016 Board of Administration Meeting	
c. General Counsel's Report	
d. Communications and Stakeholder Relations	
7. Committee Reports and Actions	
a. Investment Committee (Oral)	13
b. Pension & Health Benefits Committee (Oral)	15
c. Finance & Administration Committee (Oral)	17
d. Performance, Compensation & Talent Management Committee (Oral)	21
e. Risk & Audit Committee (Oral)	23
f. Board Governance Committee (Oral)	23
Action Agenda Items	
8. Proposed Decisions of Administrative Law Judges	23
a. Darlene Parker	
b. Marisol Romo	
c. Lee Turner Johnson	
d. Calvin Sung and Andrea Graham (Consolidated)	
e. Safia Ali	
f. Jennifer Navarro (Anthony Navarro)	
g. James F. Arbogast Jr.	
h. Edith Davenport	
i. Editha Moring	

I N D E X   C O N T I N U E D

	PAGE
9.    Designation of Precedential Decision - Phillip MacFarland	28
10.   Full Board Decision - Timothy Bacon, Darryl Hurt (Consolidated)	29
Information Agenda Items	
11.   State Legislation Update	29
12.   Summary of Board Direction	35
13.   Public Comment	35
Adjournment	38
Reporter's Certificate	39

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

2 PRESIDENT FECKNER: Good morning. We're going to  
3 call the Board meeting to order. First order of business  
4 will be to call the roll.

5 BOARD SECRETARY BUCHANAN: Good morning.

6 Rob Feckner?

7 PRESIDENT FECKNER: Good morning.

8 BOARD SECRETARY BUCHANAN: Henry Jones?

9 VICE PRESIDENT JONES: Here.

10 BOARD SECRETARY BUCHANAN: Michael Bilbrey?

11 BOARD MEMBER BILBREY: Good morning.

12 BOARD SECRETARY BUCHANAN: Grant Boyken for John  
13 Chiang?

14 ACTING BOARD MEMBER BOYKEN: Here.

15 BOARD SECRETARY BUCHANAN: Richard Costigan?

16 BOARD MEMBER COSTIGAN: Here.

17 BOARD SECRETARY BUCHANAN: Richard Gillihan?

18 BOARD MEMBER GILLIHAN: Here.

19 BOARD SECRETARY BUCHANAN: Dana Hollinger?

20 BOARD MEMBER HOLLINGER: Here.

21 BOARD SECRETARY BUCHANAN: J.J. Jelincic?

22 BOARD MEMBER JELINCIC: Here.

23 BOARD SECRETARY BUCHANAN: Ron Lind?

24 BOARD MEMBER LIND: Here.

25 BOARD SECRETARY BUCHANAN: Priya Mathur?

1 BOARD MEMBER MATHUR: Here.

2 BOARD SECRETARY BUCHANAN: Bill Slaton?

3 BOARD MEMBER SLATON: Here.

4 BOARD SECRETARY BUCHANAN: Theresa Taylor?

5 BOARD MEMBER TAYLOR: Here.

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

8 ACTING BOARD MEMBER PAQUIN: Here.

9 PRESIDENT FECKNER: Thank you.

10 The next order of business will be the Pledge of  
11 Allegiance. I've asked Board Member Bilbrey to lead us in  
12 the pledge. If we could all please rise.

13 (Thereupon the Pledge of Allegiance was  
14 recited in unison.)

15 PRESIDENT FECKNER: Thank you.

16 Item 3 is the Board President's Report.

17 First of all, good morning, everyone. Thanks for  
18 being here.

19 As many of you know, our CEO Anne Stausboll will  
20 be retiring at the end of June. CalPERS recently  
21 announced we have launched a search to find a new CEO to  
22 lead this organization. We publicly released a candidate  
23 profile that outlines the professional and personal  
24 competencies that our Board is looking for in a new  
25 leader, as well as list of characteristics that will be

1 important in this role.

2 We have stressed that this individual is  
3 responsible for ensuring that the organization achieves  
4 the strategic objectives established by this Board, while  
5 cultivating a high performing, risk intelligent,  
6 collaborative and innovative culture. We have also  
7 emphasized that this person will need to be respected,  
8 communicative, and accessible leader with a broad range of  
9 stakeholders amongst our membership.

10 We've hired Heidrick & Struggles, a global  
11 recruitment firm, to help us with this search, and they're  
12 accepting applications on an ongoing basis. Our goal is  
13 to have a new CEO in place or at least named by the end of  
14 June. I encourage you to visit our website and review the  
15 criteria we are using for this search.

16 Now, I'd like to offer a few reminders this  
17 morning as well. First, we've selected a location for our  
18 July off-site, which is going to be July 18th to 20th. We  
19 will be attending the DoubleTree Hotel in Rohnert Park.  
20 So if you're planning to attend this year, please, you can  
21 now begin to make your reservations and all your  
22 arrangements.

23 Second, as I was walking near the cafe yesterday  
24 morning, I noticed that our staff at a table promoting the  
25 importance of having a power of attorney. Having a power



1 of attorney on file with CalPERS allows you to designate a  
2 representative to conduct your retirement affairs in the  
3 event you are unable to do so on your own.

4           You may be surprised to learn how many of our  
5 members have not made this selection with us. I encourage  
6 anyone here or listening to visit our website or contact  
7 us to learn more about making this very important  
8 decision. And I will tell you it is an important  
9 decision. While I was here this week, a member called me  
10 and said that he had a member from his local that was --  
11 went into hospital and is in a coma and had no power of  
12 attorney and the son did not know what to do next. So  
13 it's important that you look at those things. So I  
14 encourage you to take a look at our power of attorney.

