MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

ROBERT F. CARLSON AUDITORIUM

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400 P STREET

SACRAMENTO, CALIFORNIA

MONDAY, MARCH 14, 2016

9:30 A.M.

JAMES F. PETERS, CSR
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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, Mr. Ralph Cobb

Ms. Dana Hollinger

Mr. J.J. Jelincic

Mr. Ron Lind

Ms. Priya Mathur

Ms. Theresa Taylor

Ms. Betty Yee

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matt Jacobs, General Counsel

Ms. Natalie Bickford, Committee Secretary

Mr. Dan Bienvenue, Managing Investment Director

Ms. Kit Crocker, Investment Director

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

STAFF:

Ms. Anne Simpson, Investment Director

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

Mr. Terry Brennand, Service Employees International Union

Mr. Dan Crowley, K&L Gates(via teleconference)

Ms. Sandy Emerson, Fossil Free California

Mr. Allan Emkin, Pension Consulting Alliance

Ms. Janine Guillot, Sustainability Accounting Standards Board

Mr. Andrew Junkin, Wilshire Consulting

Ms. Mindy Lubber, Ceres

Dr. Jean Rogers, Sustainability Accounting Standards Board

Ms. Helen Russ, Fossil Free California

Ms. Deborah Silvey, Fossil Free California

Mr. Jai Sookprasert, California School Employees Association

I N D E X

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: Okay. We'd like to call the Investment Committee meeting to order.

The first order of business is roll call, please.

COMMITTEE SECRETARY BICKFORD: Good morning.

Henry Jones, Chair?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY BICKFORD: Bill Slaton, Vice Chair?

VICE CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY BICKFORD: Michael Bilbrey?

COMMITTEE MEMBER BILBREY: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

John Chiang?

COMMITTEE MEMBER CHIANG: Good morning.

COMMITTEE SECRETARY BICKFORD: Richard Costigan?

COMMITTEE MEMBER COSTIGAN: Here.

COMMITTEE SECRETARY BICKFORD: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY BICKFORD: Richard Gillihan represented by Katie Hagen?

ACTING COMMITTEE MEMBER HAGEN: Here.

COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY BICKFORD: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY BICKFORD: Ron Lind?

COMMITTEE MEMBER LIND: Here.

COMMITTEE SECRETARY BICKFORD: Priya Mathur?

COMMITTEE MEMBER MATHUR: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY BICKFORD: Betty Yee?

COMMITTEE MEMBER YEE: Here.

CHAIRPERSON JONES: Okay. Thank you.

The next item on the agenda is Executive Report, Chief Investment Officer Briefing, Mr. Eliopoulos.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific Good morning, Mr. Chair. Good morning, members of the Investment Committee. Pleasure to see everyone. Welcome to the March Investment Committee agenda today.

And while a few in a number of items before you today, we have some really meaty and important and terrific policy discussions to continue today. And in that regard, I think it's good to reflect on the fact that two and a half years ago, this CalPERS Board adopted our set of 10 Investment Beliefs. These Beliefs are intended to provide us with a basis for strategic management of the investment portfolio and to inform our organizational priorities.

As we often say, these Beliefs are not a check list to rotely be applied, that, you know, lead to an obvious answer in many cases, especially complex issues and complex policy issues. We have found though, I believe, that these Investment Beliefs are an impressive guide for making decisions that require balancing multiple interrelated decision factors. They provide context for CalPERS actions, they reflect CalPERS values, and acknowledge our responsibility to sustain our ability to pay benefits for our beneficiaries over the very long term.

We have two investment topics for discussion today that are complex and do require the balancing of multiple and interrelated factors. The first is the development of an ESG strategy for the next five years. And the second policy discussion that I would highlight is the development of a new divestment policy.

With respect to ESG strategy development, the ESG issues certainly are complex, they're evolving, and deeply impactful to CalPERS investment portfolio. The Investment Committee has established a very strong process for debate and dialogue as we consider where CalPERS should focus in our new strategy.

I am very confident that the new strategy that we are developing together fits squarely within the framework of our Investment Beliefs. I'm looking forward to today's discussion on ESG. We have two separate agenda items, 7a and 7b, devoted to ESG development, which will begin really momentarily after this discussion.

With respect to the divestment policy, it, too, is a complex topic, and one that has evolved over many decades at CalPERS. CalPERS policy with respect to divestment has been consistent over time. Our policy discourages divestment in favor of constructive engagement to -- in order to improve our long-term investment performance. Our newly adopted Investment Beliefs support and reinforce that policy of engagement over divestment. Indeed, divestment within our investment portfolio is and has been a rare exception within our investment portfolio.

I think the proposed divestment policy does a good job of framing the Investment Beliefs, including references directly to many of the Beliefs, but including Investment Belief 7 with respect to our views on risk, and number 3, regarding our views with respect to engagement with our stakeholders. And we will continue to provide a very strong framework to consider divestment initiatives that, from time to time, arise within this complex milieu that we operate.

What the divestment policy has lacked over the years is an approach or mechanism to address really how to monitor or deal with the underperformance of those rare occasions where CalPERS has decided to divest from particular securities.

Currently, CalPERS has four divestments within the portfolio: Firearms, Iran, Sudan and tobacco. This reflects our policy and now our Investment Beliefs framework of discouraging divestment. It's rare and few that this Board has adopted divestment as an investment strategy.

In January, at our off-site, the Board's fiduciary counsel, the Board itself, and staff reflected on CalPERS experience to date with divestments, and underscored a need to deal with our existing divestments and potential future divestments, and their individual and collective potential to harm our investment portfolio. We must address it, and it should be reflected in our policy.

We had a very strong policy discussion last month, and today's second reading includes improvements to the loss mitigation provisions of the policy. We always welcome and -- we always welcome stakeholder feedback and we learn from that feedback and the policy discussions that develop from that discussion. And that is why this Investment Committee directed that we have three readings of this divestment policy in order to encourage that discussion. And certainly we as staff will listen carefully to all stakeholder comments with respect to this policy.

In closing, I do not believe we have the option of not addressing the investment impact of divestments within the investment portfolio. I believe the loss mitigation approach is beneficial and protective of the System. If that approach does not come to final fruition over the coming months, we will need to put in place an alternative to review the current divestments within the portfolio going forward, and that would -- and that review would need to occur in the very near term.

While this process may bring up the tension of conflicting policy goals, our Investment Beliefs provide an excellent framework to address this tension, and, in fact, require that we address and confront these policy tensions.

We have a terrific agenda in front of us today, Mr. Chair and Committee, and that concludes my remarks.

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

Next item on the agenda is action consent items. Do we have a motion?

COMMITTEE MEMBER MATHUR: So moved.

CHAIRPERSON JONES: Moved by Mrs. Mathur.

COMMITTEE MEMBER YEE: Second.

CHAIRPERSON JONES: Second by Mrs. Yee.

All those in favor?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none. The item passes.

Next item on the agenda is consent information items.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I had a question on 4b, next month's agenda. And I noticed that Item 8 is the business plan the investment cost effectiveness. I assume that's the CEM report, is that a fair assumption?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Wylie Tollette, CalPERS Investment Office staff.

Yes, that's correct, Mr. Jelincic. That is the CEM report.

COMMITTEE MEMBER JELINCIC: Okay. I would like to request that the entire report be made part of the agenda item, and that we talk to CEM about actually coming in and presenting their report, so we get them presenting, rather than you presenting your summary of their report.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We can -- we're happy to take the Chair's direction on that request. By way of reference, CEM generally does not sort of make their entire reports part of the record of the different public plans that they provide services to. But we're certainly happy to make that request if the Chair directs it.

CHAIRPERSON JONES: Okay. Why don't we take that off-line and see what's involved and get back to Mr. Jelincic. Okay.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Thank you.

Okay. So the next item on the -- those -- nothing else there, we'll now move to -- we had requested that we take up Item 7a and 7b at this time. So let's go to 7a. And we're taking 7a and 7b out of order. So we're going to deal with them now and then we'll get back to our regular agenda.

But before we start on 7a, I would just like to indicate that CalPERS has a long-standing commitment to S -- ESG investment. We took time and care to fully integrate the relevant issues into our Investment Beliefs. We have much work to be completed. Now, we're turning the page and starting a new chapter.

Today, the Investment Committee will be considering the important issue of data and accounting standards in our investment strategies on ESG. Our first speakers today are from the Sustainability Accounting Standards Board, SASB, Dr. Jean Rogers, Chief Executive, and Janine Guillot, Director of Capital Markets Policy Outreach.

We appreciate the opportunity here by SASB's work. This will help set the seen and give real insight into the discussion we're having on CalPERS's future strategy on the integration of ESG into our investment strategy. I will turn now to Ted to introduce this item.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Thank you so much, Mr. Chair. I'll be very belief in this introduction. But I think it very important to underscore that this order of presentation having this really unique opportunity to hear directly from our guests from SASB is very intentional to have this presentation first, as we kick-off our in-depth review of ESG integration and our strategy for ESG integration for the next five years.

As we'll see in Agenda Item 7b, that follows this presentation, accounting standards are a key foundation -- a key foundational element to our proposed ESG strategy going forward over the next five years. You will see that very clearly in our presentations that follow.

CalPERS has a multi-decade experience and expertise in working with relevant public bodies on accounting standards development and adoptions for financial information. This experience and work over the decades by CalPERS has been both here in the United States working with the SEC and FASB and also internationally. We believe, at this point in time, it is crucial for the development of accounting standards for material ESG issues. SASB is a very important part of that solution, and we are just thrilled to have Janine Guillot here today, as well as Dr. Jean Rogers. And I'm going to turn it over to our good friend Janine to begin the presentation.

(Thereupon an overhead presentation was presented as follows.)

MR. GUILLOT: Thank you. Thank you.

Thank you, Ted, and thank you to the Investment Committee for inviting us to speak today. Before I introduce Jean who's going to speak about SASB in depth, I want to talk about why I joined SASB and why the work of SASB is critically important. And it's really a pleasure to be doing that here today, because it's the work that we did at CalPERS on Investment Beliefs that led me directly to SASB.

I learned so much at CalPERS. And the most important thing I learned is how different a pension fund is from a money manager, which was my prior experience. And a money manager, the definition of success is usually to generate alpha. And it's is to generate alpha over relatively short time period three, five, maybe ten years.

At a pension fund, the definition of success is to pay liabilities, and it's to pay liabilities over a very long time horizon, 50, 75, 100 years.

The things that are going to drive the fund's ability to pay benefits over such a long time horizon are going to be the strategic asset allocation, the market returns for each of the asset classes, and the ability to manage risk effectively to present -- to prevent a large drawdown.

So it was really understanding this, and understanding this at a really gut level when you've been through a couple of asset allocation processes, that really made me interested in what factors drive long-term returns. And that's long-term returns both at an individual company or an individual asset level, and long-term returns at the overall macroeconomic level, because those market returns are so crucial to paying liabilities.

So that's when I moved from being a skeptic about whether ESG factors should be incorporated into investment decision making to believing that ESG factors must be incorporated into investment decision making for long-term investors.

And that's because ESG factors can give insight. They can give insight into how effectively a company is being managed to deliver long-term performance, and they can give insight into company's impact on overall long-term economic growth.

But although I came to believe that ESG factors should be incorporated into investment decision making for long term investors, that statement is really aspirational. And it was aspirational two and a half years ago, when we developed the Investment Beliefs, and it's still aspirational today.

The reason it's aspirational is because to incorporate ESG into investment decision making, in a rigorous and scalable way requires data. And it requires data that's reliable, that's relevant, and that's comparable. And that kind of data does not exist today, and that's the gap that SASB aspires to close.

So SASB was formed to set market standards for disclosure of sustainability information to investors. We're focusing on identifying sustainability disclosure topics and metrics that are material, that are decision useful, and that are cost effective for companies to provide.

And very, very importantly, SASB standards would enable companies to report comparable information, so that performance can be benchmarked, because what we envision is a world where companies compete to improve performance on sustainability metrics, just like they compete to improve performance on financial metrics today. And that's only going to happen with your help, so we are advocating for voluntarily adoption of the SASB standards. We are a non-profit. We are not a regulator, so large investors like CalPERS have a huge role to play which is to publicly support the need for the SASB standards, and to advocate, engage with portfolio companies to advocate for their adoption.

Widespread adoption of the SASB standards would give investors and companies a common language for talking about sustainability performance, just like accounting standards give companies and investors a common language for talking about financial performance today.

Widespread adoption of the SASB standards would enable integration of ESG into investment decision making with rigor and at scale. The result will be better outcomes for society, better outcomes for long-term investors, because at the tend of the day what gets measured is what gets managed.

So I'm very, very pleased to introduce Dr. Jean Rogers. Jean is the founder and the CEO of SASB, and she's absolutely extraordinary. She built SASB from an idea in a research paper to an organization that has issued provisional sustainability accounting standards for 10 sectors and 79 industries.

And she's going to speak today about the depth and the breadth of SASB's work, and then dive deeper into our findings on climate risk, because we know that the environment and climate is really the primary focus of today's meeting. So thank you very much for your attention and I'll hand it to Jean.

DR. ROGERS: Thank you, Janine. Thank you to Mr. Eliopoulos and to the staff and thank you to Chair Jones and members of the Investment Committee. Janine and I are honored to be here today and to share with you the work that we're doing at the Sustainability Accounting Standards Board.

I'm Jean Rogers and I am the CEO and the founder of the SASB.

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DR. ROGERS: And our mission is to increase the efficiency and the transparency of the capital markets through improved disclosure on material sustainability factors. As Janine said, data is what drives investment decisions to truly integrate this. And the data that is needed by analysts and investors does not currently exist in a decision-useful forum, and that is our mission at

SASB.

Our vision is that any investor can type in a ticker and pull up sustainability fundamentals right alongside financial fundamentals, and be able to evaluate financial performance in the context of the social environmental implications of those operations.

So we work at the industry level. We are developing industry-specific standards for ten sectors and 79 industries. In three weeks, we'll be complete. We will have our full set of provisional standards complete and available for us by the market.

Like FASB, we are independent 501(c)(3) standards setting organization. We are also accredited by the American National Standards Institute to set standards for sustainability disclosure.

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DR. ROGERS: Our Board is very committed to transforming the capital markets to be able to recognize and act upon these material factors. And so we have policymakers, investors, leading members of the corporate and investment community who are guiding us to achieve our mission and to integrate SASB into the fabric of the capital markets.

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DR. ROGERS: SASB was founded in 2011 as an outcome of research that was done over many years at the Initiative for Responsible Investment in the Kennedy School of Government at Harvard University. My esteemed colleague Steve Lyndenberg, David Wood and I, at the time, set out to understand why there was so much disclosure happening. And even in 2006, there was a proliferation of sustainability reports, but not a lot of uptake or use by the investment community.

Furthermore, what was truly disturbing to us was that companies were getting awards for sustainability reports for how they looked or what they were communicating, but not for improving performance. There weren't targets being set, and companies weren't actually working towards achieving sustainability objectives. So we felt that something must be missing from this situation.

And as we did our research, we realized that it was really very simple. Sustainability reporting was not being done through an industry lens, so that financial analysts who evaluate companies in the industry context were not able to use that information. And the really fundamental piece that was missing was the ability to benchmark and compare performance.

And so our research set a path forward to looking at sustainability issues through an industry lens and to arrive at a prioritization of what was likely to be material and the best way to characterize performance, so that it could be benchmarked. This ability to compare performance is what creates a race to the top. It is also what enables investors to drive capital to the most sustainable outcomes.

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DR. ROGERS: And so the promise that SASB has made to the markets and has been delivering on for the past several years is that our standards would represent material factors. And by material, I mean likely -- issues that are likely to affect the financial condition or the operating performance of a company. We also hold the principles of decision useful and cost effective at the center of our standard-setting process. And our processes is also evidence-based and market informed.

So we are not and advocacy organization. We are not putting issues on the table that we believe should be disclosed. We are setting standards for topics that the market believes are likely to be material, and where there is reasonable evidence that management or mismanagement of these topics will affect the financial condition or operating performance of a company or, in some cases, of an entire industry.

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DR. ROGERS: And so what we are doing at SASB is taking the full universe of possible sustainability issues that could impact a company or an industry and looking at where they manifest themselves and what form they take and whether or not they are likely to be material. And so essentially at the heart of it we are prioritizing which issues are material and then setting standards for disclosure industry by industry, but we start with the full set of potential sustainability issues every time we approach a new industry.

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DR. ROGERS: We are designed for integration into the mandatory public filings that companies make to the Securities and Exchange Commission. This is a very important part of our approach, so that the information is not only brought to the attention of senior management and signed off on by the CFO and the CEO, but so it is integrated into the fabric of the capital markets of the information that is available to investors through the standard channels. So like the FASB and the standards that govern the disclosure of financial information, SASB standards are intended to slot into the MDNA section and other sections that are appropriate of the standard filings to enable comparable, rigorous, reliable disclosures without and added burden or expense of needing to do it in a separate report.

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DR. ROGERS: We like to say that the law is on our side at SASB. There is a regulation SK that requires material information to be disclosed to investors, and we are working within securities law and the SEC's definition of materiality to make a determination about what is reasonably likely to be important to an investor and therefore a standard for disclosure is warranted.

This is a very high bar, and this is what we spend our time at SASB doing, research on the evidence that substantiates the likely materiality of these factors, and then vetting this with industry-working groups.

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DR. ROGERS: But I think it's important to understand that no rule-making is required to implement SASB. In fact, the rule does already exist, regulation SK. What happens today is that the disclosures, because there isn't good guidance and there isn't good standards on how to disclose this information, compliance is often met through boilerplate statements or risk factors that are not decision useful for investors. In fact, 70 percent of the information that is in the SASB standards is already addressed in the 10-K, in the mandatory filings in some form, but the majority of that with a boilerplate statement

And so at SASB, we are very committed to being a market driven response, meeting the needs of issuers and investors. There is pain on both sides of the equation. Issuers are beleaguered by questionnaires, and what they would call disclosure overload. And they also have no ability to benchmark their performance and understand how they are doing against their peers.

Investors, as we spoke about, need that comparable data for benchmarking and to be able to integrate these decisions into very traditional investment analyses, whether it's portfolio construction, engagement or valuation decisions.

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DR. ROGERS: We have had, by intention, very balanced participation in our standard-setting process and very broad participation in that process. Under ANSI requirements, we need to have run an open, balanced, transparent process. And so we actively recruited members of the investment community and of the corporate community to weigh-in on material sustainability factors, and to participate in the standards process.

We've had over 2,800 participants in the process to date, investors representing 23.4 trillion in assets under management, and 11 trillion in market cap for the corporate participants.

We try to really keep it balanced, a third corporations, a third investors, and then a third other types of stakeholders, including public interest and intermediaries. And this is to ensure that the standards are really for the market and by the market.

Our process was quite rigorous, and it is getting even more rigorous. In fact, Bob Herz, who ran the Financial Accounting Standards Board for many, many years is now on our board at SASB and is helping us to strengthen our standard-setting process as we finish our provisional phase standards and go into codification. But every -- it's important to note that every industry has had a full 18 months of development from research to vetting with industry working groups, to a 90-day public comment period, and reviewed by an external independent standards counsel.

We will be now going into a phase, now that we're finished with the full 79 industries, going into a phase of deep consultation on those standards with industry and analysts, and then preparing for a codification, so that we can maintain the standards across the 79 industries, according to market feedback, and be responsive to emerging sustainability issues, better science, better metrics and so forth.

So we are several weeks away also from putting forward for public comment a new version of our conceptual framework, which are the principles that guide our process, and a rules of procedure, which will be the standard-setting process that will, in steady state, governor our standards maintenance process going forward. So that will be out for a public comment for 90 days, and that will be the process that we take forward in 2017 for codification.

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DR. ROGERS: Everything that's in the SASB standards has a link and a demonstrated link to financial performance. And this is the core work of the analysts at SASB. We have a team of 27 people in San Francisco, about half of them are financial analysts now dedicated by a sector to understand the issues that are likely to be material, and to identify what is that link to financial performance is management or mismanagement of this topic likely to affect revenue, operating costs, the value of assets or liabilities or potentially the cost of capital.

What would be the type of adjustment that a financial analyst would make with a view towards this information? And so that is the work that our team does to understand and to gather evidence that these topics are likely to be material

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DR. ROGERS: Once we have that information, we vet it in the working groups. And what's fascinating to me and, in fact, was very surprising to me was the very high level of consensus that we had in our working groups. You see the red dots are what investors thought about the materiality of these topics, and the blue dots are what the companies in the working groups thought.

These are different participants in every sector. This is not a homogenous group of people that have the same views generally. Every single sector had different investors and different companies, and yet we had a very high degree of consensus that these topics were likely to be material and warranted a standard.

And so if we didn't see greater than 75 percent consensus that a topic was likely to be material, we did not take it forward in the standard-setting process.

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DR. ROGERS: We are very encouraged by recent research that has come out of Harvard Business School to look at the materiality of these factors. Professors Khan, Serafeim, and Yoon produced a groundbreaking study looking at the materiality of sustainability factors.

You may be familiar with research. In fact, there have been hundreds of papers done over the past two decades or so looking at the correlation between financial performance and sustainability performance, and really attempting to either prove or disprove that sustainability information. It makes a difference in financial performance.

And none of those -- none of those studies corrected for the materiality of the factors by industry. So all of them used available data, either on environmental characteristics or social characteristics or some proxy for sustainability performance and used the same data across every type of company in every industry.

So those studies would dampen out the effects of where an issue is highly like to be material by considering that same data in industries where it is not likely to be material.

And so now with our view towards the importance of materiality, this is one of the first studies that looked at different factors by industry, and looked at the materiality of those factors. What it found was that firms that performed well on material sustainability issues were highly likely to outperform their peers six percent analyzed alpha over a 20-year period of the study.

They had to use proxies for performance, because the SASB data is not yet available, but they did use an old KLD data set. If any of you -- I'm sure the staff are familiar with KLD data. It is one of the best data sets with a long history. And what these researchers did was use the SASB framework for which topics are likely to be material and which ones were not.

They did find actually that 80 percent of disclosures are immaterial to investors. Now, that does not mean that they are not important to other stakeholders. It's important to understand that companies have many stakeholders. Investors are not the only ones, but investors need to understand which disclosures are material in the financial sense. And so that is what the SASB standards help investors to do.

So we're very heartened by the results of this study, and I am sure that there will be many more -- much more research on the materiality of these factors.

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DR. ROGERS: Robust standards are -- come from not just identifying the factors that are likely to be material, but ensuring that the technical protocols allow for disclosure in a comparable way. Companies are using similar methods, similar boundaries. And in our standards, once we identify a topic that's material, we look for the best metric for disclosure, and particularly search for ones that are already in use by companies. And so we draw from metrics from over 200 organizations in the standards across the 79 industries, and that includes organizations like the EPA, like OSHA, like the Global Reporting Initiative, and industry associations like IPIECA, who do oil and gas standards, EPRI who do standards for utilities.

We are a metric meritocracy. We look for the best metric that's out there, because that's what keeps it cost effective for companies. If they're already measuring and managing, we say that's material, get it in your 10-K.

Eighty to 85 percent of the metrics that we reference in standards are already in use in some form and come from some other standard that has already been promulgated.

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DR. ROGERS: And so I think investors and companies are beginning to understand the SASB difference, which is that there is a very small set of factors that are highly likely to be material. On average five topics per industry just 14 metrics. And each sector, each industry has its own sustainability profile, its own unique characteristics about what is important to disclose and what we need comparable data on.

For example, in pharmaceuticals and biotech, you'll see topics like safety of clinical trials and the potential for exposure to counterfeit drugs, which is very important material topic. There are 100,000 deaths a year from counterfeit drugs. And it's a $431 billion industry, but you cannot find disclosure on which companies are at risk or which ones have been affected by counterfeiting.

And so these are the issues that emerged through the process. You won't find those issues in pharma and biotech in oil and gas, but you will find issues like fracking and the potential for stranded assets in oil and gas. You won't find those issues in real estate.

And so each one has its own very unique characteristic. And I think the important takeaway is that no industry is immune to sustainability factors. It's just a matter of which ones are material and how can we best describe them to make them actionable?

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DR. ROGERS: And so these are the major themes that you will see now. We can see these incredible patterns emerging from doing this work for the first time industry by industry. And remember that we built these standards in silos, different people in the working groups, independent research on what was likely to be material. And we didn't set out to prove that climate change was a material issue or that product safety was important. This is what emerged from the evidence-based consensus driven process.

Climate risk is the most ubiquitous issue. It affects over 93 percent of the U.S. capital markets. It is present in some form in 72 out of 79 industries. And I'll talk a little bit more about that, but some of the other issues include product alignment and safety; resource intensity and scarcity, which is also related to climate risk, and includes water, resources. And then access and affordability of services is another common theme that manifests itself in several industries, as is financing and responsible lending.

The top three themes affect more than 50 percent of a typical diversified portfolio. This is important, because it is rarely possible to diversify away from these issues that are so ubiquitous, and therefore you need to care about the outcomes.

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DR. ROGERS: Climate risk, as I said, affects 72 out of 79 industries in some way. But the form that the risk takes is very distinct and unique industry by industry. It can be as diverse as whether health care facilities can handle increased patient loads and are able to maintain business continuity during increased storm events. It can be as different as carbon intensity of the reserves in oil and gas. It includes things like the vulnerability of real estate due to the geographic location or the quality of the building stock, to impact on crop yields, and water supply.

And, of course, financed emissions in both -- in banking, and the vulnerability of a portfolio in insurance, these are all related to climate risk. But what an analyst needs to know about how well positioned a company is, or whether or not an industry is vulnerable, is very different.

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DR. ROGERS: And this is what we do as SASB. So we breakdown a risk like climate and say, okay, in real estate, here's what you need to know and here's a very specific metric that companies can all agree on and be compared in terms of how they are managing that risk, energy consumption of the portfolio.

In process foods, it might be something as specific as water management and the total water that's withdrawn and whether it comes from water stressed regions.

In oil and gas, we point to methods that are now available to do reserves valuation and capital expenditures. Those come from carbon trackers work. In electric utilities, it is greenhouse gas emissions. And those methods that we point to come from CDP and their work on greenhouse gas emissions protocols.

