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PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

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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, and Mr. Grant Boyken

Mr. Richard Costigan

Mr. Rob Feckner

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. J.J. Jelincic

Mr. Ron Lind

Ms. Priya Mathur

Ms. Theresa Taylor

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

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matt Jacobs, General Counsel

Ms. James Andrus, Investment Manager

Mr. Eric Baggesen, Managing Investment Director

Ms. Natalie Bickford, Committee Secretary

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

STAFF:

Mr. Dan Bienvenue, Managing Investment Director

Ms. Kit Crocker, Investment Director

Dr. Kathy Donneson, Chief, Health Plan Administration Division

Mr. Mike Inglett, Investment Manager

Mr. Paul Mouchakkaa, Managing Investment Director

Ms. Beth Richtman, Investment Manager

Ms. Diane Sandoval, Investment Manager

Ms. Anne Simpson, Investment Director

Mr. Wylie Tollette, Chief Operating Investment Officer

Ms. Laurie Weir, Investment Director

ALSO PRESENT:

Mr. David Altshuler, StepStone

Dr. Akosua Barthwell Evans, Barthwell Group

Ms. Janet Cox, Fossil Free California

Mr. Julie Dawson, Credit Suisse

Mr. Allan Emkin, Pension Consulting Alliance

Ms. Christy Fields, Pension Consulting Alliance

Mr. Andrew Junkin, Wilshire Consulting

Mr. Robert Klausner, Klausner, Kaufman, Jensen & Levinson (via teleconference)

Mr. Jim Knox, American Cancer Society

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P R O C E E D I N G S

CHAIRPERSON JONES: I would 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?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY BICKFORD: Bill Slaton?

VICE CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY BICKFORD: Michael Bilbrey?

COMMITTEE MEMBER BILBREY: Here.

COMMITTEE SECRETARY BICKFORD: John Chiang represented by Frank Moore?

ACTING COMMITTEE MEMBER MOORE: Here.

COMMITTEE SECRETARY BICKFORD: Richard Costigan?

COMMITTEE MEMBER COSTIGAN: Here.

COMMITTEE SECRETARY BICKFORD: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.
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 very much.

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

CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific. Good morning, Mr. Chair, members of the Investment Committee.

(Thereupon an overhead presentation was Presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Very good to be here today. We do have a full agenda chalked full of strategic items looking at really the long -- the long term. We have our continuing review of our ESG strategy today with a focus on the S of the ESG, some exciting panelists for that presentation later this morning or early this afternoon.

We have a review of our real assets strategic plan, as well as a look at -- another look at our Total Fund Policy and a look at our divestment timetable, so lots of meaty substantive strategic items on the agenda today.

I and the team -- I'm joined here by Wylie Tollette and Eric Baggesen, we really wanted to spend a moment to review the monthly performance and risk report. You see it in your binders and it's now up on the screen. This report is normally in your consent package. And we thought that given the recent volatility in the equity markets, it was an appropriate time to pull this off of the consent calendar, the monthly consent calendar to spend really a few moments, a little bit of time reviewing the numbers.

Of course, we do this not to dwell on it or refocus our lens really from the long term to the very short term. But from time to time when there is movements as much as we've seen, particularly over January, February now March and into April, we thought it a good idea to bring this off the consent calendar as it is a very good reminder, an appropriate reminder, and a good one for us to pause and think about of the exposure of the total fund to the volatility of the global equity markets. This is something we've discussed at length. We worked quite a bit together in the risk mitigation policy work that we did collectively as an institution to think about and find ways, perhaps into the future, to dampen or listen the volatility of the fund and our exposure to these markets. So this is a particularly apt time to take a bit of a snapshot and look at the effect of movements in the equity market on the portfolio.

So this first page that you see up on your screens, and now that I look at the screen up there, my eyes aren't quite good enough to follow along. So my apologies to the audience, but hopefully we'll have some better eyes in the audience than I do.

But really I wanted to focus the Committee's attention to the current allocation in dollars in the bottom chart, all very familiar territory for this Committee. But you can see on the total fund at the very bottom, this is as of the end of February numbers. You can see the total fund valued as of the end of February at $278.9 billion.

And the only point I wanted to make on this whole page, one that the Committee knows well, is you look at the public equity line item and you see that, you know, it comprises 143 billion of that roughly 280 billion, or half the fund. So obviously a very important component of our total -- of our total fund exposure.

With that, I wanted to flip to page three --

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CHIEF INVESTMENT OFFICER ELIOPOULOS: -- and spend a little bit of time looking at the numbers, particularly our fiscal year-to-date numbers. And again, this is as of the end of February. And, you know, we'll talk a little bit about the end of March and into April when I finish with this piece of it.

But this snapshot as of the end of February, and you remember, you know, the large sell off in the equity markets at the beginning of this calendar year in January, which really continued fairly unrelentingly through February. And you can see the results of that when you look at the public equity fiscal year-to-date number. It's a negative 11.5 percent return, and quite a drawdown in the equity markets.

And as a result with that half of the total fund moving in a negative direction at that time magnitude, you can see the total fund return moving to a negative -- almost a negative six percent for the fiscal year measured as of February. The other -- so that's point number one on the chart.

Number two, you can see the hope for diversifying asset classes did provide some diversification help, but, you know, returns in the single digits -- positive single digits for fixed income and real assets, not enough to bear the brunt of the movement in the global equity market. So that's point number two.

Three, if you glance at the equity numbers across the time frames now, you can see the public equity downturn at the beginning of this fiscal year to date, and the results over the past year and a half have an impact on the overall returns of the public equity portfolio over these time frames. So for a three-year time frame, the global equity portfolio has a performance of four and a half percent, nearly identical at the five year, a little less than four percent, and the ten year number. And then looking out 20 years, 6.6 percent.

So these are quite moderating return numbers in the equity markets as we've discussed for the last couple years. But particularly the volatility that we discussed in January and February, you can see bringing to bear on the total fund return over these time periods.

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CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll flip back to page two just for a moment, and here's our familiar rectangle and triangle charts of the expected rates of return and risk for the asset classes as expressed in our capital market assumptions during our asset allocation, and that is designated by the triangle. And then our actual numbers on a three-year return basis for the various asset classes, and really nothing extraordinary here. Within the bounds of what we would expect, within the bounds expectations, you can see the triangles and rectangles moving closer together than in some of the years that we've seen before. The outliers in this regard, if you're looking to see convergence of the triangles and the rectangles continue to be infrastructure and real estate, and private equity really on the positive side. We always wonder whether and when that will correct itself and converge more to our expectations. And then, of course, forestland on the negative side.

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CHIEF INVESTMENT OFFICER ELIOPOULOS: I think lastly, just to take a look at our overview of risk numbers, really the only thing that I would point out is in the active risk column, our now, you know, one-year -- modeled one-year projected active risk is -- at 0.8 percent is reflecting, you know, relatively neutral asset allocation. We're really back to neutral. We've neutralized our asset allocation to the extent that we can. Given the size of our private asset classes, we're really in a very neutral position, as well as the amount of active risk taking within our public asset classes.

So in sum, in terms of the positioning of the overall portfolio during this snapshot and currently, it reflects a positioning of the total fund, more or less to neutral with very modest active risk within the portfolio at this juncture. The last piece, not to end on more of an uptick -- more of an upbeat, is to just note these numbers are of -- as of the end of February. And with our familiar cautionary tale not to be swayed or distracted too much by month-by-month returns and month-by-month movements, particularly in the equity market, but just to underscore how much the total fund is, I was going to say at the mercy of the equity markets, but really heavily influenced by the returns in the equity markets, vulnerable to the volatility of the equity markets.

We don't have our finalized, as of March numbers, but they're getting fairly close to being finalized. And to give you a sense of the move in the global equity portfolio, the numbers that we showed you as of February with that negative 11 and a half percent return through February, it's going to now move with the March numbers to about a negative four and a half, so 700 basis point move in a month.

That's -- the effect of that move in the global equity markets, more than anything else in the total fund, moved just in that one month alone the total fund return for the fiscal year from that negative six and a half that we just saw to around negative one and a half.

And now, if we really more estimate the effect of the first few weeks in April, we're almost, for the total fund, almost back to zero -- almost back to neutral. So quite a decent amount of volatility. Again, not to refocus this Committee and our own focus onto the short-term, but really to underscore, I think, the important thing, which is the amount of volatility within the fund, particularly with the exposure to global equity that we have within the portfolio.

And that was the message that we wanted to spend a few moments, but not to certainly take up all of the Committee's time this morning, since we have a lot to cover.

CHAIRPERSON JONES: Okay. Thank you very much. We do have a question. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Actually, I had a couple of questions. On Attachment 2, page one, down at the bottom, there's the MAAC and the overlay, can you describe what that you -- you know, what's in that?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Wylie Tollette, CalPERS staff. The MAC and the overlay essentially represent relatively small components of the overall asset allocation. The multi-asset class program represents two external managers that we've hired. And we've basically given those two external managers the mandate to match the total fund risk and return parameters. So we'd like them to earn the same expected return that the total fund has with roughly the same total risk and volatility parameters. And that's the MAC mandate.

Those two managers do, however, have much more authority to use other types of risks to generate those rushes, such as leverage risk, or they can utilize much -- derivatives much more extensively than our plan can. And it's really a way for our Investment staff to gain insight and knowledge into alternative approaches to risk management, to return generation, and to -- essentially how to achieve the goals of CalPERS in several different path. It's a relatively new program. So we look forward to bringing back the results of the MAC Program, after it's had sufficient seasoning.

I think it's been in place for about two and a half or three years. And so as it matures and goes through a full market cycle, we will look forward to bringing back the results of that pilot test with the MAC Program.

Overlay basically represents any assets that are in transition from one asset class to another. When we sell out of one asset class, sometimes it takes awhile for us to move the money into the other asset class. We don't want to move too quickly, because that can change the prices and essentially raise the transaction cost of moving asset -- moving assets from one to another.

Occasionally, we will put an overlay on that, which represents -- so if we're, for example, moving something into the equity while we're buying into the cash equities, we will establish a futures overlay that will basically provide equity exposure in the marketplace, while we're buying into the cash equities over time to spread out the transaction impact. So that's that small overlay in transaction and plan level lines at the bottom of the report.

COMMITTEE MEMBER JELINCIC: Okay. Only at PERS can $2.7 billion be considered a small item.

On the next page, the graph at the bottom, I'm just -- I'm asking about the label, Total Projected Risk and Actual Return. What is -- what is that? I mean, I understand expected risk and return, but --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Projected risk represents the risk as calculated -- the current expected risk as calculated by our risk management system, the BarraOne platform. It uses historical volatilities and current asset allocation and positions to estimate the volatility of each asset class, based on, again, current holdings, and historical volatility, and correlations.

That is compared to the actual returns from the past three years. The expected or the projected risk and return figures are the same as were examined during the last asset allocation exercise, which I believe was in the fall of 2013 just before I arrived. So those are the one to ten year risk and return estimates that were used in the last ALM.

And this chart is really intended to provide sort of a guidepost for the Committee as to what we've currently seen and experienced in relation to what was examined and reviewed when you made your last asset allocation decisions.

COMMITTEE MEMBER JELINCIC: Okay. And then my other question, Ted, is the one I warned you was coming about Apollo. You know, we are in one of the Apollo funds. We're also in the TPG fund. They bought Kaiser -- or Caesars. They went into bankruptcy. There's litigation over fraudulent conveyance. And my question was what we -- what's the indemnification provisions in that LPA? And so how much are we on the hook for all that?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, I don't -- I'm not going to address what's in the limited partnership agreement in this forum today, and it's something that we can take a look at. I know our private equity staff is monitoring this investment within those two private equity partnerships. Certainly, bankruptcy is something that is a very complicated, very complex process to wind its way through. Our general partners are responsible for doing that. And we will be watching what they do very carefully.

COMMITTEE MEMBER JELINCIC: Okay. So basically there's nothing about that that you want to say to our beneficiaries and the people watching?

CHIEF INVESTMENT OFFICER ELIOPOULOS: No, I just haven't reviewed the indemnification provision.

COMMITTEE MEMBER JELINCIC: Okay. And that's actually on Apollo 6. Apollo 7, where the LPA has been made public, there's actually an indemnification provision that says they will be indemnified even for criminal activity. Do you know if that's the case in the one we're in?

CHIEF INVESTMENT OFFICER ELIOPOULOS: As I said, I haven't reviewed the indemnification provision. We'll review it with our staff at appropriate time. Again, these agreements and their provisions and how they're related to the actual activities of the funds are complex.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Mr. Jones, I was just going to ask and make sure that we did have a discussion in closed session on these indemnification agreements at some time in the future, particularly as it related to what the fund is indemnifying for. I would like actually just to compare on some of the other litigation that we're involved in. So I'd like it sooner rather than later, please.

CHAIRPERSON JONES: Okay. There will be a follow-up item. Okay. Thank you very much for the presentation.

We now move to the consent action item. I will entertain a motion.

VICE CHAIRPERSON SLATON: Moved.

CHAIRPERSON JONES: Moved by Mr. Slaton.

(Laughter.)

CHAIRPERSON JONES: Moved by Mr. Slaton.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON JONES: Second by Mrs. Mathur.

Thank you. All those in favor?

(Ayes.)

CHAIRPERSON JONES: Opposed?

The item passes. Thank you.

We now move to consent information items, and I have no requests to remove anything from there.

So we will now move on to Agenda Item 5, Independent Oversight, Contract Administration: Real Estate Board Investment Consultant - Selection and Interview.

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

This item relates to the RFP for the real estate Board investment consultant. As outlined in the agenda item, the purpose is to present to the Committee the firms that have passed the technical proposal evaluation in order for the Committee to select the firms to continue in the RFP process.

The finalists are scheduled to be interviewed during the Investment Committee's May meeting. The two finalists are reviewed in the agenda item. If there are no questions, I will request a motion to select one or both.

CHAIRPERSON JONES: Okay. We do have one question. No, two.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I noticed that two people made it through the screening. Who else applied? And, you know, I don't want to get into their scores in particular, but why did they generally fail to meet the screening?

INVESTMENT DIRECTOR CROCKER: There were four other applicants: R.V. Kuhns, Townsend, Callan, and RCLCO. One of them the staff felt was too new. In two other cases there were -- given the emphasis that the two observer Board members placed on independence, the staff decided it was important to prioritize a conflict-free situation, and two of the other applicants had significant amount of their revenues derived from investment management.

COMMITTEE MEMBER JELINCIC: Okay. And any sense on why the gap in proposed fees is so great?

INVESTMENT DIRECTOR CROCKER: Between the two finalists -- the two finalists?

COMMITTEE MEMBER JELINCIC: Yeah, the two.

INVESTMENT DIRECTOR CROCKER: Yes. It's tough to say. It's -- you know, they haven't been -- they aren't the incumbent. So I guess I would say, I would expect that they would be more aggressively priced.

COMMITTEE MEMBER JELINCIC: Okay. Then I'll move that we interview both of them.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON JONES: Okay. It's been moved by Mr. Jelincic, second by Mrs. Mathur to interview both of them. And so seeing no questions, all those in favor?

(Ayes.)

CHAIRPERSON JONES: Opposed?

The items passes. Okay. Thank very much.

We now move to Item number 6, Asset Allocation Performance and Risk, Health Care Fund Asset Allocation Review.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Okay. Good morning. Eric Baggesen, Managing Investment Director for Asset Allocation and Risk Management.

Agenda Item 6a is an action item asking the Board to adopt the recommendation to maintain the existing asset allocation structure for the Health Care Reserve Fund. I'm joined by Diane Sandoval, if you have any questions. But I think in contrast to presenting a lot of information, we would just go right to your questions.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Is the money we collect for health or flex -- the HMO flex, what do we call it, flex elect, is that going into this fund as well?

MANAGING INVESTMENT DIRECTOR BAGGESEN: This is a reserve fund. And there is also an operating account under the control of the program areas. So premiums and expenses flow through that operating accounting. This investment account is simply a buttress or reserve. We have Kathy Donneson who can also answer specifics about how the program is structured.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Good morning, Mr. Chair, members of the Committee. The mechanism by which the premiums flow through our funds is that they go through our Contingency Reserve Fund first, both the PPO and the HMO. We pay the capitation under the flex-funded accounts for our HMOs to the plans. And then those remaining funds go into the Health Care Fund.

COMMITTEE MEMBER JELINCIC: Excuse me. Do they go into this fund?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Yes.

COMMITTEE MEMBER JELINCIC: And since that's a relatively new program, shouldn't that have some impact on hour we allocate the fund, since that's subject to a much quicker call?

INVESTMENT MANAGER SANDOVAL: Good morning. My name is Diane Sandoval. I'm the Investment Manager in Asset Allocation and Risk Management.

So my understanding is that the timing is the same for the PPO and the flex funded, in terms of you're essentially allocating for claims that have come in and premiums that you're collecting over a one-year horizon. Then you reset the premiums at the end of each year. So there is no -- from an asset allocation perspective, there's no distinction in the timing of those claims and premiums that you're collecting.

And really, what we're doing with this asset allocation is you're essentially trying to generate a slight amount of income. So if you look at the objective of this fund, it's real just to provide stability of principal and enhance returns with very prudent levels of risk. And it's true for the flex funded as well as for the PPO program.

COMMITTEE MEMBER JELINCIC: So if I heard you correctly, even adding the new program, you don't think would -- changes the cash flows enough to change the asset allocation?

INVESTMENT MANAGER SANDOVAL: We did look at the cash flows. And at this point, we haven't seen the -- this is a very low risk allocation, which is essentially in a very short duration fixed income fund. So we didn't see, based on our analysis, any need to change it at this point. Now, we didn't see any need to add risk either.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON JONES: Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

Well, I think the agenda item lays out the review very carefully. And I think it's a prudent recommendation, given my review of the item, so I will move staff's recommendation.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON JONES: It's been moved my Mrs. Priya -- Mrs. Mathur and seconded by Mrs. Taylor.

All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none. The item passes. Thank you.

We now move to Item number 7a, Real Assets Strategic Plan.

(Thereupon an overhead presentation was Presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific. Mr. Jones, Committee members, I'll give the real assets team time to make their way up to the podium. I see Paul and the team. This is a presentation of a strategic plan for the entirety of real assets made up of the components of real assets, real estate, infrastructure, and forestland. And I really commend Paul and his team in bringing together a unified strategic plan to the Committee. This is the first time you'll have seen one strategic plan for the entire asset class.

And it really reflects another milestone, another step on the journey of putting the Real Assets Program together under one whole approach, as well as one of the many steps to break down many of the silos within the programs that we've all been on a journey for some time now.

So with that, I will turn it over -- and actually turn it over to Paul, and he'll begin the presentation.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Good morning. Paul Mouchakkaa, Managing Investment Director for Real Assets. I'm joined this morning by our Board consultants from StepStone, Pension Consulting Alliance, and Wilshire, as well as two meshes from the real assets team Mike Inglett and Beth Richtman.

It's really a pleasure to be here this morning to present the five-year strategic plan to the Committee. This was really a wide ranging team effort. Every member from real assets contributed. The Board consultants were apprised and part of the sausage making, if you will, of this individual plan. And so really the fingerprints, toe prints, and our toil have left an impression on the pages before the Committee.

It was a nine-month initiative. We conducted roundtables with industry experts. We created five dedicated strategic planning teams composed of all members of real assets to tackle, what I call, some of the more gnarly issues, which, for example, might be leverage, or international investing. And we're very proud and excited with the end-product that we have brought before the Board this morning.

In beginning, I want to emphasize there were three key foundational items that were key to composing the plan today. First are the Investment Beliefs. Really all of them come and play a role in them, but specifically and particularly Beliefs numbers 1, 2, 4, and 10, which relate to liabilities, long-term investment horizon, management of financial, physical, and human capital, and team work were all key ingredients to this.

The second key foundational item was Vision 2020, as Ted alluded to in his introductory comments. Really thinking more in terms of the total fund focus, and also focusing on strategies that are repeatable, predictable, and scalable, and ones that are -- that increase the transparency and reduce complexity were key ingredients as well.

Third, is the role of real assets. In December of 2015, the real assets team presented to the Board our annual program review, whereby we discussed the notion of having one overarching role. There was a significant amount of overlap between the three programs of forestland, infrastructure, and real estate that we felt it's best managed to have one role. That role was reaffirmed by asset allocation in this process, and it is to provide a stable cash yield, equity diversification -- I should say, diversification of risk in equity, and third inflation protection.

These three foundational items provided the cornerstones or building blocks for the plan. In terms of an outline for the presentation today, I will kick us off and provide sort of the bigger picture and the landscape. Mike Inglett, who's a couple people to my left will provide much more detail in terms of what is sort of the nuts and bolts. And then immediately to my left is Beth Richtman who will provide a detailed discussion on the emerging manager platform and ESG integration in real assets.

I want to open it up now and bring forth a quote by an author named Farley Mowat. It was a quote that I believe resonates and provides some insight into where we landed. "It is in our nature to look into our past, hoping thereby it will illuminate the darkness of the present".

And as I mentioned, one of the other key ingredients to formulating this plan, in addition to those three foundational items, was taking a review of how we got to where we are today in 2016 in real assets, because it has been one fantastic voyage when you go back from the

1990s.

And I will shift --

COMMITTEE MEMBER JELINCIC: At least exciting. I don't know about fantastic.

(Laughter.)

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MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: I will shift this to page five -- or slide number five of the plan. As I mentioned that quote is really critical, because I think it really brought us a lot of insight as to where we landed today. And what you see before you is what I believe are four sort of phases that the real assets asset class has gone through for the last 20 years. And I call it the four Rs. First, risk off; second, risk on; third, restructuring; and fourth, reset.

In the 1990s, it was a period of risk off. Much of the portfolio and the strategy was premised on core assets, stronger governance, high quality real estate. In the early 2000s, it shifted more to of a risk-on posture. Much greater emphasis on value-add or opportunistic strategies, and a drift into more of the commingled fund model.

In 2009, there was a need for restructuring after the global financial crisis. In addition, we introduced the infrastructure program into real assets at that point in time. There was a significant amount of energy, time, and resources around the restructuring throughout the financial crisis from 2009 to 2011.

When we landed in 2011, once the seas has finally calmed, it really was a period to reset and rebuild the foundation of real estate, infrastructure, and forestland, in particular infrastructure was really just getting started.

We have now benefited from the five years of that reset, and the new course that we are presenting today to the Board is one premised on improvements to that reset. And the chief improvement in which we're trying to accomplish for the Board to consider today is this roll-up or consolidation or integration of the three underlying programs of forestland, infrastructure, and real estate into one real assets roll-up.

And in doing so, it really causes more of a fallout or domino effect from where we are today to where we would like to go over the course of this next five years.

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MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: And that fallout is really premised on three things. First, it's moving the portfolio to roll-up under sectors or segments across the real assets investment universe. So therefore, we will reorganize the portfolio hierarchy and structure of real assets, which today is premised simply on three siloed programs, as I mentioned before, and have it done in a holistic manner without losing the ability to still measure and monitor performance at still the underlying three programs today. So a change in that portfolio hierarchy is one of the key domino effects.

Secondly, there will be a move towards harmonizing the parameters and nomenclature. Today, we are living with different nomenclature and parameters measured for each of the three components. And in order to measure and monitor our program as one asset class or one program, if you will, there's a need to sort of harmonize or standardize the language and nomenclature. So that is another key change proposed in this plan.

Third, the goal would be to provide to the Board one overarching real assets investment policy that will codify the parameters that are brought forth. There will still be individual program level policies, but they will all roll-up to this one overarching one.

Beyond those two -- those three key areas that I call sort of the domino effect from consolidating into real assets, there are two other areas that may not be directly linked to that, that are key for the Board to consider.

First is putting a cap on development. Given the role, as I mentioned, of stable cash yield, equity diversification, and inflation protection, we felt it would be prudent to introduce an overarching cap in real estate, infrastructure, and forestland, and across real assets of roughly 10 percent development for our strategic plan.

This enables us to have the appropriate limit, so that we can stay on course, and not drift into higher risk strategies that may mirror more equity type risk, and thereby dilute the role in which we're trying to accomplish for the fund.

The other key component has to do with leverage. As I mentioned, there were strategic planning teams and roundtables. We discussed this with many experts, and did a lot of research internally. And what we landed on was to conduct or build in the future over the next five years an unlevered Real Estate Program or mandate, whereby the leverage employed in that particular mandate, whether it may be an office or apartment or whatever type of strategy we pursue, would be one premised on using no leverage with our investment partner or manager, and employ the leverage internally.

We would like to explore this. We do not have all the details figured out today, but we will present those details through our research to the ISG, to our Board consultants, and provide the information to the Investment Committee.

What we're employing in the -- or including in the plan today is the ability to do that research. What we believe can come out of it is better cost efficiency, greater transparency, and potentially greater alignment between our investment manager and ourselves.

So this is an area that is very new, and, in some cases, is groundbreaking. Although, there are some limited partners or other plans that are pursuing a similar strategy, but it would be an exploratory area of the plan.

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MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: I think main the punch line, however, is that there's no overall change in direction, strategy, or tilt. The 2011 plan was one really premised on a focus on core income-oriented assets. That will continue to be the case in this proposed plan.

Secondly, it was an -- it was a plan premised on employing prudent and moderate leverage. Again, we are reemphasizing that, and, in fact, are introducing the debt service coverage ratio element into the forestland and infrastructure programs to better monitor our leverage exposure.

Third, there will be continued focus as a business model to invest on separate account structures. We believe that the separate account model provides the necessary governance, but also recognizes the fact that we have resource constraints here at CalPERS that don't allow us to have a wide swath of people and resources around to potentially do things on a more direct basis, but require us to do it in a more efficient manner, but also we would like to have the governance.

And with that separate account model, we believe it's one of the key ingredients in ESG integration. First and foremost, it really is a foundational item of the G of ESG. And in addition, it has been sort of the conduit to providing some elements of the E&S into the real assets program, as shown through the RCP, and our manager expectations project.

Beth Richtman, to my left, will discuss this in finer detail in the coming moments.

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MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: While not complete, there are a few items that we more or less are leaving towards the future or to be discussed in ALM, the asset liability study or asset allocation forthcoming in the next 12 to 18 months.

There's three items that we're not directly addressed in the strategic plan that I felt it is important to highlight to the Investment Committee.

First, is our benchmarks marks. There's no individual -- there's no change or proposed change to our current benchmarks. We felt that this would be better tackled through the portfolio priorities work and the ALM.

In addition, the role of forestland was also moved towards a much more deeper dive through the ALM process. The logic behind that was first and foremost we are still in the throes of restructuring our current holdings in forestland. And given the fact that it has its own standalone allocation today that a fund-wide initiative of the ALM would be an appropriate place to tackle it

Third is the move to having a, in essence, a real assets allocation for all of the asset allocation. Today, as I mentioned, we have the three individual programs. We felt that that conduit could potentially lead to the solutions or insights around the other two items that we are more or less parking for today.

So with that, I will hand it over to Mike Inglett. Mike Inglett will discuss much more of the details, in terms of how we're rearranging and restructuring our portfolio hierarchy in order to consolidate the three programs.

Thank you.

CHAIRPERSON JONES: Okay. Before we move on, we have a couple of questions, Paul.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Yeah, absolutely.