15           And finally, I want to say thank you in advance  
16 to our staff and Board who are going to join us tonight  
17 for our evening at our annual CalPERS night at the  
18 Sacramento Kings. The Kings are going to take on the New  
19 Orleans Pelicans, and we're hoping for a win tonight. And  
20 we look forward to having a great evening. It's a perfect  
21 way to demonstrate the importance of our core values of  
22 balance.

23           So with that, we will continue on with our  
24 agenda. Item 4, Executive Reports. 4a, Chief Executive  
25 Officer's Report, Ms. Stausboll.

1 CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you.  
2 Good morning, Mr. President and members of the Board. I'd  
3 like to begin this morning by introducing you to our new  
4 Chief Compliance Officer, Marlene Timberlake D'Adamo. And  
5 she's standing.

6 PRESIDENT FECKNER: Good morning.

7 (Applause.)

8 CHIEF EXECUTIVE OFFICER STAUSBOLL: Welcome.  
9 Marlene will begin here on April 11 officially. She's  
10 going to be responsible for all aspects of our enterprise  
11 compliance program. And she'll be reporting to our CFO,  
12 Cheryl Eason. Marlene has over 25 years experience in the  
13 private sector and the financial, legal, and investment  
14 industries. So we're very excited about the skills and  
15 talent that she's going to bring to our CalPERS compliance  
16 function.

17 Moving on to our current Priorities. As reported  
18 yesterday, we've officially kicked off the development of  
19 the next CalPERS strategic plan. We recently held the  
20 first of a series of workshops with the executive team to  
21 begin to identify themes that will serve as the foundation  
22 of the plan.

23 And as we did last time in 2012, we're reaching  
24 out quite extensively to our stakeholders for input. And  
25 that effort will begin shortly, so you may hear from them

1 about it. Over the next few months, we'll be holding  
2 several public sessions here with the Board to present our  
3 analysis and findings and develop the actual plan. So our  
4 tentative schedule is to finalize the draft goals and  
5 objectives with the Board before the end of the calendar  
6 year 2016.

7 And in the meantime, yesterday, the Finance and  
8 Administration Committee heard the second reading of the  
9 business plan for the coming year, which is the final year  
10 of the current strategic plan. And that business plan is  
11 before you for approval today. The Committee also heard  
12 the first reading of next year's budget. We look forward  
13 to incorporating the feedback we got yesterday. And we'll  
14 bring back that next month for approval.

15 This is also the time of year when we're starting  
16 negotiations with our health plans about the premiums for  
17 2017. So as in the past, our emphasis is on cost  
18 reduction for our members and employers, while maintaining  
19 access to high quality affordable care. In May, we'll be  
20 presenting in session, as we did last year, the  
21 preliminary rates for 2017 to the Pension and Health  
22 Benefits Committee, with final approval for the rates  
23 planned for June.

24 Our CalPERS CBEEs, or Benefits Education Events,  
25 continue to be very well attended and successful. Last

1 month, we had the event in Seaside, and we had over 1,300  
2 members attending. The next CBEE is in Oakland, April 15  
3 and 16. And the complete list of CBEEs for the year is  
4 available on the website.

5 So as always, we hope that some Board members  
6 will be able to attend the Oakland event.

7 Internally, we're preparing to conduct our  
8 Organizational Health Index survey, the OHI survey. We  
9 first did that survey in 2010, and then again in 2013.  
10 And that survey is designed to measure the health of our  
11 workplace. It is administered in anonymously. We use the  
12 results to compare ourselves to other financial and health  
13 care organizations, both public and private. And then we  
14 use the prior results as a baseline to check on our  
15 development and progress.

16 The responses from the survey that we did in 2013  
17 were a driving force behind a number of changes that we've  
18 launched and implemented since then, especially in the  
19 areas of innovation and role clarity. And the emphasis on  
20 role clarity was something that we wanted to do to drive  
21 further accountability.

22 So some examples of the things we've done in  
23 response to the last OHI survey are launching the idea  
24 factory, which I spoke about last month, which is our  
25 employee driven innovation program. We also developed

1 several new leadership courses this year. And some  
2 examples are creativity and innovation, coaching for  
3 break-through performance, and the art of delegation, all  
4 designed to help our managers better clarify roles,  
5 responsibilities, expectations, and outcomes.

6 We also revamped our new employee orientation  
7 program and introduced the mentor your manager program.  
8 So those are some examples of the things we've done. And  
9 we look forward to getting the results of this next survey  
10 to see if we were on target.

11 We've also just launched our annual APEX awards  
12 program. We've got several recognition programs for our  
13 staff here at CalPERS. And the APEX Program is the most  
14 formal one of those. And what makes it unique is that the  
15 employees who are nominated are nominated by their fellow  
16 employees, which is a very special form of recognition.

17 This year, we got 36 nominations that resulted in  
18 a total of 48 nominees, because the nominations can be  
19 individual or group. So we'll be honoring those who win  
20 the award this June.

21 And the last internal item I wanted to mention  
22 was that last week we held our annual diversity and  
23 inclusion all-staff event. And the Board President was  
24 there, as well as Board Member Jones. Our guest speaker  
25 was Dr. Mae Jemison, and she was the first

1 African-American woman to travel in space. We had over  
2 800 employees attend the event. It was very inspiring.  
3 She talked about the importance of inclusion and risk  
4 taking and shared some of her history. And the feedback  
5 from our staff was very positive.

6 Before closing, I want to note that this week is  
7 the 11th anniversary of Sunshine Week, which is a national  
8 celebration of the importance of open government and  
9 freedom of information. We're a proud supporter of  
10 Sunshine Week. You'll notice that on our website this  
11 week we've got a Sunshine week quiz. We've got a new  
12 question featured every day about our transparency  
13 efforts. So I invite you to look at that and participate.