So this gives you a sense of the very specific metrics that are in our standards and the differentiated data that analysts need to compare peers within an industry and how well positioned they are to manage climate risk.

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DR. ROGERS: We have outlined this system with -- specifically with respect to climate risk in a technical bulletin that I know has been shared with the staff. The -- and it is a working document, which is now out for public comment. And we are working with many organizations to make sure we have alignment on the types of climate risk, including Ceres, including CDP and others who have been working in this area for a very long time, so that we can all be using the same language about what types of risks are actually present to investors, and where are they, and what is the financial impact.

So our bulletin outlines our work in that area and we'll be working with other partners to make sure we have alignment. And we welcome comments and feedback from the CalPERS staff on that.

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DR. ROGERS: And you'll see in the bulletin that every type of risk has been mapped to the 79 industries. And what's quite interesting is that the most ubiquitous risk is actually transitioned to a low carbon resilient economy, so that those industries can be competitive and can access capital going forward. And physical effects is the next prominent type of risk. And climate regulation is actually the least prevalent. It's present in about 20 percent of the industries.

But this mapping is essential to understand which types of disclosures are relevant, and, of course, in support of. The ICC has issued guidance in 2010, which Ceres was a big part of on climate risk and recommending to companies that they begin to disclose this.

Our work takes that forward to the next level, so that any investor and policymaker can understand which types of disclosures should be present in which industry.

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DR. ROGERS: And to give you a sense of where disclosure is, and, of course, Ceres and others have done such a great job of really understanding the current state of disclosure and what's happened since that 2010 guidance. But we are also characterize the nature of these communications. And you can see that more than 50 percent of climate risk is not well disclosed. There's either no disclosure or boilerplate statements on this type of risk. And that is not decision-useful for investors. Even where there's an industry-specific disclosure or something that uses metrics, it's not comparable, because everybody is doing it in a different way.

But this is what the current picture looks like, and investors need much better data quality and more specific characterization to be able to act upon that information and price the risk -- understand and price it.

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DR. ROGERS: And so this just gives you an excerpt from that particular bulletin that shows you the very specific types of climate risk by industry. This is a page from electric utilities, what are the metrics that are recommended for disclosure to have peer-to-peer comparison on the relevant risk, the units of measure, and the alignment or the source of that metric, whether it comes from CDP or GRI or, in this particular case, EPRI also has a number of great metrics.

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DR. ROGERS: And so in summary, with respect to climate risk, the takeaway is that our work has found that it is systemic in nature. And when I say that I mean that it affects more than 50 percent of a portfolio. It affects 93 percent of a typical portfolio.

And therefore, other type data and information is needed to understand and begin to manage that risk as an investor. It is different industry by industry. It requires specialized disclosures for analysts to be able to make assessments within peer groups. And it has tangible, identifiable financial implications, whether that is tied to revenue projections, operating expenditures that are needed to comply with regulation, or a cost of capital adjustment because of the vulnerability and volatility of this risk in certain industries, and it is not adequately disclosed today.

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DR. ROGERS: So our standards are beginning to get worldwide attention. They are downloaded -- they've been downloaded 55,000 times for the ones that are currently out. And the majority of that is in the U.S., but 30 percent of the downloads are coming from other markets, particularly from the EU, where there is actually regulation now that would be going into effect where companies need to disclose their sustainability impacts. And our standards are very supportive of that regulation and give companies a way to do that in a way that is also cost effective, and integrated into their mandatory filings.

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DR. ROGERS: And so to summarize, market standards are very important. They are something that we do take for granted. We didn't always have standards for financial information. There was a time when the companies thought having standards for financial information would put them at a competitive disadvantage or somehow make them disclose proprietary information. And now, of course, we take for granted that we are able to get investor grade, high quality information on financial parameters.

And that is the state that we need to get to with sustainability information, which is not non-financial, by the way. It is tied to financial information, forward looking, but we work in a language that is different from financial currency. We work in a language of environmental impacts and social impacts. And these are leading indicators of what will eventually manifest in the financials.

So our standards are designed for use by investors, supplying information that's material, decision useful, and cost effective. And they've been developed through a rigorous process that's evidence based, transparent, and has involved broad market participation.

And we are strengthening that process with the -- under the oversight of Bob Herz and our board committee on standards oversight. And we are really aiming to make this a part of the market infrastructure, so that investors can have the information that they need to drive capital to more sustainable outcomes.

Thank you for your time today.

CHAIRPERSON JONES: Okay. We have a few questions.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: In your presentation, I actually tried to interrupt you at the time, you said NASI[sic] requires openness. Who is NASI, and why is that significant?

DR. ROGERS: I think what I intended to say was that the American National Standards Institute, or ANSI as they go by, has a process for standard setting. And we are accredited to set standards, so they can audit us and we are following a process that they have approved. And they have principles for standard setting that include openness, balance, transparency, so that the standard setting process is credible and defensible and market based.

COMMITTEE MEMBER JELINCIC: Okay. And then I had some questions. On page two and eight of your presentation - and you don't have to go there - you talk about materiality. And you were -- you're saying we're going to use the Supreme Court standard of materiality, except the Supreme Court standard is if you don't disclose it, it basically constitutes fraud, which is not a very high bar.

FASB is looking at moving to that standard and getting a lot of push back from investors, because things can be material. They can influence people's investment decisions well before they reach the level of fraud. So my question is why are you looking at that standard rather than FASB's current standard?

DR. ROGERS: That is an often cited case, the TSC versus Northway case. Although materiality is -- as you know, it's not a bright line definition. It is contextual and it is something that an entity needs to make a determination on. But the SEC provides other guidance, and we look to not only the Supreme Court definition, but the SEC's Bulletin 99, which is on materiality.

And their further guidance I think provides more clarity on this, which is that an item is likely to be material if it will affect the financial condition or the operating performance of a company. And the SEC's guidance also cites the Supreme Court cases in it, which consider the total mix of information that would cause an investor to change or influence their decision to buy, hold, or sell a stock.

How we look at this materiality landscape at SASB is what is likely to rise to the level that it warrants disclosure in the form 10-K to an investor. And so we look at two aspects of materiality when we determine whether a topic is likely to be material. One, can we see a demonstrated link to financial implications, have companies been affected in a financially material way, are entire industries facing a changed outlook because of a factor or a challenge that they're facing, is it of sufficient probability and magnitude that companies should be disclosing this?

So one very central aspect of making that determination is looking at the link to financial performance and the probability and magnitude of that. The other aspect that we look at is investor demand for the information, meaning are investors asking for it, are they interested in this topic, are there shareholder resolutions, are there other means by which investors are requesting this information?

And taken together, that gives us a view into whether or not it would affect the total mix, and whether management or mismanagement would affect the financial condition or operating performance.

So we do consider a range of factors and a range of guidance, all of which are the same guidance that the

SEC would look at to make a determination about whether or not it should be in the 10-K.

COMMITTEE MEMBER JELINCIC: And on slide 14, you talked about the Stanford -- or the Harvard working paper. And they also found that 80 percent of disclosures were immaterial. I assume that that is -- that they weren't necessarily material to a specific company that was disclosing it.

DR. ROGERS: Yes, exactly. And a further caveat, that they were not material in the sense that there was no correlation to financial performance. That does not mean that those disclosures were not important to other stakeholders or important in other ways. So this was very specifically the financial materiality lens

COMMITTEE MEMBER JELINCIC: But it's for a specific element --

DR. ROGERS: Yes.

COMMITTEE MEMBER JELINCIC: -- for example clinical safety trial --

DR. ROGERS: Yes, safety of clinical trials.

COMMITTEE MEMBER JELINCIC: -- would be important to pharmaceuticals, but immaterial to paper company?

DR. ROGERS: Yes. No, this is -- they did -- so this is what was very unique about this study, they would not look at safety of clinical trials for a paper company.

So for a paper company, they looked at things like water use or environmental implications, but -- and they looked at safety of clinical trials and performance data only for those companies where it was likely to be material.

COMMITTEE MEMBER JELINCIC: So they -- and this working paper, they looked -- they eliminated any disclosure that they didn't think was material to that specific company and still found 80 percent of the disclosure immaterial?

DR. ROGERS: If I can kind of summarize, so the researchers took a framework that is actually based on the SASB framework, which takes factors that are likely to be material and then they went back and looked for performance data that could be a proxy for how well companies were managing those factors over a couple of decades.

And then they correlated performance on the sustainability factors to their financial performance and looked at whether or not there was any correlation. And they found that companies that performed well on material factors, and performed poorly actually on the immaterial factors were the ones who outperformed financially. So they looked at everything for every company.

COMMITTEE MEMBER JELINCIC: And then you talk about this being a non-regular -- non-regulatory.

DR. ROGERS: Yes.

COMMITTEE MEMBER JELINCIC: Then you talk about it being -- going into mandatory filings, and there seems to be a little tension there. Can you comment on that tension?

DR. ROGERS: The best way to mainstream integration of ESG is to get it into the mandatory filings that -- which is a conduit for investor information. And what I mean by -- that it is voluntary in terms of its use, but it is designed for integration into the mandatory filings, which is governed by regulation SK, enforced by the SEC.

The standards that companies use to -- let's start with the standards that they use to describe financial information are actually mandated by the SEC. They must use GAAP, so you can't use anything you want to describe your revenue or profit.

Today, you can to anything you want on sustainability and still comply with the law. And that is why we have a broad range of quality of disclosures, because there isn't a standard. Use of the standard is voluntary to describe these effects, but it is -- the law does compel companies to disclose what is material. It doesn't tell them how to do it.

COMMITTEE MEMBER JELINCIC: And one last

observation, I will share with you some advice I once gave Janine, and that is sometimes you need a 4x4.

(Laughter.)

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

Thank you, Dr. Rogers for the wonderful presentation. I'm sitting here quietly excited --

DR. ROGERS: Thank you.

COMMITTEE MEMBER YEE: -- about just this great body of work. And obviously, part of the frustration to date has been not having, you know, just robust information specialized information by industry, so this is just really tremendous that we'll have this to rely on.

I also want to thank our staff, because as you indicated, a lot of that has evolved because of investor demand. And certainly an engagement that we've had with companies have suggested that, you know, the time has come for this work to be completed and for the standards to be utilized.

I wanted to just comment about -- I guess to follow up on J.J.'s question. Because the standards are voluntary, how do we anticipate, I guess, really having companies embrace them? And I mean what do you see -- and maybe this is maybe for Anne and Dan going forward, but what do you see as kind of the chronology of events with respect to how the engagement may change. I know internationally we've got the ISB that's looking for some guidelines. And I think a lot of what you've developed has been probably something that they would embrace. But just how do you see things changing going forward, to just get a full embrace of these standards?

MS. GUILLOT: I'd love to hear what Anne has to say on that, but I'll take a start.

I think the key first step is for investors to actively engage with companies and ask for companies to engage in our process and support the concept of a market standard. I think that's the most important first step is that both investors and companies support the idea for a market standard.

I think the next step is then to support SASB as that market standard, and to engage in the process of codification that Jean mentioned to finalize the standards.

I think it's also critically important that investors begin to use the standards. And even though companies aren't reporting using them today, so you don't have the exact metrics, we have feedback that the -- particularly the materiality framework is really useful for framing how to think about portfolio level risks.

And so I think it's very important for investors to start using the standards and thinking about how they would integrate the information into investment decision making. And there is the ability today to map some existing metrics that are reported into the SASB framework, so that people can start to do what-if modeling and some portfolio construction. But I'd love to hear what Anne has to say.

INVESTMENT DIRECTOR SIMPSON: Thank you very much, and thank you for the question. I think we have a framework evolving, which CalPERS has been delighted to participate in the building of this framework. The question is we don't want this all dressed up and nowhere to go. And we have a twin track, which we'll talk about in the proposed new strategy, but essentially what we think is we have a voice as an investor to start getting companies to pick it up, but we must have regulation.

Because if it's a pick and choose, do the bits you want to do, if it's some companies or not others, we lose the market-wide benefit of comparability and consistency.

So you'll see when we come in a minute to talk about what we'd like to propose, a discussion with the Board on climate change, you'll see that we see corporate accounting as a floor. And we're saying the model we want is a floor and a ladder, but we want a minimum floor of reporting, not just in U.S. 10-Ks but also globally, and we map out a path for that.

So it may not be that SASB can call for regulation, but in our advocacy work that's something we could be, in our opinion, as staff should be doing.

DR. ROGERS: Controller Yee, thank you for your question. If we -- there may be a bridge to regulation, which is through enforcement. And even now, disclosure of material information is not necessarily enforced by the ICC to the extent that it could or should be.

And if Mindy has done quite a lot of work -- Ceres has done incredible work in looking at the current state of enforcement. And I think we can see from that, that the SEC may need some encouragement in that regard. But in their defense, the patterns of risk and our understanding of what climate risk in particular looks like are really just beginning to emerge. And it is a complex picture, and it does break down by industry. And we live and breathe this every day and have been doing extensive research and drawing on decades of work and standing on the shoulders of incredible organizations that have been studying this.

I'm not certain the SEC examiners are following this as closely as we are. And they are the ones that read the 10-Ks and need to be able to recognize poor disclosure versus high quality disclosure, and make comments back to companies. And so I think that is something that potentially we and Ceres can help with educating the SEC examiner, so that they are able to recognize these factors.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah. And the only thing that I would add to that is really your question is a really insightful one and it really underscores just how heavy a lift this is, which is why we really want to focus on it, is that it -- you know, you're talking about bringing issuers and investors together and sort of agreeing on standards. You're talking about getting these standards then not only for the U.S. marketplace but global, which we all know how complex that can be.

Then from there working towards regulation and getting it mandated, it's really, really a heavy lift. We think that the touchpoints that the standards have in terms of so many topics that are not only important from a policy standpoint to our -- you know, to ourselves and to our Board, but also very important as investors. This is a time to focus on this heavy lift, but it is a very heavy lift. That's a great question.

DR. ROGERS: And I think we should also remember that from a company's perspective, they are compelled to see the benefits for a standard, because currently they do, in many cases, hundreds of questionnaires a year on ESG factors, and they are beginning to be concerned because there's no controls on that information. It's going out the door from several different places within organizations. And selective disclosure is a problem under Reg FD. And companies are increasingly becoming concerned that the questionnaire process is perhaps not the most effective way to tell their story and to get both credit for where they're doing well, but to convey material risks.

And so if they -- instead of doing hundreds and hundreds of pages of questionnaires throughout the year, putting in place effective controls on a small set of information that is material and getting it into the 10-K is -- can be an attractive proposition. And I think we will get to the point where companies actually see that there's a higher degree of risk from omission of material information than from beginning to disclose it in the 10-K in investor grade format.

COMMITTEE MEMBER YEE: Great. Thank you.

And then just another statement. I wanted to thank you. We stopped short of the appendix, but your focus on water risk, thank you for that. And, I guess, I was taken aback with respect to the impacts and your pointing out that 32 of 79 industries are account for -- which accounts for 50 percent of our U.S. capital market, this is a huge issue for them as well. Thank you.

DR. ROGERS: It's another very important cross-cutting issue.

COMMITTEE MEMBER YEE: Great. Thank you.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

Well, thank you, Dr. Rogers, and Ms. Guillot for being here today. I think this is such important foundational work for investors and corporations across the U.S. And I really appreciate your thoughtful, rigorous, and really consultative approach, because I think that is -- that is how you get to sort of the best possible standards.

I have a couple of questions for you. One is, I imagine there are some issues -- some areas where you might suspect or your team might suspect it's material, investors might think it's material, but there isn't yet sufficient research or data metrics available. What do -- in that case, what do you do? Do you sponsor, support, encourage research?

DR. ROGERS: So for the first set of provisional standards where we saw something but there wasn't either sufficient evidence or sufficient consensus, we identified it as an emerging topic in our research briefs. And we will now begin to get the word out to universities and to other research partners who can do that type of research and supporting evidence to either make the case for it being material or take it off the table, if it's not.

And there are many issues like that that we identified. Pharmaceuticals in wastewater is one of those issues where we saw significant scientific evidence, but a lack of clarity around how it would translate into a financial implication for pharmaceutical companies, and what would be that mechanism either of investment or liability. It's a very interesting and complex topic. And there is a lot of work on it by the EPA and others, and there is a lot of discussion about it in our working groups.

But because of that lack of clarity of what that trajectory might look like and how to -- how to basically tie it back to financial drivers for an entity level disclosure, we were not able to reach agreement on that. So identified it as emerging, research will continue. Industry discussions will continue, and it may be something we take forward in the future. There were many issues like that. There were probably one or two in every single industry.

COMMITTEE MEMBER MATHUR: And so then right now you're working on codifying the first set of standards. What is the process for amending or expending the standards moving forward?

DR. ROGERS: The process for codification is actually the process itself is going to go out for public comment in a couple of weeks, as soon as we issue the last set of provisional standards. And that process involves a long period of deep consultation with issuers and with investors for a period of one to three years to do research, and to test the cost and costs and benefits of implementing disclosure on these topics.

And then our analysts will propose changes and support that with a basis for conclusions, either coming from research, evidence, or industry feedback.

And it will go through a standard setting process, much like the first round, but basically putting it forward to a Standards Council, going out for public comment, and eventually being ratified for the standards -- by the Standards Council.

So every three to five years, the entire code will be updated to reflect market feedback, and we will be the shepherd of that process, if you will.

COMMITTEE MEMBER MATHUR: I imagine there will be a lot more evolution in the SASB standards than there currently is in the GAAP standards, for example, which have been in place for so long.

One last question, and that is about cross-border issues and how they are addressed in the standards. Obviously, there are a lot of multi-nationals who might have headquarters here or headquarters elsewhere, but have operations here in multiple jurisdictions. Does SASB addresses that? How do you do that?

DR. ROGERS: Absolutely. Companies are global, the markets are global. And interestingly, and we've researched this, the issues are independent of jurisdiction or geography. They are actually tied to the industry and to the way that companies use resources and impact society and the environment.

So they are relevant for companies. A mining company in the U.S. has very similar issues to a mining company in South Africa. So the standard -- the topics themselves are relevant. There may, in some cases, be other topics or other ways of measuring things that might be more appropriate.

One of the things that we'll begin to do, after we finish this full set, is to look at how do they need to be adapted for other capital markets. So both large mature markets and emerging markets. And we'll begin to undertake a study to look at how do we support that. The standards are free for the public good, but we want to make sure that we are supporting global use.

Janine, anything else on that?

MS. GUILLOT: Oh, no, I think that's really well put. And we are focused on -- so the way I think about this exactly as Jean said, disclosure topics are globally relevant, many of the metrics are globally relevant, some of the metrics would need to be customized for non-U.S. markets, but we are very, very focused on the number one priority is adoption by U.S. issuers. Those U.S. issuers might be overseas companies, but U.S. issuers.

And the reason we're focused on that is because to be honest, the U.S. is the market where there's been the least traction around disclosure of sustainability information to investors. And we really do believe this is the largest capital market. If you can drive significant progress in the U.S., it will drive significant change.

COMMITTEE MEMBER MATHUR: Well, I think that --

DR. ROGERS: And we do -- we pick 10-K and 20-F filers in -- for the standards, which is -- which are the large global filers that access capital in the U.S. markets, so -- and they are relevant for integration into that same mechanism.

COMMITTEE MEMBER MATHUR: Okay. That makes sense. Can I just ask one follow-up question, and that is about supply change issues. Is that incorporated also into the standards?

DR. ROGERS: Absolutely. Absolutely. It's one of the key issues and where supply chain issues involve both labor issues, resource issues, they are incorporated into the standards for that -- for those industries that have very mature and robust supply chains.

MANAGING INVESTMENT DIRECTOR BIENVENUE: And, Ms. Mathur, your questions really underscore one of the reasons why we're encouraged by these standards and what they can do for us in the investment portfolio. They will evolve. One thing that we know about this space is that new themes will come to light over time. And the fact that they're intended to evolve is really helpful for us, right, just the way that I believe the FASB standards did 30 and 40 years ago. You know, we will see that evolution.

They also -- they are global in nature, which, of course, is reflected in our portfolio. Ours is a global portfolio and we need to see standards that are, though initially focused on U.S. issuers, they take into account global standards, because again the U.S. is our largest -- is our largest exposure within our portfolio. So this is one of the reasons why they -- why these really resonate to the investment team.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON JONES: Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair. Thank you very much for this presentation. This is an extremely important body of work. So thank you for being here.

DR. ROGERS: Thank you.

VICE CHAIRPERSON SLATON: As the staff knows, I tend to be metric driven, so here's my question for you --

DR. ROGERS: Great.

VICE CHAIRPERSON SLATON: -- which is when I look at your website, and Mr. Bloomberg is on your board and Bloomberg Philanthropies is one of your donors, and there's a case study in there where they're the first one to actually -- even though, they're a privately held company to put the standards in place. And so they have some thoughts about that on the website. I encourage people to read that.

So we're sitting here today in 2016. And so if we look at the Fortune 500, the Fortune 1000, whatever grouping you want to look at, what's the goal here, to have these standards in place by how many companies, by when? What are you trying to accomplish?

DR. ROGERS: So the goal is for all of the publicly listed companies in the U.S. that access capital in the U.S. markets will begin to disclose their impacts in a comparably way. So there's some -- depending on what year it is somewhere between 11,000 and 15,000 publicly traded companies in the equities market. And these standards apply to all of those companies.

And the good thing about doing it by industry is that there's basically no excuse now. Everybody has a standard, and you can -- companies can begin to understand what is material. And remember at the end of the day, this isn't actually about disclosure. This is about understanding what is material so that companies can drive performance on these factors, and therefore mitigate the risks to investors from lack of performance.

And so that is a very compelling proposition to companies, which is that if it's material and you're not driving performance on it, you're going to be at a competitive disadvantage.

That is what is now making companies really take a look at this. And in addition to Bloomberg, which very kindly, very early on showed how this could be integrated into their disclosures, we know of more than 80 companies that are preparing and beginning to look at the SASB standards. We had over 1,000 issuers in our working groups, corporate representatives. So there -- those companies are well up to speed on what the SASB standards are about, and what those factors are that were looked at in their industry.

But internal controls takes some time. The 10-K is a high stakes game, and it is a litigious society that we live in. And so it's wise for companies to take their time and look at controls and make sure that their internal counsel and board and directors are comfortable with what is being said.

And that said, we know there will be first movers in this game, like any type of reporting or any type of innovation. And we have a theory of change, which is that there are companies that are now at the forefront of both reporting and sustainability reporting -- performance, such that it is not a big step. They're already acknowledging these risks and opportunities even in their 10-K. And it's a relatively small synch-up process between, in some cases, what they're already saying in great detail in their sustainability report, and what they will now say in a comparable format in their 10-K.

Those leading companies, I think there will be, you know, three to five in every industry that are out in the front showing the way. And to enable that, we've actually developed at SASB something called a Mock 10-K, which is a representation of how a company would respond to these standards in the MDNA section supporting management's view of known trends and uncertainties with analytics and describing their impacts.

So we've put out these mock 10-Ks that show a company pathway forward. And we know that companies are beginning to work on that and to -- companies want to have effective disclosures to investors generally.

So we'll see some leading companies and then they'll blaze a pathway for others. We are working with our big 4 friends, who will be in the position of potentially doing the controls work or doing auditing on this information, and helping with -- helping companies to improve their performance.

There will be, like anything, you know, a curve of early adopters and then others who companies seem to read each other's 10-Ks that's been my view. There seems to always be very similar language and similar industries. And so that's a good thing, because then they'll start to see companies moving on disclosing material industry issues and follow suit. So we think it's a three- to five-year trajectory.

Because it is a voluntary standard, the law isn't voluntary. You have to disclose material factors, but using the standard to do that is the voluntary part, and we think it's a three to five year trajectory until companies are getting the hang of it.

VICE CHAIRPERSON SLATON: All right. So that's the number I was looking for, the three- to five-year horizon --

DR. ROGERS: Three- to five-year horizon.

VICE CHAIRPERSON SLATON: -- for this to be kind of the default where we you go to. This is kind of the normative behavior.

DR. ROGERS: That's right, until -- and there are a lot of movements that are taking place now. We're seeing seismic shifts, not only in the investing world in calling for this type of information, the work that you're all doing in really considering how to integrate this, needing good data, but also in securities law, and understanding what it really means to omit material information to, is use of boilerplate protective? This is being tested now by cases out of the New York State Attorney General's office.

So there are a lot of seismic shifts that are happening that are actually pointing to the need for a market standard.

VICE CHAIRPERSON SLATON: Well, this is very strategic, because what you've done is you've made it -- you're trying to make it easier to get there --

DR. ROGERS: Yes.

VICE CHAIRPERSON SLATON: -- and creating standards, so it's not just the wild west, everybody trying to figure it out for themselves. And that's really important. So my last question for you is what can this Board do to help you?

DR. ROGERS: Well, I'll let Janine start because she's been thinking about this, but there's a lot that you can do to help us expressing your demands for material information, expressing your rights as investors to that information coming through the system, not having to buy it. We believe that material information is the right of every investor and shouldn't need to be disclosed and collated through a questionnaire process. It should come through the same channels. It should be of the same quality as financial information. And expressing that right and demanding enforcement of those disclosures is a very, very important signal, not just to the SEC but to other investors to also express their needs and their rights. There are some very specific things you can help us with.

MS. GUILLOT: Right. And I do want to build on this definition of success. The definition of success has to be to have all public companies, and I would say, all private companies report using the standards, because that is the only way you'll ever get the degree of comparability that you could actually integrate the information into any kind of systematic portfolio construction.

If a subset of companies report, you could integrate the information in a fundamental analysis, but if you want a real scalable process, everyone needs to use it. So in terms of how you can help, the most important thing is to very publicly support the need for a market standard and to support SASB as the market standard. That is the most important thing.

The second most important thing is to engage with your portfolio companies, and encourage them to engage in the SASB process, and to work towards being able to report using the SASB standards. They do not have to be able to do that tomorrow. Like Jean said, it's a very big decision. You need to make sure you've got the internal controls, but to begin to engage in the process and to get on a path to be able to report using the SASB standards.

The third important thing, and this is really something that the staff can do more than the Board, is work directly with the big data providers who are key players. And the data providers can also advocate for the need for a market standard.