CHAIRPERSON JONES: Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, I think your -- your proposal to consider building an unleveraged program is a really interesting and exciting one. You know, one of the things we've struggled with so much over the years is how do we really have a full handle on how much leverage is embedded in our portfolio, because we've delegated that so often to the investment managers or our partners that we work with. So I think that's really an exciting prospect. I think it will be interesting to see if that can be translated to other asset classes within CalPERS, maybe private equity or elsewhere. And so I'll be paying a lot of attention to how this develops over time. And I guess I'll leave my comments there for now.

Thanks.

CHAIRPERSON JONES: Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

First, I just wanted to just thank the staff for this tremendous work. And I think the -- making this much more transparent and hopefully easier to manage in the future are really great goals. And I had a couple questions that maybe will get answered momentarily in the presentation.

But, you know, we talk about the asset class risk being mitigated by the majority of the program, being invested in high quality core assets that are held throughout the business cycles. My question really relates to how difficult is it going to be to find those types of high quality core assets at a reasonable price, just your outlook on that?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: I know PCA can definitely add some color to this. But there's no doubt, and we talked about it in our annual program review, it is a very competitive market.

COMMITTEE MEMBER YEE: Yeah.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: But we are a long-term investor, and patience is key. And as we saw in our movement from 2011 to 2016, we were very patient and disciplined. And the complexion of the portfolio just -- and Mike will talk about it, has moved dramatically in those five years from really a value-add opportunistic posture to one that today we can say is core. Given our secondary sale, given the patience and the measured pace in which we've invested in these thigh quality real estate deals over the last five years, and in the building up really from scratch of the infrastructure program, which also has exhibited strong discipline and a measured pace, it really is premised on doing this over the long run.

And it really is a -- it is a -- to use sort of an overused phrase, it is a marathon and not a sprint. But there's no doubt we are in a very competitive markets and those avenues will oscillate from time to time.

COMMITTEE MEMBER YEE: Okay. And I'm thrilled about the new focus on the program as well with infrastructure now focusing on water and energy and waste transportation, technology, communications, so all of that. And perhaps one we get the report momentarily, I'm interested in knowing whether how much of that is going to be an opportunity that we will see more of in California, particularly given our water needs.

And then also if you could comment about energy. Obviously, an abundant opportunity in the United States, but again what percentage in California as compared to the rest of the country.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Absolutely.

COMMITTEE MEMBER YEE: Okay.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: First, one of the next steps that we will be undertaking is to design sector or segment plans for each of the components that Mike will sort of walk us through -- walk the team through momentarily. In that -- in those sector plans will be a discussion on some of the more finer details that you have alluded to.

Specifically, today, roughly a quarter of the real assets -- asset class is already exposed in California. A lot of that is in the real estate side, undoubtedly. However, we have recently made an acquisition in California on the infrastructure side which will increase our exposure in California to almost 15 percent. So that is moving in the right direction, as well in terms of exposure to California.

We do have to be measured at the same time, and also provide a diversified overall real assets portfolio. But it also is a very competitive market. California is a desirable place to invest, not just for ourselves but for many real estate and infrastructure investors, but it is something we will study in particular in our sector plans.

COMMITTEE MEMBER YEE: Okay. And then one last question, if I may, I believe it was slide 19 that showed the elimination of the strategic and legacy subportfolios. And I was just wanted to get some clarity whether the plan is to dispose of all the legacy investments or whether some of them will be reabsorbed into the new plan?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: It will be to reabsorb it and recast that. Mike Inglett will give some numbers around that.

COMMITTEE MEMBER YEE: Okay. Great. Okay. Thank you.

CHAIRPERSON JONES: Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. On slide five, the change in the commingled funds from 11 to 15 that reflects the big $3 billion sale -- but is that moving from, you know, 17 to 32 percent, was that purchases or was that largely due to appreciation or do you have some sense of how big it gets allocated each way?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Well, just in overall numbers today, if you move from a year ago to where we are in 2016, we're roughly actually kind of a net seller within real estate. We've been an acquirer within infrastructure. And that net seller change within real estate is roughly a billion, so we've acquired roughly two billion call it in new acquisitions.

The appreciation has been more in line with what you see in our index, slightly better, in particular, on our strategic and core assets. But overall, we're actually slightly down given that portfolio sale.

COMMITTEE MEMBER JELINCIC: I was looking at slide 5, the commingled funds in particular. You know, going from '07 to '09 and then to '11, is that largely appreciation or were we continuing to invest in commingled funds during that period? And it's probably some combination of both, but I was just wondering if you have a sense?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: I'd have to --

COMMITTEE MEMBER JELINCIC: And the answer can be no you don't know.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: I can look to Ted, but in '07 -- in '09 onwards, I don't believe really any commingled funds were new investments, so there would likely be the majority of that change being due to the appreciation with the market, you know, being at a pretty bad place in 2009 to where we ended up in the future. I don't recall -- I wasn't leading the group, but you don't recall significant or material amounts of new investments in commingled funds.

COMMITTEE MEMBER JELINCIC: And then in slide 8, on the geography, the focus in the U.S. I understand, but would we ever really want to be 100 percent in the U.S. if we think we are international investors? At least on the equity side, we've said half of our investments is going to be international. Why would we set 100 percent as a acceptable portfolio exposure?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: So from our perspective, it's a fair point. And what we are proposing to do and really analyzing this very question, we discussed it actually quite a bit internally across the senior staff and within the real assets staff. And a lot of it has to do with where we want to go as a total fund, but also recognizing the risks and the difficulty to scale ourselves up appropriately on the international side.

It's not as easy as -- in the public asset classes as to acquire and get exposure internationally. And there are different risks that are at play. And so one of the things that we're discussing is we will be bringing our international sector plan that will be developed over the coming months to the ISG to get into the very nature of your question as to what would be the appropriate amount across the whole fund that you would want within real assets to be exposed outside of the United States. Given there are different risks related, it's not as liquid and there are different rules.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I would just add to that, because it is a topic of continued conversation at the total fund level by really all of the senior Investment staff, real assets is 10 percent of the fund. And, you know, 90 percent of the fund is doing other things.

And the very specific role for real assets is to act as a diversifier, particularly specifically that equity risk, which is global. So one of the questions in terms of investing in internationally in real assets is to what extent that -- does it fulfill that goal of being a diversifier to the total fund? Does it help or weaken that? Rather than just looking at the real estate or real assets portfolio as itself to diversify its own portfolio, we're really looking at it, as Paul alluded to, is how does it a -- how does it work as a diversifier for the whole fund, that's number one.

Then number two, of course, our liabilities are all expressed in U.S. dollars. And we're also keeping an eye on what parts of the plan to match that profile from a liability side as well.

Given all those things, in 2011, the recommendation with respect to real estate was for international to play a fairly small role. It's something, as Paul said, the whole team is looking at and analyzing. And it's a terrific question and inquiry for the Committee and for ourselves as we go forward into this ALM cycle.

The only other piece to add on to it -- really to emphasize with Paul said, particularly with private assets, particularly with real estate and with infrastructure assets is they're extremely local markets. And putting together the business model infrastructure to invest internationally, it has to be done with -- you know, with quite a standard of care to make sure you get that piece correctly.

And then lastly, you need to be rewarded versus the buildings you can buy or the infrastructure projects you could buy here in the United States. You need to be rewarded for that extra increment of risk that you're taking internationally, which include things such as currency risk, the ability and the fact of being taxed at different rates than the tax status that we enjoy here in the United States.

And then in some markets, you know, things harder to measure and quantify in terms of rule of law and other treatment of your assets that are fixed. And you can't just pick up and bring them back home. So those are all the considerations that are -- that go into this.

COMMITTEE MEMBER JELINCIC: And I can understand why you might want to make it small. And quite frankly, if it has said 70 to 90, I wouldn't have questioned it, but the 100 percent. I do want to thank you for the common language. I had actually given up on that fight, but I'm glad I won anyhow. It drives me nuts.

(Laughter.)

COMMITTEE MEMBER JELINCIC: You touched on the issue of more -- we've largely made way for the commingled funds, doing more separate accounts. You touched briefly on bringing it in-house. And I'd like you to expand on that. As you know, I've been a big proponent of bringing it in-house, paying the salaries we need to. It's not like we're not paying the salaries anyhow. It's just that we do it stealthily, rather than do it directly. So can you comment some on the bringing it in-house?

And then there is one other question that I'll throw out there. You may very well deal with it at -- late in the presentation, but I want you to think about it. And this is a cyclical industry. It's been cyclical for a long time. It's going to say cyclical. And one of the things we want is something that is repeatable and scalable and takes advantage of our long-term outlet.

And so part of what I hope you will address at some point is why not, for some of this, be more active? You know, buy when everybody wants to puke up real estate, and sell it when everybody says, "Oh, my God. They're never going to make another square of land and I've got to have it now", and due to the rest of the industry, what we once did to Japan in terms of selling them Pebble Beach.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: I'll take those questions. First, on -- with respect to the direct model, it will require a significant amount of people. Given the size of the real estate and infrastructure components, over $30 billion, you would need to build a staff of, you know, probably 300 people, particularly if you're investing globally.

As Ted mentioned, real estate and infrastructure require a lot of expertise both at the local market level, and also at the specific sector level. An office building is not the same as a warehouse, and it's not the same as a toll road, and it's not the same as an apartment, or a home. And building that team would require years. And where we are today, it would be challenging.

Could it be done? The Canadians are doing it, as an example. But it is -- it would require a significant amount of commitment in terms of will and in terms of resources, energy, and dollars.

With respect to your second question, Mr. Jelincic, our strategy, first, is not as premised or focused upon market timing. It's really meant to dollar cost average, and get exposure and maintain the exposure, so that we're in line with our role. However, with that, our model of separate accounts, whereby we do an allocation on an annual basis versus more of the serial and locked up allocations or commitments that you may get in a commingled fund where there's less control over the frequency of the commitments by our partners, we're really removed from it. We have the ability to increase our commitments to our separate account managers or revoke commitments from our separate account managers.

We also rely on them as they are the active participants in the market themselves to say when it's the appropriate time to maybe increase or hit the gas pedal a little bit more or hit the brakes a little bit more.

And we do see that. It is reflected in our annual allocations. You can see over time when one of our partners might be relenting or pulling back saying we may only need a smaller portion this year, it's more challenging, or the pricing just doesn't make sense, so we -- we're looking at -- we're much more measured, and other points in time when they are saying we need -- we think it's a little bit more, given the market.

So we do have an element of that that gets addressed through that component of our execution and our business model. But the overarching strategy is to be more of a dollar cost average or over time, and really build a high quality portfolio that can really weather the business cycles better to reduce the cyclicality of our real assets holding.

COMMITTEE MEMBER JELINCIC: Okay. Because I do remember a portfolio of shopping centers that we have, I think, sold three times and bought twice, and made a lot of money in the process. Okay. Thank you.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: If you can do it right, it's fun.

CHAIRPERSON JONES: Yeah. Paul, on --

COMMITTEE MEMBER JELINCIC: I have other questions, btu I think they will get answered, so I will defer at this point.

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

Paul, on your response to J.J.'s question about in-house, and you mentioned that it would require substantial resources, 300 people. And even going down that track and you also mentioned about the very unique skills that would have to be brought to bear to create this resource to engage in that kind of effort, is there any proven performance improvements looking at a model, like you said Canada uses a such a model? Is there any demonstrated improvement in performance over what we do by using partners as we do?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: I haven't seen the research that tackles that very question.

It is an appropriate question. I have yet to see research that says a dedicated or, what we might call, a direct program would outperform one that does not. We do believe, however, you know, we've tried some new business models, which we bought in closed session to the Board in December. We are exploring what is sort of a business model that is one step closer to the direct model, but not fully over to the direct model.

And we may explore a couple of those. It is in the plan. I believe on this page we mention a secondary focus on operating companies and direct investments. So these are areas -- again, it's not only the amount of people and the resources and the will and dedication, but even to do it in a measured fashion and not to, you know, just throw everything at it in one fell swoop, but to explore it and measure it.

And we may be able to explore that very question, Mr. Jones, through our secondary focus in that. And, in particular, in one of our industrial programs, we've made that move.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Hollinger.

COMMITTEE MEMBER HOLLINGER: Thank you. Great presentation. Mr. Jones, in answer to your question, I was just at a conference McKinsey has done a study on the difference in the IRRs between direct -- it's through a 20-year period. It's probably going to be download to me. I'll pass it on to the Board and to the Investment staff.

CHAIRPERSON JONES: Okay. Thank you.

COMMITTEE MEMBER HOLLINGER: My question has to do with where you mentioned that now we're going to go into maybe 10 percent development deals. I just want --

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Quite the reverse. I know some --

COMMITTEE MEMBER HOLLINGER: Oh. I just wanted to understand.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: -- some have reported that we're ramping it up, but really we're just putting a cap on it. Our overall development exposure today, Mike, is 14 percent. So actually we are --

COMMITTEE MEMBER HOLLINGER: Is that just legacy from --

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: A lot of it's legacy.

COMMITTEE MEMBER HOLLINGER: Okay. But because I remembered -- I wasn't here. But from 2008, I thought we were going away from that. So it was just --

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: In real assets you want some -- and really PCA touches upon it in their letter very well.

COMMITTEE MEMBER HOLLINGER: Right.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: It's -- you also need to have for -- you know, to use a sports analogy, you need draft picks always coming up through your chain in your assets or your portfolio. And it's not only to put a cap on it, which does not -- we don't have it today, but it's also the primary reason we want it, is to feed our longer term real estate. When it gets competitive --

COMMITTEE MEMBER HOLLINGER: Yeah, so we're recruiting from the minors.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Yes.

COMMITTEE MEMBER HOLLINGER: Got it.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: And I think Ms. Mather and Ms. Yee touched upon, you know, sometimes it can get very competitive.

COMMITTEE MEMBER HOLLINGER: Okay.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA:

Sometimes it makes more economic and investment sense to do some development, and then move that asset, because it is the right point in time to do so.

COMMITTEE MEMBER HOLLINGER: Okay. Thank you. Appreciate it.

CHAIRPERSON JONES: Okay. Proceed.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: So with that, I will turn it over to Mike Inglett.

INVESTMENT MANAGER INGLETT: Good morning, members of the Committee. I'm Mike Inglett, Investment Manager of Real Assets.

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INVESTMENT MANAGER INGLETT: As paused discussed, one significant change in the strategic plan is to consolidate the three programs into one real assets portfolio. In order to do this, we'll need to harmonize the portfolio structure, the parameters, and the nomenclature across all three programs.

As a point of reference, the last strategic plan for real estate was presented in 2011. Infrastructure also presented a separate strategic plan in 2011, and forestland has not had a strategic plan presented to the Board.

Previously, the three programs acted somewhat independently. We believe it is now time to fold these three programs into one real assets portfolio. One of the first steps in this process is to synchronize the portfolio hierarchy structure.

So looking at slide 13, this is our current real assets hierarchy structure. As you can see by looking at each of the columns in this slide, there's really not a common a nomenclature for the three programs when it comes the subportfolio, strategy, or risk.

Back in 2011, during the development of the last strategic plan, real estate was undergoing a significant shift from a non-strategic legacy portfolio to a stabilized strategic portfolio. At that time, it was necessary to track the investments at a subportfolio and strategy level as legacy assets made up nearly 50 percent of the portfolio.

As you are aware, several months ago, we undertook and are in process of liquidating nearly $3 billion with the commingled funds secondary sale. Because of the legacy asset sale and our ongoing strategic asset purchases, the strategic portfolio is now approximately 93 percent of the total real estate portfolio, and is continuing to grow.

At this point, we no longer see the need to track items at the subportfolio and strategy levels. As the legacy portfolio continues to be liquidated, it now is a very small part of the overall portfolio.

If you could please turn to slide 14 --

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INVESTMENT MANAGER INGLETT: -- I'd like to discuss our proposed hierarchy structure. The three changes that we are proposing include, as I mentioned, removing the legacy-driven subportfolio and strategy hierarchy levels; number two, synchronizing the risk terminology to be core, value-add, and opportunistic for all three programs; number three, establishing a segment section that will allow us to have consistency with the total fund.

This structure maintains the ability to track details at the program, risk, segment, and sector levels, but now also allows us to roll-up information all the way to total real assets portfolio level. In essence, we have been able to create a single hierarchy structure that can now be utilized for the entire real assets portfolio.

If we could now turn to slide 17 --

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INVESTMENT MANAGER INGLETT: -- we'll be moving from showing the portfolio hierarchy to taking the Board through specifics in terms of proposed parameter changes. If this strategic plan is approved, these changes will be reflected in the coming months when we update the real assets policy and delegated authority to the Board.

I want to emphasize there is no real substantial change to the strategy or direction of the portfolio. We will continue to purchase and develop assets that produce stable and predictable cash yields, provide a diversification of equity, and provide partial inflation protection. We believe now is the time to further improve and define what was started in the 2011 strategic plan.

Our goal in this section is to increase transparency, reduce risk, reduce complexity, and provide better alignment with the total fund.

Please turn to slide 18.

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INVESTMENT MANAGER INGLETT: We will first look at the proposed changes at the real asset level. The next four -- the next four slides will all have the same format showing the current parameters in the middle column, and the proposed parameters in the right-hand column.

As you can see, there's currently no parameters set up for real assets as a whole. So our goal during this strategic plan is to establish these parameters for real assets.

In order to roll-up the parameters to the real asset level, we had to harmonize the nomenclature for all three programs. Therefore, we set up common classifications across three programs. For risk, we've basically said core, value-add, and opportunistic is the classifications, as Paul mentioned, with a cap on development.

For geography, we will now have it be U.S., international developed, international emerging, and international frontier markets. And for leverage, to include both loan-to-value and debt service coverage ratios. As mentioned earlier in the hierarchy discussion, we added a segments parameter that has sectors from all three programs roll up into one of the six segments.

If we could turn to slide 19, we're going to view the proposed real estate changes.

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INVESTMENT MANAGER INGLETT: As you can see, real estate was, you know, pretty substantially unchanged. As mentioned earlier, the subportfolio as strategy classifications will be removed as the legacy portfolio is now nearly fully liquidated. A segments parameter will be added.

The real estate portfolio will remain a core focus program with primarily domestic investments and moderate leverage.

If we could turn to slide 20 --

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INVESTMENT MANAGER INGLETT: -- we're going to view the proposed infrastructure changes. With this program, we concentrated on modifying existing parameters and standardizing nomenclature. The risks, geography, and leverage parameters previously existed but are being modified to increase transparency, reduce risk, and reduce complexity. With these modifications, we'll be able to better evaluate investments in the same manner across the programs and roll-up infrastructure characteristics to the real assets level.

Finally, we are proposing to increase the policy floor minimum from three to five billion. The reason for the increase is the infrastructure program currently has a NAV of approximately 2.5 billion, and additional flexibility as needed to mirror the increase in the proposed core holdings, that will be reflected in the updated real asset policy.

If we could slide -- turn to slide 21 --

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INVESTMENT MANAGER INGLETT: -- we'll go over the proposed forestland changes. With this program, we concentrated on establishing parameters as they were relatively absent, other than leverage LTV. The proposal establishes risk, geography, and additional leverage parameters for the forestland program, and likely other programs adds to the segment parameter.

These proposed changes will help us manage and monitor the forestland portfolio. The last two slides I'd like to briefly mention are slides 22 and 23 in the presentation.

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INVESTMENT MANAGER INGLETT: Slide 22 shows the current portfolio structure with a current program information.

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INVESTMENT MANAGER INGLETT: Slide 23 is a synopsis of slides 18 through 21, so that you can see all of the proposed program parameters on a single page. In conclusion, if this strategic plan is approved, it will be a multi-year project to implement all of the proposed hierarchy and parameter changes to our database systems, reports, and procedures.

I would also like to reiterate that we believe the proposed changes to the hierarchy program parameters will build on the work done in the 2011 strategic plan to increase transparency, reduce risk, reduce complexity, and provide better alignment with the total fund.

With that said, I'll now turn it over to Beth Richtman who will discuss the emerging and transition manager programs and the ESG integration.

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CHAIRPERSON JONES: Okay. We have a couple of questions on that presentation.

Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

You noted in your -- in slides, I think it was, 18, 19, 20, and 21, that you're introducing a new manager limit target. Could you talk a little bit about how you landed on the numbers you did, whether you think -- I guess whether you think, particularly in infrastructure, whether the number is sufficient to really gain penetration into the marketplace?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll start from the total fund side. This is part of our Vision 2020 work to really try and reduce the complexity of 700 plus managers in the overall portfolio. So we went through a fairly disciplined rigorous process of -- with all the asset classes to see -- look at their strategies and determine what is a reasonable number of relationships in order to execute the various strategies, and based on that, came up with approximately 100 external managers across the total fund.

And this number is the number that the real asset teams came up with that fed into that 100 number. I think Paul can take it from here to talk about this strategy and whether he thinks this amount is sufficient in order to execute the strategy he's contemplating.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Yes, we do believe 10 is sufficient, largely due to the fact that our business model to focus on separate account mandates. And we're not moving away from doing some direct deals.

We will continue to explore that as an avenue as well, but also, to really focus the program around the 2020 Vision of being -- doing repeatable, predictable, and scalable strategies.

And if infrastructure were to scale up, today it has a smaller allocation. But in the future, the separate accounts could mirror those with different parameters, of course, and potentially different portrayers than what's seen in real estate. And in real estate, we're able to do that today. And we believe that it's a process that we'll learn about as we go through it.

Infrastructure is still, in terms of the timeline of CalPERS, a very nascent program. But we do believe, at this point in time, it is -- to have 10 managers is sufficient, particularly given the business model that we would like to pursue, which is not premised on sort of the commingled fund approach.

COMMITTEE MEMBER MATHUR: And just to -- just to press just a little bit more, currently looking at potential international exposure of up to 50 percent. And as you noted, it's very -- it's very local. You know, infrastructure and real estate in general is very local. So you think it's realistic within 10 relationships to really have a presence where we want to globally?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Given where we are in terms of the size of infrastructure, we do, and the allocation they're in. There's no doubt the opportunity set in infrastructure is much more tilted outside of the United States today, but there also are not as many investment managers themselves that have -- when you compare it to private equity or real estate. Therefore, we do recognize -- we do recognize that this will be a challenge.

It is even a challenge within real estate to -- but we think it's the right thing to do, in terms of our strategic direction and aligns very well with the Vision 2020 principles.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

CHAIRPERSON JONES: Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. You know in my time on the Board, I've heard a fair amount about the challenges of forestland. In this presentation, is the first time I saw the term agriculture connected to it. In the briefing, I talked to Ted who told me about the vineyards that we once had in our portfolio.

I just wondered, Paul, if you could talk just briefly about what you see as some of the potential opportunities in agriculture?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Thank you. I might want to commend you on your excellent taste in ties too, Mr. Lind.

(Laughter.)

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: First, starting at the very sort of galactic level, if you will, for real assets, we wanted to have -- we believed landing on the segment and sector organization for our portfolio was the -- was a prudent and appropriate way to sort of rearrange how we're structured.

And in doing so, we wanted to have -- to cover the real assets universe, so that we could show in our policy, for example, if you invest in essential real assets, which is what you're alluding to, what are all the various parts of that essential universe.

With respect to agriculture, what we will do, which I'll touch upon later in my comments, is we are going to develop individual implementation plans for each of these sectors. In doing so, we'll go -- that next layer down, in terms of what are all the opportunities, and then explore whether or not first it aligns with the role of real assets. And secondly, if it aligns with the 2020 mantra of repeatable, predictable, and scalable strategies.

And if they do, and it will be a rigorous process, and one premised on research and analysis, then we'll pursue various component strategies therein. And if, in the case of some of them, we land in a spot where we don't believe we can -- we can achieve the role in the best risk-adjusted manner, and also tie into the Vision 2020 principles, then it may be an area that we don't really pursue as part of it, but we wanted to include it as part of the overall real assets universe.

COMMITTEE MEMBER LIND: Thanks.

CHAIRPERSON JONES: Mrs. Taylor.

COMMITTEE MEMBER TAYLOR: So this is a great report, and I'm happy to see it going in this direction, considering I think what Mr. Lind had just said about hearing a lot about the forestland, and also now including agriculture in that.

One of the questions I had is that as I'm looking at this slide on 23, it says U.S. infrastructure is about -- you're looking at 50 percent, perhaps internationally in the international markets. And I guess my question for you to address would be, given the sad state of our infrastructure in the United States, and our -- you know, aligning our values with our human capital segment of our ESG, would we be looking at more infrastructure or projects in the United States? I mean, 50 percent, especially after you talked about how it's such a local issue to be doing infrastructure or real estate in emerging markets or other countries, could you kind of opine on that, and whether or not we are looking at more infrastructure in the United States?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: The short answer is absolutely, yes, we are looking at infrastructure in the United States. We are first. We have one mandate on the power side, that -- with a partner that does that. And in addition, we are exploring a mandate focused on U.S. infrastructure.

It has been more difficult to get, or even get the volume of transaction in the United States. It doesn't -- it doesn't align, I agree, with the state of the infrastructure in the United States. Unfortunately, it hasn't translated necessarily into a lot of actual opportunities and transactions, which is a challenge, but that's one that cuts across some of the individual challenges with respect to our tax-exempt status, depending on the certain sector, and also the nature of how PPP or P3s come to bear in the United States, where we have -- really, you're looking at sometimes a community, a municipality, a county, a State, and potentially federal involvement around all of those elements.

Whereas, perhaps in a place like the United Kingdom or Australia, the level of that gets cut by a substantial amount. But it is an area that we believe we want it to be a key emphasis of the program. We'll see how it plays out. The last point I'll make is the opportunity set in infrastructure is much more tilted towards outside of the United States, compared to real estate.

Real estate is 25 to 30 percent U.S., and is a much bigger market. So in terms of transactions in a year, globally real estate on an institutional level is about a trillion dollars in round numbers. Infrastructure would be about a fifth of that. So much smaller and chunkier and episodic, given the side and scale of some of the infrastructure assets. So it can be a little more difficult.

COMMITTEE MEMBER TAYLOR: What makes it so difficult besides our tax exempt status? I guess actually the question I'm asking is why are there so few considering -- projects in the United States considering the state of our infrastructure?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: It's really -- I think that's a question -- it's a great question, but it is some of the nature of the beast of whether or not they will actually come to the market. And then the second question of whether the investment side of it can lineup with the ability -- they have just not been exposed and really come out.

COMMITTEE MEMBER TAYLOR: Right.

CHIEF INVESTMENT OFFICER ELIOPOULOS: You hit it right, the nail on the head, the tax exempt status. The United States for hundreds of years has financed essential infrastructure through the public. And we've -- you know, a whole series of workshops that we did exploring public-private partnerships, other efforts to try and bring some of these projects that have been the -- you know, in the field of the public providing them into some quasi public-private partnership has been very difficult and very, very slow going.

So your first part of your question is exactly the right one, that the United States history of funding and providing infrastructure through the public good is quite different than in many of these international markets. And that's why they're more private opportunities to invest, at least to date.

COMMITTEE MEMBER TAYLOR: Okay. Great. Thanks.

CHAIRPERSON JONES: Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Chair.