14 Openness is one of our core values. For example,  
15 in the past 12 months, we've handled over 400 requests for  
16 information, PRA requests.

17 And now, to my favorite part of my report,  
18 employee recognition. And this morning, I wanted to talk  
19 about a small group of staff who have a very important  
20 function. Beginning a new job at CalPERS can be quite an  
21 adventure. Our campus is large and sometimes the map  
22 doesn't quite work, and we've got a lot of acronyms and a  
23 very complex organization. And that's where our wonderful  
24 new employee orientation team comes in.

25 It's led by our Human Resources Office. And we

1 call it the NEO, New Employee Orientation, team, NEO. The  
2 NEO staff assists new employees. We have a very detailed  
3 two-part on-boarding program. There's a self-directed  
4 on-line portion of the program that's available, you know,  
5 immediately as they arrive at CalPERS. And then within a  
6 month or two, they all take a full day instructor-led  
7 class offered by our trainers. And it has presentations  
8 by subject matter experts from -- throughout the  
9 organization. The Board President and I always stop by  
10 whenever we can to welcome the new employees. And I know  
11 they really appreciate the Board President's  
12 participation.

13 So today, I want to recognize our NEO staff and  
14 thank them for the work they do to give our new employees  
15 a wonderful first impression of CalPERS.

16 (Applause.)

17 CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you.

18 Mr. President, that concludes my remarks this  
19 morning, and I'm happy to answer any questions.

20 PRESIDENT FECKNER: Thank you.

21 Mr. Jelincic.

22 BOARD MEMBER JELINCIC: On the Organizational  
23 Health Index survey, two surveys ago we had a question  
24 about favoritism and nepotism. The last time that  
25 question fell off. I'm hoping that it comes back, because

1 I thought it was an insightful question. So as you put it  
2 together, I would ask that you consider that.

3 Thank you.

4 CHIEF EXECUTIVE OFFICER STAUSBOLL: All right.  
5 Thank you.

6 PRESIDENT FECKNER: Seeing no other requests.  
7 Thank you.

8 That brings us to 4b, Chief Investment Officer  
9 report, Mr. Eliopoulos.

10 CHIEF INVESTMENT OFFICER ELIOPOULOS: Good  
11 morning, President Feckner, members of the Board. I have  
12 a belief update on the performance of the Public  
13 Employees' Retirement Fund as of January 31st 2016.

14 January was a very difficult month in the equity  
15 markets. Our public equity portfolio was down 6.22  
16 percent in January alone. Our public equity portfolio is  
17 down 11 percent for the fiscal year through January 31st,  
18 2016. As a result, the total fund performance for the  
19 fiscal year to date is now a negative 5.9 percent through  
20 January 31st.

21 As you know, we like to look at much longer time  
22 periods, as they are more meaningful for measuring our  
23 performance. In that regard, the 3-year return is 5.3  
24 percent, the 5-year return is 6.4 percent, the 10-year  
25 return is 4.5 percent, and the 20-year return of the total



1 fund is 6.8 percent.

2 This recent performance of the fund really  
3 demonstrates the vulnerability of the fund to the  
4 volatility of the public equity markets. All asset  
5 classes are within their policy ranges and the total fund  
6 assets are valued, as of January 31st 2016, at \$279.5  
7 billion.

8 Mr. President, that is my report.

9 PRESIDENT FECKNER: Thank you.

10 Seeing no requests, thank you very much.

11 Brings to us Item 5, the consent calendar. You  
12 5a and b are action items. What's the pleasure of the  
13 Board?

14 BOARD MEMBER JONES: Move approval.

15 BOARD MEMBER MATHUR: Second.

16 PRESIDENT FECKNER: Moved by Jones, seconded by  
17 Mathur.

18 Any discussion on the motion?

19 Mr. Jelincic.

20 BOARD MEMBER JELINCIC: Yeah, I'm going to  
21 support the motion, but we have to figure out someway to  
22 get trustees to put in their travel requests in a timely  
23 manner. They shouldn't be coming as add-on items. I  
24 don't know what -- how we do that, but --

25 PRESIDENT FECKNER: I think you just did it.

1 (Laughter.)

2 PRESIDENT FECKNER: Thank you. Appreciate the  
3 reminder.

4 Seeing no other requests.

5 Motion being before you. All in favor say aye?

6 (Ayes.)

7 PRESIDENT FECKNER: Opposed, no?

8 Motion carries.

9 Item 6 is the consent item calendar. Having no  
10 requests to move anything off, we move on to Item 7,  
11 Committee reports and actions.

12 7a is the Investment Committee report. For that,  
13 I call on the Chair, Mr. Jones

14 VICE PRESIDENT JONES: Thank you, Mr. President.

15 The Investment Committee met on March 14, 2016.

16 The Committee approved the following:

17 Agenda Item 5a, the simplified and clarified  
18 Global Governance Principles; Agenda Item 5b, the  
19 Investment Committee delegation with administrative  
20 changes to the Board of Administration for consideration;  
21 Agenda Item 5c, the affiliate fund policies, including the  
22 repeal of two legacy policies and various administrative  
23 updates; Agenda Item 7b, the Global Governance Program  
24 proposed environmental and strategic priorities on climate  
25 change, including engagement on data and corporate

1 reporting standards.

2 The Committee also received reports on the  
3 following topics:

4 Further proposed revision to the Total Fund  
5 Policy incorporating feedback from the February Investment  
6 Committee meeting; and, the work of the Sustainability  
7 Accounting Standards Board to enhance corporate reporting  
8 standards.