And then finally, the fourth thing is to begin to use the information. Today, you can do things like reframe your ESG risk factors along the lines of the SASB standards, begin to look at portfolio information around ESG risks by industry.

So there are some interim steps that can be taken to use the information before all of the information is publicly available, before we achieve a world where every company is reporting.

So I could probably give you five more things, but I'm going to stop at four. I think that's plenty. Anything you want to add?

DR. ROGERS: I'd like to just -- building on that, I want to add. It's not a fifth, but a very concrete example of a major asset manager. Harvard Management Company has -- manages 30 billion in assets, and they have been very involved in the SASB process. And they have requested their portfolio companies in the oil and gas sector to begin disclosing their material sustainability factors using the SASB standards in their 10-K. And they sent a letter to every holding in their portfolio and said don't send it to us. We're not going to send you questionnaires anymore. We want it investor grade. We want it signed off on by your CFO and CEO. We want it in the 10-K. And then that will give us the information to shape a reasonable investment strategy.

That kind of tactic -- that expressing the demand in that very specific way, asking your holdings to disclose their material factors, not outside of the system in a questionnaire process, but right in the 10-K to the attention of senior management is a very important market signal that you're serious about getting material information, and that they should be serious about disclosing it.

Harvard Management Company has blazed a path forward. It's now the new high water mark in terms of asking companies to take these factors seriously.

MANAGING INVESTMENT DIRECTOR BIENVENUE: So these -- these four or five and then a half dozen others that Janine and Jean can rattle off is exactly -- you know, again speaks to the heavy lift that we're talking about here. And just to add, three to five years to your question around the metrics, I think that would be -- that's very optimistic and I like the optimism sincerely, but I think that if we can get to place where in three to five years, this is either universal or largely universal, that would be a heroic success.

And I know that we're going to have a conversation around KPIs, and we'll -- you know, we'll speak to those when we get to the next agenda item, and then again in June. But this again speaks to our desire to really focus on this topic, because it has so many touchpoints and we think it's so material and so important for investors.

VICE CHAIRPERSON SLATON: Well, thank you again for your fine work.

DR. ROGERS: I'd like to make one last comment, which is that while it does sound like a heavy lift for or a monumental ask for companies, we talk to a lot of companies, and are beginning to have much deeper conversations now with CFOs who really are the ones who need to sign off and undertake and implement these types of disclosures.

And we'll come into a meeting with an analysis of what they're already talking about in their CSR report, and then what they're saying in the 10-K, and then what's in the SASB standards. And they're amazed to find that 70 percent of the topics that are in the standards for their industry on average they are already addressing in the K -- in the 10-K, which means that's really the hurdle.

That's where a securities lawyer somewhere, either in-house counsel or outside advisor has agreed this is likely to be material. We should put something in about that. And what they're saying is a boilerplate statement, but that's actually the hurdle. Once you get beyond that, then it's a matter of okay is this effective, is that language protective. Well, you're saying all this information out here in your sustainability report, maybe you should think about synching that up and making the 10-K an effective disclosure to investors.

But companies are usually amazed to find that they're already addressing it -- already considering it material, but not effectively disclosing it. And a standard levels the playing field and gives them a comfort zone, so that they're not going too far in risking competitive disadvantage or not saying enough and being at risk of omission. So we're like Goldilocks, we're right in the middle. We're what you want to do for a market standard, so everyone is disclosing the same amount in the same way.

When we have those conversations with companies and they realize that we are very committed to focusing on material information, they can tell us if they think something is not material. They -- companies that's what they're in business of doing creating value. They want to understand what factors are material. So I don't think it's going to be as hard, although certainly there are many moving parts and many players from investors to issuers to policymakers that we need to move. But the good news is if we focus on materiality, it is something everyone agrees upon.

Thank you.

CHAIRPERSON JONES: Okay. Thank you very much for that very informative presentation and discussion on the work of SASB. And as I mentioned earlier, this will help set the scene and give real insights into the discussions that we are having around integrating our ESG into our investment strategies. So we really appreciate the time. Thank you very much.

Okay. So now we will move to item 7b, Sustainable -- Global Governance Strategic Review: Climate Change.

And before we move to 7b, I would like to pause for a moment and reflect on where we are in the process of developing our new strategy on ESG.

Our goal is to develop a three to five year plan to select priorities which are material based on where CalPERS can have real impact. We have had an in-depth discussion over the past two years. We had a chance to debate at more than one off-site. We had outside speakers, table discussions, clicker exercises, and tremendous input and ideas from all sides.

The Investment Committee has now started a six month process to develop our new three- to five-year strategy for our environmental, social, and governance work in the Investment Office. We approach this work with a clear focus on our fiduciary duty to our members and guided by our Investment Beliefs, which incorporates much of our ESG thinking, which is properly integrated with our core investment objectives.

We're looking forward to the presentation as we start this strategy development, and I will now turn it over to Ted.

(Thereupon an overhead presentation was presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. Thank you so much. And let me just add my thanks to SASB, to Jean and Janine for being here today. A wonderful presentation, a great kick-off, in-depth review of our strategy going forward.

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CHIEF INVESTMENT OFFICER ELIOPOULOS: As we've heard a number of times today the range of issues encompassed in those three letters of ES&G are complex, they're evolving, and they are emerging. And I think the Investment Committee has really done a terrific job of establishing a very strong process for dialogue for debate for discussion, as we consider where should CalPERS focus our energies in a strategy over this next three- to five-year time period.

That dialogue has included our Investment Committee members, our Investment Office staff, our executive office staff, the Board's external consultants and our wide range of our stakeholders whose views we always appreciate.

Today, we're kicking off this deep dive into ES&G with a focus on the E. And in the coming months -- coming two months will be doing a similar dive into the S and the G.

Along the way, we will also be discussing how we work with our fellow investors and partners. And I really want to underscore that and it came up in the discussion we just had and how important that is for us collectively to pool our resources and leverage our impact. This is incredibly important work. CalPERS is one market participant, a very important one, and we have a wide range of partnerships that we've developed over the decades. And it's very important that we use those resources and pool our efforts as a team.

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CHIEF INVESTMENT OFFICER ELIOPOULOS: With that in mind, we'll be spending a few moments here on slide 3, which provides a high level overview of the framework that we're proposing for our strategic priorities in ES&G. This one-page summary reflects what we hope to be our deep listening by staff to map those areas where we have heard a high level of consensus amongst our Board members and in these conversations.

We truly have been on quite a journey together, which began -- at least this chapter I think began with our Board off-site in July last year, where we met to consider progress in a facilitated way on implementing the Investment Beliefs. As the Chair remarked, we had clicker exercises, we had facilitated table discussions, and looked and reviewed at the results of those discussions, and those clicker exercises subsequently in agenda presentations here to this Committee.

We had a very thorough review of our global governance principles, establishment of an ad hoc subcommittee to help facilitate that. And later in the agenda today, we hope to be adopting those revised principles based on very, very thorough and robust discussion over the course of the last eight months.

In January, at our second off-site, we heard from our Board members, our staff, and external experts about the potential ESG investment strategies for the Board to consider. We looked at approaches other funds have used, both here in the United States and internationally.

Along the way, we've had lots of input from stakeholders, and you've heard from your staff working in each of our asset classes and programs. I do believe this has been a deep and rich dialogue. We're looking forward to the Investment Committee's response to this proposed strategic framework, as we build out our new strategy in this next chapter in integrating ESG into our investment portfolio.

We know that there are other issues which have surfaced, and many that could still be taken up. So we especially want to check in, make sure that we've captured the Board's direction along the way, and at this stage.

This slide, page three, highlights the priorities where we see consensus. They also reflect the professional judgment of your CalPERS Investment staff. Considering the key investment criteria that reside in Investment Belief number 3, and a topic that you had much discussion here today underscored, is this issue potentially material to CalPERS investment objectives? Do we have the capacity and expertise to have a meaningful impact? Can we define success?

Those are the types of discussions that we believe we need to ensure that we've had, so we have real consensus to move forward in a meaningful and material way.

The last piece is do we have an opportunity to work with our partners, so we can leverage these resources and impact?

All of these criteria we believe reside very forcefully and firmly in our Investment Belief number 3, and is a very useful framework to sift the many options. So as you can see in slide number 3, we've tried to put on one page the strategic priorities for ESG moving forward. They include, as we discussed in January, a focus on climate change for the E, human capital for the S, and alignment of interests for the G.

We've put down the bullet points to show where we think we've met those criteria Investment Belief 3 were material issues, where we have expertise, where we have the ability to leverage the partnerships to work through these topics.

Under climate change, you can see in the presentation that just concluded, we believe there's very important and meaningful work for us collectively as an institution to move the ball forward on accounting standards and the provision of relevant and standardized and material data to investors. And that's going to be a three- to five-year project of consistent work for us to move forward.

We also have, that you'll hear in the later presentation, and Anne will be bringing -- Anne and Dan will be bringing this forward, the remaining priorities on our Montreal Pledge 80 companies, our thermal coal engagement, all of the important manager expectation work and the remaining carbon footprinting work for the total fund.

For human capital, we see a focus on our strategy for diversity and inclusion. For responsible contracting policy and for supply chain activities, we'll be bringing a similar type presentation that we had today on climate change next month, on human capital. And then finally on governance and alignment of interests, all of the topics and priorities that are inculcated in our global proxy principles and proxy voting work, as well as the important work that we will continue to do in our focus list.

We have added two topics. One, the fee and performance transparency work that we've been doing across the asset classes, but meaningfully within private equity. We'll be bringing that item to discussion, the G, in May.

And lastly, research. We think there's many emerging topics to consider during this next five-year period. And we certainly think that our Sustainable Investment Research Initiative that we began two and a half years ago, SIRI, needs to be refreshed and will be refreshed and we've been planning to bring that back to the Committee with a focus, particularly on research on income inequality, because we've heard that interest by this Committee. And lastly, the global equity staff will be continuing its research on portfolio tilts.

So with that, Mr. Chair, that's the strategic priorities that we've listed and heard. And before I turn it over to Anne and Dan, I'll just pause.

CHAIRPERSON JONES: Right. Yeah, I'd like to pause here. And I think this is a good time to pause to see if the entire Investment Committee is -- we have agreement on this particular slide, because it does set the framework of going forward. And I -- because what we don't want to do is move beyond this, and then next month come back, we add something, take something off.

So I think this is a good time to see if there's a consensus from the Investment Committee on this page, so that we go forward. So we have some -- a number of speakers so far, so I'm going to call on Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.

You know, I think as Dr. Rogers pointed out, this is not easy work to do. It's not easy for them, and it's not easy for us. We are -- I think it's important for us, because I think we have unanimity on this Committee that this is an important issue and important structure to work on, and we've got to move this forward.

We can all debate, and we may well debate, on particular terms in it. But we have to keep in mind that we are resource constrained. You know, we only have so much staff here. We can't do everything that's possible to be done. We have to prioritize. And I appreciate the body of work that's happened here that has -- I think pretty well reflects, and it's gone through some iterations. It's gone through some changes and you're reflecting back what you heard from us.

I would like to suggest, and I know other people are going to make commentary, but just to start the ball rolling -- and there's also probably some public comment as well, but I'd like to make a motion that this strategic -- that the Committee approves this set of strategic priorities as reflected in slide 3 as a motion on the floor, and then we can take it from there. So that's my motion.

CHAIRPERSON JONES: Okay. It's been moved by Mr. Slaton. DO we have a second for this and then having discussion?

The whole document is informative, but what we're saying trying to get a consensus on this particular page that outlines the strategy we'll be taking.

VICE CHAIRPERSON SLATON: The reason for making the motion is to try to get a consensus direction to the staff so they feel confident they're marching forward with -- and what I'm proposing is what is seen here, and that will be subject to the deliberations of this group. But I'd like to start it off with that.

COMMITTEE MEMBER COSTIGAN: I'll second it.

CHAIRPERSON JONES: Okay. It's been seconded by Mr. Costigan.

Okay. Yeah, we've got a list.

COMMITTEE MEMBER JELINCIC: This is directly to Bill's point.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER JELINCIC: On --

CHAIRPERSON JONES: Wait just a minute, J.J.

Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Bill, I would like to suggest that you hold off making that motion at this point. Wait until the discussion has developed and then probably come back to it at that point.

VICE CHAIRPERSON SLATON: Well, I --

COMMITTEE MEMBER JELINCIC: Because otherwise, the discussion is going to get into a whole series of amendments and seconds and votes and substitute motions. But I think your spirit is right, I just think the timing is a little off.

CHAIRPERSON JONES: You're the maker.

VICE CHAIRPERSON SLATON: I don't know. You know, we've gone through a lot of work on this. I think, in my opinion, this accurately reflects what we told them, so I'd like to leave the motion in place and then if someone decides after discussion that it needs to be modified, you can do it as a friendly amendment. You can do it as a substitute motion. That's the Roberts Rule process we have here. So I'd like to leave the motion on the table.

CHAIRPERSON JONES: Okay. And we will not --

COMMITTEE MEMBER JELINCIC: And I just wanted to be --

CHAIRPERSON JONES: And we will not be voting on this until we've had a full discussion, and we've heard from the requests from the public to speak on this item. So the actual decision is down the road some, but -- okay, so now we could go back to Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. You know, I certainly appreciate the great amount of work that we've all done on this and developing these priorities. And I certainly sat through all the clicker exercise and all the discussions and had some great discussions twice over the last couple weeks with Ted and other members of the Investment staff.

I won't be supporting Bill's motion, because I think we need to make some changes to this list of priorities. I certainly appreciate -- and I'll get right to it. I'm talking about the income inequality issue, which everybody knows that I'm one several that are kind of passionate about that. You know, it is a major issue in the Presidential debates. We see more and more of the long-term risk of income inequality on our system. We see it globally. More and more traditional investment professionals are recognizing that risk.

And I understand that we don't -- and, you know, the great presentation we got this morning, we don't yet have the metrics on what are we going to do about it. I think everybody sort of gets it intuitively, and I know that's kind of the rub with staff, but -- and I appreciate that we are updating SIRI to include the research on income inequality, but I don't think it's going to take us five years to figure it out. And I don't want to see us preclude our ability to take some sort of action or engage on income inequality if it's supported by the research and it's consistent with our Investment Beliefs.

We have -- you know, arguably there are issues that we've got listed under S that could be under G, diversity is one, but I'm fine with where it is. That's a critical issue that we have to deal with, but I would -- I would suggest that we include, under human capital under the S, the category of compensation. Without just calling out income inequality as a priority, compensation, which would incorporate work that we're already doing on say-on-pay, notwithstanding what a heavy lift that is to make that work, it can include the issue around worker CEO pay ratio, and it could certainly include again, if supported by the research and consistent with our Investment Beliefs, it could include work on income inequality and possible engagement around that. So that's where I think we need to make a change on this priority list.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, I think that this list reflects quite a lot of the agreement that I've heard on the Board. And I'm sure that we can stand behind each and every single item that's on this list, but I too -- and so that's number one.

Number two is I think from a process standpoint, when we first set out this process, we were going to do a deep dive on the E today, a deep dive on the S next month, a deep dive on the G the following month, culminating in a final recommendation to come before the Committee at the July off-site I think was the plan.

And, to me, that's a better a process than sort of setting the priorities today without having first had deeper robust discussions on the S and the G. So as a process matter, I really am not that thrilled with adopting ES&G priorities today, when today was really scheduled to be the E.

That being said, I will just state my particular items that I think are missing from this. I certainly echo Mr. Lind's comments. I think -- I really believe -- I also do not want to wait five years before we do anything substantive or strategic on income inequality after definitely, you know, a body of work needs to be done to identify what substantive work could be done by us and other asset owners like us. So that's one piece. I think there needs to be some kind of strategic element around -- and I don't know if it's an engagement strategy or an advocacy strategy or what this -- the appropriate strategy will be. I think that's what the research will hopefully bring to the fore, but I think something needs to be -- a placeholder needs to be there under human capital.

And then in the E, I note that water risk is mentioned a couple of times, first, under sort of the data and corporate reporting standards. That's the SASB work. And then second under manager expectations policy, which I think is both very -- or pilot, which are both really important, but I also think that there might be a more intensive engagement strategy that would be worthwhile pursuing, sometime in the five years.

Again, not everything has to be in the first year, and that's sort of what's missing from this particular snapshot of the strategy is the timing element, but I think there needs to be some kind of water engagement -- water-oriented engagement strategy also before the five years are up. So those are the two pieces that I would add.

CHAIRPERSON JONES: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yeah, I really do appreciate the work that you guys put together to give us this recommended strategy, and it contains just about everything we talked about. The only thing -- I had two items as well.

One was, again, I'm going to repeat my fellow Board members, I don't see a wait for five years while we research income inequality, and something we should be doing. I think that -- and it shouldn't be under governance. It certainly should be under human capital. And I'm not even sure -- I had understood at one point, when I first got on this Board that we had already done some research into income inequality, so I'm not sure why we would be re-researching whether or not there's income inequality. I'm not sure what it is you would be researching.

If we are instituting this SASB standards, it was something that they have already looked at reporting on, you know, getting data and reporting on. So I think if we are implementing the SASB corporate reporting standards, and we are engaging our investor -- investors -- I'm sorry, investors and managers in asking them to do that, and maybe doing the big lift of even the specific sending out the letters that Dr. Rogers was talking about, which was, you know, let's have you start reporting the SASB standards.

If we're going to do these big lifts, that was the other thing I thought was kind of unclear when you were going through it, Mr. Eliopoulos, was that the data in incorporate reporting standards seems to be very general. It doesn't seem to be accepting and using the SASB standards, and maybe taking those big steps that we need to take as an institution, because we're a fairly formidable institution. And I think if we take those big steps, we would have an impact with the folks that we're working with.

And again, including those standards in income inequality and our human capital. So I'm not, in any way, ready to accept these strategies. I think again, and it was my understanding as well, that we were actually just doing a deep dive right now under climate change. So that was mine.

CHAIRPERSON JONES: Okay. Oh, Ted.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Perhaps --

a wonderful question. Perhaps, I'll just address a couple of the questions directed to me.

I think, first, absolutely, you know, cryptically you know, on a page, it's hard to get the fulsome amount of everything. But in a data and corporate reporting standards, we absolutely, and as the following pages will show and the presentation and having SASB here today, that that one bullet point really tries to encompass all of that heavy lift around accounting standards, where we think the full force and effect of CalPERS brand and our collective attention has a chance to make a difference in getting us to that three to five year universal adoptance rate. So I want to make sure to clear that up.

And Anne Simpson can speak to this maybe a little more if the Committee would like more information. But on the research on income inequality, you're correct, we did do some research internally with our global governance staff, and we actually hired a business school student to come help us for the summer. And we did explore the currently search on income inequality to see if there was a concrete investment issue for us to pursue.

That research that we conducted in-house was a fairly extensive review of the literature. I think we renewed over 30 research items, which covered both the macroeconomic view as well as company or firm level issues.

This review did not point to any obvious course of action for CalPERS to take from an investment perspective for an investor like CalPERS. However, it did illustrate that the issue is complex and that the policy issues are quite important. And that's why we came to the conclusion that the best course of action, given that status -- state of research is to do more research and have some independent outside experts do that review and validate our cursory findings so far.

CHAIRPERSON JONES: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: So -- and I turned my mic off. Sorry about that. So what you're saying is you want to do more research and maybe not use the SASB standards with income inequality, because it is listed in their report that they have used that as well.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Absolutely. That is a very important point. Not to have any confusion, one of the great benefits of the SASB framework is that it covers ES&G topics, including topics like income inequality, and diversity and inclusion, and many of the topics that we see covered here today in a very comprehensive and industry-specific way.

So that's -- by having that first on our list and the first discussion today, we're underscoring the vital importance of collection of data, because one of the weaknesses of the research, and one of the weaknesses of investors being able to take concrete action on some of these topics today is the absence of, or the dearth of, reliable data and information to form the basis for investment decision making.

And that's why we are recommending such a fulsome effort on the accounting standards side of across the ES&G spectrum. We think that is the area that has the most materiality and the most impact and uses the greatest degree of CalPERS own hard built expertise in the field of accounting standard setting that we've built up literally over many decades at CalPERS. And that's where we want to channel and focus our efforts in order to have what we hope to be a very material change in the way companies report this information.

COMMITTEE MEMBER TAYLOR: So then if it's -- so, for example, say we are able to report the information and show that income inequality is a significant risk, right, by reporting standards, I'm unclear then what the research would be for. That's where I get a little confused. So if we're re-researching so find out how we're not going to invest in something or invest in something how we implement, you know, tackling income inequality, I'm not sure how we -- how that's working, if we're --

INVESTMENT DIRECTOR SIMPSON: Maybe I can help there.

You'll remember when we were first starting to develop a strategy to integrate ESG, and we had a Board workshop and a review of the academic literature, which is some 700 papers, and the refresh is something we promised to do. We said well three years maybe down the line, this fast changing -- as Ted says, an evolving field. It's complex. It's all moving quickly. We've commissioned this academic refresh of the literature.

And there were two topics that had surfaced, one income inequality and the other was diversity and inclusion. So we've specifically asked the academics to go out with all their grand scholarship to really sift through the new literature that's available.

So what we saw this as is really enhancing what we've done as a desk report with an intern over the summer. And our Toigo intern did a wonderful job, but we really don't feel one person with a six-week summer job could really get to the bottom of this. So we thought the more rigorous and compelling way to approach this was to include it as a specific topic in the refreshment that's being done by scholars.

So please, I didn't -- I just wanted to emphasize we didn't view this as rerunning the same thing again and again and duplicating, but it was really taking it to a higher level of quality and analytical rigor.

COMMITTEE MEMBER TAYLOR: All right. Great. Thank you.

MANAGING INVESTMENT DIRECTOR BIENVENUE: And the only thing I would add to that is that importantly though in order to be able to continue to develop the research, we need data to do the research on, right? So that's the really important element. And to Ted's point previously, we haven't been able to come to a place in all of the research that we've done on income inequality to translate that into a consistent concrete investment theme. We do believe it's important. The key is to get data around that topic, and around water, and around many of these other topics, so that they we can figure out how those translate into specific investment themes to incorporate both in fundamental and down the road quantitative investment decision making.

CHAIRPERSON JONES: Okay. Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I think part of the frustration you might be hearing is that, you know, there's so much embedded in each of these categories that, you know, we're not dealing with the specific at this point yet, but really from a strategic level how we're going to tackle this.

I guess to Ted's point about -- and certainly after the SASB presentation we just heard, might it not be appropriate to add a bullet under the S and the G with respect to data and corporate reporting standards. Because in my mind, they're kind of two bookends to the work we're going to do, right? It's going to be drive by data, and certainly we want to have, you know, standards employed. And then a the end of the processes really looking at, and I think Anne and Dan are going to take us through this, but the development of key performance indicators, that we've got to know, you know, what is it that we're looking for that's going to at least give us some sense that we're accomplishing what we want to accomplish.

And so to Mr. Slaton's motion, I think the staff has actually done a really good job of trying to keep us focused in a very tight box around this. I mean, I think they're pretty sensitive about resources. And I think it's our job now to then really help define what's in that box, and so -- but I didn't know whether adding that first bullet about data and reporting standards would make sense under the S and the G, because that's got to be a starting point for each of them.

CHIEF INVESTMENT OFFICER ELIOPOULOS: It definitely clarifies our intent to have the data and corporate reporting standards cuts across all three. It's a very well -- a point very well taken.

COMMITTEE MEMBER YEE: Okay. Good. So given that, I would also add on with my colleagues that the adoption of the strategic priorities I think comes at a later point after we've had a chance to define kind of what's in this constrained box, as far as what our focus will be.

CHAIRPERSON JONES: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: All right. On human capital -- and I won't repeat what the three people to my left have said. But on human capital, we look at how you treat -- how our contractors treat their employees. We look at supply chain activities, which, in many ways, is how they treat their employees -- the suppliers treat their employers -- employees. What is missing is any focus on how our investment -- the companies we invest in treat their employees. And so I think that needs to be there.

And I will tell you at the last two CII -- the last two fall CIIs, both the AFL-CIO and UNITE HERE have done a lot of work on not necessarily income inequality, but wage inequality, particularly in the retail and fast food segments, and shows some really significant differences.

And the final point I would like to make is this actually raises a broader issue. And that is do we really want to be a cap-weighted index fund? If we believe these things drive results, then maybe we ought to invest where we think those are going to get rewarded and produce, rather than simply accept a cap-weighted index. But you've heard me mention that more than once.

Thank you.

MANAGING INVESTMENT DIRECTOR BIENVENUE: So to your questions, Mr. Jelincic, and I think they're well taken. Very quickly, and I think this goes to what Controller Yee said about adding potentially the bullet of data and standards on all three of the ES&G. It's a really good point and probably we -- you know, I don't think we can get the SASB presentation back up on the screen. But on slide 6, if you look at what their -- what's included in the SASB standards, it's -- you know, the first category is environmental, but then there's a bunch under S, the social -- that we would call both social and human. And they speak to many of your points, Mr. Jelincic on labor relations, fair labor practices, diversity and inclusion, compensation and benefits, and then recruitment, development, and retention.

So I think it speaks to many of these themes that I think we collectively recognize are very important. And then, you know, to your comment on the cap-weighted indexes, this is the reason why we need the data is to then allow ourselves to see is there a way that we should tilt the portfolio in a way that's different than what the cap-weighted portfolio would say?

And, you know, you see that as global equity, staff research, and the portfolio tilts. You see that on the slide here. That's exactly the research that we want to do. But to be able to do that research, we need to have the data to know what better way to tilt the portfolio than cap weighted.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: The only thing I would add to that, Mr. Chair --

CHAIRPERSON JONES: Yes.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- is just the point about CII and other partners that we work with is it forms a network of partnerships. And what we've tried to highlight here are the topics that CalPERS will take a lead will be, you know, as a key strategic priority for CalPERS. It doesn't mean that we won't work with our network of partners on these issues and perhaps let other partners take the lead on one of these topics while we focused on accomplishing this work.

So that was the intent of the work through partnerships to leverage resources impact on the bottom of this slide, that we can't prioritize and lead every effort but our partners can. And collectively, I think we can make a lot of lead way on these topics.