Mr. Eliopoulos covered some of it. I just think part of this, at least on the infrastructure, is it's the three sources. It's the private, it's the pension, and it's the public works dollars. And even if we looked in California, what we haven't been able to overcome the hurdle is not necessarily the tax exempt, it's also what's the ROI. I mean, we may be a good public servant, and invest a billion dollars into Highway 99, but we can't amortize that. And then the question really then becomes is you can't put a drag on the general fund, because future legislatures aren't bound by the actions of the current legislature.

So, I mean, it's an interesting discussion to have, but I don't at least foresee using pension dollars on public works projects at this time. I mean, there's just -- there's at least not a mechanism for it. I mean, it may be the wrong way to finance in the U.S., but that is the direction that we've gone. Particularly since, if we -- on the California infrastructure projects, if we put money in, there's no guarantee we get it paid on the back end.

So thank you.

CHAIRPERSON JONES: Okay. Thank you. I have a question on the infrastructure. And I know when we embarked upon this asset class, we wanted to be very conservative with low leverage, and the term brownfield, I guess, was used to determine what the risk appetites were. And what my question is, is looking at the infrastructure risk now, how does this relate to the brownfield concept that we used to define what risks we were taking in the infrastructure program?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Well, today, the nomenclature in infrastructure is around this defensive, defensive plus, and extended. And that brownfield, I assume, and StepStone has more history than I do in the infrastructure program, I think it lands more squarely in that defensive plus sort of that middle -- middle bucket of risk across the infrastructure program.

Our view, given the role, was that -- and you can see that we had a higher limit or -- sorry, excuse me, a lower limit on the core component for infrastructure, so that we don't lose the ability to go in to some potential value-add, which might be more brownfield or extended maybe more greenfield type of investments.

And so therefore, we wanted some ability. You can see that we have more -- a little bit more ability to pursue some of those strategies within infrastructure when you compare it to say real estate or the lower bound of core is at 75 percent.

CHAIRPERSON JONES: Okay. Thank you. Okay. We have a couple more. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Sorry, just one more question, and that is on the introduction of this debt service coverage ratio was a metric across all three. On page 22, you have -- you list sort of the current structure, where the debt service coverage ratio for real estate is currently at three, and you're recommending overall to move it to 1.4. Could you just talk -- can you just talk a little bit about that? It seems like a pretty significant change.

Is three -- has three been sort of -- I can't remember if it's been by policy or if that's just the actual coverage ratio as to --

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: So we're proposing no change to the debt service coverage ratio for all of real estate at 1.5. And for the core assets, which to be held at 2.0, it's merely introducing an overarching debt service coverage ratio, because we're introducing it for infrastructure and forestland. And the blended number was just to get it to 1.4.

COMMITTEE MEMBER MATHUR: I see. I see. So it's not -- that's not lowering the threshold for others?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: (Shakes head.)

COMMITTEE MEMBER MATHUR: Okay. Great. Thanks.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: We got off into the destruction on -- or discussion on infrastructure. One of the issues I have raised, and I didn't see anywhere in here and maybe I just missed it, is the -- there's a lot of infrastructure funds that charge obscene rates, and we've said no thank you. But they also have finite lives, and so they get to the end of the fund and they're looking for take-out. And that seems to me an opportunity where most of the risks of political and developmental and operational have already been resolved. Are we making a concentrated effort to look for those opportunities and was it in here and I just missed it?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: We have. And there's no change in direction there. In fact, we've pursued some energy transactions, some transportation assets exactly in that vein. It's really more in terms of execution. Our strategy is -- doesn't -- is not silent to it. It is part of our implementation. And we have pursued -- I can think of just right off the top of my head two, without having all of our review and with just within the last six months that really lineup with exactly what you just said.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. We may now proceed.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: So I'll pass it. Beth Richtman will discuss just a level set emerging manager platform and ESG integration.

INVESTMENT MANAGER RICHTMAN: Thank you, Paul.

Hello. I'm Beth Richtman, Investment Manager of real assets. I will now walk you through the Emerging and

Transition Manager Programs. If you'd please turn to slide 25.

These programs provide an opportunity to invest with successful early and mid-stage managers. We're about three years into the Emerging Manager Program. We did studies and evaluation in 2011. In 2012, we established the Emerging Manager Program with our first mentoring manager.

Right now, we have two mentoring managers overseeing five emerging managers, and approximately 525 million of committed capital. In mid-2015, we launched the Transition Manager Program. We intend to continue to grow and support these two programs. In the next five years, we plan to invest up to 500 million in additional commitments through the Emerging Manager Program, and up to two billion in new commitments for the transition manager program.

We are hopeful that we will identify up to five transition managers over the next five years. Transition managers may come from the emerging manager pool or from other sources.

Turning to slide 26 --

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INVESTMENT MANAGER RICHTMAN: -- I'd like to move on to the ESG integration. At a high level, real assets continues to make progress in ESG integration, and build on our history with the Responsible Contractor Program. We have set some goals for the next five years, which we feel fit well with the priorities being identified by the Board as part of the total fund ESG strategy review currently in progress.

In the last year, as part of the manager expectations project, real assets has been reviewing and clarifying our sustainable investment practices around selection, contracting, monitoring and managing of assets and managers. We've also recognized the need to unify our practices across real assets.

Starting at the top of the slide, I'll walk you through a few of our integration goals. First, let's talk about the matrix. Two years ago, we began requesting that the managers of our infrastructure separate accounts begin filling out an ESG consideration matrix as part of the due diligence process for an asset and send it to CalPERS for staff to review.

Basically, the matrix is a due diligence tool that ensures both that ESG factors are considered in underwriting an asset and that those factors -- those ESG factors are factored into the financial modeling, and effectively communicated to CalPERS staff. This is basically Investment Belief number 4 in practice.

We are developing a version for real estate assets as well. Once the real estate matrix is finalized, we will start requesting that our real estate separate account managers fill out the matrix and send it to CalPERS every time they require -- every time they acquire a new asset.

Our goal is that in the next two years any asset that is added to our portfolio, through a separate account, will have been evaluated using an ESG matrix, and that staff will know what the risks and opportunities are for that asset.

In terms of contracting, as Paul mentioned, real assets business model is key to our ability to execute our ESG strategy. The strong governance in our separate accounts enables us to roll-out things like the ESG consideration matrix, and also to ask for managers to collect and report ESG data into the monitoring tools we are working on rolling out across real assets.

We are in the early stage of ESG data collection for real assets. Ultimately, we intend for the data we gather, through our monitoring tools, to provide insights into risks and opportunities across our whole portfolio that can translate into engagement with managers and also into asset management decisions.

In terms of research, last year, we started a research project to understand the clean power and energy efficiency opportunity set for real assets. The research project is also looking into obstacles, such as those that pertain to tax exempt investors, and ways to deal with such obstacles. We're hopeful that this research will enable real assets to bring a more informed lens to how we look at the opportunities in the changing energy landscape.

So these are our goals, to improve our practices, to gather more data, and to position ourselves in the longer term to be able to make ESG intelligent investment and asset management decisions and to strengthen the sustainability of our portfolio as a whole.

Now back to Paul.

CHAIRPERSON JONES: Okay. We have a couple questions.

Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones. Just a couple questions. On the up to 500 million, we have a limit -- we're not going to invest more than 25 percent with a manager, right? That's -- it leverages three times? I mean -- if I recall. I can never track where all of our policies -- but we do have a limit on how much we'll give to the emerging manager?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Yeah.

And there are parameters around -- and governance around how much leverage can be employed at the detailed level or manager level.

COMMITTEE MEMBER COSTIGAN: Okay. And so -- and in this case, we're only looking at just up to six managers in California only?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Today, the strategy of our emerging manager platform is California only.

COMMITTEE MEMBER COSTIGAN: Okay. And then where you have on the transmission -- I'm sorry, the transition manager, why is that a TBD? Why is that to be determined as opposed to on their geographic?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Today, you know, we were evaluating whether we have a transition manager in our portfolio. In addition, our current emerging manager platform, which has five managers in it, there is the potential that some of them may move or advance to that transition managers. It's still early stages. We really started the program in earnest -- the study I believe was presented to the Board in late 2012 and then the implementation took place in 2013. So it's been three years.

It is off to a very good start. And really, the transition manager set-up really came about, about -- I think, roughly a year ago, when Tip and Laurie Weir presented the Board, at that point in time. And so we're still in the early stages of evaluating whether we've already identified some and/or still learning more about our existing emerging managers to see if there's some that, in time, will move up to that next point.

COMMITTEE MEMBER COSTIGAN: All right. You're looking at a five to ten year time frame, when would you expect to deploy? Is that within -- is this the program is five to ten years or is it you'll the managers within the next 12 to 18 months, and then we're going to give them a five to ten year plan? Wylie is saying yes.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: The plan today is to allocate up to 500 million in the emerging manager program, as of today for the next five years. This five-year plan. And then the transition managers to go up to $2 billion. That's where we stand at this point in time.

COMMITTEE MEMBER COSTIGAN: And that's up to two billion across the five managers?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Correct.

COMMITTEE MEMBER COSTIGAN: All right. Thank you. Thank you, Mr. Jones.

CHAIRPERSON JONES: Yeah. On follow up on Mr.

Costigan's question in terms of the geographic focus, California, and then the transition manager component to be D. But in the program that we presented to our stakeholders, it says no requirements in that area for the geographic, meaning that you didn't designate where they can go and perform or be engaged. And the transition program -- as I'm remembering --

CHIEF INVESTMENT OFFICER ELIOPOULOS: So the transition program is very novel. It's very new. So we presented that to the Committee and have rolled that idea of having a continuum for emerging managers to grow with CalPERS in this transition account on their way to becoming established managers. You're absolutely correct, there are no parameters placed in the description of the transition program for private equity, for real estate, for real assets, or for global equity.

Now, the programs are putting together the implementation plans for that. And what the TBD suggests for real assets is they're still designing the program and will come back to the Committee with here are the design parameters that are suggested to move forward with the transition program.

CHAIRPERSON JONES: Okay. Thanks.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: So I just wanted to thank Beth for her great report. And I'm just very impressed with how you have completely integrated the ESG factors into this asset class to the point that you're even collecting data. And I'm really -- I thank you very much for listening to the Board on these requests. And it looks like we're going to have some real information moving forward, so that we may be able to integrate it into our other asset classes. But I think this was just excellent work, and I really, really appreciate your work.

And then I had -- because somebody said something that made me have a question, so the -- on the Emerging and Transitional Manager Programs, you're looking at to be determined. It was geographically focused in California. Now, you're looking at forming that program, so -- can you give me an idea of what you're kind of looking at for the transition managers? Is diversity part that? And then the ones in California, is that how you looked at it? Is it -- because I know our term for emerging managers doesn't necessarily mean they're diverse gender-wise or race-wise. So that was what was I was concerned about.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll start off. I see Laurie Weir gathering to help --

COMMITTEE MEMBER TAYLOR: I saw her too.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- to assist, and Paul. But let me say first with respect to the real estate Emerging Manager Program, it was very specifically presented to the Committee as a California focus. We thought best to pilot this program in our own backyard, where we know the managers well. We know the geography well. We have closer contact to make sure that it's a success, because job number one is to make sure that we, one, identify managers that we think will have the capacity and capability to grow to manage four or five or six billion dollar accounts on our behalf, but also to be successful from a performance perspective.

I think as the real estate group looks at the transition manager, they're going to have to grapple with that geography question, because certainly we have a -- we have a portfolio that is across the United States for sure, and also larger international markets. So they're going to have to think through that.

Both Emerging Manager and the Transition Program were developed knowing that there are prescriptions by the California Constitution in how we can design an investment program, and the selection -- identification and selection of managers.

One of the major findings and factors that we found in all of our work on emerging managers, as predicted by our interest in investing in this area, is that there is a much more diverse universe of managers that exist in the new and next generation managers, than in the established managers.

And that's beared out in the data throughout the emerging manager world, and it's beared out in our own portfolio where just in rough numbers I think for our established managers currently, we have nine percent diversity?

INVESTMENT DIRECTOR WEIR: Correct.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Eight, nine percent diverse managers. And the amount of diverse managers within our Emerging Manager Program is closer to a third, 30 percent. So we know the universe, and that is wider, and it reflects the changing demographics of our country and the world. And that, in itself, will, I think, carry on into the Transition Manager Program.

So while we don't target a certain amount of diverse managers or a specific number of diverse managers in our selection process, we do, in designing our Emerging Manager and Transition Manager Program know and understand and believe that we'll have access to a greater diversity of managers. Is that --

INVESTMENT DIRECTOR WEIR: Yes. And a quick note for the Committee. I appreciate the interest and all the questions on this topic. We're in the process of preparing a comprehensive report that will be presented to you in June, which will -- is specifically designed to answer these questions. So not just in real estate, but as well in private equity and global equity, the presentation will seek to answer what is the process for the deployment of the new capital in both emerging and transition manager programs, and what is the pacing of the deployment of that capital over the next four to five years? So hold tight. We're coming in June, and we'll have a comprehensive report for you.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER TAYLOR: Thank you.

CHAIRPERSON JONES: Thank you, Laurie.

Mrs. Mathur

COMMITTEE MEMBER MATHUR: Thank you. My questions are around manager expectations primarily, but then a couple of other things. So as you know, I've been a great supporter of the manager expectations effort and really appreciate that infrastructure was such a leader in sort of adopting -- developing and adopting the first set of manager expectations. Could you talk a little bit about how it works in practice?

You know, you send out a questionnaire to the manager. They send back a response. How do you -- you assess whether it's satisfactory or not, what kind of dialogue does it lead to, how do we engage with the managers on an ongoing basis?

INVESTMENT MANAGER RICHTMAN: Thank you for the question. Beth Richtman, Real Assets. So it's -- the manager expectations as it's been developed actually resulted in each asset class having a document that's the sustainable investment practice guidelines. And that actually covers more than just, you know, a periodic, I guess, survey of the manager. Instead, it starts with what is CalPERS staff do when they're, for instance, selecting a manager?

So for that portion of it, what would happen is we would, as part of the due diligence processes with a knew manager, ask them a series of questions that ask specific ESG questions. And there's about 10 for each asset class.

And once, you know, a real assets manager answered those questions, staff would then review those responses and factor that into the manager selection discussions, and ultimately it would be what is part of what's presented to the Real Assets Investment Committee. So that's one piece.

But then, there's also language in our sustainable investment practice guidelines that has to do with what type of contracting terms we actually try to put into the contract when we contract to the -- with the manager. There's that piece, and then there's the monitoring and management piece.

So once we've contracted with a manager, what do we -- what are we actually looking for from the manager, what type of periodic reporting do we do?

And in -- for real assets, we do have, in our sustainable investment practice guidelines, basically outlines of what staff is supposed to do at each piece of the process. So, for instance, if the manager fills out a PRI report every year, staff is supposed to review that for the manager. That's one of the things. There's also information or guidelines about how do we actually handle when there's an environmental, social, governance event at one of our assets?

COMMITTEE MEMBER MATHUR: Okay. And part of this is actually engaging with the manager on an ongoing basis around some of these key issues as they might impact the investment.

INVESTMENT MANAGER RICHTMAN: Yes.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Yes. And I just want to add one point. It's an evolving area. And some of the lessons or best practices are being learned as you go through them. And sometimes they're learned by research and knowledge, and sometimes they're learned through experience, if you -- by an event, and --

but from my own view of that -- of this, it's -- to me, it's a prism in which we need to look at our investment decisions and asset management and disposition decisions. And it's a prism that is there for us to always look through. And not just be this sort of stand-alone thing, but be part of the whole rubric. And that's really the philosophy that we're trying to get to within real assets

Each asset class is different and the risks and items that come to bear are different, but it is important that some of this is through our research and our own knowledge, but some of it will come through experience.

COMMITTEE MEMBER MATHUR: Absolutely. And so then as you're -- so then you're -- are you sort of regularly updating the monitor expecting -- the manager expectations documents to reflect learnings, practical and research-based learnings?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: It will evolve.

COMMITTEE MEMBER MATHUR: It will evolve, yeah.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: It will -- it's just the nature of that tool.

COMMITTEE MEMBER MATHUR: That tool. I wanted to ask also a question about water risk. I mean, our real estate holdings tend to be concentrated in, you know, high value metropolitan areas. A lot of them are located on the coasts. Could you talk about how your -- how the program is assessing water risk and integrating that into how we manage the program?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: So Beth talked about one element. We are going to roll-out a consideration matrix as well on the real estate side. So that will be forthcoming in the future.

Secondly, we do -- from just a simple -- a simplistic perspective, we get insurance on our individual real estate assets, particularly in the separate account. And the insurance companies, you know, provide -- you know, we work with them to provide, you know, the best coverage in terms of protecting ourselves, and in the best possible way we can, given the complete unpredictability of it, which leads to the third point, you know, we don't -- nobody really knows how the climate risk will play out over the course of many years. And making informed investment decisions is -- it's another element that makes it more fun, more interesting, but more challenging.

And if one were to say let's just move everything, lets say, to the center of the country for argument's sake, nobody would know whether it plays out that that -- and I'm not saying -- I would -- I'm not saying that that's what we're saying -- but to tilt, or whatnot, is still very hard to know. But we try to protect ourselves first through the insurance line of defense, if you will, and then we are rolling out that consideration matrix, so that we can monitor and also look at it on the front end as well.

COMMITTEE MEMBER MATHUR: A number of coastal cities are now doing their own water risk assessment -- water inundation risk assessments, and I'm -- obviously, I'm not suggesting that CalPERS should do it -- we should do it ourselves, but to the extent that there's information, data, risk scenario planning, being done at the municipal level, that might be useful information.

Thank you.

CHAIRPERSON JONES: Okay. So back to you, I guess, Paul.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Thank you.

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MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Well, we're at the end. So really the next steps. Should the Investment Committee adopt and approve the proposed plan today, there are really three key next steps. First, we will bring back the policy and delegated authority. So we will have the investment policy for real assets created and for the underlying programs to reflect the parameters presented in the PowerPoint presentation that you see.

Second, and we've all touched upon it in some of our answers, is to provide sort of these sector plans that are not really a strategic tool, but more of an implementation tool for our staff. And then third -- so that is more of a medium term item, whereas the policy and delegated authorities is more of a short-term, next few months kind of a -- or upcoming months, I should say, item.

And then the last one, which is much more longer term, Mike touched upon it, is to update our systems and reporting - and that will take many months - so that we can integrate all of these various changes. Those are really the key next steps that the staff will undertake, if the plan is approved.

With that, really in conclusion --

--o0o--

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA:

-- we're very proud and very excited with the product that, you know, took us nine or ten months to put this together. And we fundamentally believe that this is -- in essence, we're on much firmer ground, and much more stable portfolio within real assets. That's reflected in just the pure numbers without making any conjecture as to what you believe is in there, it's really reflected in just our -- the holdings in our portfolio.

And in doing so, we believe the next course that we want to charter in this next five years is one of improvement. And we really have the ability to do that now. And so we believe that foundation is achieved by having a more efficient and transparent way to manage, monitor, and invest across our real assets portfolio by consolidating the three various programs.

Thank you.

CHAIRPERSON JONES: Okay. Well, thank you very much for a very informative presentation, taking a number of complex issues and bringing it down to understandable -- in a manner we can have a dialogue.

And I know we have the opinion letters from StepStone, PCA, and Wilshire, but after hearing the discussion with the Committee and staff, do you have any additional comments regarding what you herd today?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: We do not. We're --

CHAIRPERSON JONES: No, the consultants.

(Laughter.)

MR. JUNKIN: I won't take that bait.

MR. ALTSHULER: I don't. I realize -- I'm sorry, this is David Altshuler from StepStone. I don't have anything specific to add, but there were a lot of questions about the infrastructure program and how it sits within this. And it is the one that was probably most impacted by the update. So I'm happy to share our views. Some of those you already touched on actually in your comments with respect to, for example, the focus on North America, and the number of manager relationships. Those were two items that we did address in our memo. So I'm Happy to speak to those further or any other topics.

CHAIRPERSON JONES: Okay.

MS. FIELDS: We covered most of the issues in our memo as well, but I did just want to recognize the hard work that went into this, and the fact that this is the culmination of so much heavy lifting, and that Paul and staff have come together and build on the base that Ted established around the total restructuring of this portfolio. And now it's a time for fine-tuning and continuous improvement for the investment processes, and the integration of these other issues that we're all concerned with.

CHAIRPERSON JONES: Thank you. Wilshire.

MR. JUNKIN: I think all of our points have really been covered. I would just reemphasize a point that I made in the opinion letter, which I think is the pilot leverage program is potentially a game-changer and should really be vetted and pursued.

CHAIRPERSON JONES: Okay. Well, thank you very much. And then we have a couple of additional questions.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Paul, back on slide 28, the systems and database may extend beyond fiscal year '18. I know that we spent a lot of time and a lot of effort developing AREIS. What are we talking about here in terms of systems and database?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: So it really relates to 13 and 14. Sorry for the channel changing. So we are in 13 world today. Our system has that hierarchy displayed up there. And in order to create all those little connectors, if you will, and the roll-ups will require really updating the hierarchy and mapping within our systems to mirror what we're -- where we will go, excuse me, with page 14.

So, in essence, that's the work that will need to go into AREIS is to remap our current portfolio. And it's important to note that even when we did AREIS back, you know, several years ago, it requires mapping everything going actually back to 1982, which was the beginning of the pure Real Estate Program.

COMMITTEE MEMBER JELINCIC: And is infrastructure now incorporated into AREIS?

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: Yes.

COMMITTEE MEMBER JELINCIC: Mike is telling me yeah.

MANAGING INVESTMENT DIRECTOR MOUCHAKKAA: It has its own -- it has the matrix that you see up there.

COMMITTEE MEMBER JELINCIC: And the other observation I will make is the last time we did this, we deliberately took single-family housing out. And I notice it's coming back in. And that's just an observation, not a question.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, I think this strategic plan reflects quite a lot of thought and work obviously. And I'm really pleased with sort of where you've come to in terms of both sort of the structural elements, but also -- and also -- and sort of the rationalization with our Investment Beliefs and our priorities as an organization, and then also sort of the forward working component in terms of the non-leveraged program that you're really thinking about how we can -- how we can maybe develop that.

And so with that, I will move staff's recommendation to approve the 2016 real assets strategic plan.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON JONES: Okay. It's been moved by

Mrs. Mathur, seconded by Mrs. Taylor.

So all those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none. The item passes. Congratulations.

Okay. I think it's time to take a break, 10 minute break. So we will reconvene at 11:30.

(Off record: 11:20 AM)

(Thereupon a recess was taken.)

(On record: 11:31 AM)

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

So now we go to Item 8a, Revision of Total Fund Investment Policy and Repeal of Legacy Policies, Third Reading.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you, Mr. Chairman. Thank you, Investment Committee. Wylie Tollette, CalPERS staff.

We present for the Committee's consideration the third reading of the Total Fund Investment Policy. Our intent is to finalize and bed down, if possible, the settled areas of the policy document, and to continue to provide the time and room to refine the unsettled divestment related components of the policy. This is an action item. And we look forward to answering any questions you might have, and to moving forward with this policy.

CHAIRPERSON JONES: Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: The total fund policy document is -- that's in front of you is very consistent with what the Committee has seen from the last two months. There are a few changes -- suggested changes that have bubbled up, since it was published. So I wanted to review some of those changes with the Committee briefly so you're aware of what you might be voting on, if, in fact, you choose to move forward with this.

First of all, the divestment section related to the loss mitigation approach, that language has been removed from the version that's in front of you. And that will be discussed in the next agenda item, Item 9a.

The cost reimbursement request language is included. Other than that, the divestment section that's in front of you is very consistent with the divestment section that was in the previous year's total fund policy.

A couple of specific items and changes that have been proposed to the draft that's in front of you. In the global derivatives and counterparty risk section, page 208 of 369 on the iPad. And if you're looking at the hard copy, it's Attachment 2 page 47 of 66. We propose substituting the language, rather than, "And a range of other securities", we propose substituting the language -- sorry, it's page 208 of 369 on the iPad.

As opposed to the language, "And a range of other securities", we propose including the language, "And other investment instruments where the cash investment is similar to the market and notional exposure are likewise excluded from the definition of derivative for purposes of this section". That was the first proposed change.

In the divestment section, page 211 of 369 on your iPads. And if you're looking at the hard copy, it's Attachment 2, page 20 of 66. In the paragraph that ends with the sentence, "Unrelated to the risk return profile of the portfolio", we propose eliminating that final clause, and would, of course, entertain changes to the divestment section following the more fulsome review that's due to take place as part of Agenda Item 9a.

And following the completion of Agenda Item 9a, the next one on the list, and the process that the Board wants to employ, we would expect to come back with a revision to the divestment section of the Total Fund Policy when that's settled.

And then finally, on page 213 of 369 in your iPads of the divestment policy, and if you're looking at the hard copy again, it's Attachment 2, page 22 of 66, in the paragraph that begins, "CalPERS will undertake constructive engagement...", we propose modifying the language to read, "To the extent the Investment Committee directs or the Investment Office determines such engagement is appropriate".

We've also received several sort of typo and, what I'll call, ministerial corrections that we would intend to make in the final draft.

So with that, I'll pause and see if there's any questions, and would entertain a motion.

CHAIRPERSON JONES: Okay. So we have Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. The -- I think the revisions make sense. And with the off-loading of the divestment stuff onto the next agenda item, I think three times is enough, and I think it's time to move forward. So I move that we adopt the policy.

VICE CHAIRPERSON SLATON: Second.

CHAIRPERSON JONES: Okay. It's been moved by Mr. Lind, second by Mr. Slaton. But before I take a vote on this, we do have a request to speak from the public. Mr. Ms. Janet Cox.

MS. COX: Just a second here. I've got to get my --

CHAIRPERSON JONES: Ms. Cox, you have --

MS. COX: I know. I'm just -- here we go.

Thank you very much, Mr. Chair, members of the Board. I'm Janet Cox. I am a CalPERS retiree, and I work with Fossil Free California. I've just got a couple of comments that I'm happy to tell you about before you vote.

I want to thank the Board members for your comments on this policy the last two meetings. And I want to thank the staff for moving the loss litigation section out of the divestment policy, because I think it deserves a different kind of attention.

In the second paragraph under, "Purpose", which is on page 17 of Attachment 1 hard copy, or page 20 of Attachment 2, I'm concerned with the use of the word "forbid". It seems to relegate ESG investing to the status of kind of a weak preference, an ancillary goal. And I'm not sure that ESG ought to be an ancillary goal.

I also want to call your attention just one more time to Investment Belief number 9, the third sub-belief. "As a long-term investor CalPERS must consider risk factors, for example, climate change and natural resource availability that emerge slowly over long time periods, but could have a material impact on company or portfolio returns".

If you listen to the language that staff used the last couple of meetings describing divestment as a failed experiment, I think -- I don't -- I don't think that's the right way to look at divestment. Divestment is not an experiment designed to enhance returns to the fund. Divestment is a values proposition that you take in extraordinary circumstances, and especially in the -- in considering tobacco, which kills people, or climate change and fossil fuels, which are going to turn our environment into something unlivable, I think it's different. It's not political. It's -- and it's not an experiment. It is a statement of principle. Therefore, I hope you'll take it that way. And I hope that you may -- there may be something you can say about the language in this section to make that clear.

Thanks very much.