9 The Chair directed staff to:

10 One, include the CEM report with the investment  
11 cost effectiveness item in April;

12 Two, include commentary on income inequality in  
13 the strategic priorities for the April Global Governance  
14 Strategic review;

15 Three, clarify the uses -- usage of "in-force" or  
16 "total" divestment universe in the Total Fund Policy;

17 And, four, propose a tentative schedule for  
18 considering the current tobacco divestment, along with an  
19 updated version of the total fund investment policy.

20 The Committee heard public comments on the  
21 proposed divestment policy and the Global Governance  
22 Program strategic priorities.

23 And, at this time, the highlights for the April  
24 Investment Committee meeting is the real estate strategic  
25 plan, and the third reading of the total fund investment

1 policy.

2 The next meeting of the Investment Committee is  
3 scheduled for April 18, 2016 in Sacramento, California.

4 That concludes my report, Mr. President.

5 PRESIDENT FECKNER: Thank you, Mr. Jones.

6 Mr. Jelincic.

7 BOARD MEMBER JELINCIC: Henry, on the direction  
8 to the staff, wasn't there also direction to contact CEM  
9 and see if they would present their own report?

10 PRESIDENT FECKNER: Yes, we -- yeah, that was  
11 part of it, so yeah.

12 BOARD MEMBER JELINCIC: Okay.

13 PRESIDENT FECKNER: Thank you.

14 Moves to Item 7b, Pension and Health Committee.  
15 For that, I call on the Chair Ms. Mathur.

16 BOARD MEMBER MATHUR: Thank you, Mr. President.

17 The Pension and Health Benefits Committee met on  
18 March 15th 2016.

19 The Committee recommends and I move that the  
20 Board approve on Agenda Item 5 the Pension and Health  
21 Benefits Committee delegation for Board approval at the  
22 April Board meeting.

23 PRESIDENT FECKNER: On motion by Committee.

24 Any discussion on the motion?

25 BOARD MEMBER MATHUR: Do we need to -- do we

1 consider that today or should that just be in April? I'm  
2 sorry, as I read it, I --

3 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah. Mr.  
4 President?

5 PRESIDENT FECKNER: Go ahead.

6 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yes. Thank  
7 you. All of the delegations -- the process is the  
8 committees review them in March, and then we bring them  
9 back as a package to the Board in April.

10 BOARD MEMBER MATHUR: So we don't actually need  
11 to take up that item today.

12 CHIEF EXECUTIVE OFFICER STAUSBOLL: There's no  
13 vote on that today.

14 BOARD MEMBER MATHUR: Okay. Thank you.

15 Thank you. As I'm reading it, I realized that  
16 that's the case. Okay. Well, then in addition to taking  
17 up the delegation, the Committee also received reports on  
18 several topics, including updates on federal health care  
19 and retirement policy, the pharmacy benefit manager  
20 contract, the CalPERS Long-Term Care Program, the  
21 California Employees' Retiree Benefit Trust, and the cost  
22 of living adjustment for retirees.

23 Some highlights of what to expect in April at the  
24 meeting will be a review of legislation and information on  
25 health care cost trends for the CalPERS program.

1           The next meeting of the Pension and Health  
2 Benefits Committee is scheduled for April 19, 2016 in  
3 Sacramento, California. That concludes my report, Mr.  
4 President.

5           PRESIDENT FECKNER: Thank you. Item 7c, Finance  
6 and Administration Committee. For that, I call on the  
7 Chair, Mr. Costigan.

8           BOARD MEMBER COSTIGAN: Thank you. Good morning  
9 Mr. President.

10          PRESIDENT FECKNER: Good morning.

11          BOARD MEMBER COSTIGAN: The Finance and  
12 Administration Committee report's the following:

13           This is intended as a guide for -- my apologies.

14           The Finance and Administration Committee met on  
15 March 15, 2016. The Committee recommends and I move the  
16 Board approve the following:

17           Agenda Item 5A, Review of Finance and  
18 Administration Committee Delegation. Approve with the  
19 proposed changes to Finance and Administration Committee  
20 delegation, and recommend for Board of Administration  
21 approval at the April 2016 Board meeting.

22          PRESIDENT FECKNER: On motion by Committee.

23           Any discussion on the motion?

24          CHIEF EXECUTIVE OFFICER STAUSBOLL: Sorry, that's  
25 the same issue. None of -- these are really informational

1 on the delegations, and then the motion will be next  
2 month.

3 BOARD MEMBER COSTIGAN: Okay. I'll withdraw  
4 that. Thank you.

5 Agenda Item 5b, the Board of Administration  
6 election voting process and regulatory changes. Approve  
7 the staff recommendations for proposed changes for  
8 CalPERS.

9 PRESIDENT FECKNER: On motion by Committee.  
10 Any discussion on the motion?

11 Seeing none.

12 All in favor say aye?

13 (Ayes.)

14 PRESIDENT FECKNER: Opposed, no?

15 Motion carries.

16 BOARD MEMBER COSTIGAN: Agenda Item 6a, the  
17 CalPERS Budget Policy, second reading. Approve the staff  
18 recommendations with proposed changes the Board adopts the  
19 CalPERS budget policy.

20 PRESIDENT FECKNER: On motion by Committee.

21 Any discussion on the motion?

22 Seeing none.

23 All in favor say aye?

24 (Ayes.)

25 PRESIDENT FECKNER: Opposed, say no?

1 Motion carries.

2 BOARD MEMBER COSTIGAN: Agenda item 6b, the  
3 CalPERS 2016-17 business plan, second reading. Approve  
4 the staff recommendation with the proposed changes to the  
5 2016-17 business plan.