CHAIRPERSON JONES: Okay. Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.

So I have just a few questions so I can -- and first, I want to applaud Controller Yee and Ms. Mathur for bringing the water issue. And I know I say it with an R, even though there's no R.

(Laughter.)

COMMITTEE MEMBER COSTIGAN: But just a couple issues just on water. One is we talk about, you know, mitigation of risk. And so -- and we had -- we've gone through this in preparation for this meeting and it should be nothing new, because I've raised those two issues.

One is I want to make sure we have a broad enough definition. In California, it's lack of water, right? And then there's the subsets of water quality, water storage, whatever it may be.

In the midwest it's an abundance of water. In India, it's a lack of water. In Europe it's an abundance of water. So one is I'd really want to know what our definition is as it relates to when we talk about water.

And I know you have an answer for that, because we talked about this.

The other issue that I want to raise, at least with water, sort of goes into sort of the real asset issue. Part of water policy in California -- I mean, we can talk about water scarcity right now really is, to a degree, is driven by policy. It's been the lack of building above-ground storage in California. It's been a lack of a commitment by policymakers -- and I'll include myself in that, because I worked on legislation in the past related to dams -- where we're going to start mitigating water, yet policymakers have failed at times to act on dealing with water mitigation.

So how do we account for that? Because we're asking someone in a finite -- and I know Ms. Stausboll and I had this conversation as it relates to that. You can only -- as Mr. Slaton will saw you can only analyze the facts that you have. So I want to take in -- it's a multiple part question. Are we going to broaden the water definition, and then how are we going to look at the policy issues?

INVESTMENT DIRECTOR SIMPSON: Thank you. Our definition ion water risk includes, what we call, resilience. That is water too much or too little, water in the wrong place. So companies with assets on coastal areas, obviously the question of sea level rise is relevant. And for other operations, the question of resilience is how are you going to deal with drought, and also for others, extreme weather events.

And you'll see when we come to the main body of the presentation when we're talking about the engagement, we're proposing with our Montreal Pledge companies, those companies are both, if you like, the contributing to the cause of global warming, because they're such significant sources of emissions, but we're embedding this concept of resilience and natural resource scarcity which is directly from the Investment Beliefs into that first framework for the engagement.

So I think we have to realize that we need to tackle both causes and effects. The controllable part of global warming is driven by emissions from industry. And we've got these 80 companies responsible for 50 percent of the emissions. That's extraordinary. Now, we want to get these companies to the position where they'll disclose their long-term strategy to getting a handle on that, but then other companies are going to need to respond to the risks, which regardless of whether we keep to the under 2 degree target, every sector in the portfolio will be affected one way or another. So water is relevant, to one degree or another, industry by industry.

And when we come to the presentation, there's a little bit more about that, because Divya Mankikar has done a little analysis to see more in that 80 where they sit in the water table, so to speak.

COMMITTEE MEMBER COSTIGAN: But what we do know, at least in California, is that drought has been cyclical for decades --

INVESTMENT DIRECTOR SIMPSON: Yes.

COMMITTEE MEMBER COSTIGAN: -- even prior to the issue of climate change. So I understand the linkage with extreme water events, and whether events related to climate change. But when you look at California, or the western United States, it has -- it's been drought prone prior to the discussion of climate change. And what I again asked was a more specific I question was are -- do we look at -- if we identify policies as a factor to mitigation, because of the presentation we're going to have from Ceres and the presentation that we just had from Janine and her folks, is climate change is a risk, the lack of policy. So you're asking -- you're advocating for a policy as it relates to climate change to keep in under 2. Are we going to have a long-term discussion of advocating, for example, storage?

CHIEF INVESTMENT OFFICER ELIOPOULOS: So why don't I -- I'll take that one.

COMMITTEE MEMBER COSTIGAN: I mean it's a similar policy argument.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah. So I think importantly what we're trying to do is really close the chapter on the climate change policy development as it's concluded in Paris and lay out now a next chapter, the next three to five year chapter of advocacy work with respect to accounting standards. That's the important message. That's the important strategic priority we're attempting to convey, that the time has come to conclude the policy development phase of our work, and focus for all the reasons we've seen today and discuss today on accounting standards.

So we have not proposed a new policy review on water just to be very frank and direct in responding to your question.

COMMITTEE MEMBER COSTIGAN: Oh and I -- and that's just one of the reasons I raised it, I mean, is we had a policy discussion on climate change. The fact that we're going to be adding water I just want to make sure, you know, it's not left by the wayside. Climate change may be resolved, water has not been. So just an issue. And I'd like to broaden it, because I find it -- I mean, water is a fascinating discussion. We can spend all day talking about it.

The other issue -- and I give Mr. Lind a lot of credit on the income inequality issue, what I have looked in the documents -- and again nothing new. I raised this in our calls -- where is a definition we can look -- so there's a California definition, a Bay Area definition, a U.S. definition, a European definition, a world definition. So help me understand what income inequality is.

And then when we look at the discussion, I think Mr. Lind raised between the lowest paid worker and the CEO, where does that translate, for example, in the private equity? Are we going to have a formula? I mean, what is the ultimate goal? And how, as a global investor, do we apply our standard here in Sacramento across global -- particularly -- and I've been looking at the websites, the federal policy website and others, but what is our definition? What is a definition for us to start with? What's a goalpost?

CHIEF INVESTMENT OFFICER ELIOPOULOS: You're raising one of the key issues behind the complexity behind reviewing or researching or coming up with a concrete action with respect to income inequality. The definitions vary across all the things that you just mentioned. And certainly one of the goals of a research review would be to come up with a definition, or at least a definition that speaks to or focuses on impact to investment or financial impact, but -- and I'll let Anne or dan comment on that further.

But really what we're trying to do and this is where some of the tension comes to play, what we're proposing for the strategic priorities going forward on around ESG isn't to broaden the list of things that we're looking at, but to narrow them and focus them.

And I think that's the key issue before this Committee, what we are presenting and what we've heard is broad consensus around this list, and it's narrower than it could be. And at the end of the day, we're your Investment Office. So a exploration of water policy, we don't see as an investment priority, other than in the context of water impacts in climate change, where we see a very important process to move forward on, which is to disclose those risks, both too much water and too little water in accounting standards, so that we can better understand the nature of the risk, as well as all of the work we're doing with our manager expectations.

So one of the key issues that's before this Committee is that question of broadening out this list or focusing this list. And what we're proposing is to focus it somewhat on what we collectively believe are the most impactful issues for our investment portfolio.

COMMITTEE MEMBER COSTIGAN: And, Mr. Eliopoulos, I completely agree with you on that. I only raise these issues, particularly in the area of water, is when we speak, many people listen. And so when we start talking about water scarcity and water risk, I just want to make sure, one, it's the broader of definition, and also the fact that there are significant policies related -- that impact businesses by either regulatory policy, failure to adopt policies, or whatever it may be.

And I was cure on the mitigation, the same thing back on the income inequality is, we're asking -- because I'd be curious is when we go out and ask for those definitions, again, whoever we go pick is going to have a built-in bias, based upon where they are as to what the definition is going to be, and yet, as you just said as our global investor, it impacts our decision across the entire portfolio.

Thank you. Thank you, Mr. Jones.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah, Mr. Costigan, I think your question and your comments speak very much to the data standards. And that if we can get these data standards very broadly, we think that for some -- you know, for some investments, that's an inundation concern, for others investments it's a drought concern, for other investments it's a sea level rise concern. There's all of these different, you know, potential implications, and what we need as an investor is data.

And then this speaks very much to both Mr. Eliopoulos and then to Mr. Slaton's points, which is that we have, number one, finite resources, but very importantly we also have a very finite sort of brand. When we bring our brand to bear on something that's where we think we can have an impact. But if we do that too broadly, I think we lose some of that power of that brand.

Couple that with the fact that while we can even have, you know, more resources, our leadership and our ability to really direct and focus those resources is constrained. And that's why we just -- we believe that what we need to be focused on is -- especially in the advocacy arena, but also in the engagement arena, and in the integration arena is getting good data. And if we can get that date and we can get that data very broadly and very comparable, very systematic, that will allow us to not only assess the current set of investment considerations and factors to work on, but also as the marketplace evolves allow us to continue to evolve that thinking, which is why it's got to be on data. And it speaks to how -- how important -- and you know, Jean and Janine alluded to the fact that in the past the -- and Ms.

Mathur alluded to it as well, that the FASB standards weren't taken for granted, and now they are.

We need to get ourselves to a place where some of these sustainability type disclosures can be taken for granted. But in order to get there, this underscores, you know, the comment on it's a heavy lift, because it's getting issuers and investors together, it's getting global standards, and then over time it's getting regulation. And that's a lot of work, and that's going to take focus by your Investment staff.

CHAIRPERSON JONES: Okay. Mrs. Hollinger.

INVESTMENT DIRECTOR SIMPSON: Sorry, it's -- I just wanted to add one small point, which is CalPERS has legislative guidelines, which frame the work that the Investment Office -- it reflects the Investment Office priorities, but our colleagues in Legislative Affairs have those guidelines. So if this was, for example, a California issue, that would be something that's being channeled through, you know, other members of the enterprise's team.

And, of course, we work very closely with Legislative Affairs, and our Legal Department on all of these types of matters, but that might be the place to look to see whether the language captures the issue that -- for State legislative guidelines.

CHAIRPERSON JONES: Okay. Thank you. Looking at the clock, we're over two hours now, so we need to take a 10-minute break. So we'll reconvene at noon.

(Off record: 11:49 AM)

(Thereupon a recess was taken.)

(On record: 12:10 PM)

CHAIRPERSON JONES: Okay. We'd like to reconvene the Investment Committee. Thank you. Okay. We're all here.

Okay. We're going to reconvene and continue our discussion on this item. And I think what we're -- what I'd like to do, Ted, is -- because we haven't seen the full presentation yet. So perhaps we need to go ahead and have that presentation. And also, as you go through the presentation, be mindful of how and the water issue may be worked in at any point given through your presentation. If you say this is a place where we could add some language to deal with the water issue then, because we're talking only about the E today, anyway. And so then we'll revisit the others after the presentation. Does that sound like a plan?

CHIEF INVESTMENT OFFICER ELIOPOULOS: That sounds like a great plan.

CHAIRPERSON JONES: Okay. Thanks.

CHIEF INVESTMENT OFFICER ELIOPOULOS: So with that, I will turn it over to Anne Simpson.

INVESTMENT DIRECTOR SIMPSON: Thank you very much, Ted. And thank you for the discussion. This is so helpful. You know, the old management adage of only do what only you can do I think is very relevant. There's much to be done. There are many hands make light work. But the question is where should CalPERS lead? And that's really been driving the staff discussion. It's not the other issue aren't important, it's that where do throw, I said to Ted, the full faith and credit of CalPERS at a problem or an issue, we can really move it.

So it's with that very optimistic start I'd like to take us back to the presentation.

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INVESTMENT DIRECTOR SIMPSON: So, Ted, is there anything you want to highlight with the time line?

I think the main message here is that by mapping this out, as Ted said at the beginning, this very thoughtful process, that the Investment Committee has established, gives us a chance to do a deep dive on a topic that we now is important, but then we'll come and draw all the threads together and adopt the plan later in the summer. So there will be a chance for more reflection and consideration. We know we're just starting the process.

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INVESTMENT DIRECTOR SIMPSON: Again, Ted, in his opening remarks, highlighted the Investment Beliefs. And we've included several of them at the beginning, which we think are particularly relevant to a discussion on environmental issues. But what's important here is that we are fiduciaries. So whenever we're approaching an issue, we're mindful that our objective is ultimately to pay pensions and benefits over the very long term.

So Investment Belief 3, I won't go over, because it's familiar, and Ted has covered it very well.

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INVESTMENT DIRECTOR SIMPSON: We're also highlighting Investment Belief 4, that long-term value creation requires effective management of the three forms of capital, financial, of course, physical, and human. And that is really the groundwork -- the economic grounding for us looking at ESG.

Environmental issues are all about physical capital, the S is about human capital, and, of course, G, governance, is what enables us to be good stewards of our financial capital.

We're also highlighting Investment Belief 7, that we'll only take risk where we have a strong belief we will be rewarded for it. So the focus that we're proposing on accounting standards is really intended to give us a better handle on what those risks are. I think we're in the realm of ESG. It's -- to quote -- was it Cheney, Rumsfeld --

(Laughter.)

INVESTMENT DIRECTOR SIMPSON: The known knowns. Okay. We've 100 year of accounting for the known knowns, and I feel we're moving into the world of the known unknowns, which are the risks and drivers of value that come from these other two forms of capital. So we know we don't know about these things, and that's really why we're focusing on this question of data.

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INVESTMENT DIRECTOR SIMPSON: We're also highlighting the question about costs, because that's important as good fiduciaries, and also that risk is multi-faceted, I think, which ties very well to today's discussion.

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INVESTMENT DIRECTOR SIMPSON: This slide before at the would be shop, we're looking at the E, the environmental issue. We're proposing to continue a focus on climate risk. And I want to highlight, we consider that CalPERS has three channels for having an impact.

The first is integration. That's where we take an issue and integrate it into our investment decision making. Engagement, that's where we exercise our influence as an owner or a provider of capital with companies and managers. And the third piece is advocacy. That's where we can team up with others and advocate for policy and regulation, which is going to make sure that the market provides the stable and sound environment for us to deploy capital into.

And that explains all the work we did on Dodd-Frank. It also explains our agenda and the run up to the Paris climate change agreements.

But as Ted mentioned, critical to this are our partnerships, both with investors, but also other organizations, some of whom are here today. When we come through all of this thinking on strategy, we want to be very thoughtful in reviewing our partnerships to make sure that we've teamed up with both the fellow investors and the organizations that can help take the new strategy forward.

As CalPERS may be a large fund, but we are just a drop in the ocean in the global capital market. So whatever we do, we have to do together.

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INVESTMENT DIRECTOR SIMPSON: So setting the seen on climate change. The Paris agreement was a break-through policy for the world's governments, but something else important happened in Paris, which is that the world's central banks represented, through the Financial Stability Board, which was actually set up after the Asia financial crisis, that world's central banks were given a job by the G 20, which is to establish the disclosure that would allow an assessment of risks posed to the financial system by climate change.

Now, why does that matter to CalPERS? It means, first, that we have the world's most significant financial regulators making the connection between geography, geology, meteorology, if you like the science, is physics meets finance. So as that group is continuing with its work, we feel we've got a real opening for starting to do work on disclosure.

Now, this is a very similar bucketing of the issues to the one that Dr. Rogers presented earlier, but it's a little different.

So this group has identified that their needs to be disclosure around three areas, the first the physical impacts of climate change --

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INVESTMENT DIRECTOR SIMPSON: -- sea level rice and related displacement, very much in the water arena, climate driven changes in agriculture production and energy demand again, weather related impact.

But also the impact of higher temperatures on labor productivity and public health. The second area, relevant reference earlier to the New York attorney general and now California's attorney general looking at litigation at Exxon, is that parties suffering from climate change related loss may seek compensation arising from regulation, or, insurers and regulators failed to price in risk, and could suffer losses from physical risk claims.

And the third bucket of disclosure that they're looking at is transition risk. We've all seen the charts of how we get from here to there, starting with a heavily carbon-dependent energy economy, and the transition over 30 years to low carbon. And that's the transition risk area.

So this is defined as financial risks for modifying economic activity in line wit the Paris COP21 targets resulting in revaluing assets and opportunities. So there's an understanding a transition is needed, but if it's chaotic, it's going to pose financial risk. That's the assumption.

That group has started its work. And depending on how the new strategy unfolds, scenario where we think CalPERS should be contributing to the discussion.

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INVESTMENT DIRECTOR SIMPSON: The second slide is really, I think, resurrecting -- or restoring accounting standards to the place they've always deserved, which is to be at the absolute forefront of investor attention. And too often, accounting standards are treated as something that gives you headaches or is tough to understand. And it's a backroom activity that doesn't get enough investor input.

But Bob Eccles who was the founder's chairman of the Board at SASB wrote a very nice piece recently in Institutional Investor. And his headline says it all, *Why Investors Should Care About the Next Generation of Accounting Standards*. And you've got the link to the full article. But he makes the point that until the crisis of the 1929 crash really companies could pick whichever accounting standards they liked the look of, a little bit where we are now with ESG. And no doubt, you picked the one that is the most flattering.

But there's no consistency, and it's not possible to regulate. And I'm sure this is where my sympathy goes to the SEC, how can you regulate ESG disclosure if we don't have agreed standards against which you can assess what's good, bad, or indifferent.

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INVESTMENT DIRECTOR SIMPSON: So now to what we'd like to put forward to the Board on climate change as our priority area of work where CalPERS would intend to lead and put our voice, our important reputation on these issues, and also work with others to have an impact.

So the first for our advocacy focus, this is the work we do with regulators and others, we want to make integrated corporate reporting a core theme. This has long been in CalPERS principles. It's long been in our engagement in conversations with companies, which is to join the dots between the different information that's being provided. So the objective here was saying is to focus on improving CalPERS understanding and management of investment risk and opportunity by advocating that standard setters and regulators develop - and this is where we would want to go further - mandate integrated corporate reporting.

Our concern, if we rely on a voluntary arrangement, is that those with good stories to tell will be the first -- the first to report. And really, to get the full benefit of this, we need to know the good, the bad, and the ugly. And the only way that's going to happen is if we have a regulatory framework.

However, beginning with voluntary piloting and voluntary disclosure is going to be very helpful to that, because regulators always want to know that something works, that it's been tried and tested before they write a rule.

So under this initiative, we envisage, first phase we would review existing voluntary standards. Secondly we would identify best practices from our position as a fiduciary investor, and the third phase would be to engage with regulators and standard setters to ensure those best practices on integrated corporate reporting are implemented.

And we only have a potential key performance indicator at this early stage, but we think that we would need to develop metrics to track the progress by the standard setters. We're starting here with the Climate agenda, and we have the financial stability Board initiative, so we think that's going to move quite quickly.

But the earlier point by Controller Yee that -- and others, that we should think of this as a game-changer. This is data and accounting standards are relevant to all elements under the E, the S, and the G, but we're presenting it here for the first time.

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INVESTMENT DIRECTOR SIMPSON: There's more detail here in the timeline. Just so you see the order that we think we would go in. We actually think that because we have a strong relationship with the international Accounting Standards Board, I have to say it's a great example where our partnership with Council of Institutional Investors is bearing fruit here. CalPERS represents CII on the advisory council in that setting.

Let me move to the engagement.

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INVESTMENT DIRECTOR SIMPSON: Something important came out of the work that we did to map the carbon footprint in our public equities portfolio. And I'm joined here by Divya Mankikar, who led that important effort. I really don't think we knew what we'd find, but through using a collection of available data providers and various forms of extrapolation, we came to the conclusion that 50 percent of the emissions, carbon global warming emissions, that our portfolio is responsible for are generated by 80 companies.

So this then posed a complementary track to ours, that alongside working with regulators to improve market wide data and standards, we could follow up on the policy work in the run up to Paris, the path to Paris by actually engaging these 80 companies and move the needle on emissions globally, again by teaming up with other investors and building out a strategy.

And this, I think, builds on the superb work that Ceres lead, through the carbon asset review initiative, and also the tremendous work that Ceres did building the Investor Network on Climate Risk of 20 plus trillion dollars worth of investors who raised their voice and had a very effective role in the Paris negotiations.

We've highlighted on this page some of the issues that think -- we think need to go into a long-term strategy to address climate change, which we would want fully disclosed. And I think we'd want to see how this maps onto the SASB the FASB formula. But we unavoidably raid it must include capital allocation and research and development, risk management, asset portfolio resilience, when very relevant and considering water risk, energy, natural resource scarcity.

Assuming there will be an adoption of the new draft of the Global Governance Principles, that we would highlight Board expertise and experience on climate change. Also, public policy strategy, we want to know about political contributions on this arena and have full disclosure. And also a consideration of compensation, because if people are being rewarded for a long-term strategy and conflict with the Paris 21 agenda, then that's something that needs to be addressed. We don't have alignment.

The second part of this is to follow and disclose recommended standards of integrated corporate reporting, which we expect to, at a minimum, include the issues we've listed above.

Potential key performance indicator. Again, because of the Montreal Pledge work that we've already done, we do think we've got some reasonable estimates and measures. And, Divya, in her presentation to you some months back before the Paris meetings informed you that, in addition to the 80, we could already track a six percent decrease in carbon emissions in the portfolio, from the existing commitments. So we think this can be measured in a very tangible way.

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INVESTMENT DIRECTOR SIMPSON: Again, we've mapped out what we would do first, second, and third. Also, I want to highlight that we have a commitment under the State legislation SB 185 to engage coal companies, and they will be in the mix, of course.

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INVESTMENT DIRECTOR SIMPSON: And finally, and perhaps most important, our integration focus. What is it that we do to integrate this understanding of risk into our own investment decisions. And I'm delighted that I'm joined here by Dan Bienvenue. He and I co-chair a new subcommittee of the Investment Strategy Group in the Investment Office, which is to address the themes of governance and sustainability. And all the asset classes and program areas are represented on that committee, and we are -- therefore have a formal established process now for managing the integration process. And I think that will be a powerful driver of change.

At the top of the list for that group is the work that's being undertaken on manager expectations. And we're flagging here that water risk is included in the pilot sustainable investment practice guidelines that each asset class has.

Secondly, as you know, CalPERS has committed to carrying out the same carbon footprint analysis for each of the asset classes. And we've put that in a sequence that we think is manageable, based on the ownership and important other work that those asset classes are doing, so that this can be in a sequence that's manageable.

Secondly, we have the refresh, as Ted was mentioning, of the Sustainable Investment Research Initiative. And also, in response to some inquiries from Board members, Dan and his team will be doing further research on the issue of portfolio tilts, which are -- but as Dan mentioned earlier, until we have data, it's very difficult to know what your tilting into or out of, because you're in that world of the known unknown.

Our key performance indicators we think need to be very tightly tied to those projects and commitments that we've agreed to undertake. But at the end of the five-year period, we should be able to go through this list of activities and be able to report that it's been completed.

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INVESTMENT DIRECTOR SIMPSON: So the five-year plan that we're proposing is on the following page again, and the sequence, the order in which we expect things to take place.

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INVESTMENT DIRECTOR SIMPSON: And finally, a snapshot, what are we planning to do on advocacy, engagement and integration for our focus on climate change.

And to sum up, data and corporate reporting standards, we're proposing, are our focus for advocacy. On engagement, we're proposing to tackle the 80 companies that are responsible for 50 percent of our greenhouse gas emissions associated with the portfolio, and also fully discharge our responsibilities with thermal coal companies.

And on integration, we will complete the pilot of the manager expectations process. We'll complete a carbon footprint for the total fund. And on the research front, we'll both have the refresh of the academic literature that's underway, and secondly, have some specific staff research onto the issue of tilts.

So in the appendices, you'll see that we've given you some more information, which I don't think I'll go through now in the interests of time. But we've, for example, mapped out the glory of the international accounting standards sausage making, machine for want of a better word, how does it work in the U.S. and how does it work oversees?

We've also summed up the different things currently embedded on water risk. We realize it's not pulled together as a theme specifically, but we want to show you what's going on at the moment.

And we've also given you a lot more details about the famed 80 companies under the Montreal Pledge. The sectors, which are varied, the geography, and the size.

And finally, we've given you an overview of the work that's been completed on climate change, what's evolving, and what we're proposing as our core strategy going forward.

Shall I pause for questions?

I mentioned earlier that everything that we do, whether it's integration, where we're learning from other funds and sharing our experience, or it's engagement where we team up with our sister funds as owners, or it's advocacy, partnerships are at the core.

So we're absolutely delighted that Mindy Lubber is joining us. She's the CEO of Ceres. Ceres had its origins in a pioneering statement called the Valdez Principles. I was in Britain at that point. And you'll remember the Exxon tanker Valdez ran aground, and there was a terrible oil spill. And that prompted, what I think, was the first set of environmental standards. And it's very encouraging to look back. And even in those early days, CalPERS was a signatory to the Valdez Principles, which later evolved into the organization we know today as Ceres. So, Mindy, it's a --

CHAIRPERSON JONES: Before we call on Ms. Lubber, we have a couple questions.

Mr. Feckner.

COMMITTEE MEMBER FECKNER: Not me. Sorry.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On slide 11, you talked about -- and you don't have to go there, but you talked about engaging the regulators and the standard setters. Have we had a conversation with K&L Gates about what help they can give us and what role they can play in that?

INVESTMENT DIRECTOR SIMPSON: Not at this stage, no.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. Seeing no further question at this time, so now we can move to Ms. Lubber.

MS. LUBBER: Great. Thank you, Mr. Chairman and thank you all for having me. It's been an interesting morning with a great discussion. And I thought the SASB discussion was particularly strong for what we're trying to do.

I have a short time here today. I'm going to talk a little bit about the kind of work that we do at Ceres, and why CalPERS leadership is so extremely important, and how I see it making a difference across the world's largest companies and hundreds of other investors, who neither have the resources, the expertise, or the leadership that you all have here. And then I will, of course, specifically comment on the climate policy.

But I do think the effort to focus on systems and advocacy to change systems on engagement and on integration are the right ways to go. Taking on ESG issues piecemeal, as we have for the last two and a half decades, is not going to get us where we need to go or in the time frame we need to get to.

So based on that design, I truly want to commend the staff and the Board. As you've been thinking about it, I understand from this discussion it's not final, but the direction you're going in certainly is impressive work, and I urge you to keep it up.

While Ceres addresses overall ESG issues and our thought leadership and advocacy, and I'll mention some of that. I really want to get to comments on your climate program.

But first, at Ceres our mission is to integrate sustainability into capital markets. We work with 100 plus large companies from Apple to Dell to Citigroup and Wells Fargo, from Bloomberg to General Mills, the Gap, and Levi Strauss. And we work with 118 investor members, asset owners and asset managers, who are particularly interested in integrating climate risk into the work that they do and how to address it.

I'll note that Manulife Asset Management that managers $293 billion just joined INCR today, so -- and it's not that they joined, it is that they are looking to work with a group of leadership investors to learn what you know, how you're doing it, and how we could take the leadership of CalPERS and integrate it into the work of 118 other investors.