CHAIRPERSON JONES: Okay. Thank you for your comments, Ms. Cox.

Mr. Jelincic.

We have a motion. It's been moved and seconded, but we have a number of requests to speak for discussion.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. Just so I understand the motion. Wylie, on the divestment section, we're putting the period after goals, so that it says that, "Promoting superior long-term investment performance, the Board's fiduciary obligation forbids CalPERS and the management of its portfolio from sacrificing potential investment performance or diversification for purposes of achieving ancillary goals".

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: That's right. That's what I'm proposing with the change that we've --

COMMITTEE MEMBER JELINCIC: And I actually have some problems with that, because we may sacrifice potential investments and diversification for purposes related to the Trust itself. For example, in infrastructure, we have said we will not fund infrastructure programs that eliminate our member's jobs. But that's not really -- I mean, we have made a decision that the -- for the -- that would be a violation of the purpose of the Trust.

The -- and so I also have some problems with the word "forbids". I would like to suggest to the Committee that we -- instead of just striking, "Unrelated to the risk return profile of the portfolio", we say, "Its ancillary goals unrelated to the purpose of the Trust".

CHAIRPERSON JONES: There's a motion on the floor, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, I'll move that as an amendment then.

CHAIRPERSON JONES: Okay. So the amendment by

Mr. Jelincic.

ACTING COMMITTEE MEMBER BOYKEN: Second.

CHAIRPERSON JONES: Second by Mr. Boyken.

Okay. Further discussion?

Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. I support Mr. Jelincic's proposed change. I'm wondering if perhaps -- and I had the same reaction to forbid as well. But does "Prohibit" kind of do it? I mean, I'm just -- it's -- I agree with Ms. Cox, it can be -- I'm troubled by that word. And I think given the constitutional fiduciary duty excerpts that are incorporated in this section, that that might suffice as to the use of the word "Prohibit".

CHAIRPERSON JONES: Okay. Yeah, Ted.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair, I might just note that we'll be taking up a discussion of the divestment policy and the review. And there will be other bites of the apple on the divestment policy, other chances to review this going forward.

I don't know if that helps you revolve some of the choices of words before you. I do think it does raise some issues with respect to the fiduciary standards under the California Constitution that you should take the time to consider. I don't know how to resolve it from a wordsmithing status, but I do know we will be spending more time, and you'll be spending more time consulting with your counsel among other things in the months to come.

But I guess I'm just raising some procedural steps you have in front of you, and also to make sure whatever language you're considering is carefully thought through and meets our fiduciary obligations.

CHAIRPERSON JONES: Okay. Mrs. Yee.

COMMITTEE MEMBER YEE: So is the purpose today, in terms of our action, to -- I guess your goal is to try to narrow the issues with respect to where we still have some concerns, right. And so our action today signifies what, to be clear?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: To be clear, our goal is to move forward with the Total Fund Policy, because it governs not just divestment, but it governs many other elements of our policy architecture.

And so our goal was to essentially settle the sections of the policy that we believe were reasonably settled, acknowledging that the divestment section still has work to be done. And, in fact, that work will commence when this item is done and Item 9a, so it's just around the corner. When that divestment work is -- when the discussion and policy work around divestment is complete, what we would expect to do is to come back and revise the section in the Total Fund Policy accordingly.

COMMITTEE MEMBER YEE: I see. Okay. May --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: And if I might, Madam Controller, part of the logic around that was that virtually every section of the divestment policy has fiduciary duty and responsibility elements embedded in it. And we really felt it would be good to concentrate the discussion around that and have advice from your fiduciary counsel as part of that conversation.

COMMITTEE MEMBER YEE: Okay. No, and I appreciate that. Okay. I'm happy to revisit this at a later time. And I'm -- I don't know that we'll resolve it just by each taking a shot at wordsmithing. But let me put something else on the table for further consideration.

I think the --

CHAIRPERSON JONES: Ms. Yee, is this a comment on the motion that Mr. Jelincic made?

COMMITTEE MEMBER YEE: Actually, I'll -- I support Mr. Jelincic's change.

CHAIRPERSON JONES: Okay. Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Just a couple questions on wordsmithing, just so I can understand it. On page 14 of 66, first, where it says, "The program shall be managed, with the objective of accomplishing the following:", it's under Investment Risk Management.

Attachment 2. Are we not there?

These four criteria that are laid out. Are you seeing it, Wylie?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Um-hmm.

COMMITTEE MEMBER COSTIGAN: So the only question I have is, again not -- I don't want to wordsmith, but just a few questions. It looks as though all four are required, because you've got an "and" between C and D. so would it be clearer to say, "The program shall be managed with the objective of accomplishing all of the following:", because you've got A, B, C, and D? Anyway just -- it's not an either/or. It's just four. Just curious on that.

On page 20 of 66, the only issues I have with numbering 7 and 3, for example, not that I -- I'm not disagreeing with that they meet the Investment Beliefs. Should we be that specific as to a number, in the event the Board wanted to change something, you have to come back and change these, because you've specifically said a number?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Sorry, Mr. Costigan, what was that page number?

COMMITTEE MEMBER COSTIGAN: Well, I've got in the hard book, it's 20 of 66.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Um-hmm.

COMMITTEE MEMBER COSTIGAN: 211 on the iPad. Although, you and I are both old school right now. So it's 20 of 66.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Got it.

COMMITTEE MEMBER COSTIGAN: I'm just saying -- I'm just posing question. When you put a specific number in there, when you go to change it, just I'm seeking more flexibility, because you're going to have to change, if 7 becomes 8. I'm just pointing that out as a statutory issue.

And then last but not least, on the cost of reimbursement on 23 of 66, it says, "Implementation of any divestment decision made pursuant to California statute shall include a request for the upfront reimbursement by the legislature of the anticipated one-time cost". They say no, so it's not a condition precedent. So, I mean, I've just -- so I'm curious why it's in there as opposed to we'll ask, they say no, we're still go forward. It's not quite clear. It says, "Implementation made pursuant, shall include a request", but does it say that then we still go forward with it or that we don't go forward with it?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We would still be required to complete the analysis, even if the legislature denies our request for reimbursement. This was an acknowledgement of the fact that we've seen multiple divestment related bills.

COMMITTEE MEMBER COSTIGAN: Oh, I completely agree. I think this is the right policy. When the legislature tasks us to do something, they should reimburse the members the cost of taking that action. It's just not clear to me if there is no reimbursement, if it fits within a legislative time frame, we would still move forward with the action.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We would still complete the analysis and present the material to the Board, yes.

COMMITTEE MEMBER COSTIGAN: Okay. Thank you. Thank you, Mr. Jones.

CHAIRPERSON JONES: Okay. Mrs. Taylor.

COMMITTEE MEMBER TAYLOR: Before I comment on the amendment, I just -- I've got to get some clarification. Are we saying, or are you saying, Ted, that we are not including the divestment language, and if we accept, and that's why we don't need to really wordsmith this?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll just go ahead and jump in. So the choice -- we did not try and include in the suggested revisions to divestment areas that we thought would cause great discussion and deliberation. It appears we've stumbled on a sentence or two that does just that. So the choices before the Committee are to accept the revisions as stated, amend them today, or a third option would just keep the divestment language that's in your existing policy, all the red lines, and save for another day revisions to the divestment policy. I think those are the three principle choices.

I think staff is comfortable with obviously the current policy that's in place today. We tried to make some additions to it to clarify it, but certainly why exercise, you know, a lot of the Committee's time and attention when there will be, in the months to come, I think after we take up divestment, another opportunity to review the divestment policy. So certainly that's another option open to the Committee.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: To simply -- that would be simply reverting to the existing divestment language that's in the 2015 version of this policy.

COMMITTEE MEMBER TAYLOR: So can I make an amendment to the amendment or do we have to vote on the amendment first?

CHAIRPERSON JONES: Well, you -- I think we probably need to vote on the --

COMMITTEE MEMBER TAYLOR: Can I make a friendly amendment that --

CHAIRPERSON JONES: Yeah, a friendly amendment, if the maker and the seconder --

COMMITTEE MEMBER TAYLOR: -- if it's acceptable for us to keep the 2015 language for now and work on that language later and vote on the rest of the policy.

COMMITTEE MEMBER LIND: I'll accept that as a friendly amendment.

CHAIRPERSON JONES: Well, no, it's not your motion. It's Mr. Jelincic's.

COMMITTEE MEMBER JELINCIC: I'm confused. What it is the 215 language.

COMMITTEE MEMBER TAYLOR: It's right here. It's crossed out.

COMMITTEE MEMBER JELINCIC: So it's to keep the existing language?

COMMITTEE MEMBER TAYLOR: Yeah.

COMMITTEE MEMBER JELINCIC: I can certainly live with that, although I think this language that's before us actually is preferable to the language we have. We're getting closer to what we want. So I'm --

COMMITTEE MEMBER TAYLOR: But it gives us the opportunity to work on it?

COMMITTEE MEMBER JELINCIC: We're going to edit it anyway, so I think I would -- I'm not going to accept it as a friendly amendment, because I think we've made some progress here, and I don't want to particularly go backwards, even recognizing that it's --

COMMITTEE MEMBER TAYLOR: It's just on the divestment policy.

COMMITTEE MEMBER JELINCIC: Even recognizing it's going to happen.

CHAIRPERSON JONES: Right. Can I mention, as Ted mentioned, that we have an item coming up as the next agenda item where we talk about a process of dealing with the divestment issues. And you will note in that item that it covers a period of time. So we will have, as he said, a number of bites at the apple to deal with any specific language that you may want to make in that policy as we go forward. So it's not over, but we're just trying to get this total investment policy moved -- approved today and moved.

COMMITTEE MEMBER TAYLOR: My concern is that this language as is, except for the amendment, states, if I'm understanding this correctly, even if we change divestment language elsewhere, the Total Fund Policy here stays. So that's my concern.

CHAIRPERSON JONES: Well, but it stays for now, but then when you get to discussing the divestment policy in this next report, and it's going to set forth a timeline, you will have a number of opportunities to make changes.

COMMITTEE MEMBER TAYLOR: I thought we were voting on final language though.

COMMITTEE MEMBER JELINCIC: Nothing is ever final, final.

COMMITTEE MEMBER TAYLOR: Okay.

CHAIRPERSON JONES: Let me call on Mr. Eliopoulos to comment on that.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure. Really, the Committee has three -- I think, three options in front of it today. First, staff presented some changes to -- well, the Total Fund Policy's in front of you. With respect to Roman numeral VII, the divestment section of the Total Fund Policy, I believe you have three options in front of you to move forward.

The first option is what Wylie presented, which are some revisions to the Roman numeral VII meant to clarify and make more explicit some of the terms of the divestment policy, but certainly not meant to trigger a substantive debate about the language. That was Option 1 before.

Option 2 you have an amendment -- you have a motion in front of you as amended by Mr. Jelincic to take that staff language and revise it with respect to I believe it's the second paragraph of Roman numeral VII. That's the motion in front of the Committee currently.

The third option that I suggested for the Committee to consider, if you did not want to address some of these substantive issues with respect to Roman numeral VII today is rather than make any changes to the current divestment policy just revert to the current language, which is shown in the strike-outs. You basically would be making no changes to the divestment policy from what exists today, in order to reserve the ability to work on these issues that have been brought up today, consult with you're fiduciary counsel as well, and have a -- as many discussions on the divestment policy as the Committee would like in the future.

CHAIRPERSON JONES: So, Ms. Taylor --

COMMITTEE MEMBER TAYLOR: I stand by my friendly amendment, because that's the options we've been given here, otherwise this language stays in.

CHAIRPERSON JONES: Yeah, but the maker did not accept the friendly.

COMMITTEE MEMBER JELINCIC: But she can make it as an amendment to the amendment.

CHAIRPERSON JONES: Amendment. Yeah, you can make another motion.

COMMITTEE MEMBER JELINCIC: It's just not a friendly amendment.

CHAIRPERSON JONES: Right.

COMMITTEE MEMBER TAYLOR: After we vote, right, okay.

CHAIRPERSON JONES: Okay. So you're holding off at this point?

Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. While I appreciate what Mr. Jelincic is trying to accomplish with his amendment, and I'm tempted to support it, I am -- I remain quite uncomfortable with the statement on page 20 that, "The Board's fiduciary obligations forbid CalPERS from sacrificing potential performance or diversification". I think really the word "diversification" there, it's kind of -- what we're really looking at -- what our fiduciary obligation really requires is that we -- is that we not sacrifice return -- risk-adjusted return.

And so what's -- diversification is sort of a proxy, I think in this case, for risk. And diversification is not the only way to mitigate risk. So

I guess I'm -- I remain really uncomfortable with this language, and so I would support Ms. Taylor's suggestion that we just leave the language as it originally was, pending further discussion and work on this.

CHAIRPERSON JONES: Okay. Mr. Bilbrey.

COMMITTEE MEMBER BILBREY: Thank you, Mr. Chair. So I think I got lost along the way. All I'd like to do is get clarification when it's time to vote on what we're actually voting on.

(Laughter.)

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER COSTIGAN: I second that.

CHAIRPERSON JONES: Okay. Good. Right now, what the status is we have Mr. Jelincic's motion with a second by Mr. Boyken.

COMMITTEE MEMBER BILBREY: Which is?

CHAIRPERSON JONES: Which is to modify the language that he proposed. And you want to repeat that?

COMMITTEE MEMBER BILBREY: Can we restate that? That's all, yeah.

COMMITTEE MEMBER JELINCIC: Yeah. So we -- "Diversification for the purposes of achieving ancillary goals unrelated to the purpose of the Trust".

COMMITTEE MEMBER BILBREY: All right. That helps a lot. Thank you.

COMMITTEE MEMBER JELINCIC: And if I can speak to that, because I --

CHAIRPERSON JONES: Go ahead.

COMMITTEE MEMBER JELINCIC: You know, I'm not sure why we would ever take any action unrelated to the purpose of the Trust. I mean, that's what we're here for is to be trustees of the Trust. And so everything we should do should be related to the purpose of the Trust.

Now, we can have arguments about what is in the general interests of the Trust, but we should never take any action unrelated to the purpose of the Trust, and so I would urge you to support my amendment. Thank you.

CHAIRPERSON JONES: Okay. Let's see, Mr. Lind.

COMMITTEE MEMBER LIND: So I don't necessarily share the concern about the forbid word. But having said that, the motion I made was to -- back to what we were originally trying to do, what Ted mentioned, is get as much of this done as we can, with the explanation that Wylie gave, which was, look, we're going to deal with the divestment stuff and have an opportunity to come back and modify.

But having said that, and clearly that didn't work, so I would support option number 3 that Ted was talking about, however we get to that procedurally, which is to not change anything currently on the divestment and get everything else done. But I don't know at this point how to do that procedurally, so I'll wait for guidance from the Chair.

CHAIRPERSON JONES: Well, you could ask Mr. Jelincic to accept the --

COMMITTEE MEMBER JELINCIC: I've already said no.

CHAIRPERSON JONES: That was -- okay. So then we're going to need to just go ahead and vote. But I do have some requests to speak before we vote.

So Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Than. So I seconded Mr. Jelincic's motion. I am comfortable that we're not, by any stretch, done talking about divestment. So I'm comfortable these issues will come up again. Although, I'll probably support, if we have a vote, support Mr. Jelincic's motion. I think some of the revisions he made go a ways toward addressing Ms. Cox concerns that she raised about -- you know, we talk about ESG integration and we just did in our real assets review, our strategic plan. And so I think the language change helps, you know, integrate some of those ideas.

So thanks.

CHAIRPERSON JONES: Okay. You're welcome.

Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.

I just -- I don't like wordsmithing by Committee, which is kind of what we're enmeshed in today. While I understand, J.J., what he's trying to accomplish here, I think the third option is much better, so I'll be voting against the motion. Let's come back, and there's still work to be done on this particular section, but let the rest of it pass and save the other for the next agenda item and for another day.

CHAIRPERSON JONES: Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

With the third option being to revert to the 2015 language, the existing language.

CHAIRPERSON JONES: Okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: So I'd like to make a substitute motion to go ahead and revert back to the 2015 language for the divestment section only, so that we discuss this further.

CHAIRPERSON JONES: Okay. So that --

COMMITTEE MEMBER TAYLOR: So adopt the whole policy, except the divestment portion, and revert back to the 2015 language for the divestment portion.

COMMITTEE MEMBER MATHUR: Second.

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

So discussion on that motion?

Mr. Costigan, is your comment on that motion?

COMMITTEE MEMBER COSTIGAN: Yes. All right. So I guess I'm now more confused. We have three motions pending.

Is there an urgency? I understand what Mr. Lind said earlier. It's the third time is the charm. Go ahead and move it along. Apparently it's not the third time's a charm. Is there any reason to actually take an action on this to -- do you need guidance until the next item is taken? I don't necessarily -- it's always the law of unintended consequences. We're going to take three-fourths of the loaf and work on the other fourth of it and then come back. I mean, is that -- it sounded though as option 3 was to take no action, at this time. Then it would revert to the current policy until we take up the next item, and then you could come back with a revision.

COMMITTEE MEMBER TAYLOR: Just on divestment.

COMMITTEE MEMBER COSTIGAN: Just on -- well, I'm just --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I believe to --

COMMITTEE MEMBER COSTIGAN: Looking at the holistic approach -- I don't -- again, I don't like taking up things piecemeal. So is there an urgency to taking up everything -- three-fourths of it today or is there --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Well, I would say, staff would prefer to have settled the rest of the Total Fund Policy, which is -- you know, it's a 66 page policy and the divestment policy is three of those pages, or four of those pages effectively. So the rest of the policy there were still changes in the Total Fund Policy that we'd like to move forward with, because we feel the current revision that's in front of you is an improvement from last year.

I don't think there's any dramatic urgency. It's just the longer we leave the other sections of the policy sort of pending, it leaves us in a bit of a limbo, essentially working of off last year's Total Fund Policy.

CHAIRPERSON JONES: So Ms. -- I just want to make sure my -- Ms. Taylor's motion --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I understand, Ms. Taylor's, motion to be -- and Ms. Taylor, please correct me if I get this wrong, but is to move forward with the Total Fund draft -- Total Fund Policy draft that's in front of you with the changes that I've highlighted to the Global Derivatives and Counterparty Risk section, which is the only verbally stated change that I noted, the other ministerial corrections and typos that I mentioned, and for the Divestment Section, reverting to the 2015 language.

COMMITTEE MEMBER TAYLOR: That is correct.

COMMITTEE MEMBER COSTIGAN: And that -- and then we'll put the Item 9a over. I just -- and so if Ms. -- I just want to confirm procedurally. If Ms. Taylor's motion passes, Mr. Jelincic's motion is defeated, we are not back to the original motion, because, in fact, Ms. Taylor's is the original motion with the carve-out.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: It's a substitute motion.

COMMITTEE MEMBER COSTIGAN: It's double -- it's a substitute substitute to the original. I just want to make sure.

(Laughter.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: That's right.

COMMITTEE MEMBER COSTIGAN: I just wanted -- just working on my Robert's Rules. Thank you.

CHAIRPERSON JONES: All right. We've got one last speaker, Mr. Jelincic, and then I'm going to call for the vote.

COMMITTEE MEMBER JELINCIC: Okay. And I would oppose the substitute motion, because I think that this seven has made some progress, and I'd hate to see us just revert and walk away from that progress. I recognize that whether we adopt it with this progress or we go back to the older language, we're going to deal with it again. But I think when you make some progress, you ought to take the progress and move forward from there. So I will be voting against the substitute motion.

CHAIRPERSON JONES: Okay. So we are now calling for the vote. Would you please indicate electronically your vote on this for Mrs. Taylor's motion.

I beg your pardon?

Mrs. Taylor's motion.

(Thereupon an electronic vote was taken.)

CHAIRPERSON JONES: The item passes. So that is the direction to staff on this.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you.

CHAIRPERSON JONES: Okay. Okay.

COMMITTEE MEMBER JELINCIC: All that did was put the motion back on the floor. The substitute --

COMMITTEE MEMBER MATHUR: It was a substitute.

COMMITTEE MEMBER JELINCIC: A substitute motion simply takes the motion that was on the floor puts it --

CHAIRPERSON JONES: Mic. Can we have this back on the -- wait, just a minute, because I've got to wait for --

COMMITTEE MEMBER JELINCIC: Okay.

CHAIRPERSON JONES: Could you --

COMMITTEE MEMBER JELINCIC: Okay. All a substitute motion does is it takes the motion that is on the table replaces it with the substitute motion. So the substitute motion is now on the table and still requires a vote.

CHAIRPERSON JONES: I think that's right.

GENERAL COUNSEL JACOBS: That is the correct procedure.

CHAIRPERSON JONES: What did you say?

GENERAL COUNSEL JACOBS: That is the correct procedure. The substitute motion passed, and now we take up the amended initial motion.

CHAIRPERSON JONES: Which is Jelincic's.

GENERAL COUNSEL JACOBS: Mr. Jelincic's.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER JELINCIC: No, no. What it -- it is Theresa's motion, because Theresa's motion replaced the motion that was on the floor, so it is now the motion that is on the table.

CHAIRPERSON JONES: Okay. So we need to have another vote on that motion that we just passed.

COMMITTEE MEMBER JELINCIC: Yeah, on Theresa's motion.

CHAIRPERSON JONES: Okay. So I'll -- that motion is on the floor.

COMMITTEE MEMBER JELINCIC: Right.

CHAIRPERSON JONES: And so now we'll take another vote, and indicate electronically approval.

COMMITTEE MEMBER HOLLINGER: I'm not sure what I'm voting on.

COMMITTEE MEMBER JELINCIC: We're voting on your motion.

CHAIRPERSON JONES: It's on Theresa's motion as originally stated.

COMMITTEE MEMBER JELINCIC: Do you want me to explain where we are?

CHAIRPERSON JONES: Right. Your motion.

COMMITTEE MEMBER TAYLOR: I'm fine. It looks like Dana is confused.

CHAIRPERSON JONES: What is the question Dana?

COMMITTEE MEMBER HOLLINGER: Just clarify what we're voting for right now.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: If I might, I believe the motion that is on the table now is to vote on the Total Fund Policy as approved -- or excuse me, as amended with the changes to the Global Derivatives and Counterparty Risk section, the typos and ministerial corrections, and substituting the 2015 language for the divestment section. That's the motion that's on the table

I believe for voting.

CHAIRPERSON JONES: Yes. So we're going to call for the vote on that motion, and please indicate electronically your vote.

(Thereupon an electronic vote was taken.)

CHAIRPERSON JONES: Okay. So that item passes, so that's where we are. Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Thank you.

CHAIRPERSON JONES: You're welcome.

Okay. So that takes care of Item 9 -- 8a. So now we will go to Item 9a.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair, members of the Investment Committee, Ted Eliopoulos. I'm happy to present Agenda Item 9a. And I think given the course of the discussion over the last two months, and the course of the discussion that we just had, it's fair to say that the topic of divestment is a challenging and complex one, and one that there aren't settled views and opinions within this institution, and really looking throughout the public pension industry, not just now for decades. So it shouldn't be that surprising that it poses such difficult choices for this Board to consider and ponder.

Your staff in Agenda Item 9a really tried to highlight that dilemma and the push and pull of some real competing goals for this institution, as well as other public pension funds when they wrestle with divestment, as either an investment strategy and/or a catalyst for social change. I think in reviewing the staff report, particularly the executive summary, we, as a whole team, not just the Investment Office, but our executive office as well really tried to pose that tension between the investment goals and fiduciary duty as outlined in the California Constitution, and the goals of CalPERS as a public entity and a public agency within the State of California.

And as we try to do with everything that we're faced, we really strive to reconcile our various legal and constitutional obligations with good public policy and what's best for the greater good of the State of California and CalPERS.

Divestment -- as a policy, divestment, as an action that the Committee takes and divestments within the portfolio that need to be reviewed on some basis, bring up this very tension that we've observed over the course of the last three months.

Last month, the Investment Committee Chair directed us, your staff, to return to you with some options for reviewing the current divestments that are within the portfolio in a manner that's consistent with our -- or with the Committee's fiduciary duties. The purpose of this agenda item was to present some options for this Committee to consider and to request that the Committee give us direction to pursue a path to review these options. Given the discussion that we just had around the policy, I think we need to find a way, in looking at the various options before us, to put into the timeline the appropriate point in time to review our current policy and make amendments to it.

What staff is bringing to the Committee as potential options are as follows:

First of all, as was noted in the last two discussions that the Committee had with respect to our proposed approaches to reviewing current divestments, the tobacco divestment really is singular in its size compared to the other divestments within the portfolio, that are of a small or de minimis nature, and were made on the basis of those divestments being small or de minimis.

Tobacco was made on separate grounds at a different time and certainly cannot be considered to be de minimis for this fund. And as a result, we believe that the tobacco divestment should be reviewed by this Committee on a substantive basis whether to remain divested or to reinvest.

Our recommendation to the Committee to consider is that the tobacco divestment be reviewed sometime, we've said, in the next 12 to 24 months. We think, as we note, that there would be a need for and a desire to undertake some more extensive stakeholder education, and perhaps some more fiduciary review by this Committee as it -- as it prepares -- as this Committee prepares to take up this investment decision around tobacco divestment.

So feedback number one -- or direction number one from this Committee is around tobacco divestment. And we'd like to have clear direction from this Committee about when to bring that substantive discussion around tobacco divestment, whether to stay divested or reinvest.

We say 12 to 24 months, because we thought that would give ample time for this education process, as well as any fiduciary reviews that this Committee would like to have. It would also give us time to either revisit the divestment policy prior to that discussion or afterwards. So that's the requested direction, topic number one, for the Committee.

We certainly could have said 0 to 24 months, because there is a desire to have the divestment reviewed, but we really think that it would be well worth the time to have this education process go forward. And I think that's the rationale behind 12 months.

Regarding the non-tobacco divestments, and I'll just pause for a second to see if there are any questions. Would you like me to continue on the non- --

CHAIRPERSON JONES: Yeah, why don't you continue the whole concept and then we'll have questions.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. Terrific.

CHAIRPERSON JONES: Oh, and by the way, we do have our fiduciary counsel, Mr. Klausner, on the phone.

CHIEF INVESTMENT OFFICER ELIOPOULOS: With respect to the non-tobacco divestments, which as I said, were made all under the rubric of them -- of those divestments being small or de minimis in their individual capacity, those include currently gun manufacturers subset, they include Iran divestments, and they include Sudan investments.

In addition to that, on the timetable that is prescribed by the California State Legislature, this Committee will be taking up the question of divesting from a certain subset of thermal coal companies sometime within the next 12 months.

So that -- and the size of that thermal coal legislation would place those securities also under the rubric of being small or de minimis. And therefore, we're asking for this Committee to give us direction to -- how to review, once divestments have been made under the rationale or theory of them being small or de minimis, how often should that be -- that decision be reviewed? How frequently and under what guidelines?

We've presented three options for the Committee to consider and are respectfully requesting that the Committee give us direction today, if at all possible, as one of those paths, so that we can then prepare both the timetable and the policy documents that will be needed to serve as guideposts for these options.

So for the non-tobacco divestments, option number one we present, is that we could bring back each of the individual de minimis divestments serially over time. Now, I know we said over the next several months in our agenda item, but I think upon reflection, really what we meant to say there is we would review these de minimis divestments on a calendar or chronological basis.