6 PRESIDENT FECKNER: On motion by committee. Any  
7 discussion on the motion?

8 Seeing none.

9 All in favor aye?

10 (Ayes.)

11 PRESIDENT FECKNER: Opposed, no?

12 Motion carries.

13 BOARD MEMBER COSTIGAN: Agenda Item 6c, the  
14 2016-17 annual budget proposal, first reading. Approve  
15 the fiscal year 2016-17 annual budget proposal as a first  
16 reading in the amount of \$1,788,000,000, and 2,872  
17 positions and approve the transmittal of this agenda item  
18 to the joint Legislative Budget Committee, the fiscal  
19 committees of the legislature, the State Controller, the  
20 Department of Finance in accordance with the Budget Act of  
21 2015, and to the Legislative Analyst's Office, Government  
22 Operations Agency, and the Office of Legislative Counsel.

23 PRESIDENT FECKNER: On motion by Committee.

24 Any discussion on the motion?

25 Seeing none.



1 All in favor say aye?

2 (Ayes.)

3 PRESIDENT FECKNER: Opposed, no?

4 Motion carries.

5 BOARD MEMBER COSTIGAN: The Committee received  
6 reports on the following topics:

7 Review of the actuarial cost method policy and  
8 amortization policy, first reading; the Treasury  
9 Management Policy review, first reading; Treasury analysis  
10 and liquidity status report and strategic planning  
11 oversight.

12 The Committee heard public comment on the  
13 following topic: James McRitchie a retired member, Neal  
14 Johnson with SEIU, and Cathy Jeppson with the California  
15 Teachers Association.

16 At this time, I would like to share highlights of  
17 what to expect at the April Finance and Administration  
18 Committee meeting. We'll be taking up the 2016-17 annual  
19 budget proposal, second reading; the second reading of the  
20 treasury management policy; the annual review of Board  
21 member employer reimbursements; State and schools  
22 actuarial valuation employer contribution rates; the  
23 annual actuarial valuation of the terminated agency pool;  
24 and a review of the actuarial costs, method, policy and  
25 amortization policy, second reading.

1           The next meeting of the Finance and  
2 Administration Committee is scheduled for April 19th, 2016  
3 in Sacramento, California.

4           Thank you, Mr. Feckner.

5           PRESIDENT FECKNER: Thank you. That brings us to  
6 Item 7d, Performance and Compensation Committee. For  
7 that, I call upon the Chair, Mr. Bilbrey.

8           BOARD MEMBER BILBREY: Thank you, Mr. President.

9           The Performance, Compensation and Talent  
10 Management Committee met on March 15, 2016.

11           The Committee held an election of the  
12 Performance, Compensation and Talent Management Committee  
13 Chair and Vice Chair. Michael Bilbrey was elected Chair  
14 and Priya Mathur was elected Vice Chair.

15           The Committee reviewed the Committee delegation  
16 and approved for approval for next month.

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

19           Closed session, Agenda Item 3, Semiannual Status  
20 Reports on Performance Plans for the Chief Executive  
21 Officer, and Chief Investment Officer. Recommend approval  
22 of the semiannual performance plans status reports of the  
23 Chief Executive Officer and Chief Investment Officer.

24           PRESIDENT FECKNER: On motion by Committee. Any  
25 discussion on the motion?

1           Seeing none.

2           All in favor say aye?

3           (Ayes.)

4           PRESIDENT FECKNER: Opposed, no?

5           Motion carries.

6           BOARD MEMBER BILBREY: The Committee received  
7 reports --

8           PRESIDENT FECKNER: Please record Mr. Jelincic as  
9 abstaining.

10          BOARD MEMBER BILBREY: The Committee received  
11 reports on the following topics:

12           An update on the Compensation Review Project from  
13 Bill Gentry and Eric Gonzaga of Grant Thornton, LLP; and,  
14 the Chair directed staff to prepare a Committee meeting in  
15 April for further discussion on the Compensation Review  
16 Project.

17           At this time, I would like to share some  
18 highlights of what to expect at the April Performance,  
19 Compensation & Talent Management Committee meeting. The  
20 Committee will receive the Compensation Review Project  
21 recommendations for implementation in fiscal year 2016-17.

22           The next meeting of the Committee will be on  
23 April 19th, 2016.

24           Thank you, Mr. President.

25           PRESIDENT FECKNER: Thank you.

1 Brings us to Agenda Item -- since D, E and F did  
2 not meet, it brings us to Agenda Item 8, the proposed  
3 decision of administrative law judges. I want to point  
4 out that the Board's independent counsel for  
5 administrative hearings, Mr. Chirag Shah, is on the phone.  
6 Good morning, Chirag?

7 MR. SHAH: Good morning, Mr. President, members  
8 of the Board.

9 PRESIDENT FECKNER: Anything you want to preface  
10 before we begin?

11 MR. SHAH: Well, I'd like to just wish everyone a  
12 Happy Saint Patrick's Day.

13 (Laughter.)

14 MR. SHAH: That's it.

15 PRESIDENT FECKNER: Thank you, sir.

16 We have Item 8 in front us, 8a through i. Item c  
17 has been asked to be withdrawn and taken up separately.  
18 So we have 8b -- 8a through i, minus C.

19 Mr. Jones.

20 VICE PRESIDENT JONES: Yeah. Thank you, Mr.  
21 President. I move to adopt the proposed decisions at  
22 Agenda Items 8a through 8i with the exception of c, as the  
23 Board's own decisions with the minor modifications to  
24 Agenda Item 8f, as argued by staff.