A quick story that I want to tell or the quick message that I want to bring is, that as I travel across the country, and we all travel across the country. There's nothing impressive about that, but sit and work with, and work with the boards of the Apples, of the Dells, of the Time Warners, of Citi, Unilever and so on. They absolutely care about what CalPERS says. So I hope nobody underestimates, and I know you don't. You're here. You're making the decisions. You're the leader of this institution.

But the largest companies in the world want to know what CalPERS thinks about what they do on sustainability and what they do on climate in particular. And they're eager to hear from you. Sometimes they complain they don't hear from their investors enough on quarter earnings calls, that would be the analysts.

But I do want to say that when you make decisions and set policy here in this room, it reverberates around the world, that Dell cares, that Apple asks on a regular basis that Citigroup says is this going to make CalPERS happy or not?

Now, it's not my job to tell them whether it's going to make CalPERS happy or not. I don't know the answer to these questions on a daily basis. But when JP Morgan came out two weeks ago with a policy of not investing in coal, a much more proactive policy that they ever heard, the first question they asked is what does CalPERS think about this? I said call CalPERS and perhaps they'll tell you.

The point is of the 118 investors in the investor network in climate risk, or the 110 companies that we work with on climate change and ESG issues, they will be following what you do. They want to know what you do, how it relates to them, and how they can get in line to make sure they're pleasing you and not opposing you. They're not going to make you happy on everything, but it reverberates, and I think that's important.

Just a tiny bit more on the history of Ceres and CalPERS. In the late 90s, Siri saID we ought to have reporting standards -- voluntary reporting standards for ESG, for environmental, social, and governance issues. And with CalPERS leadership, we built and developed the Global Reporting Initiative. It's now its own standard setting body. Eleven hundred -- 11,000 companies, multinational companies use the GRI and are doing sustainability reporting?

But now certainly is the time for more detail, more data, a refresh, the kind of structure that the sustainability Accounting Standards Board has, the point being you've been there from the start in making the case that we can't integrate sustainability metrics without clear disclosure reporting, and specific standards that allow us to do that. And I think we have made some good progress together over the last 10 or 15 years, but now is the perfect time to make the jump to more rigor, to more analysis, to integrating it formally into the systems that we work with.

Let me now touch on climate change as a material investment issue. Although you've already asked and answered that question, and that it is. I mean, we are seeing from leading economists across the world, as well as scientists, that climate change is the greatest ESG issue of our time. It presents systemic risks across our entire economy from insurance to apparel, agriculture, to electric utilities, transportation, to financial services, the oil and gas industry in particular as well, and the list goes on and on.

There is almost no sector -- some think it is just the oil and gas industry or the coal industry. There is almost no sector that's not implicated. If you look at the impacts of a billion dollar loss to the agricultural sector, from climate related loss largely due to water, that is a profound financial risk. If you go to the Gap and Levi Strauss, as we do in working with their boards and their leadership team, the fact that the cotton crop was decimated was not an unfortunate activity or experience for them, it was a major hit to their shareholder value.

The fact that every insurance commissioner, the regulators of insurance companies are now talking to us about how to make sure that insurance companies are disclosing the financial implications of climate risk to each and every one of those insurance companies is top of line for insurance companies is another clear indicator that climate risk is real, and that it is making a difference. I would note, and all of you probably know the Insurance Commissioner in California, David Jones, has led that fight in making sure that insurers that are either domiciled or doing business in California, and that constitutes 92 percent of the industry, are now disclosing their climate risk. You just asked us to help define a tighter standard for disclosure, and to train their auditors on what climate risk looks like. We've just completed that, but it is clear that this is no longer an environmental issue, but a system-wide economic issue to our overall economy.

And the risks it poses are material investment risks and opportunities, particularly to long-term investors like CalPERS and other investment firms.

The California drought, the proliferation of extreme weather and the Paris agreement all signal the increasing impact of climate change and policies to address it.

By addressing climate change as a risk in your Investment Beliefs, this Board has recognized that climate change is fiduciary issue, that can affect CalPERS success in meeting its obligations to your beneficiaries. And I commend you, that not all funds have done that. Although, many are looking to your lead and starting to follow it, but it is a clearly leadership and profoundly important position.

The implications of climate change are being felt today. It is no longer an issue of concern about the future. Until two or three years ago, many wanted to say, we'll see the implications in five years, 10 years, and 15 years hence. The agricultural crisis in California from the drought wasn't 10 years from, it was last year, and those things are happening everywhere and coming up, whether it's tsunamis in southeast Asia, where crops, where people, where homes are being devastated in a profoundly material way to the economy in those places.

The international Paris agreement has further changed the discussion in moving climate to a world class financial discussion. If we believe, and I hope we do, that the results of Paris, of moving us to a 2 degree world or less is now the law of the land. If we believe that the economy will look very different between now and the next 30 years.

The energy economy will be radically different. And that will start changing sooner rather than later. Being out in front of that and understanding it as CalPERS is, is a must. And I think that you have shown that you are out in front of it.

And the world economic forum continues to cite climate as one of the world's greatest economic risks. So it's time to move it from niche issue, it's over here, only sustainability people care about it, into the integration with the world's largest companies and investors through systems change, as you're talking about, and not having it as a niche. I spent some time or spend some time advising the chairman and the small advisory board of Morgan Stanley, and they set a $20 billion or $40 billion investment in climate.

And they started looking at the risk factors as it relates to that 20 or 40 billion dollars. I think the goal is for them, and certainly for all of us, if it's a risk, it's a risk. If it's a material financial risk that affects portfolios, it shouldn't be in niche products. We've got to look at those risks across our portfolios and do so with clarity.

I want to note the leadership to date, and then comment very quickly on where you're going, and see if I could do that in the 10 minutes or so I was afforded.

CalPERS early membership in the Investor Network on Climate Risk, in PRI and others, have positioned CalPERS as a leader on ESG and climate, and others are following your leadership. Every day, we get calls, whether it's the Treasurer of Maine -- or of Vermont. The Treasurer of Maryland, the Pension Fund of Massachusetts, they want to see what your Investment Beliefs, what they're doing, and where you're going.

So the leadership has been clear, your green waive initiative was one of the earlier founders of what's going on in this space and what's not.

You're advocacy for mandatory disclosure at the Securities and Exchange Commission. The Securities and Exchange Commission has adopted mandatory standards for climate Risk disclosure, but, as we just heard, they're not enforcing against it. I think over the short term, maybe shorter than the five years, that Mr. Eliopoulos talked about, but we certainly shared the same goals. And if I could beat it, he will be the first to commend it.

I think even in the short term, the fact that the SEC adopted climate guidance through the leadership of CalPERS and a dozen or so other investors, that there is a chance that they will actually enforce against it, and make it clear that this is a material financial risk. And if it is, it belongs in the MDNA in the 10-K. We have a short at that.

I'm going to talk about it as I look to the future, but it didn't get there accidentally. It got there because you all, with 12 or 14 other funds, filed a formal legal petition that was taken quite seriously. And if you talked to the former chair of the SEC, they know that they adopted that guidance because of CalPERS and CalSTRS and many of the other funds. So we want to not let that sit idle. We want to come back to that and think about how to make it real.

And your advocacy and engaging companies. Now, we're talking about some specific issues. But as I look back, 15 years ago there were an average of six shareholder resolutions on climate change. Now, there's an average of 170. Six years ago, the average vote was about seven or eight percent. Now, the average vote is about 32 percent, with many getting close to that 50 percent, and some, with CalPERS leadership, bumping over it.

CalPERS has engaged companies through that process. And the dozens of companies that have reduced their carbon footprint set very specific and ambitious goals to do so. The number of companies that have agreed to comprehensive reporting, maybe through the GRI and hopefully going forward with even more specific guidelines from SASB, but companies have changed because of that engagement and advocacy. And so targeting it, as you move forward, it is a proven technique. Not all companies love shareholder advocacy or that kind of engagement, even pre-shareholder, but they are changing because of it, because of the discussions you've had with companies. And I can name you several dozen that we've seen change their practices because of it.

And you're current and recent initiatives, and then I'll quickly comment on your future ones. Your proxy access campaign at energy companies, pushing for climate competent boards, is taking hold and it is moving companies. Companies are starting to look at what the makeup of their boards should be. Proxy access has been a hallmark of what CalPERS has been about, but focusing it on climate and on energy companies is starting to take hold in a very different way.

Supporting carbon asset risk proposals in the U.S. and in the EU. Change is resulting in large companies with billions of dollars in capital expenditures for fossil fuel projects being canceled, and the start of the $685 billion in capital expenditures that has been made approximately every year for new fossil fuels is beginning and starting to move to other energy sources. That didn't happen accidentally. We are not there. It is certainly less than $685 billion that are going into new fossil fuel projects. They're not all canceled.

But the fact of the matter is that tens of billions of dollars of those capital expenditures are being pivoted out of fossil fuels and into renewable energy comes from the kind of message that your advocacy with fossil fuel companies and the carbon asset risk effort has done.

And your policy support for clean power for the SEC action on climate, for stock exchanges to have mandatory disclosure, for carbon pricing, and for Paris has made a difference. I don't know if you always get to see, even though you take the leadership steps of the implications, but a year ago when the Secretary General of the United Nations convened world leaders, the priority debate on the floor of the United Nations was the fact that 375 investors, with CalPERS being one of the lead investors, was weighing in on the need for climate policy and the need for Paris to be successful.

The science was discarded, issues of 400,000 people on the streets of New York was relevant. But in the end, the members within that room cared about the fact that the financial community was weighing in and cared and was making a difference.

When CalPERS demonstrated leadership in Paris, calling for a strong global climate agreement, whether it was at the UN summit that I referenced or in Paris this year, it was a force, and it was recognized by the leadership of the negotiators. Todd Stern, who led the negotiations for the United States, sent folks out every day saying we need more businesses and leaders of the investment community making the case for policy.

And the fact that CalPERS was there speaking out at press events, providing background, making the case that this was a financial issue and needed to be addressed as such, was an extraordinary -- made an extraordinary difference and thank you for allowing your staff to show up in Paris.

I want to say how it's being appreciated or absorbed by the UN. The UN will bring together world leaders, finance leaders, as well as presidents of as many of the 186 countries who signed the Paris agreement at the United Nations in April. They've asked us, and we've asked Anne Stausboll to represent CalPERS as the leading financial voice speaking to world leaders from around the world.

So your work is being heard. It's making a difference. We're seeing it every day, and I thank you for taking those strong positions and stepping out. We could not have gotten 378 investors to call for strong standards at Paris without the leadership of the top five or ten, which CalPERS is always part of, or at least is when they find it to be thoughtful and make sense to the work of CalPERS. When it's not, your staff never hesitate to say no.

So let me talk for the next two or three minutes on moving forward, and then stop. As we look at the plan that we've seen, and it doesn't mean that it addresses every issue. I understand the questions that have come up today, but CalPERS continuing to take leadership on climate as an investment risk and opportunity fully consistent with your fiduciary duty will have reverberations across the board in capital markets, as well as in policy circles.

You're three-part framework of engagement, integration, and advocacy make great sense as we look at it, and consistent with how we approach climate change in our work with investors and companies. It has to be about risk and opportunity. It has to be about a material risk. It has to be about fiduciary duty. It cannot just be that it is about the future of the world, which one would think should be enough, but you're an investment institution.

And we've got to make that case and define it as such. And when it is, it makes sense to see your leadership, and when it's not, we understand it doesn't.

On engagement, CalPERS supporting carbon asset risk shareholder proposals that ask fossil energy companies to stress test their business plans against a two degree warming scenario, per the Paris agreement is a critically important strategy to ensure that these companies have a 21st century business model.

Second, you're work on engaging the 80 high emitter companies, that came from a thoughtful and clear research study, not pulling 80 companies out of the sky, but an analytical rigorous study that come up with 80 companies and asking those companies to disclose their climate strategies, and demanding board competence and leadership on climate strategy is a hugely important risk mitigation strategy that we support, and look forward to working with you.

I can guess, and you know, Mr. Slaton talked about KPIs, and I hope you all give me some to take home as our homework, that we could find 50 large investors to follow the lead of what CalPERS is doing, to take your 80 companies -- and maybe the goal is to get 80 other investors, but think about the extraordinary clout. If we could bring most of the members of the Investor Network on Climate Risk, they don't have to redo the study. You make everything transparent. You're the most transparent institution I've ever dealt with.

Well, that data is already out there. They don't have to do the work. They don't have to ask you for it. But if we could take the large majority of the investors in the investment network to follow your lead with those 80 companies, I think there's little that we could imagine we can't do. We can make change in those companies, based the rigor and the leadership you've taken so far.

On integration. Rolling out your manager expectations on ESG to your internal and external portfolio managers across asset classes is an important practical step and market signal. Some may feel like it is just a bureaucratic step to include a couple of words.

I want to tell you others will follow and money managers will note it. I spent two hours at Goldman Sachs last week, two hours the week before at Citi, two hours before when Morgan Stanley was working on their climate policy. They want to hear that you are interested in ESG products, in ESG analysis. When they know you are, they know how to come up with the best investment mouse trap or investment vehicles, and the best funds to satisfy what your policies demand.

But knowing that you care and are calling for it will make a huge difference in moving that world far quicker, far sooner, to come with products that make sense and that clearly have to be about meeting your return expectations. None of this is about cute investments.

So integrating and integration is part of the buzz word of what we're talking about, into what you expect from money managers will take a huge leap and bring us that much forward as we talk about integrating ESG into capital markets.

We also think about disclosure and reporting standards as you do, and that we need more rigor. And the SASB detail and rigor is crucial. And we need to look at where those opportunities are immediately. The Bloomberg, Mark Carney, FSB task force, which Dr. Rogers and I testified at in London a couple of weeks ago, they are looking for investors to tell them they need the financial information disclosed. They need consistency. They need decision-making data, and they need it sooner rather than later.

So as CalPERS moves forward weighing in with the FSB taks force, which is happening literally now and will be coming back with further briefing information will make a huge difference.

Stock Exchanges, CalPERS has been crucial, as has Priya in her work with PRI, and your leadership there, in moving the stock exchanges to understand we need to integrate ESG metrics into the disclosure that they require. We've got a number of stock exchanges that have already adopted it. I think this year and next year is the year for us collectively to move the London stock exchange and NASDAQ. And I think we could do it with the leadership that you've shown and where we're going.

And finally the SEC. You started the fight, which wasn't necessarily meant to be a fight, you got the SEC to adopt mandatory guidelines. And in the end, if something is a financial risk, a material risk, it ought to be mandatory. It ought to be disclosed.

Investors cannot be asked to make decisions with only half the information that they need to make wise decisions. So we've got an entire group, a body of influencers, who are looking at these issues, who care about what CalPERS thinks. We've made extraordinary progress. I think we could make more as you finish your deliberations on whether or not this is your priority, and as we move forward.

And one final point, which is not explicitly written, but I also know that it is being done at CalPERS, encourage and supporting active efforts to investigate and pursue appropriate clean energy investment opportunities in your infrastructure portfolio investments, and your ongoing work at PERS, and to look for profitable investments and renewable energy projects, that, of course, provide the kind of returns you need and satisfy the guidelines you're setting out.

I know that you're looking at infrastructure, in particular. That is where a great need is. I think we could make huge strides, if we not only look at the risk, but the opportunity.

Let me close by saying, I think now is the time. Many of us have been at this for several decades. Capital market leaders understand now that ESG needs to be part of the debate, discussion, and the decision making. We are poised to see that happen. We need things like standards. We need things like guidelines. What we also need more than anything perhaps is the leadership of CalPERS and others stepping out.

So I applaud you and look forward to bringing others in, meeting some KPIs, if you give them to me, but to make sure that we take the agenda that your considering, and when it's finalized, helping to make it a reality.

Thank you for your leadership over the years.

CHAIRPERSON JONES: Okay. Thank you very much for your comments. Okay. On this item, we have a motion on the floor and a second. But before we try to conclude and see how we go forward from here, see where we can gain some consensus in moving forward, I think I'm going to ask the request -- public members who requested to speak on this item come forward Deborah Silva, Sandy Emerson and Helen Russ. And you will have three minutes and the clock is right below the sign here to monitor your time.

MS. SILVEY: Thank you very much for allowing us to speak. Deborah Silvey. I'm a CalPERS pensioner, and a member of Fossil Free California.

And I'd like to call your attention to the third point in our letter. It's our concern that Exxon Mobil is the second largest stockholding in the CalPERS portfolio, as of last June. You know, at your January meeting in Monterey, I expressed our dismay over the recent news about Exxon that their executives had chosen to hide what their own research had shown about fossil fuel's effect on the climate.

In fact, they led the fight for many years to discredit climate science, and to derail efforts to curb carbon emissions. Well, since that meeting, more news about Exxon points to increased problems for the company, due to its legal challenges. The California Attorney General has since joined in the investigation of Exxon. And on March 2nd the investigation took on a national importance when the Department of Justice asked the FBI to evaluate whether ExxonMobil violated federal laws by publicly denying climate change for years.

So in the face of these legal challenges, Exxon continues to stall about analyzing climate change's impact on their business. Other fossil fuel companies have reported on its impact, but Exxon recently notified the SEC that it would challenge the shareholder resolution asking for such analysis.

Now, unfortunately, Exxon is not alone in using stalling tactics. The fossil fuel industry as a whole is still delaying progress hoping to keep themselves in business as long as possible. But climate change isn't waiting, as we've been hearing so beautifully expressed today. It's not waiting for a slow transition. Climate change seems to be speeding up. The polar ice sheets are melting faster than expected, the average rural temperature was higher last year than ever before.

To mitigate the catastrophic weather many in the world already face, the Paris talks aspire to that -- a new limit of 1.5 degrees temperature rise. That goal calls on all of us, and I hear that you are responding to that goal to move our deadlines for the shift to new energy.

Luckily, that shift can improve our returns as it helps the climate. A new report indicates that New York State's pension fund would have had an additional $5.3

billion worth of retired employees if it had divested from fossil fuel companies three years ago, and put that money into clean energy.

So we are asking CalPERS to do whatever you can to hasten the transition away from fossil fuels that endanger our planet, and we do appreciate the work you're doing here. And since Exxon's history and its present legal situation constitute a risk to our investment, we urge you to begin by reducing your Exxon holdings now.

Thank you very much for all your work.

CHAIRPERSON JONES: Okay. Thank you for your comments. Ms. Emerson.

MS. EMERSON: I'm Sandy Emerson, and I'm from Fossil Free California. Our letter of March 7th advocates a results-driven approach to shareholder engagement in order to see how investment strategy should be altered and whether divestment should be considered. CalPERS is highly committed to shareholder engagement. It's been very active in the long-term process of proxy access and shareholder resolution. And staff is now increasingly asking for companies to provide more data on their exposure to risk from climate change.

This will give you additional points of leverage in the engagement process, we believe. Risk reporting could inspire reform or it could just be more data. In our view, reporting should be a two-way street. CalPERS will respond to data and take appropriate action, and it can ask more from companies than just data.

Clearly, fossil fuel companies don't want to make changes to their core business models. On the other hand, the smart companies will embrace the transition to a clean energy economy and become part of the solution.

How best will CalPERS engagement enable this transition? How will it avoid getting stuck in a place where companies are just stalling for time? Time is short. Climate scientists tell us that carbon emissions must peak by 2020 in order to avoid the catastrophic -- most catastrophic effects of global warming.

So we believe that shareholder engagement should have measurable objectives. Holding companies accountable for meeting defined criteria within a defined time frame. And the proxy preview for 2016 says that 94 climate change resolutions are coming forward up from 82 last year. We're hoping that the ones that CalPERS engages in will have a metric, a time frame, and a consequence for action up to and including divestment.

Thank you.

CHAIRPERSON JONES: Thank you for your comments.

Ms. Russ.

MS. RUSS: I'm Helen Russ, a CalPERS member, and a supporter of the Fossil Free California campaign. You've received a letter, which advocated that you begin immediately the process of divesting from U.S. coal companies. On February 3rd, the CalSTRS Board voted to divest from U.S. thermal coal companies and to initiate engagement with non-U.S. companies.

On February 11th, the Bay Area Rapid Transit Board also voted to liquidate coal investments by July 1st of 2017. We are urging CalPERS to follow the examples of CalSTRS and BART by beginning now to divest from coal.

The current targets in Senate Bill 185 require divestment from companies from derive 50 percent of revenues from the extraction of thermal coal. In light of the dangerous effects of coal, both to the climate and to the CalPERS portfolio, we would also like to ask you to take an additional step, please exceed these targets. We urge you to consider divesting CalPERS from both U.S. and international coal companies that derive more than 30 percent of revenues from the extraction of thermal coal.

Thank you.

CHAIRPERSON JONES: Thank for your comments.

Okay. Now, back to the motion on the floor. I didn't hear a consensus to move forward with the motion that was proposed. And the other point is that we now have had a thorough presentation on the climate change, so maybe that's where we should focus on. Let's see if there's consensus moving forward on the climate change, with the addition of some comments about water. And then we will have a deep dive into the human capital next month as a -- in accordance with the schedule, and then a deep dive into the alignment of interests in May, in accordance with the chart. So if that's agreeable with the Committee, then I call on Mr. Slaton -- let's see Mrs. Mathur first.

COMMITTEE MEMBER MATHUR: Thank you. If I may, Mr. Chair, I had a couple of comments and questions for Ms. Lubber

CHAIRPERSON JONES: Oh, okay.

COMMITTEE MEMBER MATHUR: And then -- so first of all, I just wanted to stay thank you so much for being with us today. I think CalPERS collaboration with Ceres has been -- over the past more than a decade, has been hugely important, not just to Ceres, but also to CalPERS, and you've really helped us to advance our understanding of this base and what active strategies can we take that would be impactful, both on the problems that we're seeking to address and for our portfolio in a positive way. So I really appreciate all of the work that you do.

As you noted, there's perhaps an opportunity to expand the Carbon Asset Risk Initiative to incorporate the additional companies identified by our carbon footprint that are directly deriving 50 percent of our global greenhouse gas emissions. And I think that would be great.

I think one of the things that's important to note is that our public equity portfolio is what 85-90 percent indexed. So it really is very comparable, I think, to any other pension fund or asset owner who has significant holdings -- indexed holdings. So the need for other asset owners to necessarily even do a carbon footprint might not be -- it might not be necessary. They could just take our information and extrapolate it for themselves. So I think that's a compelling argument to perhaps expand that effort, and so I hope that you will take that on.

You also noted that engagement -- how important not just the integration piece is, but the engagement piece of our three-pronged strategy has been. And I wanted you to talk a little bit -- you talked mostly about climb, and climate has been the sort of topic of the year -- of the past couple of years, and obviously hugely important, hugely impactful for CalPERS. But could you talk a little bit about water, because Ceres has been doing a lot around water. You have your Aqua Gauge, and various other initiatives. What have you come up with around strategies that investors, active asset owners such as CalPERS can implement.

MS. LUBBER: Great. Yes, we do see water as -- and again, when climate became of age, it became a clear financial issue. Water could not be more clear. We can't run an economy without enough water, end of story. I mean, we could talk about any possible industry, any possible company, but we know that water is limiting a factor as are natural resources.

Two things that we have found through our research, and two activities, and we'll share those studies with your staff. One is that, well, 70 percent of water use is in the agricultural sector, and two, that most companies don't now how to manage water risk, haven't thought about it. So we're starting with the agricultural sector, just for the normal reason, 70 percent of the water usage is there. And in working with them on both how to manage their water and what to look for, and how to redesign their systems.

Their fact of the matter is that they could use half the amount of water with some changes that aren't hugely expensive. We're working with Kraft and General Mills and Nestlé's and a dozen other companies that have agreed to step up and set explicit goals about reducing their water use, as well as protecting some of the precious water sources within where we live.

The second thing we do -- so we will continue to work with companies to change how they use water, how they manage water, how they steward water, not only with their own manufacturing facilities, but within the watersheds within which their part of.

Secondly, we did a study about eight months ago looking at how analysts are analyzing water risk for portfolios. And we found out that an extraordinary number of those analysts weren't looking at water risk period, weren't analyzing risk. And we have done a series of seminars at Bloomberg and elsewhere for analysts on what is the strategy and what are some of the structures for analyzing water risk, what does it look like, and how do we deal with that? And I would suggest that the number of analysts looking at water risk has grown substantially.

A third thing that we're looking at is how are we fostering, for instance, water bonds, and how to evaluate water risk for fixed income? So right now what we see is that there are municipal bonds being issued for five billion, ten billion. Water -- changing water systems is hugely expensive.

In looking at water risk, we, in fact, encouraging billions of dollars of expenditures in systems that either aren't the top of the line for conservation, and how is that being measured by the rating agencies? We have a water bond standard that the rating agencies have just opined on, and some of them are willing to adopt some of the language in it, but we've got to look at the structures that have an impact on water use.

And the final thing is water pricing. Right now, water pricing -- and we never want to get to a point of charging for water in a way that inhibits or that redounds to human beings who need to have water as a right to life.

But what the structures right now for water pricing, and we're working to try and change those, is that for large users, the more you use the less you pay. We encourage people to use more and more and more like we used to do with energy. That doesn't make any sense. We have got to look at water pricing and for large users start having them have the incentives to use less rather than using more.

So there are three or four areas where CalPERS could be instrumental on changing the rules of the game, on changing investor practice -- company practices, and on making sure that the asset management firms and the analysts who work for you are looking at and are measuring water risk as they started to do with climate risk.

There's no more excuse as we saw six or eight months ago that water risk is not something to be evaluated, analyzed, and used as part of a decision-making cycle.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON JONES: Very good. Thank you.

Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: Well, first Ms. Lubber, thank you very much. And I'm sorry I've got a scheduling conflict. I'm going to miss the May conference in Boston, but I certainly hope to --

MS. LUBBER: We'll catch you next year in San Francisco.

VICE CHAIRPERSON SLATON: -- I hope to make the next on in San Francisco.

I think that what I'm hearing from the group up here that I'd like to modify my motion just to deal with the climate change part, narrow it to that, because I think we have -- we're very close to consensus on that part, and maybe Ms. Mathur or others might have modifications in there that we can put in the motion and kind of lock that one down and call it a day today.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Costigan, do --

VICE CHAIRPERSON SLATON: Are you okay with that?