And if that's the direction that the Committee wants to go, we'd come back in the divestment policy and say, boy, as good practice, we would recommend that the de minimis divestments be reviewed annually, be reviewed every two years, be reviewed every three years. We'd do some work to think about what would be a reasonable and responsible method to review those divestments over time. That's option number one.

Option number two is the Committee could give us direction to bring back those de minimis divestments when staff feels that they're either individually or collectively no longer de minimis. You would basically -- the Committee would basically delegate staff the task of defining, you know, what's bigger than a bread basket here. That's option 2.

Option 3 is a revision to our loss threshold policy that we had so much discussion about over the last two months. And what we heard clearly is that there's some -- there are some good features to having a loss threshold policy, but certainly have it be automatic pose some real questions and issues.

Therefore, in this option, if the Committee would like us to develop a loss threshold policy that would act merely as a threshold, merely as a trigger, when we hit either on an individual basis for an individual divestment, or on a cumulative basis when we hit that trigger, then that would trigger the time that we would bring those divestments for review by this Committee, either on a individual basis or if it's on a cumulative basis, then it would queue up our bringing back components of the cumulative divestments for review by the Committee.

I think that's really the options that we -- that we've pondered in looking at this. And we'd be glad to ask -- answer any questions to clarify these options, but we tried as much as possible to make them as clear as possible for the Committee.

CHAIRPERSON JONES: Okay. Thank you. We do have a number of questions again. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, I want to thank you for this. I know this has been sort of a protracted and fairly difficult set of conversations we've been having. And I think it highlights how sensitive and challenging this issue is. But I think it's been really fruitful. And it's helped evolve my thinking. I think it's helped evolve probably everybody who's involved's thinking on this.

I support the taking up tobacco separately. I think it really is the one material divestment that we really need to grapple with in some substantive and policy way. I would suggest that we take it back up in 18 months, and then spend six months or some period of time doing the engagement process -- an engagement process that would include, as you noted, outreach to stakeholders, but I think also really requires sort of looking at the spectrum of fiduciary views on the issue, as well as what are other investors doing to mitigate gaps in indices, such as this one. I think there are probably quite a number of foundations and endowments who have similarly divested and might have other practical approaches to mitigating that -- those losses. So I think that would be helpful for the Committee and the public and for the fullness of our discussion. So that would be my suggestion on tobacco.

With respect to the other divestments, I think option 3 is the most efficient option. We could take it up periodically every three years or two years, but my guess is that it's going to be quite some time before any -- if ever, if any of these -- the smaller non-material divestments actually exceed the de minimis exclusion. And so I would hate to just sort of make up -- make a lot of work, but I certainly thing adopting some sort of threshold, whereby it would auto -- which would automatically trigger a review by both the staff and the Board would be prudent to do.

So that -- those are my suggestions. I'm happy to make it a motion, if that would be useful, Mr. Chair.

CHAIRPERSON JONES: Yes. Why don't we hear from others before we make a motion at this time.

COMMITTEE MEMBER MATHUR: Okay. All right. Thanks.

CHAIRPERSON JONES: Okay. Thank you. But I'll will call on you for a motion once we hear from everyone.

COMMITTEE MEMBER MATHUR: Okay.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, I agree with Priya that, you know, the big one is obviously tobacco, and should be taken up separately. I think it's a big enough one that I would prefer to take it up earlier rather than later. So I'd be more -- I'd actually be more inclined to do it in nine months to a year, rather than 18 months. But, you know, quite frankly, I can live with 18 months.

But the other ones, I really do think that at some point the Board needs to step up. De minimis, well, gee, I didn't waste too much of your money is not a very fiduciarily sound position. So I would actually think -- I would prefer scheduling it periodically, and, at some point, I'd like to ask Bob what he thinks on that.

But in terms of scheduling, coal, Sudan, and Iran all have reports that are required. And it may make sense to schedule a review, you know, every other year around whatever that date of the report is, so that they get spread out, so it's not all dumped on at one time.

Having said that, you know, it may turn out that all the reports are due at the same time, in which case I haven't solved the problem. So my question to staff is when are those reports due or do you know?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We haven't set a firm date. But as it stands today, I think we were anticipating October to be the date -- October and November being the date of delivery for the -- except we don't have an October meeting, so --

COMMITTEE MEMBER JELINCIC: Not the question I intended to ask. When does the legislature demand its report on each of those three?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Annually. There's no specified date. We provide it currently, I believe, in December.

CHIEF INVESTMENT OFFICER ELIOPOULOS: There is a date.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

The first of the year.

COMMITTEE MEMBER JELINCIC: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: It needs to be completed by January 1st. That's why typically see our reports going out in November and December -- or the agenda items to this Board in November and December.

COMMITTEE MEMBER JELINCIC: Okay. So maybe that doesn't work. But I do think we really ought to take a look at it periodically. And if we can get Bob to comment on when is de minimis and what does it cease being de minimis would be helpful. But you can call on him whenever you think it's appropriate.

CHAIRPERSON JONES: No, I think it's appropriate to call on him now, since the question is on the table. Mr. Klausner, did you hear Mr. Jelincic's question.

MR. KLAUSNER: I did. And greetings to all.

Thank you for the opportunity to be with you. And with me today is one of my partners, Adam Levinson, who is a long time member of the California Bar as well as being associated with me for almost 20 years. And we discussed this over quite a period of time.

I mean, as you may recall from our January education, de minimis depends on the size of what it is that you're working with. So I think having the Investment staff say, at this point in time, X is painful, and using that as a trigger for then the discretionary decision of the Board is probably the best means of doing so. To decide when a loss is material to you versus material to a much smaller pension fund, obviously is a math question.

So there is no -- your losses are judged in hindsight obviously. But having that trigger to say that if we experience a loss occasioned by divestment of X, it should trigger the Board's review and then Investment folks present you with the pattern of loss is the most logical view for me. There is no hard and fast definition of de minimis.

CHAIRPERSON JONES: Okay. Thank you. We will now go to Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I support Ms. Mathur's direction with respect to looking at option 3, and then -- and also the timeline for reviewing tobacco.

I wanted to inject something in here though, because as we talk about taking the time to do additional stakeholder engagement, I want to be sure that we're equipped with probably the latest and fullest information with respect to analysis of where we are with this particular issue. And I know our focus has been on, you know, kind of estimated investment losses going forward. But I think there's a whole broader financial analysis that could be done with respect to tobacco.

The industry obviously has changed, and whether the same risk and potential loss issues are still kind of the flavor of consideration today as it was when CalPERS divested originally, I think is a question. But obviously, tobacco is gaining more prominence with respect to international sales, the development of new products and whether there are regulations or legal regulatory hurdles with respect to their -- the prominence of the industry internationally.

So I just feel like we've got -- and then obviously any attendant reputational risk as well for the industry. So I feel like there's a lot more work to be done with respect to the type of analysis that I would like to see, even before we engage stakeholders to just kind of update where we are with respect to the industry.

And one of the things that struck me as we were looking at the staff background paper that laid out the options was looking at Investment Beliefs. And I thought that perhaps one of the Investment Beliefs that was missing was Investment Belief 9, and specifically consideration of risk factors as a long-term investor. And I think when we look at these issues, there might be -- it might be appropriate to involve that Investment Belief as well.

But I, for one, would like to see a more robust financial analysis done, that then could really inform the stakeholder engagement going forward.

CHAIRPERSON JONES: Okay. Thank you.

Mrs. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. I also support Ms. Mathur's options here for going forward, moving tobacco out to 18 months, and option 3, for the other divestments. But what I also want to agree with Ms. Yee, in that I think we need to also include risk here, because we're -- we have our own reputational risk, but we also are risking our beneficiaries' health, et cetera, that I don't know that we're taking into consideration when question -- you know, when we'ere supposed to be fiduciarily respecting our beneficiaries, I don't think that does that.

I also don't think it helps when the beneficiaries are against doing this in their pension fund, and we aren't listening. But if we are going to bring this back, it's not -- again, I agree with Ms. Yee, in that I think before stakeholder engagement, we do need a fuller analysis of the entire financial impact of this.

But also, I think we also need to take into consideration, as Ms. Mathur said, additional fiduciary opinions on this. So I would support that going forward.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Feckner.

COMMITTEE MEMBER FECKNER: Thank you, Mr. Chair.

I also agree with the item -- you know, your number 3 choice. But as far as tobacco versus putting the 18 months on it, I would like to see us put a date on it. I would like to look at like say February of 2018, and then use our off-site in January for having that robust discussion, and any kind of materials that we need to have. But that way, we can devote a major portion of time versus just an agenda item at a meeting. But if we were able to carve it out, so we would meet in January to have the discussion, and then take it up as an action item in February.

CHAIRPERSON JONES: Okay.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

It's worth highlighting as well quickly that the 18 months happens to coincide with our planned asset liability management workshop and exercise. So that would be a very -- a very busy calendar, if we actually did try to do both of those things on the 18-month time frame. So the -- Mr. Feckner, your time frame may be actually more amenable with the calendar of the Board.

CHAIRPERSON JONES: Okay. Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you. Thanks for all the work you've done on this. I know it hasn't been easy, but I like where you're headed. I think I would agree generally with Ms. Mathur's comments and direction on the de minimis divestments. You know, I generally support the option 3. And the Treasurer's main concern is no matter what the process for getting to a reinvestment decision should be every bit as thoughtful and deliberative as getting to the original divestment decision.

In terms of tobacco, yeah, I generally agree pushing that out. You know, 18 months sounds about right. You know, I will say that this issue came up when the now Treasurer, then Controller, was on the CalSTRS Board eight years ago. And I think his views are fairly settled in terms of tobacco being an industry that, you know, causes public health issues like no other, and carries a lot of litigation, regulatory risk. But that said, as fiduciaries, we should review it. So thanks

CHAIRPERSON JONES: Thank you.

ACTING COMMITTEE MEMBER BOYKEN: Oh, and one other thing on that. We've heard -- I do like the idea of having a longer period of time, because we heard Ms. Yee's questions about what is the marketplace now. We need to review that. Priya brought up questions about what are other endowments, other funds doing. And so I think to get comfortable with whatever decision we make, the Board is going to be requesting a lot of information.

CHAIRPERSON JONES: Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.

Last week, I was in Washington D.C. on a Capitol to Capitol trip, which is both government and business leaders in the Sacramento region. There were 350 of us there. And so I had an opportunity to ask a lot of people if you were in my shoes, what would your decision be?

And I found there was -- there was no one who was neutral.

(Laughter.)

VICE CHAIRPERSON SLATON: So everyone has an opinion on this particular subject, and they did cross the range. One comment I had from someone I thought it was interesting, who's a beneficiary, who said, well, if you can -- if you can tell me that it will not affect my retirement, then, you know, stay out. But if it would affect mine, then you should get back in.

So, you know, there was a broad range of opinions given. I think -- I agree with Ms. Mathur. I hope when she makes her motion that she takes President Feckner's time schedule into effect. I agree we need to be very thoughtful about this. My one concern is the issue of research. And I agree with the Controller about the need for that. I am concerned about use of staff resources in here to do this. We have finite amount of time and finite amount of resources. And we have an investment job to do every day, irrespective of this particular research project. So I would encourage, if we have the ability to use outside resources to be able to help in this, I think that would be prudent.

Thank you.

CHAIRPERSON JONES: Okay. Ms. Hagen.

ACTING COMMITTEE MEMBER HAGEN: Thank you, Mr.

Chair. I've decided I'd be lousy at Jeopardy, because apparently I'm the last one to ring my bell.

(Laughter.)

ACTING COMMITTEE MEMBER HAGEN: But I have a couple of questions. I was -- I didn't -- I'm not sure I heard it, but I was just wondering what staff's recommendations were on the options?

CHIEF INVESTMENT OFFICER ELIOPOULOS: We really didn't present one. There's a lot of judgment to be brought to bear in this. I think the strong piece of recommendation from us is, one, this Committee needs to take up tobacco divestment within, you know, these time frames. So I take that as a recommendation, a suggestion of we think it's important.

In terms of the options, we certainly thought any of the three would work. I think our preference -- more of a preference than a recommendation would be for option 3. We think it makes a lot of sense to have, you know, a certain threshold amount. It is more efficient than perhaps the others. And it will provide a framework for all of us to operate on. That's a little more specific than delegating to us that fateful decision.

ACTING COMMITTEE MEMBER HAGEN: And then I just had one other follow-up question. Just for my own education, on the first option where you talked about time frames, don't -- we already have periodic program reviews. So just for my understanding, what would be the difference between this first option and your regular periodic program reviews?

CHIEF INVESTMENT OFFICER ELIOPOULOS: For this, we'd actually bring for action by the Committee a vote whether to retain the divestment in tobacco or to reinvest. That is an action that we brought forth for the Committee to wrestle with.

ACTING COMMITTEE MEMBER HAGEN: Thank you.

CHAIRPERSON JONES: Okay. Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.

So I have just some more legal questions. And this will be more directed to Mr. Klausner.

Mr. Klausner, as it relates to the de minimis standard, when you're looking at the reasonable person, who are we applying that to as it relates to us? How is it determined what's de minimis?

MR. KLAUSNER: You'd be looking at what the prudent investor would do. And a prudent investor's decision making is based upon the information known at the time that the decision is made. And what is de minimis, because of the amorphous legal definition, literally means something which is trifling. And I know none of you think a dollar is trifling when it comes to the efficient operation of the fund.

But within the context of an investor, it's that which I think a court would say, in the general national standard, would be that which does not have a material impact on the fund.

So I don't know that that helps you, because there is, you know, a tremendous absence of any particular guidance on this subject. It has -- it would be more like beauty. It's in the eye of the reasonably educated beholder.

COMMITTEE MEMBER COSTIGAN: So the de minimis standard is not applicable as a prudent investor to other funds. It would be to what the court would deem we, as a Board, determined as de minimis and was prudent.

MR. KLAUSNER: Correct.

COMMITTEE MEMBER COSTIGAN: Okay. Second, Ms. Taylor raised an issue that I have struggled with. You cannot, if I understand -- correct me if I'm wrong. You cannot mingle the investment fiduciary on Monday with the health care fiduciary role on Tuesday. It's my understanding I cannot take into consideration the impact on health care as it relates to an investment.

MR. KLAUSNER: As it relates to you running a health care program, that is correct, because the money is separate.

COMMITTEE MEMBER COSTIGAN: All right. Sort of the third issue, as I'm going through my notes, is on the role of the fiduciary, in this case it was a Board policy not a statutory prohibition, similar to what thermal coal is. Is there a different standard as it relates to fiduciary and to prudent investor, if it's a statutory or legislatively imposed divestment versus a Board policy proposed divestment?

MR. KLAUSNER: That was one of the debates we had internally here in the office. And we believe the answer is no. A fiduciary decision is a fiduciary decision, because the Constitution leaves the ultimate decision to you, even though Article 16, Section 17(g) says the legislature can continue to, you know, prohibit investments. It has the but, as long as it doesn't violate the fiduciary duty of the Board. I think --

COMMITTEE MEMBER COSTIGAN: And as a -- go ahead. I'm sorry.

MR. KLAUSNER: From a lawyering standpoint, it may make a difference. From the standard of care that I believe applies to a fiduciary, under the general law in the country, of which -- and you follow -- your language is the same as the essential trust -- national trust standard, the answer is no, there's not a difference.

COMMITTEE MEMBER COSTIGAN: So as a fiduciary, and as a prudent investor, and as the ability to make the policy decision ourselves, we can take into consideration risk factors, reputational harm, and overall cost to the fund.

MR. KLAUSNER: Yes. And I also think you can take into consideration whether reversing an investment decision will otherwise impact other parts of your portfolio.

COMMITTEE MEMBER COSTIGAN: But as an investor, we have already, over the last 12 years, redeployed that capital outside of this investment. I mean, we've already mitigated, to a degree, any -- first of all -- and I wasn't on the Board, but we mitigated the harm of the perception of what was going to happen with tobacco by creating a divestment policy. And then we mitigated the financial impact by deploying that capital into other assets.

MR. KLAUSNER: The answer is yes. And as I recall the divestment decision -- although I was not with you then either. As I recall the underlying issue for most divestments at the time you made yours was that the tobacco industry was facing all these mass class action tort lawsuits, particularly by State governments, and there was a concern whether the industry itself would survive.

And that turned out that wasn't correct in retrospect, but that was a reasonable decision-making activity at the time.

COMMITTEE MEMBER COSTIGAN: All right. So the Board could, based upon a prudent investor standard, its fiduciary duty the ability to make its policy, go ahead and make a determination not to invest in tobacco if it chose to do so? And you thought -- believe that would meet our fiduciary duty?

MR. KLAUSNER: If your decision is ultimately rooted in the best economic interests of the members and beneficiaries of the system, and to a lesser degree, based on the Constitution, its effect on minimizing expenses to employers, that could be a prudent decision. To make it without education and study would not be prudent. And that's why I thought that the proposal to consider stakeholder positions, which would mean our active and retired members as well as the contributing employers, and also determining whether your -- what has been, in my view, a successful program of engagement on climate control with certain companies in which you are invested, whether that -- whether a successful program of engagement would work with tobacco. I think all of those things have to be done before that question gets a yes or a no.

COMMITTEE MEMBER COSTIGAN: But whether our beneficiaries or our stakeholders agree, the ultimate responsibility lies with the Board?

MR. KLAUSNER: That is correct, and --

COMMITTEE MEMBER COSTIGAN: And we have a 12 year history of already having stakeholder engagement. We have a 12-year history as it relates to hearing from our members. We have a 12-year history of the financials. We have a 12-year history with the engage -- yeah, 12 or -- year, 20, of the policy engagement. So the work, to a degree, would be duplicative of what the Board has already done.

MR. KLAUSNER: Except the work that you did previously was -- going back to 1990, I think is when you made the decision to divest that -- and I may be wrong on the year. But at the time your divestment decision was made, it was based on -- I assume there was a social element in it. Like I said, I wasn't there, but the expressed economic reason for doing so was the fear that it ultimately was going to be a bad investment.

In coming back into it, the question is whether, all things considered, reentering it is in the best interests of the system as a whole.

COMMITTEE MEMBER COSTIGAN: So just --

MR. KLAUSNER: And you would have to look -- and it could be any -- tobacco, obviously, has social issues that accompany it. But the question is would reinvestment in X -- let's take tobacco our for a moment -- otherwise have an adverse effect on other parts of the portfolio?

I don't think you can separate a single decision to divest or to reinvest, meaning reverse the divestment, without looking at its impact on the system as a whole.

COMMITTEE MEMBER COSTIGAN: And so I promise, Mr. Jones, just a couple more questions. Past performance is not indicative of future performance, otherwise we all wouldn't be sitting here. So if you then default back to the prudent investor standard, the Board having the authority to create the policy, the Board taking into consideration reputational harm, reputational risk, the Board doing what it believes is in the best -- I mean, the discussion that we had earlier today on the real asset allocation all fits within that prudent, responsible investor fiduciary Board member.

MR. KLAUSNER: That is correct. The general law of trust, the restatement --

COMMITTEE MEMBER COSTIGAN: I will just throw it out there -- thank you for the general law trust. You just made nightmares from law school.

(Laughter.)

COMMITTEE MEMBER COSTIGAN: -- which sort of based on the questions, I would then just pose why even push something out there 18 that if this Board already has the ability based upon what it's done in the past, to go head and make a decision.

MR. KLAUSNER: I took that guidance from the recommendation of the staff that they felt that engaging our stakeholders was appropriate. And I'm assuming that was a reasonable time limit. And I also took from the staff recommendation that it will take a period of time to determine if a successful program corporate engagement would have value, because I think that will be consistent.

Because when you divest from something, you're done, and engagement isn't an issue. When you invest in something, you make a decision to do something, then it impacts your ESG principles, which are the -- in -- at least in my understanding of what you do, an overarching principle tied into the best interests of the members and beneficiaries of the plan. So that --

COMMITTEE MEMBER COSTIGAN: So can I just pose one more question. I'm sorry. I understand engagement as it relates to South Africa, Sudan, and others. The engagement tobacco or -- so back up. The engagement with climate change is to reduce carbon emissions. Ultimately, what is the engagement with tobacco? The elimination of its use, the continuation of its use, limitation -- I'm just trying to get at is what -- I understand engagement, and I understand engagement in the area, but what ultimately -- and, I guess, Mr. Klausner, I asked you is what is the behavior we're seeking to change with the company?

MR. KLAUSNER: Are you asking me or someone else?

COMMITTEE MEMBER COSTIGAN: No, I am. I'm asking as a fiduciary, what would be the logical -- the engagement question?

MR. KLAUSNER: The logical question, assuming that tobacco is harmful, and I think we all know that it is. The World Health Organization spoke about the fact that it leads to five million deaths, and that by 2030 it will be responsible for eight million deaths a year. The question is would engagement result in a change in the ultimate course of the company? Could it change -- could it result in better anti-smoking controls with young people altering the marketing campaigns? And, you know, I don't know a lot about tobacco because I never smoked.

COMMITTEE MEMBER COSTIGAN: No, Mr. Klausner, I think you answered my questions, which means I probably won't be supporting the motion, because I would actually move that -- I'm not going to make a motion, but I -- thank you.

CHAIRPERSON JONES: Okay. Yeah. And I just want to add one point on the exchange and where it was stated that staff, you know, made the recommendation to look at this out in a period of time going forward. But I think you've also heard committee members are also -- have interest in looking at this over a longer period of time to provide the stakeholders with education, and also to allow an opportunity to update information that may be available on the financial issues.

So I just don't want it be left that staff is the only one concerned about this. It's -- I've heard from Committee members that they also have the same concerns.

So, okay, next Mr. Bilbrey.

COMMITTEE MEMBER BILBREY: Thank you, Mr. Chair. So, Ms. Hagen, you're not the last one.

(Laughter.)

COMMITTEE MEMBER BILBREY: So after that line of questioning by Mr. Costigan, some of my thoughts have changed. I actually do sort of concur with Mr. Costigan. I would be inclined to vote no as well. But knowing where I've heard a previous discussion from the other Board members go, I am -- I guess you would say can live with Ms. Mathur's idea of the 18 months, but I do really like Mr. Feckner's idea of doing it at a time date certain with the off-site. That off-site idea had -- thought had kind of gone through my head.

And option 3, again something that I can live with. I want to make sure we highlight in there that it does not adopt -- that it's an automatic trigger. So I want to make sure that people hear it to make sure, because it my get lost in all that discussion. And again, it's not an automatic trigger, so that's why I can live with it. Otherwise, I wouldn't.

I'd like to know what you consider is the stakeholder universe? How would you see how we're going to do this stakeholder engagement, education, and who's involved in all of that, because that is a big piece of what we're talking about here. And it keeps getting mention, but it hasn't had any specificity of how that will work.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, I think we've -- we definitely want to think through that, and supplement our initial thoughts, but certainly our members and employers. I think the public health organizations that have expressed an interest in this policy, I think it would be important to hear their viewpoints.

And I think the next really -- yeah, it definitely is in the education rubric, which is a broad range of fiduciary experts and institutions that have wrestled with these topics as well, which is education for this topic, as well as education for all of us to see the bull breadth of those other institutions that have wrestled with this.

COMMITTEE MEMBER BILBREY: And what would be the way that you would bring this information back to the Board?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think what we'll -- can you hear me?

Okay. I heard a feedback. That's what we would go back with this timetable of 18 months. We'd look at, I think, a combination of what we used in the risk mitigation workshop where we had some educational forums, and more formal workshops as well with the Committee. So we'd have to sequence this out and put together a plan that made sense with a beginning, middle, and end.

The other part of it that we also will sequence is next month when you see the G of ESG, you'll -- and you'll see it on page three of the presentation later this afternoon, divestment is one of the items of the G. So we need to sequence in all of these divestment activities together with the full spectrum of ESG activities that we'll be undertaking over the next five years.

So we need to look at it through that broader lens as well. And as Wylie mentioned, in the midst of this five-year plan, we do have the all important ALM work that we need to do. So we'll try to fit it in and around that work as well.

COMMITTEE MEMBER BILBREY: Thank you.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, as I said, this is serious money, and I would be in favor of looking at it sooner rather than later. But on an absolutely personal level, if this Committee insists on putting it off until after my election, I can live with that too.

(Laughter.)

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. Mrs. Hollinger.

COMMITTEE MEMBER HOLLINGER: Thank you. I'm inclined to support Ms. Mathur's motion and to put this over. This is -- and also option 3.

Question for Klausner, as fiduciary, so our duty is to maximize benefits to be able -- maximize returns to pay benefits. So clearly, this sector has delivered superior returns. One of the things you said when you were talking to Mr. Costigan is that we're supposed to also weigh that against the adverse effects on the portfolio.

Well, clearly -- could you explain that to me, because typically when you divest, that's an adverse impact, because we're losing our level of diversification. So I just want to understand how you would weigh that?

MR. KLAUSNER: I my research to prepare for the meeting, we looked at how pension funds literally around the world are dealing with the issue. Norway has lost a similar amount of money that you did, the UK for their local government pension systems, and the Australian Superannuation Funds, which are their public pension funds.

And they looked at the cost of tobacco-related matters on productivity within workplaces that -- in companies that they were otherwise invested in. And utilizing a pretty similar standard of care decided that remaining out of tobacco was the right decision for them. I don't think you can be guided by -- and I'm aware of the strong editorial comments that have been made of late urging you not to go back into tobacco. I don't think that can be your -- I don't think that can be your guiding --

COMMITTEE MEMBER HOLLINGER: Right, the optics, you're -- right.

MR. KLAUSNER: Right, the optics. I guess the optics. The optics are a political decision.

COMMITTEE MEMBER HOLLINGER: Right.

MR. KLAUSNER: But the question is whether or not the optics would have any real economic impact on your decision on for the fund period, I don't know. And that's why engagement -- in fact, the UK and Australia both strongly recommended stakeholder -- and Norway did too, stakeholder engagement to educate the members about what the effect on the fund is. And because you have, within the California Constitution, as our own research and discussion here in the office showed, you also have as a secondary responsibility minimizing employer costs.

COMMITTEE MEMBER HOLLINGER: Got it.

MR. KLAUSNER: So I view your stakeholder universe to be engaged as your active and retired members and your thousands of contributing employers.

COMMITTEE MEMBER HOLLINGER: Right. And my other question, this is just in relation to staff, I also support what Mr. Slaton said, I really don't want staff's resources devoted to this. I think we're in volatile economic times. I really want to see you focused on the portfolio and returns and not being diverted from that goal. So to the extent you can use outside resources, that would be good. Thank you.

CHAIRPERSON JONES: I've got one more request to speak before we consider a motion.

Mr. Slaton.

VICE CHAIRPERSON SLATON: So I just -- given what Ms. Hollinger just said, I'd like you to comment on that on the workload and the ability to get this done, and what were your -- if we were -- if she were to make the motion, and we were to pass it, what would your plan be to not negatively impact your ability to get the rest of the job done here?

CHIEF INVESTMENT OFFICER ELIOPOULOS: We would welcome the ability to have additional resources to target this set of work. Now, there will be certainly with the educational forums and the rest, there will be some level of staff work, not only for the Investment Office, but for the rest of the organization for sure. So I don't want to imply that we won't have any workload with this. But to be able to outsource the research and some of the analysis would be most welcome.