25 PRESIDENT FECKNER: Thank you.

1 Is there a second?

2 BOARD MEMBER TAYLOR: Second.

3 PRESIDENT FECKNER: It's been moved by Jones,  
4 Seconded by Taylor. All in favor -- seeing no discussion,  
5 all in favor say aye?

6 (Ayes.)

7 PRESIDENT FECKNER: Opposed, say no?

8 AbstentionS?

9 Motion carries.

10 We're back on Item 8c. Mr. Jones.

11 VICE PRESIDENT JONES: Yeah, I move to adopt the  
12 proposed decisions at Agenda Item c as the Board's own  
13 decision with the minor modifications to Agenda Item --  
14 that's the end.

15 PRESIDENT FECKNER: Very good. Thank you. Is  
16 there a second?

17 BOARD MEMBER MATHUR: Second.

18 PRESIDENT FECKNER: It's been moved by Jones,  
19 seconded by Mathur.

20 Discussion on the motion?

21 Mr. Jelincic.

22 BOARD MEMBER JELINCIC: I will be abstaining.

23 PRESIDENT FECKNER: Thank you.

24 Mr. Slaton.

25 BOARD MEMBER SLATON: Yes. So this motion would

1 be just to accept it as a separate item?

2 PRESIDENT FECKNER: Correct.

3 BOARD MEMBER SLATON: And if we don't do that,  
4 what will occur?

5 BOARD MEMBER MATHUR: The motion is to take it up  
6 right now.

7 BOARD MEMBER SLATON: Oh, it's to take it up now.  
8 I thought it was to accept it. Okay. I misheard. Sorry.

9 PRESIDENT FECKNER: Mr. Costigan.

10 BOARD MEMBER COSTIGAN: Just again to clarify  
11 what Mr. Slaton raised. We just separated it as a  
12 separate vote --

13 PRESIDENT FECKNER: Correct.

14 BOARD MEMBER COSTIGAN: -- but we're going to --  
15 the motion is to adopt the recommendation -- the staff  
16 recommendation.

17 VICE PRESIDENT JONES: Exactly the same, yes.

18 PRESIDENT FECKNER: All right. Motion clear?  
19 Not yet.

20 BOARD MEMBER SLATON: Yeah. So the motion on the  
21 floor is to accept the recommendation that's been  
22 presented to us. I'd like to have more discussion on  
23 this. I think that -- and I have to say that the person  
24 who passed away, you know, I was acquainted with him. Not  
25 a close relationship at all. But I do feel in reading the

1 whole case that there is some room for interpretation  
2 here. And I think it bears some more discussion. And I  
3 think that this is one where, clearly, it is potentially  
4 form over substance.

5 And so I think it -- since we're the final body  
6 to adjudicate this, I think it bears further discussion,  
7 which I think would be valuable in terms of making the  
8 decision for this one.

9 So I would make a substitute motion for a full  
10 Board hearing on this.

11 PRESIDENT FECKNER: Is there a second?

12 BOARD MEMBER COSTIGAN: I'll second it.

13 PRESIDENT FECKNER: It's been moved by Slaton,  
14 seconded by Costigan to move to a full Board hearing, Item  
15 8c.

16 Any discussion on the motion?

17 Mr. Boyken.

18 ACTING BOARD MEMBER BOYKEN: So is that a full  
19 board hearing, do you have a specific issue? I mean,  
20 there is kind of one specific issue. But do we -- do you  
21 want to limit it somehow?

22 BOARD MEMBER SLATON: Well, I think a full Board  
23 hearing is on the record that's been presented to us, but  
24 I think that given -- I think theres' some questions about  
25 that record in terms of the decisions made by CalPERS

1 staff in this particular case. And I just think it's --  
2 there is a form over substance issue here, that I think  
3 deserves a hearing.

4 ACTING BOARD MEMBER BOYKEN: Thanks.

5 PRESIDENT FECKNER: Mr. Jelincic.

6 BOARD MEMBER JELINCIC: I'm abstaining on the  
7 substitute as well.

8 PRESIDENT FECKNER: Thank you.

9 Mr. Jones.

10 VICE PRESIDENT JONES: Yeah. Okay. So he's --  
11 the substitute motion, are you going to take a vote on the  
12 substitute motion.

13 PRESIDENT FECKNER: We will. There's a  
14 discussion on the substitute motion.

15 VICE PRESIDENT JONES: Right. So I was -- I  
16 don't have a comment on what he just proposed.

17 PRESIDENT FECKNER: Very good. All right. Any  
18 further discussion on the motion for a substitute motion?

19 Seeing none.

20 All in favor say aye?

21 (Ayes.)

22 PRESIDENT FECKNER: Opposed, no?

23 Motion carries.

24 We're back on the original motion. Mr. Jones, do  
25 you have anything to add?



1 VICE PRESIDENT JONES: Nothing to add.

2 PRESIDENT FECKNER: All right. Then moving  
3 forward that will be a full Board hearing.

4 Mr. Jones.

5 VICE PRESIDENT JONES: Yes, this is Item 9.

6 (Thereupon a discussion occurred off the record.)

7 PRESIDENT FECKNER: Correct. So the motion  
8 before you is to move forward with Item 8C for a full  
9 Board hearing, correct?

10 VICE PRESIDENT JONES: Right.

11 PRESIDENT FECKNER: All right. So I'm getting  
12 conflicting issues, so let's just take a vote so we're  
13 clear for the record.

14 All right. We have 8c moving to a full Board  
15 hearing.

16 All in favor say aye?

17 (Ayes.)

18 PRESIDENT FECKNER: Opposed, no?

19 Motion carries.

20 Mr. Jelincic is still abstaining.

21 We're on Item 9, Mr. Jones.

22 VICE PRESIDENT JONES: Yeah. Thank you, Mr.  
23 President. I move to direct the CalPERS Legal Office to  
24 solicit written comments from the public on whether or not  
25 to designate the decision at Agenda Item 9 as a

1 precedential Board decision.