COMMITTEE MEMBER COSTIGAN: That's fine.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. I do have a proposal. I'll make it as a friendly amendment and see if you're willing to accept that. So it's on -- under the E, the second bullet says engage 80 PRI Montreal Pledge Companies. I would expand that to say engage 80 PRI Montreal Pledge companies that contribute 50 percent of CalPERS greenhouse gas emissions and selected targeted companies that face material long-term risks from water scarcity, quality, inundation, and other water-related risks.

And I would suggest that maybe the water piece of that could be slotted in, if you look at the calendar, on page -- sorry, I'm just -- under engagement on page 14, maybe in year three, where we revisit the engagement. Maybe at that point, we try to incorporate it. And there might be some opportunities in it earlier than that. There might be some things we could do in collaboration with Ceres that are already underway.

But I understand that not everything can be done and started in year one, so that would be my suggestion.

CHAIRPERSON JONES: Okay.

VICE CHAIRPERSON SLATON: So I would just -- I would look to Ted, and what do you think, in terms of from a resource standpoint?

CHIEF INVESTMENT OFFICER ELIOPOULOS: It's really a judgment for this Committee to make. Our preference has been to focus, as much as we can, on the main channels of advocacy, engagement. In year three, beginning a new engagement process outside of these 80 companies on a new topic will take some of our attention away from the topics that are focused here. But it gives us two years to ramp up to that, and devise a strategy that makes sense.

VICE CHAIRPERSON SLATON: Okay. I'll --

CHAIRPERSON JONES: We have another question. Just a minute. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, Bill, I actually had a couple of questions. Bill clarified one. His motion has shrunk from the slide on page three to column E.

VICE CHAIRPERSON SLATON: Right.

COMMITTEE MEMBER JELINCIC: And I think that's a significant improvement. The manager expectations pilot. I'm not sure that I understand what that is. I mean, we will -- occasionally we will ask about something. And well we'll deal with it in the manager expectations. You know, here it's water, earlier it was on some of the human capital issues. So I'm not quite sure what we're actually doing with manager expectations. And this may not be the point at which to answer the question, but at some point, I think this Committee needs to know what is that? What's everything that's in there?

If you're going to be dealing with -- if we're going to defer things to the manager expectations, we ought to know what that process actually is.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll have Anne address that, but we have had a few presentations on this project. And I think our expectation is to bring back at the end of the year one of this pilot project review of -- is it May? -- in May or a view of the status of the project.

INVESTMENT DIRECTOR SIMPSON: Yeah, that's right, Ted. The original plan was May. But because we've since then launched this review, I'm hoping we can complete the review and then come back on manager expectations. What each asset class has done is take the PRI list of potential ESG relevant factors and craft expectations and practice guidelines, which are appropriate to the asset class and the way that it's managed.

So obviously, it's going to be a different approach if we -- if you're an LP to if you're investing in a public company. But the idea was that because this was new, there should be a period of time to set out this request for -- we're asking for the managers to report to us on this policies, the factors that they consider relevant and material, how they're integrating these factors into their strategies, and then, depending on the progress that's being made on that feedback, seeing what can then be integrated into the different stages of the investment cycle, whether it's due diligence, contracting, monitoring and so forth. So it's very driven by the ownership and control structure in the asset class.

COMMITTEE MEMBER JELINCIC: If they -- if we're asking them did you look at -- do you consider this factor, and they say yes, do we get into -- well, what do you do with it once you consider it, and are there things you're considering and the views you're looking for the same views we have?

INVESTMENT DIRECTOR SIMPSON: Well, step one is to ask the question, so that we know which managers have policies and practices. We're interested in practices, because it gets to your point, Mr. Jelincic, about implementation. So we're not leaving it just policy, yes/no, tick the box, it's about the practices for each of the managers.

So this is a significant body of work, which is why we're taking this year for the pilot process, but it's not -- it's not a flimsy -- it's not a flimsy effort. This is actually some significant work.

COMMITTEE MEMBER JELINCIC: And if we are going to adopt it as part of our strategic priority, do we actually have enough knowledge through the pilot to know what it is we're making part of our strategic priority?

INVESTMENT DIRECTOR SIMPSON: We're proposing that this stay part of our core work. It was only launched -- I think the presentation by Beth Richtman was in May last year. So this is a -- this is a very complex project, and we need this time really to have that conversation with all of the managers, internally and externally. This is not an insignificant undertaking, and then to distill and report back to the Committee.

COMMITTEE MEMBER JELINCIC: So we're defining it as part of our core work, not necessarily --

INVESTMENT DIRECTOR SIMPSON: Correct.

COMMITTEE MEMBER JELINCIC: -- a strategic priority?

INVESTMENT DIRECTOR SIMPSON: I'm sorry, if I'm using confusing terminology. This is listed under strategic priorities. That means this is something that we consider as material. We have capacity, expertise, and impact is there for us.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay.

VICE CHAIRPERSON SLATON: So back to Ms. Mathur's recommendation, I'm just having a little -- I need you to restate it, and I need to understand what the scale is that we're talking about? How many companies, or do we have an idea of the -- I just want to get comfortable that, in fact, adding this in can get accomplished or is it too big to bite off?

CHAIRPERSON JONES: Mrs. Mathur.

COMMITTEE MEMBER MATHUR: So I have deliberately not included a number, because I think there's -- that would give, you know, the staff some time to think about what's appropriate. You know, one of the things we learned from the carbon footprint, which I don't know if there's a water print somewhere that we could do, but one of the things we learned from the carbon footprint is that it was a smaller number of companies than we thought that were actually driving the problem, or at face -- and so I don't know if that's going to be the case in water. And I don't know what the right -- I don't know what the right number of companies would be, but I imagine that there are some companies that face more significant risk than others.

And so I would imagine that we would select some number of companies, maybe it's the focus of our focus list in a given year, or I don't know what the answer is, but -- which is why I used the sort of select targeted to make sure it would be narrow enough that it would -- could slot into this program.

VICE CHAIRPERSON SLATON: Yeah, I'm --

COMMITTEE MEMBER MATHUR: Do you want me to restate the language?

VICE CHAIRPERSON SLATON: Sure.

COMMITTEE MEMBER MATHUR: So continuing on from the engaging the Montreal Pledge companies adding, "...and select targeted companies that face long-term risks from water scarcity, quality, inundation, and other water-related risks".

VICE CHAIRPERSON SLATON: So I -- the issue that concerns me is not that -- so much the number of companies, it's the research required to figure out which ones to pick, and is that going to be a research burden that is going to cause other things not to be able to be done?

I mean, you know, we have -- and I don't know if it's the same people or not, but we're going to come back next month, and we're going to talk about S and then we're going to talk about G. So again, there's a finite number of resources. We put this in there. I think we all need to understand that that may cause some constrain on the other side to be able to get that done.

So if everybody understands that, I don't really have any problem here, but there's only so much --

COMMITTEE MEMBER MATHUR: Well, through the

Chair. I guess we're having the conversation through the Chair, but forgive me. I think there -- you know, that -- this is where partnerships with Ceres, et cetera, can -- I'm not suggesting that we take on all of the research, all of the work solely by ourselves. But the engagement strategy has to be ours. We might partner still with others as we do on many other things, as we do with Carbon Asset Risk Initiative already. But it looks -- it sounds like there's already -- there's already been quite a significant body of research done by Ceres that we could perhaps use to inform what list of companies we might target.

VICE CHAIRPERSON SLATON: Okay. So it's up to staff the level of the depth of how much is done internally and how much they seek for external sources for this?

COMMITTEE MEMBER MATHUR: Um-hmm.

CHAIRPERSON JONES: Okay.

BOARD MEMBER SLATON: Okay. With that, I'll accept it as a friendly amendment.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON JONES: Okay. And Mr. Costigan?

COMMITTEE MEMBER COSTIGAN: (Nods head.)

CHAIRPERSON JONES: Okay. So that's the motion on the floor.

So all those in favor aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none. The item passes.

And so I think when we come back next month to deal with the S and then the following month with the G, I think we need to be responsive to some of the other comments that were made, such as income inequality, the data points under S and under G, and so that you could -- so that we could have a discussion around those additional items when you come back next month and the following month.

Okay. Okay. So that completes that item and we're going to take a break for lunch, and we will return at 2:15 and we will continue on with the agenda.

(Off record: 1:26 PM)

(Thereupon a lunch break was taken.)

A F T E R N O O N   S E S S I O N

(On record: 2:16 PM)

CHAIRPERSON JONES: I'd like to reconvene the Investment Committee meeting, please.

Okay. So we will go to Item 5a, Revision of Global Governance Principles, second reading.

(Thereupon an overhead presentation was presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure, Mr. Chair. Ted Eliopoulos. This is the second reading and up for action and adoption of the revision of the Global Governance Principles. It's been through many iterations of the Ad Hoc Committee and much discussion. There's one thing I would like to note, and you do have -- the Committee does have a revised page in your reading materials, a proposed clarification or emphasis on one section of the director attributes paragraph.

If the Committee will remember, last month, we had an addition on climate change expertise. And we received a comment from one of the Board members regarding management expertise as the piece that we had within the existing policy, and you can see we've proposed, and this is the only addition from last month to this month, to clarify the management expertise to be business, human capital, management expertise along with that line. And we think that's a point that's well taken and would be a good addition to the policy. And with that, I think it's before the Committee for action.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. Well, if you include the readings at the Ad Hoc Committee, I think this is our fifth reading today. And this is an outstanding body of work. I mean, a lot of people have worked very hard on this, including the Ad Hoc Committee, the Investment Committee, and the staff. And I think it's ready to roll, so I make a motion that we adopt the policy.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON JONES: Moved by Lind, second by Mathur.

CHAIRPERSON JONES: Discussion?

Yeah, Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. I wanted to just thank the staff for the tremendous work in reshaping these Global Governance Principles, and particularly appreciate the consideration of adding the climate competency attribute to the director attributes.

I had a question with respect to some of the issues that were deferred to the ESG strategic review process, and that is -- is it the expectation that after that process concludes that we may have to update the principles again, so we'll be revisiting how to tighten them even further?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes. So the parking lot of additional issues that we weren't able to incorporate in this revision of the principles will be taken up as part of the G discussion in May. And just as a preview of that discussion, what the global governance group has been doing is looking at that parking lot of items and putting into the plan taking up a pro rata number of each of those over the course of the five years, so that by the time year five came around, each of those topics would have been brought back for revision by the Committee.

COMMITTEE MEMBER YEE: Okay. Great. And with that, I just want to request that we not lose the total fund emphasis, which I think is really key for achieving more buy-in from the -- well, just all the actors across asset classes. So that I don't think fits squarely within the G discussion, but I just don't want that to get lost. Thank you.

CHIEF INVESTMENT OFFICER ELIOPOULOS: You bet.

CHAIRPERSON JONES: You're welcome.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Ted, I think you answered my question. On slide 7, which is the areas for future review, we're going to do that over a five-year period?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes.

COMMITTEE MEMBER JELINCIC: I just want to make sure we have a process to get to them. Thank you.

CHAIRPERSON JONES: Okay. Thank you. And I also just want to echo my congratulations to you and a fine body of work. So with that, we had a motion. It's been seconded. All those in favor?

(Ayes.)

CHAIRPERSON JONES: Opposed?

None. Congratulations. It passes.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That's great. Woohoo.

CHAIRPERSON JONES: Okay. We'll move to Item 5b, Review of Investment Committee Delegation.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you, Mr. Chair. Wylie Tollette, Investment Office staff. This is the annual review of the Investment Committee's delegation from the Board of Administration. There are no material changes with this review. I would note there is a change. It has to do with the deletion of the State Peace Officers and Fire Fighters defined contribution plan from the delegation. That plan is no longer in existence.

If the Committee moves forward with this item, the full Board would review it and actually move on it next month in April, along with all of the other Committee delegations

CHAIRPERSON JONES: Okay. Thank you. Okay. Seeing no requests to speak, this is an action item.

COMMITTEE MEMBER LIND: Move approval.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON JONES: Move approval by Ron, second by Mrs. Mathur.

Discussion?

Seeing none.

All in favor?

(Ayes.)

CHAIRPERSON JONES: Opposed?

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

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you.

CHAIRPERSON JONES: We move to Item 5c

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: 5c.

CHAIRPERSON JONES: Revision of Affiliate Fund Policies and Repeal of Legacy Policies, second reading.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

That's right. Thank you, Mr. Chairman. This is the review of the affiliate funds. And we are looking for an approval this month. If you have questions, we're happy to take them. I have my colleague Kit Crocker here whose team in ICOR helped prepare this revision.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, if I can get rid of the headings, I'll tell you what page it's on. On page two of four of the agenda item, some of the policy content is being moved to staff guidelines, and, you know, the procedural elements.

And one of the things that we have experienced is the policies and procedures actually get moved and changed over time, so as to actually move away from the intent of the original policy and adopted by the Board. And I raised this on the call and you had a response that I thought was worth sharing with the Board.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yes. If you have specific areas of the policy that you're concerned about that occurring, we're open to feedback on that.

The second comment I'd make relative to that is that the policy always trumps the procedure. So if there is a policy, the policy is essentially the Board's direction to staff in terms of what you'd like us to do and what limits and constraints you'd like to apply. So that clearly trumps any staff procedure.

And last, but not least, our staff procedures and guidelines are subject to review by your independent consultant Wilshire who, through our Operating Committee, any changes to those guidelines are at Wilshire's review authority. So they can make comments, they can advise us as to where they think the policies and procedures may be in conflict or areas that they would prefer the staff procedures to take a different approach.

COMMITTEE MEMBER JELINCIC: Yeah. The one specific that comes to mind was the insider trading, where the Board said, if we -- somebody has inside information, we're not trading period. And then -- but we've carved out an exception for fully replicated indexes, because we -- you know, in that case, not trading reflected insight -- and it evolved into well, indexes that are not necessarily fully replicated, but are, you know, designed to sample the index. And we decided we would -- the procedure allowed for that to be traded, even though the policy was a little stronger, which led to an earlier SEC investigation, where they decided, yeah, we're not going to pursue action.

But that's the one that sticks in my mind that

I'm sure that if I thought about it, there are probably others, but it just is a concern.

Thank you.

CHAIRPERSON JONES: Okay. This is --

COMMITTEE MEMBER MATHUR: I'll move it.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON JONES: Okay. This is moved by Mrs. Math, second by Ms. Taylor.

Discussion?

Seeing none.

All in favor?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none. The item passes.

Thank you very much.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you.

CHAIRPERSON JONES: We now will move to Item 6a, Revision of Total Fund Investment Policy, Including Divestment and Repeal of Legacy Policies, second reading.

(Thereupon an overhead presentation was presented as follows.)

INVESTMENT DIRECTOR CROCKER: Thank you. Kit Crocker, CalPERS Investment Office staff.

This is the second reading of the proposed updates to the Total Fund Investment Policy. At the Committee's request, we're presenting this item for information second time, and we'll bring it back to the Committee for action next month. Today, we're looking for Committee comments and feedback. Most of the changes since the first reading were in response to Committee feedback on the divestment policy, which Wylie will review shortly.

The other changes represent further clarifications to the asset allocation strategy section, as well as simplification of the terminated agency pool or TAP program section and to reflect the program's dependence on actuarial valuations.

With that, I will pause for any questions before turning the mic over to Wylie to discuss staff's proposed revisions to the divestment section.

CHAIRPERSON JONES: Okay. We have one question. Mrs. Taylor.

COMMITTEE MEMBER TAYLOR: I was -- I appreciate you guys redoing this and taking into account a lot of the concerns we had. And I just want to make sure, maybe I missed it, but I talked to Ted earlier, that we would have a strategy around media, if we were to reinvest in some of these things that would be controversial?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes. If and when in the future at any point that we would reinvest in these securities we'd have a communication plan for sure, as well as an engagement plan would need to be developed with those companies as well.

COMMITTEE MEMBER TAYLOR: Thank you.

CHAIRPERSON JONES: Okay. Seeing no further requests to speak on this, we do have a couple of requests to speak from the public, Mr. Jai Sookprasert, and -- oh Okay. Excuse me.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Could I take a minute?

CHAIRPERSON JONES: Yeah. Okay. Just to be clear, I wanted to highlight for the Committee a couple of the changes that we made following discussion with the Committee in February, as well as with stakeholder groups in between the February meeting and today.

So, in short, we've left the $750 million and $2.5 billion loss thresholds consistent with the first policy. Those dollar amounts are the Committee's judgment call. There's really very -- as we mentioned last month, there's very little precedent in the marketplace to determine what is material. So we left the dollar amounts, because it seemed like overall, that was a -- there was decent consensus around those dollar amounts. In addition, we consulted with your consultants on those, and they also felt like those were reasonable amounts.

We've simplified the approach to the seasoning period, once losses -- once those loss thresholds are hit. Essentially, once a loss threshold of $750 million is hit for any individual divestment item, that loss of 750 million would have to be sustained over 12 consecutive quarters.

If during that period, during any quarter, it falls sort of below the 750 million dollar limit, that would essentially restart the clock, so you'd then have to then accumulate another 12 consecutive quarters.

We propose no waiting period for the cumulative divestment limit, once that trigger is met. We really -- there's a lot of difficulty in creating triggers, given the fact that new divestments could come into the stable of divestments during that period.

Only those divestments producing losses would be subject to reinvestment following the cumulative loss trigger. And importantly, we've included specific notification to the Investment Committee before a reinvestment was due to take place. So the Committee would have the option of modifying the policy, or changing the limits.

In discussion with the legislative staff, a desire arose to have CalPERS separately consider legislatively mandated versus Board directed divestments. Our view of this is that the Board's fiduciary responsibility is the same really regardless of the original source of the divestment request.

In addition, the divestment, the legislatively derived divestment request also include a provision regarding the Board's fiduciary responsibility. So at the end of the day, the Board's fiduciary responsibility is holistic. It's not divisible into different sources for that information.

And importantly, from a practical perspective, the legislatively driven divestments, which really today constitute just the Iran and Sudan related divestments, given their relatively small size are unlikely to trigger either the individual or the cumulative divestment threshold in any time in the near or perhaps even distant future. Just given their size, they're small compared to those -- the dollar limits that we've proposed.

So with that, I will pause and see if there's questions now that I've walked through some of the key changes to the policy.

CHAIRPERSON JONES: Yeah. We do have a few questions, but I wanted to give the opportunity of Wilshire or PCA, if you had any comments or wanted to make any comments.

No. Okay. Good.

Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: This is probably going to surprise you, but the will/shall issue, if you could comment on that? And I might --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I shall.

(Laughter.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Actually, what I will do --

(Laughter.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

-- is turnover the response to that to my colleague Kit who's done quite a bit of work on this.

COMMITTEE MEMBER JELINCIC: And before I give you the floor. In the last policy, we also had some will/shalls that I didn't raise this time, but -- so thank you.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: In short, what we propose doing is pending the next year revising some of, what I'll call, the passive voice in the policy. Many of our policies use the passive voice, which is essentially saying a report will be provided or a report shall be provided, where the subject who's receiving that duty is unclear. And so what we're planning to do, rather than undertake a comprehensive review, because it would be quite a dramatic change in the language, really a pretty significant grammatical exercise to revise that today, what we're proposing to do is over the course of the next year to come back, and wherever we are able to, to move to the active voice, so that the subject and object of the sentence are more clear.

That's what we are proposing to do in response to the will versus shall issue. What Kit was about to tell you, which I've just covered it. So, Kit, I apologize.

(Laughter.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: But shall, in Kit's research, has indicated that shall actually imposes more of a duty in the legal language than will. Will apparently has some vagueness regarding whether it's really indicating something that is due to happen in the future or whether it's actually a duty that's been imposed.

So that's what Mr. Jelincic is referring to. And he correctly is asking for clarity around those topics, where it's used in the policy. We think the policy and the duties imposed are clear, as it's currently written. We don't think there's any confusion around that. But could it be clearer? I think that's -- it could be, and so we propose taking some time to do that.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I wanted to see if I could ask some questions for clarity's sake. Why would losses from a single asset continue to be counted in the cumulative losses after reinvestment occurs?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Let me make sure I understand your question, Controller Yee. So regarding the cumulative loss trigger, you're talking about?

COMMITTEE MEMBER YEE: Well, if you had losses from a single asset, and if reinvestment occurs, does that still get counted in the cumulative losses after reinvestment occurs?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: It does, but it decrements against the total amount. So if we start with $2.5 billion as our total cumulative loss trigger, and then, let's say, one of the divestments hits the individual loss threshold of 750, and that we reinvest in that particular loss -- that particular divestment item, that 750 is then deducted from -- in the current proposed policy is deducted from the 2.5, so the new limit would be 1.75.

COMMITTEE MEMBER YEE: Okay, I see. I appreciate the comment about our fiduciary responsibility being a holistic one. And I think the one area that I'll venture to say is troubling, many of my colleagues, including myself, is the issue of tobacco. And if we're actually exercising our fiduciary responsibility to move away from certain assets due to our ESG beliefs, other beliefs, does the policy with respect to tobacco here kind of run cross-wise with that? I mean, I'm just trying to figure out how to reconcile our consideration of reinvestment in tobacco from a fiduciary standpoint.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

I'll initially respond and then I think Ted has some comments to make. The consideration of ESG factors is absolutely part of our -- needs to be part of our consideration of all investment transactions. However, those considerations generally don't necessarily motivate a complete divestment from an item. In fact, our -- the ability to apply ESG considerations as you heard today from SASB and from Ceres is actually dependent on our ability to stay invested as an owner.

And so divestment in many ways kind of runs counter to our ability to be effective as an ESG investor. And that's why it's really ensconced as our core policy topic is engagement -- constructive engagement is really the core foundation of that.

Divestment, I think from your staff's perspective, is regarded as something experiment. And when -- so when we divest, we're veering away from our core policy element and we're experimenting. And after some weight of evidence has accumulated, those experiments don't work, we have a duty to act in some way to maintain adherence and alignment with our fiduciary responsibilities. So that's why we would come back and potentially seek reinvestment.

COMMITTEE MEMBER YEE: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, I think that is well said, Wylie. The only thing I would add is when the initial divestment decision was made, it was made on the premise of a weighing of the return and risk considerations, under the premise that CalPERS would be benefited from removing those securities from the portfolio over time.

And what -- and we have very few of those divestments in our portfolio currently, given all that we've discussed in terms of our Beliefs and our former policy and current policy and proposed policy. Divestment is definitely a rare exception, as Wylie mentioned.

What we're trying to provide in this policy is a response to two things. One, the evidence that now subsequent to the investment decision that was made in each of these existing and extant divestments within our policy of underperformance. And we now have, and the Committee has, a report from Wilshire on the level of underperformance of those divestments, which is contrary to what we expected when we divested these policies, given our view of return and risk at that point in time.

And in January, what our fiduciary counsel and our discussion was, well, there needs to be some mechanism, some process in place to review the performance of these divestments, especially if their performance is underperforming our expectations, and the index of -- our benchmark index with those investments in them. So the proposal is meant -- the loss mitigation proposal is meant to really hone in on that very specific problem. What do you do after you've taken a divestment decision and you're -- and you have evidence of underperformance?

And really, your two options I think are what I mentioned this morning. Your two options are, one, this type of policy that we're proposing with a loss mitigation threshold -- a stop loss process or to bring each divestment back individually to this Board for review and discussion around the return and risk requirements, which is something that the -- that we could do. Those are two options available to the Board, one or the other.

On balance, we think the loss mitigation policy provides a better alternative, but it's not the only alternative.

COMMITTEE MEMBER YEE: Okay. And my last question is if should we decide or should we decline to reinvest, when that question is before us, how often would this issue be revisited? I mean would it come back the following year how would that work?

CHIEF INVESTMENT OFFICER ELIOPOULOS: That's a great question. Annually, we'll review the divested securities according to our policy. So there will always be an annual review. I think our approach in this policy rather than specifying what would occur in the future if that -- if the threshold was met, and a decision not to reinvest was made, we haven't laid out how often that would be revised, what we would then do to the existing threshold. I think the Committee, at that point in time, would have to --

COMMITTEE MEMBER YEE: Decide that.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- decide.

COMMITTEE MEMBER YEE: Okay. Great. Thank you.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I would add just quickly that this policy, in conjunction with our annual review of the Total Fund Policy, this policy and the limits that we're proposing come back to this Committee each year for a review and the opportunity to alter the policy.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Yes. Thank you. I have a couple of, what I hope are, clarifying questions. So I just want to make sure I understand, because it's not entirely clear. I'm looking at page -- on Attachment 2, page 23 of 69, which is where it sort of lays out the investment approaches and parameters, and the divestment stop loss -- divestment loss mitigation. I'm sorry, oh, 501 of the iPad, for those of you who are on the iPad.

The way it reads now, it's not entirely clear, I think, number one, "If any individual divestment initiative has produced net portfolio losses that equal or exceed 750 million for 12 or more consecutive quarters". It's not exactly clear that only that one -- that individual initiative would be divested, because it's -- because the preceding paragraph doesn't specify that and it's not specified in that -- in that item 1 line. Does that make sense? The preceding paragraphs it talks about unwinding of divestment initiatives.

INVESTMENT DIRECTOR CROCKER: Kit Crocker, CalPERS staff, just to address that, we attempt to address that in subparagraph A towards the bottom of page 23 of 69, which reads, "Any investments..." -- you know, if one of those two things happens, "Then any investments previously sold pursuant to such individual divestment initiative (or collectively pursuant to the universe of divestment initiatives as the case may be)...". So meaning to refer to whether it's one or two --

COMMITTEE MEMBER MATHUR: I see.

INVESTMENT DIRECTOR CROCKER: -- will be reinvested -- restored to the portfolio. It's just one way to do it. But, you know, we can --

COMMITTEE MEMBER MATHUR: I see. I see.

INVESTMENT DIRECTOR CROCKER: We can add more language. I mean, we can always add -- you know, add more language if you'd be more comfortable.

COMMITTEE MEMBER MATHUR: No, no. That follows. It's just -- maybe it's connecting the "if" and "whens" with the, "thens". It's very complicated to try to draft, I totally appreciate that.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: It is. Certainly our intention was that it would only be met at an individual level, and only that would be reinvested in if you're considering this $750 million threshold.