And if I could take this second just on Mr. Bilbrey's question, I forget to mention the legislature. That would be another stakeholder group that we would consult with.

VICE CHAIRPERSON SLATON: So do you need -- is that something you can do or do you need authority from us, or how does that work?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think the first piece would be for us to look at our existing resources and budget and to make sure we had the budget authority to devote to this. So I think we would need to do some homework both on laying out what the plan is, and then costing out what the cost would be, and then we might able to cross that bridge when we get to it.

VICE CHAIRPERSON SLATON: Okay.

CHIEF EXECUTIVE OFFICER STAUSBOLL: Thanks. Anne Stausboll. Just on that point, the second reading of our budget for the coming year is going to be presented at the Finance Committee tomorrow. So I think we might regroup the staff this evening and see if we want to put a placeholder in the budget for this item.

Thanks.

CHAIRPERSON JONES: Okay. I think that exhausts the requests to speak from the Committee.

I beg your pardon?

Yeah, I'm getting to that.

And we do have a request to speak from the public. But also I would like to see what our consultants may have to add to this, because one of the requests is that we provide updated data, as the Controller mentioned, about what's the current financial situation, impacts. And so, I guess the first question is that -- what kind of timeline that you would be able to provide that kind of information back to the Committee and to staff? And that question goes to you, Andrew.

MR. JUNKIN: In terms of preparing the report that you all saw in October, the report card if you will on divestment activity, that typically takes two or three months to put together once we've -- once we start the process. A lot of it is sort of sorting through all of the data to make sure that it's clean, and that it's exactly the way that we need it. The calculations themselves don't take that long.

So from the word go, probably knowing the agenda cycle, I would say probably three months. Our plan was to updated that an annual basis going forward, so it's already sort of planned. And I think we were targeting something towards the -- about the same part of the year.

In terms of -- I think some of the other things that I've heard, sort of the deep dive on the tobacco industry, obviously, I think that we could help marshal some resources there, but we're not sector experts. You wouldn't want us, I think, leading the charge on that, because that's simply not our domain. And I think that you'll find far more in-depth analysis from people that cover that, but certainly we could be apart of that process.

Again, the timing on that I wouldn't -- I would not have a clue. I would think something roughly in the same probably three months.

CHAIRPERSON JONES: Thank you. Any comments, Allan, you would like to add?

MR. EMKIN: (Shakes head.)

CHAIRPERSON JONES: Okay. Why don't we take the request from the public now. Jim Knox, American Cancer Society Action Network.

MR. KNOX: Thank you, Mr. Chair and members. Good afternoon. My name is Jim Knox. I'm the vice president for government relations for the American Cancer Society Cancer Action Network. That is the advocacy affiliated with the American Cancer Society.

And I'm here to urge that you maintain your 16-year policy of not investing in tobacco. The pursuit of tobacco profits does not take place in a vacuum, as has been suggested. The tobacco industry inflicts immense harm upon California, immense public health harm, but also immense financial harm as well.

And CalPERS members are not immune from that harm. In fact, certainly it affects the economic interests of your members and beneficiaries. As your counsel mentioned, I believe tobacco kills six million people a year worldwide. It's a product that kills one in two users who use the product as directed. In the United States, tobacco kills more people than alcohol, AIDS, car crashes, murders, suicides, and illegal drugs combined.

In California, it's the leading preventible cause of death. It causes 40,000 deaths a year. Certainly, a number of them CalPERS members.

While the public health costs are immense, the financial costs are immense as well. Tobacco costs Californians $23 billion a year in health care costs and lost productivity. And that includes $10 billion in lost productivity, which I think is relevant to what I heard your fiduciary counsel to say relative to the interests of California employers.

It also includes $3.5 billion in direct costs to taxpayers in the form of treating tobacco related disease of Medi-Cal patients. These are not abstract costs. They're real costs. They impact CalPERS members and beneficiaries. They impact California taxpayers. They impact the State government.

Investing in tobacco also conflicts with the State's considerable investment in reducing tobacco use. In 1988, voters enacted Proposition 99, a tobacco tax that, in part, funded a new State tobacco control program.

And the return -- in the first 20 years, the University of California, San Francisco, which is a resource that you might consider for some of the research that you're talking about doing, did a study on the effectiveness of the tobacco control program.

And they determined that the $2 billion that California has invested in that 20-year period has wrought

$134 billion savings in health care costs. So the State of California is investing heavily and successfully to combat tobacco use. To have the pension fund for the State's workers invest in tobacco is, as some have said, like having one arm --

CHAIRPERSON JONES: Mr. Knox your time is up. Thank you for your time.

MR. KNOX: I urge you not to invest in tobacco. Thank you.

CHAIRPERSON JONES: Okay. We now are back to Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

So I have listened to the discussion, discourse of the Committee, and I think a lot of good -- and also to the comments of the staff, and I think a lot of good points have been raised. So I'm amending what I said at the outset of this discussion just a bit.

First, I would -- so my motion is as follows:

One, that we take up tobacco separately from other divestments in the portfolio. That we take it up in 12 to 24 months. And I guess I -- the reason why I'm giving that framework is because I do think one of the pieces of my motion is to commission a financial study, which might -- maybe that would start earlier than 18 months from now.

That we spend some period of time, some several months discussing doing outreach, doing education, and listening to our stakeholders as well as to other -- a variety of fiduciary viewpoints and other investors about how they are -- you know, who have divested from tobacco, and how they've mitigated any losses from those investments.

As I said earlier, that we commission a broader financial, economic, and risk analysis with respect to the industry and its implications, not just -- not just sort of the tobacco -- the benchmark including tobacco versus the benchmark excluding tobacco, and it's implications for CalPERS investment portfolio performance, but sort of the broader economic risks and how that might impact our portfolio in a bigger longer term way.

That we have -- that we sort of launch our listening outreach efforts at the January off-site in January of 2018 with a sort of fulsome -- or a significant component there. I think that was the President's recommendation.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Seventeen?

COMMITTEE MEMBER MATHUR: He said '18.

COMMITTEE MEMBER FECKNER: (Nods head.)

COMMITTEE MEMBER MATHUR: -- so -- which is --

which would be 21 months. So there might be some -- you though, we would commission the study in advance. There might be some work that staff embarks on in advance of that, but then, that -- you know -- Mr. Eliopoulos, I see --

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, you say that quizzical --

COMMITTEE MEMBER MATHUR: -- your quizzical face.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think it might be -- to actually launch that educational and analysis on January of 2018, I think is too late. We need to begin that process earlier --

COMMITTEE MEMBER MATHUR: Earlier.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- but use the off-site, you know, to have a -- what I heard from Mr. Feckner is sort of a final airing of the issue before it would brought to vote in February.

COMMITTEE MEMBER MATHUR: Okay. That's acceptable then. We can use that as the culmination then of all of the efforts. Although, I feel like that's going to be challenging with the ALM workshop. So maybe we'll need to fine-tune the timing a little bit.

And that when a final agenda item comes to the Committee for consideration, that it include alternatives to remaining divested, including potentially an engagement program or some other options, as well as alter -- you know, what would we do if we remained divested? What would that -- what would the alternatives be for mitigating any losses? So that's all on tobacco.

And then with respect to the tobacco divestments to -- I move option 3, which is that we proceed with some loss threshold, and that the Board adopts. And that if -- if and when any of our other divestments exceed that de minimis threshold that we set, it would come back to the Board for consideration.

I hope I've captured everything.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON JONES: Okay. It's been seconded by Mrs. Hollinger.

So we see that we have discussion.

Mr. Grant Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you. So first of all, I want to thank staff again for the work that they've put in to this over the last few months. I also appreciate the desire on the part of my colleagues on the Board for additional study. But what I would like to do is offer up a substitute motion, where we keep Ms. Mathur's recommendations in terms of the option 3 for the de minimis divestments, but we make the decision, at this time, not to reconsider tobacco reinvestment.

COMMITTEE MEMBER COSTIGAN: I'll second.

COMMITTEE MEMBER BILBREY: Second.

CHAIRPERSON JONES: Okay. It's been moved and seconded a substitute motion to. I heard Richard. Yeah, I heard Richard first. Okay. It's been moved.

Okay. So we've got this substitute motion on the floor.

Discussion on the substitute motion?

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I had a discussion on the original motion as well. I would oppose the substitute. I think we need to address the issue of divestment in tobacco and to simply say we are not going to reconsider it is not consistent with what we owe our members. So I will oppose the substitute motion.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. While my heart would absolutely love to support the substitute motion, I think from a fiduciary perspective, process is everything. And it's really important that we engage in a robust process to review something that has some substantial financial implications for the portfolio. So I will not be supporting the substitute motion.

CHAIRPERSON JONES: Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Speaking to the motion, I believe that our fiduciary counsel said it was within our fiduciary duty to vote -- to continue the policy and not invest in tobacco. I also believe at $3 billion it probably meets a de minimis threshold for the fund. So I would encourage our Board members to support Mr. -- the Treasurer's motion.

CHAIRPERSON JONES: Okay. Mr. Slaton.

VICE CHAIRPERSON SLATON: Yes, Mr. Chair, I'll be voting against the substitute motion. And I think -- my guess is for those who might oppose it, we shouldn't read into any interest in reinvesting in tobacco. I think the issue is process, the issue is whether we take the time and the effort to look carefully at this issue. And someone mentioned earlier about the issue of thoughtfulness about this. And I think this deserves a robust discussion just like it did probably back when we made the divestment decision in the first place.

CHAIRPERSON JONES: Okay. Mr. Lind.

COMMITTEE MEMBER LIND: I haven't spoken on this issue yet. But I'm intrigued by the second motion, because, you know, we've talked about this long process, and research, and stakeholders, and all this work that we're going to do and how much it's going to cost. And at the end of the day, we're going to hear a lot of articulate people, like the gentleman from the Cancer Society, we're going to listen to all of that, and at the end of the day, we're going to vote against reinvesting in tobacco. That's the reality, I think.

And I know a lot of this work was probably done, and the research was done, and all the considerations were dealt with back when we originally voted on divestment, but I think we all know what the outcome is going to be, so I'm going to support the substitute motion.

CHAIRPERSON JONES: Okay. It's time to vote, and we're going to vote on the substitute motion. And we're going to vote by electronic buttons. So all those in favor of the substitute motion?

(Thereupon an electronic vote was taken.)

CHAIRPERSON JONES: The substitute motions fails.

Okay. We'll go back to the original.

COMMITTEE MEMBER HOLLINGER: It passed.

CHAIRPERSON JONES: No. You need 7 to pass.

My screen shows 6 -- yes, it's not a tie. If it was a tie, then I would be required to vote.

COMMITTEE MEMBER JELINCIC: Actually, I think our rules say a majority of those voting.

COMMITTEE MEMBER HOLLINGER: Is it majority?

Is yellow yes?

CHAIRPERSON JONES: Yellow is abstain. I didn't vote. I didn't vote, so it fails.

VICE CHAIRPERSON SLATON: Six votes. Only six votes cast yes.

CHAIRPERSON JONES: Right. So the item fails. So now we go to the original motion by Mrs. Mathur. Would you clear the screen and -- so that we could revote.

Okay. Now, this is Mrs. Mathur's motion. So all those in favor yes on your button, those opposed, no.

(Thereupon an electronic vote was taken.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair?

CHAIRPERSON JONES: Yes.

CHIEF INVESTMENT OFFICER ELIOPOULOS: If you could just maybe -- I think we're -- the staff is doing some research around -- the rules around the majority six to five versus the perhaps to need to have seven votes.

No, you're --

VICE CHAIRPERSON SLATON: You don't have seven yeses.

CHAIRPERSON JONES: You can't have an abstention determine the outcome, other than -- you know, you need seven positive votes.

Counsel?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll just -- the CEO has asked me to convey that perhaps a five minute break to review the PERL.

CHAIRPERSON JONES: Okay. Well, I will accept that request to review to be sure we are on legal grounds. So we will break for lunch, and that will give you a little bit more time.

(Laughter.)

CHAIRPERSON JONES: So we will reconvene at 2:15.

(Off record: 1:12PM)

(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. Before we took a time out for lunch, we were in the middle of a voting, and questions were raised about the voting process on this motion and the prior motion. And so now it's clear to me that we did not finish the voting on the item that's on the Board up there.

So there are two individuals that -- two or three that did not vote. And so, at this time, I want to give those an opportunity to vote who didn't have an opportunity to vote on this item. This is Priya Mathur's motion.

COMMITTEE MEMBER CHIANG: So the motion that Grant proposed --

CHAIRPERSON JONES: She's going to have to do it, because I've got the voting on my screen, so could you --

COMMITTEE MEMBER CHIANG: No I -- so for clarification, right, so the original motion that Grant proposed, that was not successful.

CHAIRPERSON JONES: Right.

COMMITTEE MEMBER CHIANG: Right, so now we brought up Priya's motion. Okay.

CHAIRPERSON JONES: Right. And so in the middle of that voting process, a question was raised, and so we -- beg your pardon?

Yeah, so this is -- so all those members that did not have opportunity to vote, I think -- what are you doing?

MS. HOPPER: Should I cancel it and have you guys revote? Okay. I'm going to cancel it and have you guys revote on it.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER TAYLOR: Henry, can you restate the motion?

CHAIRPERSON JONES: Why don't we, at this stage -- Priya's motion. And I think because it's very lengthy. And, yeah -- so it's Priya's motion that's on the table, and so we're going to revote.

MS. HOPPER: Okay. So I'm going to start the revoting now.

COMMITTEE MEMBER CHIANG: I'm sorry, which -- what's the motion? I'm sorry, please.

CHAIRPERSON JONES: Yes, go ahead. It's a very lengthy motion

COMMITTEE MEMBER MATHUR: There we go. So the motion was as follows:

One, to take tobacco up separately from the other divestment options.

Two, bring it back up in 12 to 24 months with a few things. One is to commission a financial, economic, and risk analysis with respect to the industry and long-term and other implications for our portfolio; to spend some time doing stakeholder outreach, including discussion, education, listening, as well as exploration of a broad spectrum of fiduciary viewpoints; and, also how other Investors who have divested from tobacco are mitigating the potential -- the losses from their tobacco divestment; and to also, when it comes back, to bring it back in a culminating item at the January 2018 Board off-site, and then for decision then in February; and when it comes back to bring back alternatives to remaining divestment, including potentially an engagement program; and, also what activities might we, if we remain -- if we remain divested.

I think that exhausts my motion.

CHAIRPERSON JONES: Okay. Mr. Chiang.

COMMITTEE MEMBER CHIANG: Thank you.

CHAIRPERSON JONES: Okay.

MS. HOPPER: I'll start it.

CHAIRPERSON JONES: Voting on that motion one more time just for clarification.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Excuse me, one small clarification, if I might, Ms. Mathur. I think the final part of your motion was to move forward with option 3 related to the de minimis items.

COMMITTEE MEMBER MATHUR: Thank you, yes.

(Thereupon an electronic vote was taken.)

CHAIRPERSON JONES: Okay. It still passes. So the motion passes. Okay. That concludes that item.

So now we go to the next item on the agenda, which is Item 10 --

(Thereupon an overhead presentation was Presented as follows.)

CHAIRPERSON JONES: Diversity and Inclusion, Evidence of Corporate Performance. So we will now turn to Item 10a and 10b which together form part of the Investment Committee's in-depth review of our strategy on ESG.

Today, we're focusing on the S in the ESG, first by doing a deep dive to look at the evidence on how diversity and inclusion impact corporate performance. We will then turn to staff's presentation. It is my great pleasure to introduce our two distinguished speakers who have both traveled far to be with us today from New York and London to share their work in this field.

Dr. Evans, who is Chief Executive of the Barthwell Group, and Julia Dawson who is the Managing

Director of Credit Suisse. Dr. Evans has a distinguished career as bank lawyer and management consultant. Before she founded the Barthwell Group, Dr. Evans was a Managing Director at JP Morgan, where she obtained no less than five securities licenses. She also developed the Financial Management Institute for CEOs of historically black colleges and universities in the United States.

And in 2014, Dr. Evans was appointed to the U.S. President's Advisory Commission on Educational Excellence for African-Americans.

Julia Dawson is Managing Director at Credit Suisse based in London. She is responsible for thematic research and also covers ESG. Before joining Credit Suisse, Julia was a Managing Director of Deutsche Bank, and formally head of international equity at Alfa Bank in Russia.

Both of our speakers bring tremendous insights as investment practitioners. We're looking forward to learning from their analysis and presentations of data on the important topic of diversity and inclusion evidence on corporate performance.

Thank you for joining us today.

DR. EVANS: Thank you very much, Mr. Jones. I'm Akosua Barthwell Evans, the CEO of the Barthwell Group, which does a lot of work on diversity and inclusion with corporate, not-for-profit, and military throughout the United States. I'm here today and very grateful to be part of this very important presentation with my colleague from Credit Suisse Julia Dawson.

Our focus today is on diversity and inclusion and the evidence that it is impactful on corporate performance.

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DR. EVANS: We will focus on three interrelated themes. The first is key benefits of corporate diversity and inclusion. The second is how corporate diversity and inclusion enhance business performance, and the third is a business case for diversity and inclusion, looking at more specific data and analyses.

Procedurally, I will be talking about the business case for diversity, but emphasizing the importance of ethnic diversity. Julia will follow with presentation on more detailed data and analyses, but will emphasize the importance of gender and LGBT diversity. We will both then conclude jointly and have ample time to answer any questions you might have.

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DR. EVANS: If we look at diversity over the years, we see that the definition has evolved. It formally focused primarily on traits like race, religion, national origin, gender, and color. But now we see it focuses more on individual experiences, such as where is a person from, what are that person's experiences, what is the social economic background, in other words, the invisible traits. And there's a greater emphasis today on diversity of thought, and we find the same trend in the CalPERS definition found in your global principles, which focuses on skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically underrepresented groups.

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DR. EVANS: There have been multiple studies which have documented the value of corporate diversity and inclusion on the business performance of organizations. And when we look at these studies, we typically find five key elements that are attributable to corporate diversity and inclusion.

The first of these is the ability to compete more effectively globally. The second is to enhance U.S. market share. The third is to attract and retain the best talent. And we're not just talking about diverse talent, but talent in general. The fourth is to increase innovation, and the fifth is to enhance financial performance.

When we bring these strengths together

cumulatively, we find stronger corporations with less turnover, more appeal to multi-cultural markets, and greater innovation. Over a period of time, we find that these strengths will lead to greater shareholder value. Now, let's look at each of those strength individually and see what they have to do with corporate diversity and inclusion.

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DR. EVANS: The first is the importance of being able to compete more effectively in global markets. As we are aware, more and more U.S. corporations are becoming more dependent on global markets. A recent study indicated that since 2004, some 47 corporations have relocated their headquarters overseas. And we're also aware that many manufacturing plants have been relocated overseas. It's estimated since 2000 that over five million manufacturing jobs have left the United States.

In addition, many U.S. corporations are increasingly turning overseas for a greater portion of their revenues and their profitability. Another study indicated that if we look at the S&P 500 and the largest corporations, about 40 percent of their profitability is derived overseas. And there is increasing importance of emerging markets such as China, India, and Latin America.

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DR. EVANS: But what does this have to do with corporate diversity and inclusion?

Scholars have indicated that there is a correlation between diverse teams and greater cultural competency and global literacy, two skills which are very important in being successful in global markets. And if we ask ourselves why? It's because typically representatives, leaders, who are diverse, and who are in the C-Suite, or diverse members of corporate boards, often have different networks than some of their white counterparts.

And these networks may include more multi-cultural organizations, as well as more multi-cultural individuals. And they have often had a different path to come to their success, which has included knowledge of how to work with all different types of people, creating a greater sensitivity, which is a very useful trait in understanding the multi-cultural global markets.

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DR. EVANS: And when we look at why diverse corporations are more likely to be able to enhance their share of the U.S. market, we have to look at our own population. And the Pew Research Center estimates that by 2060, 45 percent of our population will be comprised of

African-Americans and Hispanics. We also know that multi-cultural consumers are playing a larger role in our consumer marketplace.

So a University of Georgia study predicts that in 2019, the African-American consumer spending power will be approximately 1.4 trillion, and in 2019, the Hispanic spending power will be about 1.7 trillion, which will be more than 10 percent of the national consumer buying power.

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DR. EVANS: A third strength that is typically attributable to corporate diversity and inclusion is an enhanced ability to recruit the best talent, and to retain that talent. Again, if we ask ourselves why, it's because corporations who proactively recruit diverse talent look at broader sources of that talent, and in order to retain the talent, create environments which are truly inclusive, in other words, which respect the value of all individuals regardless of difference.

And so one of the results of this inclusive environment is that it also benefits white workers. It may benefit white workers who previously may not have fit the standard profile of a high potential employee, but who nonetheless had the talent, and who may become more engaged, and therefore are less likely to leave their employer.

So we see three attributes that have typically been attributed to diverse corporations. One, as we've mentioned, is lower turnover, higher retention, the placement of their corporations in the marketplace as more of an employer of choice, and the association of their brand with excellent corporate social responsibility, a trait which appeals to Millennials.

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DR. EVANS: A fourth strength is innovation, and also countering group think, a psychological construct which has observed that often among homogenous teams there is a tendency when making decisions to make consensual decisions, to not upset the harmony of the group, as opposed to critically evaluating all possible options and solutions to a problem. And group think has sometimes been attributed to very disastrous decision making. And one cited frequently is the Bay of Pigs fiasco.

But for many diverse representatives in the C-Suite and on corporate boards, they may have a very different career path. As you are aware, many board members traditionally have been selected based on their experience corporate-wise at Fortune 500 companies, particularly former CEOs, a goal that was often not attainable for many women or minorities.

And therefore, their professional routes have been different, and sometimes they are not even from a corporate background. They may be, for example, the CEO of a higher education institution. So they have different experiences and they have had to learn how to get along with, collaborate with many people of different backgrounds.

And so they often have a different perspective, and they are more likely to challenge decisions, ask questions. And this kind of healthy discourse often leads to more innovative solutions.

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DR. EVANS: The final trait that we hear of frequently about diverse corporations is enhanced financial performance. And if we look at a recent McKinsey study, where they looked at about 366 companies from 2010 to 2013 and looked at the financial performance, looking at EBITDA, as well as total revenues and returns on investment, they found that those companies in the first quartile with respect to diversity had financial performances which exceeded the medians in their industry.

For ethnic diverse first quartile companies, this was about 35 percent greater than the median performance in their industries. And for those with the first quartile for gender diversity, it was approximately 15 percent greater in financial performance.

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DR. EVANS: But in addition to these five strengths that are frequently cited in works, there are also other indicators of the importance of corporate diversity and inclusion. For example, we see that many corporations compete to be considered thought leaders in the areas of diversity and inclusion. And this is evidenced by the competition to be listed by DiversityInc as one of the top 50 corporations, or to belong to the Billion Dollar Roundtable, an association of corporations which spend a billion dollars with either women owned or minority owned businesses.

One of these is Kaiser. And one of their executives has clearly stated that this is an important business strategy, one to which they devote resources, both human capital and financial capital.

There have also been many studies talking about the advantages of diverse corporate boards. One frequently cited is that of the National Association of Corporate Directors, whose commission in 2012 not only said that having a diverse corporate board is a business imperative, but indicated that there are clear advantages both to the corporation as well as to the Board.

With respect to the corporation, they cited better talent management, better access to capital, better relations with stakeholders. But with the board, they also indicated a tendency to have more dialogue, to have more challenges to decision making, and to have more engagement overall and better attendance.

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DR. EVANS: So in conclusion, we believe that corporate diversity and inclusion is an important business imperative, not strictly a moral imperative. And we believe that there is ample evidence to demonstrate that corporate diversity and inclusion will result in better workforce retention, enhanced market share in domestic and global markets, and greater organizational and financial efficiency.

However, we emphasize that it cannot be tokenism. So it must be substantive diversity. And the inclusive environment must have the full support of the CEO, and there must be accountability. We also want to note that we believe ethnic diversity will become increasingly important as the trends of greater reliance on global marketplaces and the demographic changes in our country continue.

It's now my pleasure to turnover the podium to my colleague from Credit Suisse, Julia Dawson. Thank you.

MS. DAWSON: Thank you. Hello. I'm Julia

Dawson. I work at Credit Suisse in London. I'm responsible for ESG research and thematics within our equity research group. And I'm here because I wanted to share two research reports that we've done into the value of diversity.

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MS. DAWSON: One is a report from 2014 looking at gender diversity, both at the Board level and in senior management, it's a report called Women in Senior Management CS Gender 3000, in which we look at 3,000 companies globally. And so we can look at diversity and the impact, both by a country basis and an industry basis. And we have one year of data, which is the beginning of a series of research that we're doing into the benefits of diversity at the senior management level, that CEO and CEO minus one level.

And then last week, we published a report into LGBT diversity looking at companies that provide a very supportive and embracing work environment where senior managers and employees are happy to declare their gender identity and who they work for.

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MS. DAWSON: So the data that we find in the original gender diversity report clearly showed a correlation between the level of diversity and corporate performance. And in the Board room, we found that since 2005, so a 10-year history, that the returns on equity are good proxy for corporate profitability had been 14 percent where there was at least one woman on the Board. And whereas an all-male board room, there returns had been averaging 11 percent.

When we looked at management, we -- there's a natural average of 12.9 percent of women at CEO and CEO minus one levels in our data. And so we made a collar of 10 percent and 15 percent. And companies that had more than 15 percent women in the C-Suite had a return of about 15 percent, just under. And those which had less than 10 percent, had a return of 9.7. So a clear difference in the returns that we were getting.

We also looked at this, as I said, at an industry level. And in the 10 main industries that are covered, all but one showed a higher performance where there were a greater number of women. And the only industry where there was as an underperformance was energy, and that difference was just one percent.

When we looked at CEO and the main business unit heads, we see profitability is higher by 27 percent. And then turning to our LGBT research that we've just published last week, as I said, again we're seeing 10 percent higher profitability. And that we're analyzing over the past five to six years, we're we have the data.

And the other very intriguing thing is, and I'm talking averages over these time periods, but in each and every year, there were superior returns in higher diversity -- where you have higher diversity.

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MS. DAWSON: So does this translate into a good investment strategy?

Globally, over the past 10 years, we've seen an excess share price CAGR of 3.4 percent, where there is one woman on the board compared to male-only boards. And over that period, male-only boards have actually lost on average 1.2 percent per year.

In the U.S., we see a difference of 2.4 percent, where there is one woman in the Board member versus all-male teams. And in our LGBT work, we see against a custom benchmark there reflects a skew of companies in North America, Europe, and Australia. The outperformance has been 1.7 percent over -- per year over the past six years against this benchmark, and 3.3 percent higher than MSCI ACWI, which is a global proxy index. And we also see on the LGTB[sic] basket that it's trading at an average of nine percent below benchmarks, despite higher profitability.

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MS. DAWSON: So if we look at this graphically -- and here, I've just put the companies that are over 10 billion, so a very sort of investable universe, the dark blue line is where there is more than one woman on board. The like blue line is the companies in the U.S. which have at least one woman on the board, and the gray line, which is actually the loss -- returning losses is the global comparator. And so you can see on this slide that U.S. companies with more than -- at least one woman on the Board is actually outperforming the male global only boards by over four percent.