2 BOARD MEMBER MATHUR: Second.

3 PRESIDENT FECKNER: It's been moved by Jones,  
4 seconded by Mathur.

5 Any discussion on the motion?

6 Seeing none.

7 All in favor say aye?

8 (Ayes.)

9 PRESIDENT FECKNER: Opposed, no?

10 Motion carries.

11 PRESIDENT FECKNER: Item 10, Mr. Jones.

12 VICE PRESIDENT JONES: Yeah. Thank you, Mr.  
13 President. I move to adopt the consolidated full Board  
14 decision in the matters of Timothy Bacon and Darryl Hurt  
15 as presented by staff as the Board's final decision.

16 BOARD MEMBER MATHUR: Second.

17 PRESIDENT FECKNER: Moved by Jones, seconded by  
18 Mathur. Any discussion on the motion?

19 Seeing none, all in favor say aye?

20 (Ayes.)

21 PRESIDENT FECKNER: Opposed say no?

22 Motion carries. Thank you.

23 Moves us to Item 11, state Legislation update.

24 Ms. Ashley.

25 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good

1 morning, Mr. President and members of the Board. Mary  
2 Anne Ashley, CalPERS staff, here to provide you a  
3 legislative update.

4 The bill introduction deadline has since passed  
5 since my last update, and over 2,000 bills have been  
6 introduced so far this legislative session. Staff has  
7 screened all of these bills and have identified those  
8 bills that may impact CalPERS.

9 The legislative summary included in your Board  
10 materials has been updated to include all new bills  
11 introduced, and staff is currently in the process of  
12 analyzing several of these bills. CalPERS sponsored bills  
13 have been introduced.

14 AB 2404, which is the retirement option  
15 simplification bill, and AB 2375, which is our annual  
16 technical housekeeping bill have both been referred to the  
17 Assembly PERS Committee and are pending being set for  
18 hearing. We anticipate that the bills will be heard  
19 towards the end of April. The Legislature goes out on  
20 spring recess this week on March 17th and will reconvene a  
21 March 28th.

22 Those bills that have been identified as  
23 potentially having the largest impact to CalPERS are noted  
24 in the legislative highlights portion of the lege summary.  
25 And as I noted, staff is currently in the process of

1 analyzing these bills. I'd like to highlight just a  
2 couple.

3 AB 2833 by Assembly Member Cooley is sponsored by  
4 the State Treasurer's office, and would require specified  
5 disclosures regarding fees and expenses in connection with  
6 limited partner agreements. CalPERS and CalSTRS are  
7 working with the Treasurer's office on this measure.

8 And AB 2348 by Assembly Member Levine would  
9 authorize the Department of Finance to identify  
10 infrastructure projects for the State, which the  
11 Department would guarantee a rate of return on investment  
12 for investments made in that project.

13 And AB 2283 by Assembly Member Calderon this is  
14 another divestment bill, which would prohibit investing in  
15 securitized rental home properties. We do anticipate that  
16 Assembly Member Nazarian will also try and move forward  
17 with another divestment bill, and we will be looking for  
18 that as bills are amended.

19 Finally, some updates at the Capitol. Assembly  
20 Member Anthony Rendon has been sworn in as Speaker of the  
21 House. We now have a new chair of the Assembly PERS  
22 Committee, Assembly Member Bonta is once again the Chair.  
23 And with this change in chairmanship, the Assembly hearing  
24 on divestment issues has been postponed until a later  
25 date.

1           And that concludes my update, and I am very happy  
2 to answer any questions.

3           Thank you.

4           PRESIDENT FECKNER: Thank you.

5           Mr. Jelincic.

6           BOARD MEMBER JELINCIC: On -- I'm going to pick  
7 on the Calderon bill because it's the one that happens to  
8 be open. But it requires CalPERS and CalSTRS to cease  
9 making investments. And I think that when legislators  
10 introduce bills requiring us to divest, if it's good  
11 policy, it ought to be good policy for all public funds.  
12 And I would encourage you to at least raise that issue  
13 with them. They may -- you know, they're going to do what  
14 they want to do. But if it's good policy, it's good  
15 policy. And if it's not good policy, then they should not  
16 be picking on us.

17           LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

18           Right. These are some of the things that we  
19 speak of when we work with the author's office.

20           BOARD MEMBER JELINCIC: Okay. Thank you.

21           PRESIDENT FECKNER: Seeing no -- Mr. Jones.

22           VICE PRESIDENT JONES: Yeah. Thank you, Mr.  
23 President. Yes, you -- could clarify for me on the issue  
24 of infrastructure. I thought I heard you say that the  
25 bill included identifying what the returns should be?

1           LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: It  
2 would require Department of Finance to guarantee a rate of  
3 return.

4           VICE PRESIDENT JONES: On --

5           LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: On  
6 those investments.

7           VICE PRESIDENT JONES: But that doesn't -- it  
8 isn't imposed on CalPERS?

9           LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: If  
10 CalPERS chose to invest in some of those projects, those  
11 projects would be guaranteed by the Department of Finance  
12 for a certain rate of return, not necessarily CalPERS rate  
13 of return.

14          VICE PRESIDENT JONES: Okay. Okay. Thank you.

15          PRESIDENT FECKNER: All right. Mr. Costigan.

16          BOARD MEMBER COSTIGAN: I was just going to say,  
17 I think Mr. Jones raised a great question. We could get  
18 Finance to guarantee it at 10 percent. But the question  
19 really becomes is it's the equivalent of a GO bond. I  
20 mean, it's taking our capital and investing it in  
21 infrastructure as opposed to taking a general obligation  
22 bond, because the rate of return is going to be  
23 substantially -- the State's guarantee is going to be  
24 substantially similar.