COMMITTEE MEMBER MATHUR: Okay. So then my second question is with respect to Item 2, which you have changed from, "The then in force total universe..." -- or "Then in force universe of divestment initiatives", to "The total universe of past and present", which means that even once we've reinvested, then we're still using -- accumulating the losses associated with those that we have reinvested in. We're accumulating those as part of the net -- the net total cumulative loss, is that right?

I think that was sort of what Controller Yee was asking, but I'm not sure your answer quite got at that question.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Yeah, I think I understand, so -- but --

COMMITTEE MEMBER MATHUR: Are we including those that we have reinvest -- the losses associated with initiatives that we have now reinvested, are we including those losses in the cumulative?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Yes.

COMMITTEE MEMBER MATHUR: And we're lowering the threshold by the 750 million?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Well, yes.

COMMITTEE MEMBER MATHUR: So we're doing both. We're making it easier to get to the target, the threshold?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Well --

MR. JUNKIN: You're not -- sorry, Andrew Junkin from Wilshire. You're not double counting them. They're not --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: They're not double counted.

MR. JUNKIN: You are reducing the threshold because the losses count once. So if you are in XYZ divestment, you lose -- when it is closed out, you've lost a billion dollars. The now cumulative loss threshold for the remaining in force is a billion and a half.

COMMITTEE MEMBER MATHUR: Right. But this is saying that it's the total universe of past and present. It's not saying in force. So it would include all the losses associated with that reinvested initiative, if I'm -- if I'm reading -- that's the way I'm reading the language as it is now. And, I'm sorry, I didn't raise this with you earlier. I sort of was rereading it and thinking about it.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Yes. I'm -- what I'm struggling with to understand is the difference between in force and past and present. But if you put that on the shelf just for a moment and we'll come back to it for sure. But if I put that on the shelf just for a moment, the intention was to set a cap on the losses that we would experience cumulatively.

COMMITTEE MEMBER MATHUR: Yes.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Again, that was following feedback from the counsel in January.

And then, if we've experienced those losses on one -- the sum total, and then on one of them, let's say, we've hit the 750 --

COMMITTEE MEMBER MATHUR: Yeah.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: -- once we've hit that loss -- so that loss is accumulated. It's hit 750. It then has to say at that level or more for three years or 12 consecutive quarters. Once that occurs, this policy would authorize your staff to reinvest, following notification to the Board. And then the sum total, the cumulative cap on losses of 2.5 would go down by the amount of that loss.

COMMITTEE MEMBER MATHUR: So I understand that part. But what I'm -- I guess what I'm struggling with is when I think of a total universe of past and present divestment initiatives, that would, in my mind, include those divestment initiatives that we have reinvested. So the losses -- the 750 million losses would then continue to be included in the universe of losses that would total whatever the threshold, which would now be a lower threshold, because you've reduced it by 750 million.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
Yes, in short. They -- yes, in short, they would. However, once they're reinvested, then they're no longer counted, but the cap has gone down by the amount.

COMMITTEE MEMBER MATHUR: So that's -- I think that's not what this is saying, is what I'm getting at, is that's not what --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
You don't think the language is clear.

COMMITTEE MEMBER MATHUR: The language is not saying that is what -- I

MR. JUNKIN: I think the example works the way that Wylie said. I think the policy works the way that you've said --

COMMITTEE MEMBER MATHUR: Yeah.

MR. JUNKIN: -- which is that the 2.5 billion stays as the max, but that 750 or billion dollar loss that was sort of crystallized is now counted, but the two and a half billion doesn't change. It's just you've sort of locked in part of that two and a half billion.

COMMITTEE MEMBER MATHUR: I think it -- I think we should leave the -- I think we should change it back to the in force language, and take out past and present, because I think in force would be any initiatives that are currently in place, and you could have another provision that when you -- if we take out -- maybe it just is trying to put too much into one --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: One sentence.

COMMITTEE MEMBER MATHUR: -- one sentence. Maybe, you know, you say you've reduced the two and a half billion dollar threshold by 750 million or by whatever the amount is of the --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Yeah, I think that's right.

COMMITTEE MEMBER MATHUR: -- of anything that you've divested from.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you. I think I now understand what you're trying to communicate and I think you're right. The language here, it's the difference between sort of whether they continue to accumulate forever --

COMMITTEE MEMBER MATHUR: Right.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: -- or whether they happen to just be examining the divestments that are still then currently in force, because some of them may have been removed, is that right?

COMMITTEE MEMBER MATHUR: Right, exactly. Exactly.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Okay. Thank you.

CHAIRPERSON JONES: Can I suggest that you -- we've got another reading on this. That was the purpose.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, we have another meeting. I think we've heard the message now, yes.

CHAIRPERSON JONES: So take that information and -- rather than wordsmith it here.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, definitely.

CHAIRPERSON JONES: Okay. Thanks.

COMMITTEE MEMBER MATHUR: And if you're thinking -- it might be worth -- I know the flow is really challenging to do, but to connect up the "if" and "when's" with the "then", so that it's clear that if this happens, then this happens, and if that happens, then this happens. I think that might make it easier to read. Thank you.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you.

CHAIRPERSON JONES: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: A couple of things. Looking back on my experience in the Investment Office, nobody in the Investment Office really thinks that divestment is an experiment. It's something that gets imposed on us, and we don't like it. And what this policy says is, at some point, the pain gets too great to stand. And so we need to get rid of the pain.

The other thing that has been said is that while we -- when we chose these divestments, we really kind of balanced the risk and the return, and decided to divest. And the truth of the matter is we made a political decision and then we figured out a fig leaf to cover it. The -- and it may be a good political decision, but let's be honest about what it is.

A question on the tobacco loss do date. Do you remember that number was?

MR. JUNKIN: I don't know it off the top of my head, but I think it's on the order of two billion.

COMMITTEE MEMBER JELINCIC: Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I happen to have that Mr. Jelincic and --

MR. JUNKIN: Wylie to the rescue.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah. So the present value of the transaction costs related to the tobacco divestment, there's two parts to every divestment. There's the transaction costs, which are essentially costs that the plan incurs that are lost forever. And those are three -- the high estimate of that is 3.2 million and the low estimate of that is 1.8 million with an M. Then there is the cost of the exclusion, the fact that the portfolio does not include those items anymore. The high value of the tobacco estimate, as of the end of 2014, that happens to be the date of Wilshire's last measurement. The high estimate is 3.037 billion, and the low estimate is 2.084 billion over the course of that divestment.

COMMITTEE MEMBER JELINCIC: So if we -- if we have this policy in place, and we say, okay, we're getting -- we're going to reinvest in tobacco, but we've now reduced the 2.5 billion to 500 million maybe, because we've reduced the amount by the loss that we finalized --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Can I clarify something for you, Mr. Jelincic on that?

COMMITTEE MEMBER JELINCIC: Sure.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

What this policy is proposing, again this is the Committee's direction, but what this policy is proposing is to essentially take a snapshot as of July 1st of this year and start the measurement period that we're talking about effective July 1st of 2016. So past losses would effectively be off the table. And we would restart the measurement period effective July 1st.

COMMITTEE MEMBER JELINCIC: Okay. Good clarification. So we're now three years later, and we've lost another $2.4 billion in tobacco, and we said we've got to fix that.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We would have hit that -- I'm sorry to clarify, but one other point. Just as the policy is currently drafted, subject to your revision here, but we would have come back to you before it hit 750 and said we're about to hit 750 or we're near hitting 750, we're about to reinvest. That would have been one of our -- that's one of our required notifications in the policy.

COMMITTEE MEMBER JELINCIC: Except that you wouldn't notify us for three years, because it's got to be three years that it's below that 750.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

That's right.

COMMITTEE MEMBER JELINCIC: And in that time it's going to continue to grow. So we get to -- we're three years from now. We've got a two billion dollar loss in tobacco. If we use that two billion to reduce the policy, then basically we've got a $500 million threshold for the sum total of all of them. And I'm not sure that that's where we want to get.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

That's right, as the policy is currently drafted. However, your Committee has the authority to modify those limits every year when we come back.

COMMITTEE MEMBER JELINCIC: The -- but it seems to me what we ought to do is adopt a policy that does what we think we want and we can later say, well, we didn't know what -- we didn't really mean what we thought we meant. So I've got that problem with it, stepping down.

And then the other issue that is in here -- well, let me take and push my tobacco further. We also lost another 600 million in firearms. We've now -- so going forward, we've got a $3 billion loss, and we can never divest anything again, which again I don't think is the intent, but if we simply keep accumulating that. So I think it needs to be worked.

And then one of the other things that I grappled with is, yes, you will come and inform us, and it's sort of a negative check-off. I mean, if we don't say, no, you're not going to do that, the -- then you go ahead and do it. I'm wondering if maybe the policy shouldn't say we're going to bring it forward and require the Board to take an affirmative action to continue it, and make that political policy decision?

And I throw that out for the Committee to grapple with. That shouldn't be -- it's not something I think staff ought to decide, but it's an issue that we need to collectively grapple with.

Thank you.

CHAIRPERSON JONES: So on that issue, let's right now check and see if there's any other interest to respond to J.J.'s concern?

Okay. Because I don't want to leave too many hanging, so when we get to the end of the day, the direction. So I just want to -- okay, so that one is taken care of.

Yeah, Mr. Slaton.

VICE CHAIRPERSON SLATON: Well, the only thing I disagree with is J.J.'s last point, which is, in my opinion, you craft a policy. If we, at some point in time, there's consequences of that policy that we don't like, then I think we can step in. But the point we're trying to do here is to meet a fiduciary responsibility with a policy, rather than take the other alternative, which is one-off, have every divestment issue come back to us and make one-off decisions.

And I happen to be in favor. I think we're better served by having a policy. We'll see it. Staff is not going to take action without us being notified. And if the wisdom of the group then, at that point, is, gee, we didn't really want that to occur, then we can act. But I think we're always better served by having a policy.

CHAIRPERSON JONES: Okay. So I think -- are you -- any other comments from staff? Because I guess we go to our -- beg your pardon?

No, I already asked. They said no.

Yeah. Terry Brennand.

MR. BRENNAND: Mr. Chairman, members, Terry Brennand on behalf of the Service Employee International Union, California. My concerns pretty much went to the Controller and Ms. Mathur's and J.J.'s comments. If you effectively take the losses of one divestment off the table, you effectively penalize the others forever. Even if you recover those assets, say your reinvestment turns it back to a positive, that's not put back in -- There's nothing under this procedure to build that back in.

Secondly, I'm concerned just about the collective nature of it, because under the way the policy is currently drafted, if you hit the $2.5 billion threshold, every policy -- every divestment issue that's underwater is then subject to staff automatically reinvesting it. That's the way it reads now. I don't think that's your intention.

I think -- I also agree very much with Mr. Jelincic that this is a very -- these were all political decisions. And no matter whether you delegate them to staff on some automatic, you know, process that happens in the Investment Office or not, these are political -- there are political ramifications for Board members. This is going -- it's going to be your press hit or reward, just like it was when you decided to take this. And you remember most of these decisions were not without controversy. And I think delegating it to staff is a problem.

So for that reason, we'd like to see it amended along the lines of the request from the Controller, Ms. Mathur and Mr. Jelincic.

Thank you.

CHAIRPERSON JONES: Thank you.

MR. SOOKPRASERT: Mr. Chairman and members Jai Sookprasert With the California School Employees Association. We're here also with great concern and opposition to the sort of automatic nature of your divestment formula. We understand the nature and the balance and the word holistic that came up, and we understand the challenge to do all that, but divestment initiatives involve key moral and ethical issues that we believe you need to take much more effort in ensuring public discourse, transparency, and accountability, so that all parties would have at least an opportunity to come and voice their objection or to the changes, especially if you're going to reinvest in those type of policies.

At the very least, we would think that you would want to remove the legislative imposed policy, because they are at a level in which more public discourse had been involved, at least through the legislative process. And we think those you may want to at least separate out, as had been sort of mentioned earlier.

For those reasons, we really hope that you will modify or remove or change the divestment formula as proposed to address the kind of accountability issue. And I know that there was a mention of maybe having media ahead, but we haven't seen the details of what that means. Is it just you're doing a press to announce that you're doing this as opposed to having these changes be made at an open meeting forum, so that the public can engage the Board and ask for a different direction possibly. For those reasons, we're asking you to please change this policy.

Thank you.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.

I guess the issue I have with it here is I hate to back out. I mean, just -- and I -- and I think I've expressed to some of you all, but I struggle with our fiduciary -- here's what I'm struggling with on this issue, we're create an artificial threshold of $750 million, and whether it's an affirmative vote or staff vote, we're not addressing the underlying issue, which -- since I wasn't on the Board back then, but in 2000, the Board took a decision.

And at the end of the day what we're doing is creating an artificial marker of 750 million. It sort of goes back to the discussion that you guys just said, have a public forum, go back to the policy. I don't -- to a degree, and I'm just throwing this out, that why are we -- and I -- and again, for disclosure, I voted against the gun -- the divesting out of guns. I have an issue. Whether I like tobacco or not, it's a legal product, whether you like guns or not, they're legal products to possess. And we're sort of tinkering here.

So I just throw out this. We're doing 2.5 billion, three years, 750 million. Why aren't we just heading back to the discussion of the underlying policy discussion itself as to whether yes or no?

CHIEF INVESTMENT OFFICER ELIOPOULOS: So that's the choice before the Committee. The reason that we adopted -- proposed and developed a loss threshold provision is coming out of the off-site in January with our fiduciary counsel, that there is -- there isn't an option for this Committee to ignore the individual and cumulative losses being accumulated with the current divestments, as well as that we know there are future divestments going to come before this Committee. The thermal coal divestment will be coming to this Committee for a decision over the next six months. So there's an additional divestment that will be considered, and there may be future divestments that this Committee considers, either pursuant to your own -- the Committee's own jurisdiction or based on direction from the Legislature.

So the advice was to develop a policy to address the current and future divestments. This is a -- this is a proposal that would cap the losses on any divestments that are in the portfolio today and into the future. It's a way of mitigating against the losses.

The other alternative though before this Committee is the one that you just mentioned, and the one that I mentioned earlier as we began this session. The other alternative to the Committee is that we would bring each divestment in the current portfolio in front of this Committee for reconsideration on the merits. And we would build that -- we would build that consideration into our workplan, and significantly into our global governance workplan.

So you would -- it's timely to have this discussion now, because what we would build into the G of our ESG is a timetable to bring all -- each and all four of those divestments in the current portfolio, as well as their thermal coal divestment before this committee for a decision on the merits.

An alternative to that is to set up a loss threshold that is artificial to some degree, to answer your question directly, but provides some level of protection for the Committee and the portfolio.

COMMITTEE MEMBER COSTIGAN: But two of the four are by Board action, two are at the direction of specific legislation that was passed. And so the struggle I'm having with this is either we're acknowledging the loss and we should have had it -- I mean, that we should have continued to invest in it as a fiduciary or we make the policy decision within our fiduciary that we're not going to invest in this type of asset.

I mean, that -- so what I've got is a hybrid that sometime in the future, we're going to acknowledge that we've had a loss, we're going to acknowledge we're going to have a future loss. And whether we have affirmative action or not, we may go back into it, as opposed to why am I going to wait two and half -- I'm just saying myself, why wait two years or till we reach yet another artificial threshold or just put a conclusion to this?

I mean, Mr. Chair, that's the concern. And I know we're going to bring this back for another reading.

But from the standpoint, I think the issues that Terry and Jai raised were good points, either have the policy discussion and be done, because pushing it out two or three years doesn't accomplish much. It just -- it either mitigates the loss or you need direction from us that we're not going to invest in this, and then we figure out what the portfolio looks like, but to take this issue off the table one way or another.

Thank you, Mr. Jones.

CHAIRPERSON JONES: Okay. Mrs. Taylor.

COMMITTEE MEMBER TAYLOR: I just had a quick question -- a couple of quick questions, how did -- I just find it fascinating that our fiduciary recommended that we come up with a policy or reinvest, because we're going to hurt our fiduciary duties. And what I'm concerned about, how did that come up, how did they get involved? Was it a conversation with Investment staff and our fiduciary or how -- did we ask, did one of the Board members ask? Do we know how that came up?

CHIEF INVESTMENT OFFICER ELIOPOULOS: So the --

COMMITTEE MEMBER TAYLOR: I remember the training and was it a question during the training?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes.

COMMITTEE MEMBER TAYLOR: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: And it followed, you know, the report by Wilshire that Wylie just noted the tobacco numbers from, that we have -- you know, the expectation when these divestments were made is that we'd actually do better. We would outperform the market or at least be neutral. And what we discussed at the workshop, the Board fiduciary counsel and staff, is despite those expectations, the divestments individually and as a whole have significantly underperformed. What should you do about that?

The counsel didn't direct us to develop a loss mitigation policy. What we did is take that feedback and look, survey other systems across the country and see what types of policies are in place to deal with divestments within portfolio. And I think this is -- this is one alternative. And as I said, I think Mr. Costigan said it more directly and bluntly than I did. The Committee really has the choice between option A or option B. Option B is a loss mitigation threshold, which is fairly novel. There's one other system in the United States that we found that had a policy like this, but only with respect to their Iran/Sudan divestments.

We think it's a model that is novel and is protective of the System. But on the other hand, we can bring back each of the divestments over the course of this next year for the Board to take on the merits and vote on.

That's certainly an option that's available to this Committee.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I would add there is actually a third option, which is you can still -- you could move forward with this policy as proposed and still consider them individually, if you so desired. There's no restriction on considering the divestments individually, sort of irrespective of these loss -- this loss mitigation approach.

One other important point of fact that I think it may be helpful, as this is deliberated over the course of the next few weeks prior to April, CalPERS has addressed over 40 divestment or investment restriction-related bills since 1992. There are two current bills on this that would affect the portfolio. One related to the divestment from securitized rental homes strategies, and one divestment from companies boycotting Israel. Those are currently under a discussion, in addition to SB 185, divest from thermal coal.

So in addition, there were two others proposed last year. There was a divest from Turkey and a divest from Trump-owned assets last year.

(Laughter.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: And so I'm highlighting this, because divestment legislation continues, and I think this policy is potentially helpful and protective for the Board to allow some of those things to progress as I used the word experiments before, but to a certain extent to progress unless they accumulate a degree of loss that the fund can't sustain, at which point, this would authorize staff to end the experiment.

COMMITTEE MEMBER TAYLOR: Right. So that's interesting. We've had a number of divestment requests from the legislature. If I'm understanding correctly, we've only done the two, correct?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: To date, that's true.

COMMITTEE MEMBER TAYLOR: To date. So we get a lot of these, but we still have only done the two, so -- and I guess my concern and the reason I ask how did the fiduciary counsel get involved, I remember the question. I didn't know it was going to result in us doing this. And I think it's very interesting that we have other institutions right cross the way that are divesting and aren't considering it a breach of fiduciary duty.

But on the -- regardless of that, one of the other things I was thinking, rather than -- yes, I agree. We could come back and consider each one. I don't have a problem with that. I think that's a great idea. But we could also change that loss threshold, because I think this big sticking point here is taking that $750 million out. And we only have three other divestments, so now we've only got $1.25 billion left and what if they -- those -- and that's forever, right? That's not -- we reinvest that $750 million dollars and the money comes back. That's forever is what you're saying. So now, we're at 1.25 billion forever on those three and we're lowering the threshold for them to meet. So we could change the threshold, right?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: You can -- you have the opportunity to change the threshold every year. That's exactly right.

The idea behind many of the -- so all of the bills that -- all of the divestments that currently exist were done under the Board's fiduciary responsibility. They were done with the idea that they were done consistent with that fiduciary responsibility. And in some cases, that was done under the concept of each individual divestment being de minimis or small enough, so that it wouldn't make a significant difference to the portfolio.

And so I think the actual question that arose back in January with the fiduciary counsel is what is de minimis? What is that number? And that's where I mentioned that your staff did some work to try to identify guidance around that. And there's very little to be had. We found -- as I mentioned, we found the one statute in Florida that used a 50 basis point de minimis threshold for their Iran Divestment Act.

That became very challenging to implement, because it -- in that situation, both your numerator and your denominator are moving constantly. So to come up with some seasoning period, if the -- if both numbers are moving all the time in calculating that with multiple divestments became quite a complex challenge. It would be difficult to articulate that, so that's why we proposed the flat dollar amounts, but the staff -- the Board gets a chance to revise that if, if -- every year if they felt that would be appropriate.

So the idea there was clarity and the opportunity to change those limits each year. If you felt that the definition of de minimis -- we've proposed, but again it's a subject for the Board's discussion and debate. We've proposed 750 and 2.5 as sort of a level beyond which we think we can't call it de minimis anymore. But that again is -- it's really a judgment call.

COMMITTEE MEMBER TAYLOR: Right. And again, I'm just going to reiterate using Florida as an example, when we're CalPERS kind of makes me go why are we doing that?

But secondly, again, I think that we could change the loss threshold and/or consider these separately. I don't know that -- I think I'm hearing a lot of disagreement on how we're getting to the loss threshold. So that's where I'm hoping we can come to an agreement. I know this is only the second reading.

CHAIRPERSON JONES: Okay. I've got a nod from Allan.

MR. EMKIN: Yeah. Just on the issue, the two from the legislature. Those would be only two bills that passed and were signed into law.

COMMITTEE MEMBER TAYLOR: Right, I'm aware. In other words, more than -- I'm off, sorry.

CHAIRPERSON JONES: Okay. We still have several requests to speak, but I'm not sensing a direction for either the loss mitigation or each divestment come back to the Board or that third option that was raised to go forward as is, and then have a policy trigger to come back to the Board and have further discussion.

So if we leave today without a consensus around any one of these options, then what I'm going to ask staff to do is bring back those three and we vote on them at the next meeting. So if we can come to a consensus now, then they have clear direction. But if not, we'll just have to -- you know, we've got another time to discuss this. So what is the pleasure?

COMMITTEE MEMBER COSTIGAN: I'm happy to make a motion. Turn me on?

CHAIRPERSON JONES: Wait a minute, we've got to get people before you.

COMMITTEE MEMBER COSTIGAN: If you want a motion, I'll make a motion.

CHAIRPERSON JONES: Yeah, but let's hear what the others are saying.

CHAIRPERSON JONES: Mrs. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yes. Thank you. I guess I'm somewhat confused here. I wasn't here when we voted on tobacco, but when I read our divestment on page 433, it's pretty clear to me that unless you change your policy and your delegation, that even if we disagree with what companies are invested in, that our -- that we seek to engagement, and there's even words here like when I'm reading it that using the word forbid CalPERS and the management of its -- from sacrificing potential investment performance or diversification for the purpose of achieving ancillary goals unrelated to the risk return, and that divestment -- so I'm not sure how we ever reconcile with how it's currently written divestment with the way -- unless it's mandated legislatively with how our policy currently reads.

And then if you go to 434, which says the -- what takes precedent above everything else is our duty to minimize employer contributions and pay benefits. And it recognizes that every time we divest, we're sacrificing that. So I don't know how you even get to the other conversation with where you're finding -- I'm just not seeing how we do divest, unless its legislatively mandate -- unless it's legislatively mandated in light of the current way the policy is written.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yes. Thank you, Ms. Hollinger. I believe -- I was not here during the tobacco divestment debate either, but I believe the underlying logic that was used did in fact, at the time, have a relationship to the risk and return expectation for the tobacco sector. The idea was that litigation expense in the tobacco sector was expected to drive down the long-term returns for the sector, so that divestment in that context would be regarded as a value-added activity for the portfolio.

In other words, it would allow the fund to benefit from the fact that it would not own stocks that would be impacted by litigation expense going forward. As you've seen from Wilshire'

Results that hasn't -- that thesis hasn't actually played out in the marketplace. Those stocks have actually outperformed other stocks in the index to a degree -- certain stocks in the index. And overall, the fund has -- that decision has cost money, but it's a reasonable hypothesis to undertake at the time, given the legal environment and the litigation environment that was swirling around at that moment.

That's the linkage to risk and return. But you're interpretation of your fiduciary responsibility I believe is accurate. At the end of the day, it should be about risk and return, minimizing contributions, paying benefits, and defraying reasonable expenses.

COMMITTEE MEMBER HOLLINGER: Right.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Those are the goals that are outlined in your fiduciary responsibility and the Constitution.

COMMITTEE MEMBER HOLLINGER: Thank you.

CHAIRPERSON JONES: And the only thing I would add to that, Ms. Hollinger, is the word mandate from the legislature with respect to Iran/Sudan, and the current legislation regarding thermal coal mandates that the Board consider divestment, and divest only subject -- only if you find, this Committee finds, that it is consistent with you're fiduciary duty. So it's not mandated. It's your decision.

COMMITTEE MEMBER HOLLINGER: So my question is when they do that, do they pay the -- do they reimburse us the fees for divestment and reinvesting?

CHIEF INVESTMENT OFFICER ELIOPOULOS: No.

COMMITTEE MEMBER HOLLINGER: Okay.

CHAIRPERSON JONES: You may note though that part of the policy is to seek that reimbursement. This is part of the policy that they're bringing forward to pursue that issue.

Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. I indicated last time general support of this proposed policy, and I'm still pretty much there. Although -- well, a couple things. I think the threshold or the trigger mechanism, whatever the number ultimately turns out to be, is fine. I'm okay with it being automatic, but notification of the Board. And if we or someone wants to convince us to do something different, I don't agree with Mr. Jelincic's proposal to change it. I think that's -- because the reality is, if people want to make and issue of it, they can still make an issue of it.

One of the things though it sounds like that it's created confusion, and some of the angst is this sort of cumulative threshold, rather than just individual thresholds and individual divestments, you know, using tobacco as an example. And maybe we want to take another look at that whole confusing cumulative thing and decide do we really need to do that or should we just have these individual thresholds for the different divestments?

And, you know, talk about fiduciary duty, I mean, I'm a little concerned we have heard that our actions around tobacco, for instance, has cost -- you know, our members have lost $2 billion of their money in the pension fund, and probably projected to lose maybe another two billion over this 12 quarter period. I'm not sure how long, as good fiduciaries, we can just not take some sort of action on that, just as an example. So that sort of concerns me as well, now that it's been raised in this way.