On our next chart, this is our LGBT basket. And as I said, the outperformance is 1.7 percent over the past six years --

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MS. DAWSON: -- 3.3 percent against MSCI ACWI. So very easy and nice returns to have.

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MS. DAWSON: So what are these differences that we're seeing at these companies?

Where there is at least one woman on a board, we find the payout ratios to the dividend payout is about -- is 20 percent higher on average. And that is over a 10-year history of data that we have on that. And that's potentially a benefit to investors, in the sense that women are paying out more cash and can stop companies and male CEOs create spending money on their value destructive M&A or empire building.

The financial services sector gets a lot of blame for the 2007 and 2008 financial crisis. But we also saw in the period running up to that, a lot of fairly leveraged buyouts in telecoms and in materials, particularly mining led by male CEOs.

What we're also beginning to see in some of our research is that diversity seems to offer indications of asymmetric returns, and by that, I mean, there are defensive strategies where markets are going down. And given the outperformance that we're seeing over this 10-year horizon and the six-year horizon that we've got for LGBT, it's suggests that we're seeing superior returns in periods of growth.

And what -- and Akosua has said, we're seeing that sort of explains why diversity stops boards having group think and challenging decisions enabling them to make better strategic choices.

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MS. DAWSON: There's a number of academic shows that show very different behavior in women to men in terms of taking risk and how they behave in stressful trading environments. There's a well known study by Coates of the

University of Cambridge that showed in trading simulations that when mail traders start losing money, they start taking bigger bets and more frequent bets, and woman don't behave in that way at all. They tend to make more considered decisions.

It's very similar in the SATs, there's a report -- a study by the Ohio State University that shows there's a very different incentive in multiple choice questions, given the marking system. Whereas, women, or female candidates, won't make guesses, the men will. And that is a clear structural bias in the scoring system of the SATs that's been proven a couple of times.

We also are able to measure M&A through some of the data that we have at Credit Suisse. And we see when female CEOs replace male CEOs, they drop the number of acquisitions and men do the same.

What we see that's very interesting is on the divestment side. So when a female CEO comes in, they increase the number of divestments. Men don't do that. And that's very indicative also of how male remuneration packages are different from female remuneration packages at the CEO level, as males take many more out of the money options, sort of saying I can make this work. Whereas women are much more cautious in managing the assets that they have. And I think that's a very clear indication of different behavior.

And as Akosua said, better attention, lower hiring costs, fewer productivity losses, and a much more better working culture.

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MS. DAWSON: And I've included a stat later on in the chart from the University of Warwick, which says that happy employees are 10 percent more productive. So if you're diverse and you're happy, you're going to be more productive.

So collective intelligence is not maximized when you have views that are not different. The same views are going to give you the same answers. And we work in an increasingly sophisticated world, where we now are able to answer the challenges for today. They're evolving rapidly.

Homogenous boards run the risk of trailing many of the structural shifts that we're seeing today. Akosua mentioned the emergence of emerging markets, large consumer groups. There's a challenge of the on-line business in practically every sector.

We've also got cybersecurity. It's one of the main demands of board members today, and a skill that very few have. And so by not embracing diversity, boards are not maximizing the skills that are needed for -- to answer all of these shifts in the business environment today.

Also, we're seeing the consumer is changing rapidly. We've mentioned the emerging markets. We should also mention millennials and the shift towards them. So understanding these consumer values, and values of specific consumer groups are spread far more broadly than the group itself, so you have value-driven consumers and value-driven employees, and this leads to much higher retention rates and much better performance.

And I've included a few stats here that I think are interesting. Seventy percent of household purchasing decisions are now made by a woman, including a car; 23 percent of LGBT adults have switched to products or services to LGBT supportive companies, and 71 percent of LGBT customers stay loyal to brands or services, even if they are more expensive or less convenient.

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MS. DAWSON: And knowing your customer and leading to better sales must be intuitive today. And this work has been married in experience on the shop floor and in the board room. So China is 30 percent of the global luxury consumer -- luxury brand market today. And in Europe, only one of the European luxury houses has an Asian board member, and that's because he's 8 percent shareholder. Emerging markets are now 40 to 50 percent of sales for many global consumer companies, and only Nestlé and Unilever have boards that reflect that.

Yahoo's main asset is their stake in Alibaba, and excluding the deferred tax liability that's worth about 50 percent of their assets. I can't see any expert or representative of Alibaba on their board.

Apple, the -- many analysts think that the future success of Apple depends on them replicating their success in China and other emerging markets. But again, there's no emerging market or China specialists on their board to indicate they have the skills to do that. And in Silicon Valley brands, there have been some structural issues and hurdles in China, and they've missed the China opportunity. But Uber said it wasn't losing a billion dollars a year in China, you know, what do they think they have got that's special on their board that's going to help them win with their strategy?

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MS. DAWSON: On this slide, we've indicated a number of the different types of diversity. And I think Akosua has gone through them very thoroughly. I would just add experience to me is very important, sector experience, country work experience, functional exposure. Tenure I think is also a very important part of diversity and freshness on your board. But I also think diversity means how each of these bits interact with one another. It's a very potent sort of washing machine of skills that we are looking for on a board.

I would also highlight that, you know, I would be skeptical of the argument that concurrent board experiences is very beneficial. I have found in the work that we've done that that's not to be true. And concurrent experience comes at a cost both to companies and to investors.

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MS. DAWSON: I've included an overboarding chart here for the S&P 500. And it shows that companies whose directors hold just one board seat outperform by an average of 40 basis points over the past five years. The different was 140 basis points until September last year. In Europe, the difference is actually five percent. So even more pronounced where directors hold more than one board position at the time.

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MS. DAWSON: And I also wanted to just reflect that overboarding, I think, comes at a cost for not understanding some of the newer challenges to businesses. There's a skew you can see towards older people who are holding more of these board positions. And if you think of the challenges that we've outlined before, cybersecurity, on-line business, and some of the people on the boards will not have been having any operational or managerial experience when those challenges came.

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MS. DAWSON: I've included an item on tenure, just because I think it's a very important issue. Refreshment is a critical part of having a diverse board. And I think the U.S. is very noticeable for the length of tenure that some of your directors have in Europe. And in the U.K. we look to have a maximum of nine years. And so you'd expect that chart to peak around four to five years. And clearly, it's not. So that's -- I think that's a clear indication of refreshment issues.

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MS. DAWSON: And lastly, I've just included a well known slide. This is U.S. GMI data just showing the pyramid of age for male and female directors. And as I said, you know, some of those people over 80 are a very long way from knowing too much about on-line businesses and the cybersecurity.

DR. EVANS: So in conclusion, what we have demonstrated today is the value of diversity and inclusion in -- on corporate performance just operationally, as well as on the Board. So operationally, in terms of some of the critical factors that contribute to overall business success, particularly the ability to attract and retain the best talent, the ability to be aligned with markets, and also the ability to be innovative in a business environment that is constantly changing; and with respect to the boards, the critical importance of having boards, which reflect their markets and their customers and their employees; and also, the fact of having boards which are going to become more engaged, better at decision making.

That, in an overview is what we've tried to do today. And I turn it over to Julia for her closing remarks.

MS. DAWSON: Yes. You know, clearly, we can't prove causality at this stage. But I think having the run -- you know, research both on gender and LGBT and seeing the outperformance, very clearly many ways that we look at it. Even without causality, we can show the correlation between diversity and the positive benefits that it does have for corporate performance and for investors.

CHAIRPERSON JONES: Okay. Well, thank very much for the presentation, and very informative, and a lot of information that I'm sure that sets the stage for our next agenda item, that we take a deeper dive into the S on ESG.

But before I turn it over to staff to move to the next agenda item, I want to respond -- have members ask their questions.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I had a couple of questions on a couple of slides. Slide five, which dealt with corporations increasingly being global. You've got a bullet point here that 40 percent of the profits from firms listed in the S&P 500 index are now coming from overseas. Do you have any data on how much of that is because they're operating overseas and how much of that is from pricing transfers?

DR. EVANS: I'm sorry, I don't have the specifics, but I will be happy to get those to you.

COMMITTEE MEMBER JELINCIC: Okay. And then on -- yeah, because obviously transfer pricing has become a bit of a hot issue.

And then on slide 16, going back to the days when I was an active analyst, I frequently learned what wasn't said was often as important as what was said. And what I notice here is that for the world, we have a line for one or more women on a board, and none. For the U.S., we have more than one woman, but we don't have a line for the none. Any idea what that line would look like?

MS. DAWSON: Yeah, the slide -- two slides previously is 2.4 percent outperformance as an average over 10 years.

COMMITTEE MEMBER JELINCIC: Everybody is telling you to turn on your mic, but I see that it's on.

MS. DAWSON: Oh, sorry.

CHAIRPERSON JONES: It's on. Just move it to --

MS. DAWSON: Sorry. The data point is actually on one of the slides. It's the previous slide 2.4 percent per annum over ten years.

COMMITTEE MEMBER JELINCIC: And that's U.S. companies only?

MS. DAWSON: U.S.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON JONES: Okay. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, I want to thank you both for being with us today. This is -- your data, your presentation really sort of affirms what sort of makes intuitive sense to me that diversity, in general, can lead to better decision making. And I see that on our board here. It just -- you know, the kinds of robust debate that we have as a board, I think is really supported by the fact that we have different backgrounds and different points of view and different genders, et cetera.

So I think -- that makes sense to me that that would be borne out in the data. I have a question for you about equity. And I don't know if you've have actually done any research on equity. But it's one thing to have diversity, but then within an organization to have equity between people of different genders, races, ethnicities, social -- sexual orientation, et cetera, in terms of compensation, opportunities, et cetera, have you done any research that penetrates that deep into an organization, and what the implications might be for performance?

MS. DAWSON: I've got two bits that I can share. One is some data that we looked at companies where there were 50 percent women. And we did bands of measuring them at 15 percent, 25 percent, and 50 percent. And we saw the higher the level of diversity the better performance was. In our research, we've deliberately stayed away from trying to identify a tipping point where it improves or otherwise. And you also, when you get to 50 percent, have quite a sector skew towards consumer discretion, whereas you can think U.S. apparel companies that should have a large percentage. But, you know, there's clear indications that there's outperformance at the 50 percent level.

In equity, if you're looking at equity within organizations, there are very few examples. It's 50/50 percent that come in at sort of entry level. And when you get to the top echelons of the 3,000 plus companies that we look at, we've got 3.7 percent female CEOs say that the pyramid is very, very skewed.

COMMITTEE MEMBER MATHUR: And in terms of compensation or other opportunities within the organization for promotion or advancement, any research on that that you see?

MS. DAWSON: There are some good studies. It's not our work, but there's research by I believe it's KPMG that shows that men have on average five promotion runs in their career, and women only get three. So you can extrapolate the term -- what that means for salaries, yes.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON JONES: Mr. Chiang.

COMMITTEE MEMBER CHIANG: Good afternoon, and thank you. I have questions regarding the performance measures that you shared with us versus -- I don't know if you did a greater evaluation of the performance metrics. So just -- and so you have a perspective, right? So I advanced here at CalPERS ten years ago the fact with we needed to diversify or CalPERS needed to lead the effort to diversify America's corporate boards, but we wanted to make sure to back it up.

And so the early studies used to cite three metrics. And then we partnered nine or ten years ago for a conference at Stanford. And one of the professors who was supported said yes on those metrics that's true, but on other metrics it is not accurate. So I just get a deeper sense of why you selected these metrics and why these metrics are the most -- the most effective, the most compelling metrics to use as we share the effectiveness of diversity on corporate boards.

MS. DAWSON: And we chose to put -- we looked at four metrics for both the board and the management levels. And that is ROE, price to book, leverage, and dividend payout ratios, because the latter two are obviously decisions about how you manage your companies. And then ROE we took as a proxy for profitability. We've also looked at returns on invested capital and that gave exactly the same result, but that's not being published within our report.

In the LGBT work, we've also done -- we've also included cash flow returns on investment, economic profit, which is basically the rent above your cost of capital as a percentage of enterprise value. And again, we get the outperformance. It's about 40 percent in the cash flow return levels, and it's about 11 percent in terms of economic profit, superior returns.

COMMITTEE MEMBER CHIANG: Thank you.

CHAIRPERSON JONES: Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones. Appreciate you both being here. A very informative report. So I just have a few questions. One on education. Similar to what justice Sotomayor has said about the lack of diversity on the Supreme Court, what we often see -- at least I see across corporate boards is this, you either went to Stanford, Harvard, or Yale, and that's it.

And so part of it is what I don't see in your reports - and I have several questions - are recommendations. So one is how do you pierce that veil. So you've got the education component, because I don't know how you're going to transform, you know, change that. Someone -- I do appreciate you citing a University of Georgia study. I do appreciate that.

(Laughter.)

COMMITTEE MEMBER COSTIGAN: So thank you. Which is one of my points when you look at this. A couple other ones to look at is when you talk about -- as may recall recently, this Board adopted a position that you're not an independent Board member if you've been on more than 12 years. So when you talk about group think, is it your recommendation -- and just looking for guidance. If you don't want to answer it, that's fine -- that we should vote against directors -- independent directors who have been there for more than 12 years as a blanket policy, because that's group think?

DR. EVANS: I think one of the things that we probably didn't bring out explicitly, but if you look at some of the studies like the NACD study, it is important, and I think Julia has mentioned this as well, to consider term limits or limitation on service on boards either based on age or term.

And with respect to your question, which I think is really a question about how do we effectively go about changing board compensation or broadening it? As you know, I think there's statistics that indicate that most board positions come from personal relationships many times of people that the board members feel comfortable with, or they know, or that they've served with on other boards.

So we see that, for example, many women of color often serve on multiple boards. And so when we look at really what's the representation on terms of the board seats, it's even smaller than that number.

So the question would be how do we encourage more kind of socialization, more interaction of boards with people that they may not otherwise network. There are some organizations that are focusing on that. I'm a member of the Executive Leadership Council, which is an organization of the most -- the highest ranking corporate executives in the United States who are African-American.

And we have a program to not only prepare our members to serve on boards, but we also kind of circulate that information to corporations, and hold meetings quarterly in different parts of the country to kind of introduce these candidates to corporations. We recently had a meeting at Twitter for example.

So I think it's a process of planning how you can begin to build different sustainable relationships that might enable people to be considered more seriously for board opportunities.

COMMITTEE MEMBER COSTIGAN: The question I had actually was a recommendation. In order to diversify the board, should you just oppose people? What you're saying is when something opens, we're going to have a pool of people. Your report talks about, quite honestly, you should go ahead and diversify these boards. Anybody that's serving on more than one board should be gone off the other boards, because at least what your report says is you get higher returns. So the question then is why wait?

MS. DAWSON: Perhaps I can share a bit of work that we did, because we've looked at tenure and tried to measure tenure. And we do research into family businesses, and we found clear outperformance in family owned businesses. And also you have directors that tend to stay there much longer both as founders and as family representatives.

So looking at the S&P and taking out those companies where are family owned, or have significant family influence, or on the Board, or founders, and measuring the companies that simply have independent directors, we found -- we made two baskets, one where the boards had up to nine years of experience, and then the second basket was had directors that had been there for nine years or more. And we found that over the past six years, the share price outperformance was 4.4 percent for the boards that had less time on, and therefore more refreshed board that was serving the company. So again, we're seeing a very big difference in performance.

COMMITTEE MEMBER COSTIGAN: Okay. All right. One last question and it's actually directed to you at Credit Suisse. So I do research of people who present in front of us. And I do have a slight concern, based upon some of the data you put. Your executive committee at Credit Suisse is comprised of 11 people, 10 male and one female. Based upon your statistics, you're underperforming by only having one -- you have three on your board, you have nine male on your board.

So your executive committee is underrepresented, and in fact on the data that you present is underperforming. And so I'd be curious as to why Credit Suisse isn't following the information you've put forth in their report?

MS. DAWSON: I'm afraid you'd have to ask our CEO. That's way beyond something that I would be able to influence.

COMMITTEE MEMBER COSTIGAN: Okay. That answers it. Thank you.

CHAIRPERSON JONES: Mrs. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. Thank you both for the presentation. And, Julia, thank you for participating in some of our diversity forums in the past. Just very grateful for your dedication in this area.

I wanted to see, just based on the prior conversation, your feelings about board tenure, and really having explicit terms with respect to board tenure. Is that -- are there kind of some, I guess, best practices around that? I know we've just recently articulated a 12-year period, but do you have thoughts about that?

MS. DAWSON: I do have. I haven't looked at 12-year -- book performance differentiation around 12 years. And I look at nine years, because in Europe and in the UK we have a sort of standard of three times three year mandates. And so that's what I was looking at to see if we had a tipping point around that. And I also think that, you know, a decade of service, you're not independent what ever anybody think it means. Apparently, I think you get into a very -- into a groove of decision making practices, and alignments within boards that need to be managed.

COMMITTEE MEMBER YEE: And then are there any studies or reviews underway currently that look at the impact of racial ethnic diversity? I'm heartened by the growing body of work on gender diversity, but anything that's kind of in the pipeline relative to the impacts of racial and ethnic diversity on boards?

MS. DAWSON: We would, if we had the data, but, you know, data is difficult to come by, other than sort of manually looking through all the profiles of S&P companies.

COMMITTEE MEMBER YEE: Yeah. I mean, any speculation as to why that is? I mean, there -- is it just because of the lower levels of representation or --

MS. DAWSON: No, it's simply that we haven't collected -- that we don't have the data.

COMMITTEE MEMBER YEE: Oh, okay. Okay. All right. Well, hopefully soon. Thank you.

CHAIRPERSON JONES: Mr. Jelincic.

Have either of you had any experience with the

Diverse Director Database? And what do you see -- if you have, what do you see as the strengths and weaknesses in that?

MS. DAWSON: I'm afraid I haven't seen the database.

DR. EVANS: I haven't seen it either. I think one of the things through the organization that I referenced that we are finding that often it's very important to facilitate actual meetings, as opposed to just having access to the database, but I haven't seen it either.

COMMITTEE MEMBER JELINCIC: Anne, beat up on them afterwards. Thank you.

Okay. That concludes the questions that I have on my screen here. And so I think it's time to turn it over to Ted and introduce Item 10b. And again, we want to thank you both for your time and presentation today.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Jones, members of the Committee, this is agenda Item 10b following that just wonderful presentation from our two invited and distinguished guests and presenters. I just add -- echo my thanks and the entire Investment Office staff's thanks for their presentation today, because it really, on some topics as a refresher, and on other topics really up-to-date proprietary research that practitioners are doing in this field, particularly the LGBT study that Credit Suisse has really pioneered, and just released recently -- extremely recently. So thank you for all of that work.

(Thereupon an overhead presentation was Presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: I am going to kick-off now our presentation on the corporate global governance strategic plan that we're preparing together. We have a timeline I think that's well known to the Committee. I will not go over that one more time. But today's meeting is really focused on the middle of this page, the S of the ES&G.

And this chart, page three, we have updated from last month where we got a lot of good feedback regarding the E of the ES&G, and particularly on some of the formatting of this page. And we think that all of those comments were very well taken. I think it strengthened our strategic priorities chart here.

In particular, I just want to note, you'll see at the very top of the chart across the ES&G now, we do note that there will be work ongoing across the ES&G with respect to data and corporate reporting standards and accounting standards, that it's not just isolated to the E of ES&G. So that was a good feedback from last month.

In addition, we're clarifying that the research is meant to and will span the breadth of ES&G topics. And we're noting that here in the chart.

Today, as we now go into more depth on the S of ES&G, we'll hone in really on that bottom quadrant where you're going to see Anne and Laurie principally presenting our recommendations for moving forward with strategies in order to take advantage of the -- some of the presentation materials you've seen today and other things that we've known for quite some time, including diversity and inclusion, Responsible Contractor Program, supply chain activities, as well as a placeholder that we've put here for income inequality, which really is meant to reflect and we'll see it later in the presentation the follow-up step from the research that will occur in the first year.

So with that, and really with no further adieu, I think what we best do is to turn it over to Anne and the team and we'll get started.

INVESTMENT DIRECTOR SIMPSON: Well, thank you very much. And I'd like to add my personal thanks to the two previous speakers, because there's an enormous amount of work pulling this together. And I think on the staff side, we've really learned a lot in the process about what data are available and how they can be understood.

I also see Mr. Costigan isn't with us at the moment, but I did want to point out the Board of Credit Suisse is at the forefront on diversity, has a black CEO, and 25 percent of the Board is female. So I know that there's a lot here to think about, but from the level of leadership, I think the signs are good.

So thank you to the speakers. As always, we begin the presentation by referring to the Investment Beliefs that we think are most relevant to the topic that we're going to be talking about today. It's obvious, I think, to all of us that the Investment Belief 3 is particularly important in the whole of this ESG strategy, because what we're articulating is our fiduciary approach, which means we're going to be sifting through the many options in front of us to ensure that we choose issues that are framed by our principles, where we see the potential for an impact that's material, where we can define the success that we're looking for, and also where CalPERS has capacity. We've got the expertise, the resources, and the standing to influence an outcome.

And I just put that there, because we know there' such of wide array of different possible topics for us to take up. It really is, I think, the belief that's helping us to think in a strategic way about where CalPERS could have the most impact.

The next Investment Belief that's relevant of course is number 4, where we articulate that for long-term value creation, we need effective management of three forms of capital, financial, physical, and today, we're going to talk about human. And that's really, I think, an investment way to frame the ESG acronym.

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INVESTMENT DIRECTOR SIMPSON: We also reference the Investment Beliefs number 7 and number 8, which are about taking risk, only where we have a strong belief we'll be rewarded, and also that costs matter. And finally, Belief 9, that risk for CalPERS is multi-faceted, and, of course, Investment Belief 10, which makes specific reference to strong processes, team work, and deep resources, and very relevant to today's discussion. This belief highlights that diversity of talent, including a board -- a broad range of education, experience, perspectives, and skills at all levels, that's board, staff, external managers, and corporate boards is important.

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INVESTMENT DIRECTOR SIMPSON: Oh, I'm sorry. I have been merrily bowling through and not changed the slides. So thank you for reading along with me. I obviously needed team work and deep resources.

(Laughter.)

INVESTMENT DIRECTOR SIMPSON: Thank you. And the clicker. All right. Also, I'm glad to say that James Andrus has joined me. James has been leading on much of our work and represents CalPERS in our relationship with the Executive Leadership Council, and was at the meeting at Twitter, which Dr. Evans mentioned. So thank you, James.

So our current strategy on ESG, much as you've seen before, this is all familiar. We consider we have three ways of having an influence. The first is to integrate the relevant considerations internally into our investment decision-making process. Next is engagement, that's where we can use our influence as owners of companies or clients of managers. And, of course, advocacy, which is where we can speak for the rules and regulations, which will ensure the market works more effectively for long-term owners like us.

And at the bottom, we highlight partnerships, because despite CalPERS great size, everything we do we need to do in collaboration with other long-term owners, and that is an important part of our strategy.

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INVESTMENT DIRECTOR SIMPSON: So next, we've put up some quotes, which I won't go through, because I think they very much reflect Dr. Evans and Julia Dawson's comments. But I do want to highlight one piece at the top, because I think it's a dimension that is extremely important. And it's about demographically diverse groups being exposed to a wider range of perspectives. And we've talked about that, but there's a point here from Tufts University, which I think is really interesting, which is about the ability to lead people to process evidence more accurately, and to discuss controversial and polarizing issues, and being able to have a board dynamic, which can take on challenging and polarizing issues in a good way is really an important part of effective risk management.

So, I think now, we're into the consideration of what is to be done? The data that we're showing on the slides is from the S&P 500 in the U.S..

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INVESTMENT DIRECTOR SIMPSON: And that's really because there's some reasonable disclosure that we can point to. However, and this is something James has been looking at, as you go through the rest of our portfolio, even in the U.S., it's very, very difficult to get a good picture of board diversity, and even more so, the picture -- I would say it's the such -- the numbers do not look as good as they do here. And there's a very sharp fall off on board diversity as you go through the Russell 3000.

So I think this really reflects this slide about ethnic and racial diversity on major U.S. companies. You can see that in 2010, there was just 83.7 percent that could be identified by Spencer Stuart as the caucasian, or white community. And since then the percentage has moved hardly at all.

So over this five-year period in which I think there's been a lot more conversation and initiatives and efforts, we've seen very little progress.

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INVESTMENT DIRECTOR SIMPSON: The picture is not a lot better on gender. In 2010, 16 percent of directors in the Russell -- sorry in the S&P 500 were female. And that had moved up by four percent over this five-year period. So 20 percent of board members are female for those major companies. And again, we can turn a bit later to the detail as you move further down by company size.

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INVESTMENT DIRECTOR SIMPSON: So faced with all of the evidence that diversity is important to performance, and seeing how little impact we've had collectively so far, the question is what should be the focus of our new five-year plan? At the top, you'll see on advocacy, we're continuing to highlight the importance of data and corporate reporting standards. This is really the answer to the Controller's earlier question as to could we have more research on different dimensions of diversity?

At the moment, it's extremely difficult to even get the information. And that points to CalPERS work with North Carolina and New York and other funds to develop a petition to the SEC. We also know that there is some legislative discussions underway about board diversity, but we really want to make sure that we can improve the disclosure framework.

On the second channel of engagement we think it's time to actually have a focus listed of selected companies. We have been, in our proxy access campaigns with New York City selecting companies based on a lack of diversity. We've seen some early results, which are encouraging.

I think at 20 companies last year where we won proxy access, 12 of them have since appointed a woman or a racially or ethnically diverse candidate. But it's too little too late. And if we are going to ramp this up, we think having a focus on selected companies will be helpful.

There was reference made earlier to the -- to 3D, the Diverse Director DataSource. We're in the middle of discussions with Laurie Weir and her team as well, through the Diversity and Inclusion Committee, to look for a new home, as I think the Board is aware that the facility was bought when MSCI took over its original home at GMI.

We also see the potential for building out work that we've done on human capital management in the retail sector. We developed work through Walmart and other retailers who we engaged following tragedies in Bangladesh. So we think we have a framework there that we could roll-out elsewhere.

We have our placeholder for income inequality when the research on that is finally completed. And also, on our principles and proxy voting work, we will continue through proxy access to build more opportunities for putting forward candidates to boards.

On integration, we have an important policy in place for the responsible contractor policy. CalPERS has also established a Diversity and Inclusion Steering Committee at the Investment Office, which is chaired by Laurie Weir, who I'll hand over to in a moment.

There are different elements of the work for that committee. But it covers the emerging manager plan, INVO's own talent management initiative, and the work we've just been talking about on board diversity.

Finally, we have the manager expectations pilot, which includes reference to human capital management, and we have underway the refresh of the Sustainable Investment Research Initiative.

As you may be aware from -- remember from last time, we've introduced diversity and inequality -- income equality into the refresh, so that we're specifically looking at the research in this area.

The next slides go into detail on all of those, but given the late hour, I don't think I can -- I think it's perfectly safe to turn to slide 19 --

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INVESTMENT DIRECTOR SIMPSON: -- and to give the clicker Laurie, who will take us through the next section of the deck.