25          So it's actually one of the issues that we've

1    tried to talk about in the past is how to use our assets  
2    to invest in California.  Novel concept to have the State  
3    guarantee our rate of return, which needs to at least be  
4    seven and a half percent, so --

5               (Laughter.)

6               VICE PRESIDENT JONES:  And we'll give them a lot  
7    of money.

8               (Laughter.)

9               PRESIDENT FECKNER:  Mr. Jelincic.

10              BOARD MEMBER JELINCIC:  And again, on the same  
11    bill, I assume that the bill doesn't specify what the  
12    rated of return is?  It simply says the State will  
13    guarantee some rate of return, and then it's up to us  
14    whether to decide that it's an acceptable rate of return  
15    or it's not an acceptable rate of return.

16              LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

17              That's correct.

18              CHIEF EXECUTIVE OFFICER STAUSBOLL:  Yeah.  We  
19    also have many questions about how this would work.  And  
20    as things develop, we'll definitely be bringing it back to  
21    you for more discussion.

22              BOARD MEMBER JELINCIC:  Well, and we should point  
23    out to them that if we don't earn at least the assumed  
24    rate of return, we're falling further into the unfunded  
25    liability area, so that ought to become their minimum

1 guarantee, if they want us to do it.

2 Thank you.

3 PRESIDENT FECKNER: Mr. Slaton.

4 BOARD MEMBER SLATON: Yeah, just a quick note on  
5 that item. After spending 25 years in public finance, I  
6 find it interesting that a legislature can commit a future  
7 legislature to a guaranteed rate of return out into the  
8 future. So that's another issue to check into as well.

9 Bond issues, yes. But something that's not voted  
10 on by the citizens, that's a little challenging. Thank  
11 you.

12 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Thank  
13 you.

14 PRESIDENT FECKNER: Okay. Seeing nothing else,  
15 thank you.

16 Brings us to Item 12, Summary of Board Direction.  
17 Ms. Stausboll, I don't think there was any.

18 CHIEF EXECUTIVE OFFICER STAUSBOLL: Correct.

19 PRESIDENT FECKNER: All right. Brings us to Item  
20 13, Public Comment. We have two requests from the public  
21 to speak Mr. Al Darby and Mr. Neal Johnson, please come  
22 forward. And you have up to three minutes and please give  
23 us your name and affiliation for the record, please. And  
24 the microphones are live.

25 MR. DARBY: Good morning. Al Darby, vice



1 president, RPEA. We know that CalPERS has adopted the  
2 ILPA guidelines regarding private equity general partners  
3 fee structures for their limited partners. These  
4 guidelines are considered to be, by many, insufficient to  
5 guard against hidden fees and other abuses. Although  
6 private equity has outperformed other sectors in CalPERS  
7 portfolio of late, it's performance could potentially be  
8 much better.

9           As you know, private equity general partners are  
10 notorious for hiding fees, and they pass on to limited  
11 partners in less than transparent ways. The undisclosed  
12 fees are estimated to be as high as eight percent of the  
13 limited partner investment per year. This means that  
14 CalPERS may be losing one and a half billion to hidden  
15 fees. At least three major general partners have already  
16 been cited and find by the SEC for violations related to  
17 undisclosed fees.

18           We urge the CalPERS Board to direct the  
19 Investment Committee to include provisions in private  
20 equity contracts to ensure that complete audits can be  
21 conducted to determine that no unauthorized fees have been  
22 applied to the CalPERS account. One public pension board  
23 has already been sued regarding private equity hidden fees  
24 and its fiduciary duties related to them. We don't want  
25 to see that happen here.

1           Secondly, the standard 2 and 20 fee arrangement  
2 is not a rigid industry standard. Fee structures in some  
3 private equity contracts that are -- have been more  
4 favorable to limited partners. And those types of  
5 contracts have been negotiated in the past.

6           CalPERS cost factor for equity investments is  
7 approximately 60 basis points, a far cry from the 600  
8 basis points we may be losing in private equity due to  
9 their hidden fees and so forth.

10           We urge the CalPERS Board to direct the  
11 Investment Committee to rigorously examine current  
12 contracts for hidden fees and negotiate featured contracts  
13 with more stringent constraints on all fees and any other  
14 abusive practices.

15           Thank you.

16           PRESIDENT FECKNER: Thank you.

17           Mr. Johnson

18           MR. JOHNSON: Neal Johnson, SEIU Local 1000.

19           Normally, I come, I won't say, complaining, but  
20 commenting maybe negatively about some act -- proposed  
21 action. Today, I have a little different tact.

22           In February, at the stakeholder engagement  
23 meeting, I asked a question dealing with enrollment  
24 statistics and the health plans. And a few days later, I  
25 received a packet from the staff, and I want to thank Ms.

1 Falzarano and Mr. McKeever for -- and their staff for the  
2 work. And while it wasn't quite what I asked for, it was  
3 much better than what I'd asked for and I thank them very  
4 much.

5 (Laughter.)

6 PRESIDENT FECKNER: Thank you.

7 All right. Seeing no other requests to speak,  
8 then the open session we are going to adjourn. We will be  
9 moving to closed session to discuss litigation matters.  
10 For the rest of you, we will see you next month. Thanks  
11 for joining us. This open session is adjourned.

12 (Thereupon the California Public Employees'  
13 Retirement System, Board of Administration  
14 open session meeting adjourned at 9:41 AM)

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

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

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California.

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of March, 2016.



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