CHAIRPERSON JONES: Okay. Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.

So just a couple points. Mr. Jacobs, you may need to come up, because actually this is a legal question. I did try to get the Constitution. I just want to go back through our fiduciary standard. The fiduciary standard that's applied to us is a State standard through the California Constitution, is that correct?

GENERAL COUNSEL JACOBS: Well, I think it's -- yes. I mean, I think it's also the general fiduciary standard or at least the State standard is informed by the general fiduciary standard that is broader than the State of California. But, yeah, it's laid out in the

Constitution.

COMMITTEE MEMBER COSTIGAN: Because I just want to -- I guess I'm sort of struggling with -- so when you look at, as Dana pointed out, page 434 when you look at our fiduciary duty standard referencing back to the California Constitution, our duty, if either the voters or the legislature -- we'd have to amend the Constitution to overcome a legislative bar to divestment. Like in 185, as long as we met our fiduciary duty, we can divest out of thermal coal as it wasn't a directive.

GENERAL COUNSEL JACOBS: Right.

COMMITTEE MEMBER COSTIGAN: Because you'd have to amend the Constitution -- I just want to make sure, before I get to my next question. But you'd have to amend the Constitution, because fiduciary duty is applicable only so far as the legislature removes our ability to invest or the voters, if they mended the Constitution.

GENERAL COUNSEL JACOBS: No, I don't think that's right.

COMMITTEE MEMBER COSTIGAN: Well, that's what I'm trying to get at is --

GENERAL COUNSEL JACOBS: Right. No, we have a --

COMMITTEE MEMBER COSTIGAN: -- that the standard is so hi.

GENERAL COUNSEL JACOBS: Sorry?

COMMITTEE MEMBER COSTIGAN: No, I was going to say the standard is so hi, that you can't amend our fiduciary duty either by a Constitutional amendment or by statute.

GENERAL COUNSEL JACOBS: You can amend it by a Constitutional amendment, but not by a statute.

COMMITTEE MEMBER COSTIGAN: So if the voters, through an initiative, amended the Constitution to strictly prohibit CalPERS from investing in tobacco, then we wouldn't satisfy our fiduciary duty by not investing, because the voters would have made that determination. And that's what I'm getting at is the standard --

GENERAL COUNSEL JACOBS: Yes.

COMMITTEE MEMBER COSTIGAN: So there's not a standard?

GENERAL COUNSEL JACOBS: Yes.

COMMITTEE MEMBER COSTIGAN: Which sort of goes back to the point I was -- my comments a few minutes ago, if we're having a discussion now about whether it's 750 million or 250 million or $1, we're having a divestment discussion. And I don't know if I'm inclined to just push this out two years. It's either have the discussion now and make a decision, because what we've done is again created an artificial barrier to say we are going to divest when we hit a certain threshold. And it goes back to sort of, Mr. Lind, the comments you just made. If this is, in fact, part of our fiduciary obligation, and I have a -- I struggle with the term de minimis, because de minimis at 100 billion is different than at 200 billion is different at 300 billion. Then it is either the right policy to achieve the rate of return or it's not a de minimis argument, because the asset -- or the lack of investment in the asset continues to grow, then it is some other policy basis that we've met in our fiduciary duty.

And so actually, Mr. Jones, what I was going to do was actually make a motion that we bring all these policies back one on one for the Board to take up, because I don't think it's fair to staff for us to adopt an artificial threshold of 750 million and two years from now have this exact same discussion. It is that we should be done and then seek direction, because otherwise we're just pushing this out two or three years, but anyway.

CHAIRPERSON JONES: Yeah, let me be clear. The options that you are suggesting we bring back next month is the -- is the three that we talked about already for a vote, is that what you're saying?

COMMITTEE MEMBER COSTIGAN: I would bring back -- actually, the motion I would make as it relates to the two specific Board policies of tobacco and firearms --

CHAIRPERSON JONES: Oh, I see.

COMMITTEE MEMBER COSTIGAN: -- because they are two of the four on it, that we would -- what is the -- our divestment -- our policy related to those investments without an artificial threshold? I just -- I am struggling with this. It's either, by our vote -- I mean, I just want to make sure. By us giving direction to staff to say that bring this back at 750 million or whatever the dollar amount is, we are, in fact, voting today on the policy that we are going to reengage in those investments, within our -- as opposed to why don't we just have the discussion, remove the artificial -- and yes or no, because asking Mr. Eliopoulos and his staff to design a portfolio two or three years from now on something that might happen impacts our ability as we design the whole portfolio going forward.

So I'll throw that out as a discussion motion. So I won't make the motion. I'll throw it out there. Thank you.

(Laughter.)

CHAIRPERSON JONES: Okay. We'll leave it there for a while.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: The -- you're right, the fig leaf we used for tobacco -- I wasn't on the Board, but I was on the staff at the time -- was that the industry was being sued out of existence, and it wasn't going to exist and we ought to get out before the value was zero. I don't think anybody really believed that, but that was our fig leaf.

This policy is really about letting the Board off the hook. If we do not -- we all know that we are divested from tobacco. If we do not direct staff to reinvest in tobacco, we are, in fact, the alternative, we're saying continue the divestment. We are making a decision every time we meet. We do it by omission, but it's nonetheless a decision.

The -- you know, there's some real value to Richard's position that we ought to just deal with it and say, yes, we're going to do this divestment; no, we're not. I mean we do have the ability within our fiduciary duty to consider things other than just pure dollars and cents. I mean, we can do things, even if they don't maximize return, if they serve the best interests of our members. We are to act as reasonable people.

You know, we could -- you know, it's -- we want clean air. We can make -- we can sacrifice some investment returns because we believe clean air is in the interests of our members. It doesn't help the Health Trust Fund, but it helps our members.

So we're not limited to dollars, and we should recognize that having it kicked back to staff is really kind of us avoiding making a decision. And I think we really ought to think about not just -- but the implications of the policy. It goes back to the point I've made numerous times, if we decide to do A, we're deciding not to do B. But if we haven't considered what B is, we really haven't made an informed decision.

So this is our punt and say we will deal with it later. And that -- you know, although it's not particularly comfortable, it's a lot easier to say we didn't decide to divest. This prior board at the urging of a prior attorney general said we ought to do this, and we're just carrying throughout.

But if we don't decide to reverse it, we are in fact reaffirming the decision. So I think at some point, we ought to bite the bullet and just deal with it.

Thank you.

CHAIRPERSON JONES: Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, as is evidenced by the discussion, this is a very challenging issue. And I've really been wrestling with this, because as I said last month, you know, the prospect of reinvesting in tobacco is a painful one for me. But as I've wrestled with this issue, I just don't see, given the amount of experience we have with this particular -- with that particular divestment, I don't see how we can continue as we have been.

And so I think that -- tobacco should come back sooner rather than later, that we should revisit that particular divestment. Now, the other ones in the -- the other divestments are more recent. We don't have quite as long of experience with that. There's still the prospect of significant gun control legislation perhaps in -- down the line.

So I guess I would -- I would suggest something a little bit in between what has come up here, and that is, one, take up the tobacco divestment on its own, and then approve this policy with the thresholds that are listed here, the 750 and the 2.5 billion, with the remaining -- and just look -- on a go-forward basis with the remaining divestments that are in the portfolio, and any perspective ones that might arises.

I think that would ease some of the concerns possibly from the legislature that they are -- they're going to -- their issues -- their divestment initiatives are going to hit the thresholds really quickly. And I think it gets sort of the big gorilla off the table that we really do, I think, need to grapple with as fiduciaries.

CHAIRPERSON JONES: Okay. So that's another option about bringing back just tobacco. And I want to see if there's interest of other Committee members to go down that path. I have one, two, three, four. Okay. So that's one that we can deal with. Okay.

Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.

Yeah, I like this concept of, you know, let's deal with the one that is, you know, the elephant in the room. I'm not very comfortable going forward without hearing again from fiduciary counsel. This is exactly why we hire a fiduciary counsel. And with all due respect to our in-house counsel, we have a fiduciary counsel for a reason.

CHAIRPERSON JONES: Is he on the line?

VICE CHAIRPERSON SLATON: Is he -- he's not on the line, I don't think.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We had anticipated having him on the line for the action item in April, but we did not have him on the line today.

CHAIRPERSON JONES: Okay.

VICE CHAIRPERSON SLATON: But I do think it's important for us to be able to have dialogue with him, if we're going to go further on this. And I think by removing tobacco from this and dealing with that as an individual item, then I think that frees up the ability to have a policy, both for current divestments and potential future divestments. I did want to say that I'm not persuaded to somehow divide these into legislative ones and CalPERS ones.

The last time I checked, we have one fiduciary responsibility. So I think that applies irrespective of the source of the divestment energy.

So thank you.

CHAIRPERSON JONES: Okay. So that appears to go half of the way with your concern, Mr. Costigan. Just tobacco rather than both of the ones that were directed by the Board or approved by the Board. So there's no further direction of taking both of those off the table. I want to just clear the table. I don't sense any further -- so that one is off the table, Mr. Costigan. So the tobacco one is still on the table.

Okay. Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: I was actually waiting for you turn on my mic. I'm fine with that. I still think the problem is whether it's short-term -- and I will respectfully disagree with Priya about extensive gun control. I don't see that passing the Congress any time soon. And given that --

COMMITTEE MEMBER JELINCIC: Bernie is going to push it through.

(Laughter.)

COMMITTEE MEMBER COSTIGAN: Yeah, well they still -- the legislature still has to agree.

Given that, I still would rather not put these items off. Again, it's sort of that discussion. So we'll have tobacco hits that level, but the other three don't. I mean, at some point, you have to have this discussion. And we can compartmentalize it, but if we're going to give direction on tobacco, the other three either flow from it or don't.

And maybe that whatever our decision there on tobacco impacts the other three as well, rather than coming back individually, because the threshold -- and I'm waiting for the Constitution to arrive -- on the fiduciary would be the same, depending -- regardless of the asset.

So thank you, Mr. Jones.

CHAIRPERSON JONES: Okay. Thank you.

Well, let me clear up for Mrs. Mathur on the tobacco as taken as a separate item, but you -- are you still in support of the rest of the policy?

COMMITTEE MEMBER MATHUR: Yes, sir.

CHAIRPERSON JONES: So just that one item.

COMMITTEE MEMBER MATHUR: Just that one item out.

CHAIRPERSON JONES: And so -- and that's the overall policy that staff has presented.

COMMITTEE MEMBER MATHUR: Correct.

CHAIRPERSON JONES: Now, let me see if there's a consensus or overall policy ex-tobacco. I'm seeing --

VICE CHAIRPERSON SLATON: Only one issue.

CHAIRPERSON JONES: Wait just a minute. Let me finish getting a sense.

Back to the question. Okay. On this side, there seems to be consensus. What about over here?

Okay. Okay. So that's where we are right now.

Now, Mr. Slaton.

VICE CHAIRPERSON SLATON: Yeah. I just want to make sure that from a limits standpoint, that when you take tobacco off of the discussion, staff may want to rethink what the appropriate limits might be. I don't know if that would change the calculations or not.

CHIEF INVESTMENT OFFICER ELIOPOULOS: We would want to think about that. We don't have an off-the-cuff response to it.

CHAIRPERSON JONES: Yeah, so next month. Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. I'm not sure you described the situation accurately, at least to my understanding. I mean, on one hand, we've got this policy, and it doesn't exclude tobacco, but we have said we want to take the tobacco divestment up as a separate item, so it -- you know, it would fall under our divestment policy, but we will take it as a separate item.

CHAIRPERSON JONES: That's correct. That's why I said ex-tobacco.

COMMITTEE MEMBER JELINCIC: Well, I --

CHAIRPERSON JONES: Meaning that that -- after the whole package, and then we would continue that discussion separately.

COMMITTEE MEMBER JELINCIC: Okay. When you say ex-tobacco --

CHAIRPERSON JONES: Meaning, it's out of the overall policy for discussion --

COMMITTEE MEMBER JELINCIC: Okay. Then I -- but I think it --

CHAIRPERSON JONES: -- and it will be handled separately.

COMMITTEE MEMBER JELINCIC: Okay. But I think, if we have a divestment policy, you know, tobacco is, in fact, part of that policy. Everything that is a divestment is part of that policy. We are -- so we'll adopt this policy, in addition to which we will have an agenda item talking about tobacco.

CHAIRPERSON JONES: Along with this policy discussion. It won't be a separate agenda item. It's part of this divestment policy, is that clear?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, let me make sure I -- I'll try and see if it's clear in our mind. I understand exactly what the committee wants us to do. I'm just trying to figure it out in terms of this policy and the appendices and the rest. But what I hear from the Committee is that staff will schedule an agenda item and bring back a vote on whether to stay invested in tobacco or not. And we'll bring that on a timetable that, you know, meets our collective schedules.

With respect, I think we'll have to put within this existing policy this bifurcation. We'll have to put tobacco probably on one exhibit, one appendix, and then on another exhibit, we'll put firearms, Iran and Sudan, and any future divestments that might come into play. And we'll probably have to revisit the treatment of tobacco in this policy, once the Board makes a decision on that future agenda item. If the Board decides to reinvest in tobacco, well then, we would just take tobacco out of the policy at that point in time.

If the Board decides to stay or remain divested from tobacco at that point in time, then we'll need to also deal with, well, what does that mean in terms of the construct of the divestment policy.

CHAIRPERSON JONES: Okay. Yeah, Mrs. Mathur.

COMMITTEE MEMBER MATHUR: If I might make a suggestion, I would suggest that we actually take them up sequentially. So first take up the tobacco potential reinvestment, and then take up this policy, because otherwise it's a lot of drafting work that might not be necessary.

I know that we're on sort of a timetable to adopt this next month, but, you know -- and I don't know how long it would take you to put together a revisit of the tobacco divestment, but maybe putting it off a month would be worthwhile.

CHIEF INVESTMENT OFFICER ELIOPOULOS: We'll think through all of this.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, we have to chew on that. We may be able to come up with a drafting solution that allows the policy to adapt, based on the Committee's direction around tobacco specifically. I'm -- I can't come up with it sort of on the fly, but we can work on something.

CHIEF INVESTMENT OFFICER ELIOPOULOS: And the other part is we'll also think through the timetable of bringing in May the G of ESG, because we'll include, as one of those bullet points now, a revisiting of the tobacco exclusion as part of the G work. And then any policy we would -- work we would do on this, we'd also include there. So we just need to budget our time holistically across all these things.

CHAIRPERSON JONES: Okay. Mrs. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah, I agree with Mr. Costigan and Mr. Jelincic, I think to start bifurcating by sector is opening up a can of worms going forward regarding divestment. And so I'd like to, on Mr. Slaton also, when we do talk with fiduciary counsel ask him the best way to handle it, rather than start saying, well, let's deal with tobacco this way, firearms this way, because it doesn't -- it's a policy, and I see it in the future people trying to make carve-outs regarding sectors.

So I would -- I don't know the right language -- move that we actually include this in our discussion with fiduciary counsel, including dealing with firearms and tobacco.

CHAIRPERSON JONES: Yeah. No, we'll direct staff to communicate with -- to our fiduciary counsel. As a matter of fact ask him to look at the tape, so that he could be prepared to have this discussion next month.

Okay.

CHAIRPERSON JONES: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I know we're on a schedule to get this adopted, but I will point out that we have managed to go in excess of 50 years without a divestment policy. If it takes us another six months to get it right, the system probably won't fall apart. So I would not let the calendar drive the issues, let's let the issues drive the calendar.

Thank you.

CHAIRPERSON JONES: Okay. We have the -- clear on the direction, Ted, for next month?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

I think so, yeah. Thank you.

CHAIRPERSON JONES: Okay. Thank you very much.

Now, we will move to 8. Thank you. Priya, it's getting late. Federal Investment Policy Representative update. And we have Mr. Daniel Crowley on the line, Pam?

MS. HOPPER: Yes, he is.

CHAIRPERSON JONES: Okay. Thank you.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Mr. Chair, I just want to check to see if Dan Crowley is, in fact, on the line. I think I hear him, but I should

MR. CROWLEY: Yeah. Doug, I'm here.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Okay. Very good. This is Wylie Tollette actually, Investment Office staff. And on the line is your federal investment representative Dan Crowley from K&L Gates. His report -- his prepared report is in your materials, and I would encourage you to ask any questions. In the meantime, I'll ask Mr. Crowley for his comments.

CHAIRPERSON JONES: Okay. Go ahead, Mr. Crowley.

MR. CROWLEY: Okay. Thank you very much. In the interest of time, I'm not going to regurgitate everything that's in the written report, but I will hit a few of the highlights, and then I'd be happy to take any questions.

Probably most important, we finally have a Senate Banking confirmation hearing for the two SEC nominees, which will occur tomorrow at 10 o'clock. Lisa Fairfax and Hester Peirce are both expected to be confirmed. We have communicated with them and shared the CalPERS Investment Beliefs as part of our strategy for SEC engagement.

And as soon as they are confirmed, then we will circle back with the Investment Office to determine the next best steps in terms of who will be able to meet with them fairly early on in their tenures.

Now, we expect the hearing to focus on some of the salient issues that they will be dealing with as SEC Commissioners, and that includes the whole question of disclosure of corporate political contributions. That's an issue on which Lisa Fairfax has made public comments. I think they've both been on record on other -- on opposite sides of the issue.

One notable development in that regard was Jeb Bush's comments that political spending ought to be disclosed. And so I think that that might very well be a catalyst for renewed bipartisan discussion around that issue.

We also expect the two CFTC vacancies to be filled soon. Although, the Senate Agriculture Committee has not yet scheduled the confirmation hearing for those two, so we'll keep you posted on that.

With respect to the DOL fiduciary duty rule, we understand that that is near final and will likely be released by the DOL soon. There's only rumor at this point, but the consensus rumor seems to be Good Friday, March 25th, as the release date. And again, we will keep you posted on that.

On the diversity issue, we have been working with your internal staff and with Congresswoman Carolyn Maloney on her gender diversity bill. At the recommendation of your Chairman Henry Jones, we have been working with Maloney's office on broadening the gender diversity to include ethnic diversity as well. Maloney and her staff are open to that. They want to -- they want to stay with gender diversity with respect to the bill that has been introduced, HR 4718, but they understand that we have a related interest in broadening that to include not just gender, but also ethnic diversity. And so we will continue to pursue an amendment or other addition as the process unfolds.

There's been a number of letters back and forth on that issue. Most recently, the ranking Democrats on both the Financial Services and the Senate Banking Committees sent a letter to SEC Chair Mary Jo White on March 2nd. And so again, that's another salient issue. It may or may not come up in the SEC confirmation hearing tomorrow.

And then finally, we have, I think, a couple of board members will be in town next week, along with some senior CalPERS staff. So we will be doing some targeted outreach when -- while we have them in town.

So, you know -- and I followed most of the discussion up to this point, particularly the discussion about sustainability and accounting issues, and really just have two -- well, maybe three thoughts to add. One is that it's important to keep in mind that the accounting standard setting process is really not a function of policy. That -- the responsibility for policy resides with the SEC. We have had discussions with the SEC on issues like carbon asset risk disclosures, and will continue to do so. And sustainability, I think, really falls into that category of SEC policy issues, as opposed to an accounting standard issue, per se.

It's a little unfortunate that SASB decided to call them accounting issues, because fundamentally they are not generally accepted accounting principles, which is what most people think of when you talk about accounting. Rather, they are an additional disclosure. It might have been a sustainability reporting, but it is what it is. I just want to make sure that the distinction is clear here.

The second thought that occurred to me when the witness from Ceres talked about Dell, is that Dell is, of course, no longer publicly traded. And one of the reasons for companies to go private is so that they're not subject to the disclosure regime applicable to publicly traded issuers. And so unfortunately, what that means is we're creating a parallel universe of companies that are not accessible for many investors.

And then finally, I think one issue that was not raised, but that would be worth the Committee's consideration is the whole question of publicly traded companies that are disclosing in ways that are different than GAAP. It's been reported in the press as the GAAP gap, if you will, but companies have to prepare their financial statements in accordance with generally accepted accounting principles.

But then more often than not now, they're pointing the analyst to metrics that are not GAAP, and then trying to get them to say, well, you know, our profits may be down, but we should be judged by this alternative standard. And after awhile, the analysts start focusing on that issue.

And so one of the things to be considered is the extent to which GAAP really reflects what is being reported by companies. So with that, I'll stop and I'd be happy to respond to any questions.

CHAIRPERSON JONES: Okay. Thank you. Yeah, we -- Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: In your report, you talked about the Obama administration releasing their budget with the big increase for the SEC, which, you also point out, is going no where. What do you expect for the SEC budget going forward?

MR. CROWLEY: You know, that's a very good question. The President's budget will not even be considered for a hearing. And that's unprecedented. Typically, the President's budget starts a discussion. There are hearings held. Congress may very well deviate from it, but at least it's a part of the mix.

In this particular case, given that we have a lame duck President and a different party controls The White House than controls Congress, the decision has been made not to even take it up. So I think that the question of funding for the SEC, as well as the CFTC will be something that will have to be discussed on the Hill. I think we start with the presumption that the budgetary powers that be would prefer to see a flat year-over-year budgets for both agencies.

But, as you know, the regulatory and enforcement responsibilities for both agencies have gone up dramatically over the last five years, and more resources are appropriate. So we will certainly keep an eye out for opportunities to convey that message. CalPERS understands, as well as anyone, that well-regulated markets are essential to maintaining investor confidence. Without investor confidence, you don't have markets. And so the more complicated they become, the better the regulation needs to be. And So CalPERS has a long history of supporting full funding for both agencies, and we will continue to convey that message.

COMMITTEE MEMBER JELINCIC: And the filling of the SEC, what are the implications for James Doty's position as the Chair of the PCAOB?

MR. CROWLEY: Another good question as usual. Chair White has suggested that they're not going to determine what to do about the PCAOB Chair, until they have a full complement of commissioners. So once Fairfax and Peirce are confirmed, I would imagine that that would then be timely for renewed discussion.

The question really is whether Jim Doty is appointed to another term or whether they find another candidate. And I can't handicap it for you now, except to say that I'm confident that the SEC will turn to that issue as soon as they have five commissioners.

COMMITTEE MEMBER JELINCIC: And the SEC regulation, this is not a question. It's a comment. The HR 2187 scars me to death that anybody who has enough ego can suddenly become an accredited investor.

MR. CROWLEY: I'm sorry. I don't know that one right off the top of my head.

COMMITTEE MEMBER JELINCIC: That was the HR bill that would direct the SEC to modify its rules on Reg D to consider a natural person an accredited investor regardless of specific income or net worth requirements.

MR. CROWLEY: Okay.

COMMITTEE MEMBER JELINCIC: I would hope that ego is not the definition of an accredited investor.

Thank you.

CHAIRPERSON JONES: Okay. Thank you very much. I see no further questions. So if you -- unless you have something additional you'd like to share with the Committee, thank you very much.

MR. CROWLEY: Thank you.

CHAIRPERSON JONES: Okay. Bye.

MR. CROWLEY: Bye bye.

CHAIRPERSON JONES: Okay. So then we move to Item 9, Summary of Committee Direction. So what do you have?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah. So --

CHAIRPERSON JONES: It's been a long day.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, it has been a long day. And thank you for your patience and energy. So first up, Mr. Jelincic asked to see the CEM report as part of our cost effectiveness presentation. And I'll first say that, yes, we are happy to provide the full CEM report, the cost effectiveness CEM report. My hesitancy on answering that way early was because historically this Board has only seen the executive summary as part of its agenda items. The full report has been released through records act requests, but not as part of our agenda items.

It's 100 pages long. It's quite extensive, but we're happy to provide that should the Chair direct. We're also happy -- oh, I'm sorry.

CHAIRPERSON JONES: Let me ask you a questions. Could you just provide a link?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We can inquire if CEM if you'd like a link.

CHAIRPERSON JONES: Okay. Rather than sending a hundred pages.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Oh, yeah. Well, we would provide it electronically, consistent with the way we have provided our agenda materials before. I wanted to check with CEM first, because again historically we've just provided the executive summary piece of that report.

The second part of that request was -- but the short answer is yes we're happy to provide that, and CEM has done that for other situations.

The other request was to have CEM come to the meeting and actually present their report to the Committee. My understanding is that that has been done in the past, but past Boards have actually asked that that not occur. But again, I'm happy to provide the request to CEM, and have them come and speak should the Board direct us to do that.

CHAIRPERSON JONES: Yeah. And I don't have the background about why the Board didn't want that to happen.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think it's just -- it's a preference by the Board. I think from the time periods before, the Board wanted to hear directly from staff about the cost effectiveness and all -- and efforts, rather than through a consultant. I think that was the genesis of it. But it's gone back and forth over time, and it's really whatever the Committee's preference is.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: It's the Committee's direction. So we're happy to go whichever direction you'd prefer.

CHAIRPERSON JONES: Okay. Let's take that one off-line and have to talk to J.J..

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll just add, we're not sure of CIM's availability as well on this notice period.

CHAIRPERSON JONES: Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: So that was the first Chair-directed follow up.

The second was to include, Mr. Chairman, you had directed us to make sure we included the commentary around income inequality in our consideration of the S next month, when we come back as part of our strategic review of the Global Governance Program.

The third and fourth items that I had captured relate to the divestment discussion. The first was to capture the in force verse past and present language to make sure that perhaps the in force language was, in fact, a more accurate way to describe the stable of investment initiatives and the way that we calculate that.

And the second was to consider bringing back both an updated version of the existing policy, along with a schedule for bringing tobacco back as an individual divestment item for the Committee's consideration.

So that's what I'd captured.

CHAIRPERSON JONES: Okay. I think that's it. That's it.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I think Ted might have captured one as well.

CHIEF INVESTMENT OFFICER ELIOPOULOS: No, just -- you might not, in consultation with our General Counsel and the Board's fiduciary counsel, we would review that.

CHAIRPERSON JONES: Oh yes. Right. Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Thank you.

CHAIRPERSON JONES: Okay. Thank you very much. So that concludes the open session, and we will take a 10-minute break, maybe 4:10, and we will move into closed session. Thank you very much.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 3:58 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 March, 2016.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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