INVESTMENT DIRECTOR WEIR: Good afternoon, Investment Committee members. Laurie Weir, Targeted Investment Programs. And I'll pick it up under our last initiative under engagement, and then I'll talk a little bit about our integration measures. So our last initiative under engagement is our continuing work with established managers. We know that the diversity and the ownership -- the diversity of the ownership as well as the leadership of the firms that we do business with is -- oh, thank you for that. 19 -- yeah, thanks.

INVESTMENT DIRECTOR SIMPSON: No, I played a trick on you, Laurie, by skipping ahead. That's my fault.

INVESTMENT DIRECTOR WEIR: There we go -- is -- I'll start that again. We know that the diversity of both the ownership and the leadership of the firms that manage our capital is critical to their performance, their alignment with CalPERS, and the development of pipeline of diverse talent coming into the investment field today.

To date, we have surveyed all of our established managers and consultants for their diversity, and use that survey as a method to engage with those managers on the importance we place on the topic.

Our future plans include the development of an established manager D&I engagement strategy that is likely to include re-surveying those established managers and selecting specific managers for engagement around best practices, and identifying methods to heighten diversity in the investment field today.

Moving to manager expectations, with respect -- with respect to integration, we have identified four key initiatives that we will target over the next four years. As the Board knows, we have a cross-asset class project under way to develop manager expectations on ESG across the total fund. This project focuses on human capital initiatives, such as the factors identified by PRI into our expectations of both internal and external managers.

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INVESTMENT DIRECTOR WEIR: Responsible Consider Program. The Responsible Contractor Program continues to be a core element of our human capital initiatives. In the past two years, the policy underwent substantial revision, and this year we are preparing the first report to the Board in December under the revised policy. Particular focus is being placed on the non-core real assets managers that are newly subject to the neutrality requirements in the policy.

Staff continues to monitor compliance with the policy and engage with stakeholders on labor issues and topics of joint interest with the labor community. And I might add that one of those topics of joint interest with the labor community is, in fact, diversity and inclusion.

The Investment Office has established a Diversity and Inclusion Steering Committee that Anne referenced. The Steering Committee has approved three key areas of work related to D&I, which all of which you are hearing about today. The Investment Office has undertaken talent management initiatives working with several strategic partner organizations on efforts to increase the diversity in the pools of talent that compete for open positions in the Investment Office.

One of our strategic partners is the Toigo

Foundation. CalPERS has a long history of partnership with Toigo. Recently, staff has stepped up our participation and currently serves as the chair of the Toigo Advisory Board. Staff will seek to identify areas where we can work with Toigo and our other partnership organizations, including 100 women in hedge funds, the Association of Asian American Investment Managers, and the Executive Legal -- Executive Leadership Council on future plans, identifying new talent and launching new talent management initiatives, heightened communication with staff across the Investment Office and across the enterprise broadly as we connect with the CalPERS enterprise on all of these D&I initiatives.

The Investment Office will present our annual update on all matters relating to D&I to you at the Finance and Admin Committee currently scheduled for September of this year.

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INVESTMENT DIRECTOR WEIR: Finally, a key element -- let me see if I'm good enough to do this, there we go. Finally a key element of our D&I integration work is to continue the objectives under our emerging manager five-year plan. We have completed significant work under the plan. However, we do not think that we are done. Staff will renew current efforts and identify new initiatives to improve the deployment of capital and engage with the emerging and diverse manager stakeholder community. And staff will present an update to the Investment Committee on those items in June of this year.

And that ends my report. And I think we're collectively happy to answer questions the Board may have.

CHAIRPERSON JONES: Okay. Thank you for the report. And Mrs. Mathur.

COMMITTEE MEMBER MATHUR: Thank you so much for this report. I think this is such an important area of focus. And it's one that I think a lot of us have been grappling with what is the most effective way to have an impact that is also -- that also makes sense for us from a portfolio standpoint.

I just had one question. I'm very -- on page 14, you have sort of the overview, and you've broken it out by advocacy, engagement, and integration. And I very much support all the items you have on here. You noted that you have a placeholder for income inequality under engagement, which I think makes a lot of sense. That will -- there will be -- we expect some constructive or -- actions that we can take coming out of the research initiative.

I suspect that some of those actions might actually fall under advocacy as well. So I would just wonder whether it makes sense to have also an income inequality placeholder under the -- in the advocacy box, because it's -- there's no way to pre-tell whether it's going to be advocacy engagement or some combination of the two. So I would just make that suggestion.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That makes sense to us. We wouldn't want to pre -- really pre-judge where -- what would come out of the research.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

CHAIRPERSON JONES: Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On slide 14, I notice you referenced the 3D. When we engage in conversations with corporations on their board, do we ask them if they are using that, and do we encourage them to use it, are we finding out that they are using it, are they -- I don't know wherever -- what's --

INVESTMENT DIRECTOR SIMPSON: Yeah. So 3D was a resource that CalPERS initiated with CalSTRS when Treasurer Chiang challenged both of our funds to tackle the lack of diversity on boards. And what we were told at that point was, by companies, well this is a problem of supply. If only there were qualified women, people of color, and so forth.

So when -- however, we thought it was important to put this database together, and we did it following a string of roundtables with a lot of stakeholder input. But then we also thought it was important that it was independent of CalPERS and CalSTRS. We didn't want it to be the approved list, and that would probably not be good.

So we actually contracted with a third party to build the database. And then people could put their information in and users could buy a password to go in search for candidates.

So that's why we don't own the database completely. We are founders. We use it our ourselves, but we can't track what's coming in and out of that black box. That company which held the database, GMI, has since been bought, as I mentioned, by MSCI. So what we're working on at the moment is a plan for a new home for 3D, where it can go into a place where we hope it's going to be used more often.

But I do want to touch on this point that Dr. Evans made, we've realized that supply is not the constraint. So, first of all, with lengthening tenure on boards, there are very, very few opportunities for new candidates. So that's one thing. And search firms around the country will tell us the same.

And the second thing is because we haven't had the ability to put candidates forward ourselves, once we've had the conversation with companies, unless they're already interested, they're not looking to 3D. They're looking to people who they already know.

So I think our strategy that we're putting forward here, we want to boost demand through the proxy access work, through having a focus list of selected companies. So that's one piece, but also we want to start building our opportunities for 3D candidates to meet potential companies. And we've piloted a roundtable with the conference board, and a group called Leadership Exchange in New York. There was a second meeting in Miami, which James was at, which also involved the Executive Leadership Council. And we're hoping we'll do a third one later this year, maybe back-to-back with ICGN.

But I think that that meet and greet and relationship part of this is actually very important. So I think we need to have a multi-pronged effort on all of this. So I can't answer your question, but that is the lengthy explanation of why.

We did write to companies. We wrote to the Russell 1000 when 3D was formed to introduce it to companies. We did that jointly with CalSTRS. And also, we wrote to a group of California companies -- in fact, the details are in the appendix -- 130 or so, which had no women on the Board. And since then about 30, 35 have appointed women. And in the letter, we sent the link to

3D and encouraged them to use it as a source.

COMMITTEE MEMBER JELINCIC: Okay. But when we actually meet with management and discuss diversity on the Board, do we actually talk to them and ask them if they are using 3D, why they may or may not be, are we actually talking to them about it?

INVESTMENT DIRECTOR SIMPSON: We're talking about diversity. We're talking about asking companies to introduce this into the charter for their nominating committee. We're asking for disclosure of a policy. That's part of the SEC current regulatory rules that are in place. And we give them a range of resources, if they're having trouble working out what the next step is. So we provide them with the NACD best practice guide, we provide them with information about 3D, and we also provide them with some material that we've produced jointly with Michele Hooper at UNH on how to get started. So there's ample opportunity for them to take a look.

COMMITTEE MEMBER JELINCIC: On slide 15, the little blue box where ensuring the Board's have strategies to address those issues, are we also trying to encourage them to not only have strategies, but to actually disclose what they are?

INVESTMENT DIRECTOR SIMPSON: Yes, that's what the petition -- the disclosure -- yes.

COMMITTEE MEMBER JELINCIC: Okay. And for potential key performances indicators, I might suggest that you consider one that looks at the actual change in board membership. You know, are we being effective or not? And then going back to slide 3, and you don't have to go there, but that's the main slide, we talked about diversity and inclusion, responsible contractor supply chain, and income inequality. And the thing that I think is missing there is a examination of how they treat their people.

You know, all of these tend to be more how do your suppliers treat their people? I think there needs to be some focus on how do you as the company we're investing in treat your people. We just heard that happy employees are ten percent more productive. Maybe we need to include some focus on that.

Thank you, Mr. Chair.

CHAIRPERSON JONES: Okay. Mrs. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. I just -- first, I wanted to thank you for the report. I'm also very happy to have seen our experts here.

On the income inequality placeholder, I agree with Ms. Mathur that it probably should be in advocacy as well, and this is for the research portion of it.

I was wondering if, once that's done, should that also be included in the integration factor? I mean, if we're integrating all of this into our systems, then that should be part of it. So I'm thinking it should be on all three, but that's up for interpretation. But again, I just wanted to thank you. This is a great report, and I really appreciate the work on the diversity and inclusion.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think the first step is the research, so we could include it in a number of -- a number of these ones, but I think to be most efficient we hear the feedback loud and clear, and we'll -- let's start with the research. And when we have that in front of us, we can prepare an action plan where it makes sense for sure.

CHAIRPERSON JONES: Okay. Thank you. Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. I just wanted to thank staff for coming back to us with the income inequality placeholder. I know that wasn't necessarily part of the initial plan on this. And it's not that -- I know it's not that staff doesn't believe it's a great issue and something we need to deal with. I understand it's about capacity and what we can do. And while, you know, some of us might want to make it the issue, the premier issue and move it forward, I don't think any of us want to get in the way of the robust work we're doing on diversity and climate change and all the other things.

So I really like the way that, you know, we sort of came to a conclusion on what to do with this. And it is driven by the research. We don't know, at this point, what we can or will need to do around income inequality. I think -- I mean, I believe intuitively the research will drive us towards figuring out, as we have laid out here, and do an action plan. This doesn't prescribe what that action plan is going to be or when it's going to, you know, be implemented. But this gives us the space to do that over the course of this. I just wanted to get just clarification on page 20 of the presentation, where it -- in year two, it talks about develop an action plan supported by the research and so on. That really is driving at the income inequality please, right? That's where the action plan comes.

INVESTMENT DIRECTOR SIMPSON: Yes.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, that's right. So we'll -- in future iterations, we'll note that.

COMMITTEE MEMBER LIND: Great. So again, I appreciate the effort and the work. And I think we're in a really good place on this to move forward.

So thanks.

CHAIRPERSON JONES: Okay. Thank you.

Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. I wanted to thank you again for the presentation. It was great to see all the work that staff has been doing as always. I had a question about the manager expectations. And what types of responses -- are you getting the right response level you feel from your managers regarding information about racial and diversity inclusion?

INVESTMENT DIRECTOR SIMPSON: On the -- we're still in the pilot phase with the manager expectations, so it's probably too early to draw conclusions. I know Dan Bienvenue and I co-chairing this new committee on Governance and Sustainability, I think the feedback from the asset classes has been positive. We're not hearing, "They won't pick up the phone", or, "Nobody wants to talk to us about this", but -- so I think we're planning, once this strategy review is over, Ted, to come with a report back on this first year pilot in -- later in the year.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That's right. I think it's either November or December.

INVESTMENT DIRECTOR SIMPSON: Yeah, but let me turn to Dan, because he's the head of an asset class and can share his experience directly.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah. And the only thing I would add to that is it is very much a pilot because we want to figure out the best way to integrate it and get the -- you know, and all three ES&G

into the manager expectations, but we're -- you know, we're definitely working our way through it and the reception has been positive.

ACTING COMMITTEE MEMBER PAQUIN: Thank you.

CHAIRPERSON JONES: Okay. Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones. Anne, Laurie, and James this is a great document. Anne, you too. I just find this information fascinating. A little bit to follow up on our -- from our prior speakers. When Ms. Lubber was here last month, she talked about how companies check with us in the environmental space. You know, that -- you know, is CalPERS good? Yet, we don't have seem to have that same when it comes to diversity. No one -- that's nice you guys sent a letter.

I mean, I'd actually encourage the Chair at some point, and this is something I talked about a couple years -- the last couple years is I'd still look at our top 50 holdings, cross-reference who's on the board, and I wouldn't mind actually once in while having their CEO or their board membership chair come in a public forum, and actually explain, as you present your document, why is that?

I mean, if you look at your chart just on the S&P, five years in very slow growth. And so I guess the question I just pose is a very broad question, and I'll look over at Brad slightly, is why is it that in the climate area, we're so successful that people -- the response is what -- what does CalPERS think, yet we don't seem to see that same issue as it relates to the diversity and make-up of boards. What's that missing element?

INVESTMENT DIRECTOR SIMPSON: Twenty years is the first answer.

(Laughter.)

INVESTMENT DIRECTOR SIMPSON: And 20 trillion dollars is the second. It's taken 20 years to buildup an environmental understanding -- or understanding of environmental risk and opportunity. And all credit to Ceres and their fantastic work on this.

I think we're still in the early stages of even getting diversity and inclusion understood as an investment issue. And I -- but, James, do you want to -- what's your comment on where we are?

COMMITTEE MEMBER COSTIGAN: Well, as he's hitting his mic, I guess the question I have on that is if the reports show that returns are higher, all right, then where is the fiduciary obligation of those corporate board members, where is the outrage from the investor community, where is the outrage from Fidelity and Vanguard and Schwab and all these others that invest, if, in fact, the research that showed earlier, your half -- 50 basis point higher. Again, I'm just struggling with that.

INVESTMENT MANAGER ANDRUS: James Andrus, CalPERS staff. We can ask the same question, because we're focused on the S&P 500, and that's not the right data set. So in the Russell 3000, there are 2,880 companies. One thousand four hundred and sixty-three of them, or 50.8, percent have no minorities. And when minorities are defined as even foreigners, so basically what we're talking about is that 50.8 percent of those companies basically no diversity whatsoever.

Twenty-five percent of those companies have no women. So although for the S&P 500, the numbers look okay, even on the part of women, but when we go down the list, 25 percent of those companies have no women. Sixteen and a half percent of those companies have no women and no minorities.

Interestingly enough, in California, 66 companies in which we invest have no women and no minorities. When we compare those companies and how they're performing against their comparable GIT companies on the Russell 3000, 52 of the 66 are underperforming. And the issue we have is that a total lack of focus within the market and we will have even major investors say we do not have the data, because in order to get the data you have to go company by company and figure out whether or not there are any minorities on the board.

Interestingly enough, there's been movement in this direction. And as recently as two weeks ago, we do have a service provider who is, in fact, providing us this sort of data. So the numbers, I think, are, in fact, troubling. And I think it's an area that I'm glad the Board has decided to focus on, because I think it's an area in which we can create gains -- at least I hope we can create some gains, because there's substantial push-back on all of the efforts that have come to pass thus far.

COMMITTEE MEMBER COSTIGAN: So just a -- just as follow up, I mean, great data. First of all, I'd love to see that list. And I would certainly want to make sure that list was public if that information is available.

Of those 55 companies, if they're underperforming, I assume they're more of a passive investment, weighted average, all of that, what is our engagement -- I mean, if you're telling me I have 55 companies that we know that underperform because of lack of diversity, why are they still on the portfolio, why are we not engaging with them? And if you're telling me on the 50.1, it's a results that we don't even have a European, because I assume that's what you mean is similar to sort of the Credit Suisse board of directors are all --

a majority are European. Where is all this information that's more publicly available, because that's --

INVESTMENT DIRECTOR SIMPSON: Yeah. Can I --

INVESTMENT MANAGER ANDRUS: It's not publicly available. I mean, so that's the issue so. So I think here's the problem, it's like the data is incredibly precise and many data providers would not want to publicize the data and then say, "Oh, you're wrong on this one or you're wrong on that one". So the data is closely held to the vest and it's not made public in the manner in which you're describing.

COMMITTEE MEMBER COSTIGAN: So I guess last point, I know it's getting late. If the two prior folks can do research and tell me that among this core group of companies, I mean, a publicly traded company board of directors is publicly available, and the returns against the benchmark for five, ten 20 years are also available. Then it really is just -- it's do you have enough resources to actually put the information together? And right now, there's really nobody out there gathering this is, that what I'm hearing?

INVESTMENT DIRECTOR SIMPSON: Yeah. I don't want us to get too far ahead. The reason we didn't produce the list is because we haven't finished and the data are not available easily, and we don't want to make claims that we can't stack up. That would be premature. But what we do see is this pattern. And so the idea behind us having a focus list on diversity is that we could select a group -- a basket of companies to focus our attention on on board diversity, but do it in a -- you know, in a very thorough way and build the case, because the underperformance is associated back to Julia Dawson's point, that the causal direction of board diversity isn't something that we want to just make -- do you know what I'm saying, James?

We see these numbers, we see this pattern, and what we want, I suppose from the Board, in talking about the strategy is we need to go forward. But if we're going to move it, we need to have a group of companies and talk to other investors about working together.

COMMITTEE MEMBER COSTIGAN: And I completely agree, because the struggle I partly have, even with the data earlier, is are we going underneath the company and seeing what's in their pipeline? Is it the fact the Board is diverse or they have innovative product lines? I mean, that's -- I mean, you can get overwhelmed by the data, but the question is how are we as a Board going to agree to what?

But, I mean, you just gave me some great points. I mean, we identified and index, broke it down, broke it further down, identified 55 companies and applied it to a benchmark. That seems pretty objective, and then to work backwards from there.

Anyway, thank you, Mr. Jones.

CHAIRPERSON JONES: Okay. You're welcome. On your point about Mr. Costigan about the 50 large corporations by holding them accountable and -- you know, the -- one of the -- I'm not so sure if they're not -- if we're not investing in that company whether they would be coming to kind of be like our program review, where companies we're investing in, they're certainly going to be willing to come and make a presentation.

But another option may be to look at our annual diversity forum, and see if we can get corporate directors to that meeting, because that is an open meeting, and it's public, and people are really talking about diversity on a -- at a very granular level. So that's just something you may want to consider how we get -- because -- and you know -- and also CII. Maybe they need to have a panel on this certain subject, because teeing Toigo, I know we have had a panel on this very question.

But all of the organizations that we are members of, we need to be pushing them to have a panel on this subject, so that we can begin to move the needle, because that's how we apply the pressure, because we're partners with many of these organizations that they have the same interest we do. And so if we could come together in those environments, it may be better than just asking them to come here, because that wouldn't be as productive if they're not companies we invest in. So that's a thought.

CHIEF INVESTMENT OFFICER ELIOPOULOS: If I may, Mr. Chair. I think the Committee has really hit on really the most important piece of this presentation on this, is that we want to underscore both the merits of and the need for, you know, a five-year powerful engagement effort on behalf of CalPERS on this topic. And several of the points that were made are worth underscoring.

One, absolutely on the diversity day, in fact, we've moved the date of the diversity day from the fall into the spring in order to make it more amenable to corporate directors to attend. So absolutely a wonderful suggestion, and what will be built into that forum.

Number two, you know, one of the reasons that Ms. Simpson underscored in the Q&A around the success of the climate change versus the lack of success on board diversity, particularly comparatively, is the building of a network. So we really want to take the time in this five-year plan to plan and marshal the resources necessary, because we could invite a -- in a board, a company in for presentation or otherwise, but it wouldn't have the same powerful effect of joining with our partners, such as Toigo and CII and other ones. We really want to take the time the build up what is central to this strategy that we're presenting to the Committee, which is an engagement strategy around board diversity.

So building the network is going to be absolutely crucial. And I had a third point, but I forgot it by the time I got to the end of it. But, Dan, anything else?

CHAIRPERSON JONES: You've got 10 more minutes.

(Laughter.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, I might -- Wylie Tollette, CalPERS staff. I might also highlight in the appendix, you'll notice in the SASB documentation, and it's part of the reason that accounting standards and disclosure standards are part of the priorities under diversity and inclusion, is the SASB standards include better disclosure around this topic by companies, so that you could determine the -- how they've used diversity both, you know, particularly in their senior management ranks, but across the whole firm and at the Board level. That's another -- sort of another plug for really thinking about how to move forward with the adoption of the SASB standards more broadly.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah. And the only thing I would add is that all of this just really, really speaks to our desire to really focus on this, that they're -- it's so easy to get distracted with so many different things, because there's so many things coming at us. And the really important thing is that we take a really thoughtful and focused approach to what think are the most important, relevant topics.

And, you know, that's why in E, we really want to focus on climate change and on data, and having the data to make good decisions. On S, we really want to focus on diversity. We absolutely believe there's something here. The data absolutely leads us in that direction.

The question of causality and the question of exactly how to integrate it and how to be effective, that's a really thoughtful focused question that we want to take a really thoughtful focused approach to, you know, to be as effective as we possibly can, given the capacity that we have.

CHAIRPERSON JONES: Okay. Thank you.

Okay. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Well, I understand the importance of coalitions, but, you know, somebody has to get the ball rolling to get a collation started. You know, Jesse Unruh did not say we're not going to start the Council of Institutional Investors until we get an agreement that that's where we ought to be going. I mean, at some point, you have to move forward.

Rich raised the question of, well, how come we're not putting the data in the companies out? And what I heard was, well, the vendors aren't real happy with us doing that, because they're not -- you know, it could be wrong and they don't want to get criticized for being wrong, and have to change their data. And I'm not sure why I want to deal with a vendor who doesn't want to correct his data if it turns out his data is wrong.

But if we know that a lack diversity leads to poorer performance, then one of the things we need to do is get their attention. And one of the things I think we need to think about is start voting against CEO pay, you know -- and because you're not building a diverse organization, you're not building a diverse board. You are taking money out of our pocket and we shouldn't be giving you more of it.

You know, nothing -- you know, wallets tend to be a very sensitive place on people. And maybe we really ought to think about whether that shouldn't be one of the criteria, when we look at voting for on the say-on-pay. Thank you.

CHAIRPERSON JONES: Ms. Hagen.

ACTING COMMITTEE MEMBER HAGEN: Thank you, Mr. Chair. I just wanted to note that I'm in complete support of CalPERS being an advocate in the area of education for -- and engagement on corporate board diversity.

But I've heard a couple comments that I just wanted to make, I guess, a cautionary statement, that, in my experience, disclosure of ethnicity, gender, is up to individual, if they want to disclose that information. So, you know, the discussion around the data being bad is just what it is, people can choose to disclose it or not. And you get into a real dangerous place if you start visually identifying people. So this applies to employees as well as corporate boards.

So I just wanted to throw that out. I don't know that it's quite so simple as just having bad data. It's the data that you're provided by those people that are disclosing that. So I just wanted to add that to the conversation.

CHAIRPERSON JONES: Mr. Chiang.

COMMITTEE MEMBER CHIANG: Yeah, I wanted to follow up --

CHAIRPERSON JONES: Oh, it was on.

COMMITTEE MEMBER CHIANG: I wanted to follow up on --

CHAIRPERSON JONES: Just a minute.

COMMITTEE MEMBER CHIANG: I wanted to follow up on J.J.'s comments about holding the leadership of corporations accountable and looking at the their pay.

And any thoughts? Any preliminary thoughts on that?

INVESTMENT DIRECTOR SIMPSON: And preliminary thoughts? I think being absolutely clear about the consequences of our vote is really important. So typically, if we're voting no on pay, it's because the pay just isn't lined up with long term performance. If we start using that vote to signal something else, I worry about the message getting lost.

What we have done is select companies on lack of diversity for our proxy access campaign, and in most cases, we've won the vote. Then you're into a conversation with the company about board diversity and its direct, and how are you going to make change.

And as I said, we've had 12 companies positively respond so far. So I think that, to me is the trickle that you want to turn into a flood, but I'd have to think about it some more. But, to me, you should be direct and simple. And if it's a pay problem, vote against pay. If it's a diversity issue, get proxy access and talk then about how the board become more diverse.

That's my first thought.

COMMITTEE MEMBER CHIANG: Thank you.

CHAIRPERSON JONES: Okay. Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: So just a follow-up to the Treasurer's question. If you're using performance as a benchmark, based upon the data that was just provided to us, if they're underperforming the benchmark, so now you have the data that the lack of diversity leads to the underperformance, doesn't that then lead to voting against the pay, which is not related to the pay issue. It's actually related to the performance issue.

I mean, I -- and I see Ted stressing out as we're posing these questions over here. So you don't need to answer it, but I'm just saying there is -- if, in fact, the bench -- if what we're saying is, as a minimum benchmark that diverse boards get higher returns, boards without diversity get lower returns, you already now have a reason linked to pay, based upon performance on an issue based upon board make-up.

I mean, I think it's exactly what the Treasurer is alluding to is you're not -- back to the point, you're not voting against pay because it's a pay issue, you're actually dealing the pay issues with performance tied to a matrix about the lack of diversity, anyway -- just -- there you go.

CHIEF INVESTMENT OFFICER ELIOPOULOS: The reason I was squirming just a bit, but absolutely on the pay -- CEO pay and executive compensation pay, you're exactly right, it goes to the performances of the company, and that we have to guidelines and voting procedures in place.

I do want to underscore something that's been said a few times by the panelist and by our staff, is that there isn't a causation, a causality proof in the data, that the underperformance of a company is due to the lack of diversity or that a lack of diversity runs that way. That's what's not proven in the data.

But there's a correlation to it. And there's -- as Dan said, there's something to it, more than enough to it -- for us to conclude that we should devote significant time and resources by CalPERS to improving the diversity of the company holdings that we own. So I just wanted to -- that's why I was fidgeting a bit.

CHAIRPERSON JONES: Okay. I see no additional questions. And again, I'd like to thank Dr. Evans and Ms. Dawson and staff for all of this work in this area. As you see, that it is a very high priority of this committee. So again, thank you for the report.

Okay. So that means we now move to the last item on the agenda, which is summary of Committee direction.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah, both -- neither Wylie nor I have any Committee direction. It all came by way of action items. You voted on items. We got significant direction today, but not by way of directed action.

CHAIRPERSON JONES: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I just want to make sure our notes are --

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yep. No, that's accurate, Ted. Thank you. Yeah, I have no Chair directed items this meeting.

CHAIRPERSON JONES: Yeah, and I don't see any. I just want to be sure.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I think Ted does actually have a brief statement he needs to read, however, Mr. Chair.

CHAIRPERSON JONES: Say that again? I'm sorry, what?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Ted has as brief statement he needs to read, Mr. Chair.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Before the end of the open.

CHAIRPERSON JONES: Yeah, I know. Just give me one minute just to -- I think that you're right. Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: You also have public comment as well, if there's --

CHAIRPERSON JONES: No, I don't have any requests of public comments to speak at this time, so your comments.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific.

Thank you. So before we head into closed session, this is a statement with respect to closed session item 4a. Because of a potential conflict of interest under Government Code 87100, the Political Reform Act, I will not be participating and will not participate in closed session Item 4a.

CHAIRPERSON JONES: Okay. Thank you very much. And let's see where that is, so we can -- so -- okay. Okay. I think we could just go with the regular agenda, because it's -- no issues above that, and so we come to that.

So now, we will allow people to leave the auditorium and we will start the closed session as -- just a minute. Why don't we take a 10-minute break, okay, and then we'll start closed session.

(Thereupon California Public Employees'
Retirement System, Investment Committee
meeting open session adjourned
at 4:03 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 22nd day of April, 2016.

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