

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

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10:55 A.M.

JAMES F. PETERS, CSR
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Henry Jones, Chairperson

Mr. Bill Slaton, Vice Chairperson

Mr. Michael Bilbrey

Mr. John Chiang, represented by Mr. Steve Suarez

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

Mr. Theresa Taylor

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

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matt Jacobs, General Counsel

Ms. Natalie Bickford, Committee Secretary

Mr. Dan Bienvenue, Managing Investment Director

Mr. Diego Carrillo, Investment Manager

Ms. Carry Douglas-Fong, Associate Investment Manager

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

STAFF:

Mr. Simiso Nzima, Investment Manager

Ms. Beth Richtman, Investment Manager

Ms. Anne Simpson, Investment Manager

Mr. Wylie Tollette, Chief Operating Investment Officer

Ms. Laurie Weir, Investment Director

ALSO PRESENT:

Mr. Terry Brennand, Service Employees International Union

Mr. Dennis Cuevas-Romero, American Heart Association,
American Stroke Association

Ms. Kat DeBurgh, Health Officers Association of California

Mr. Allan Emkin, Pension Consulting Alliance

Mr. Steve Foresti, Wilshire Consulting

Ms. Betty Forrester, United Teachers Los Angeles

Ms. Lindsey Freitas, American Lung Association in
California

Dr. Stanton Glantz, University of California, San
Francisco

Mr. Joshua Golka, American Federation of State, County &
Municipal Employees

Ms. Cynthia Hallett, American Nonsmokers' Rights
Foundation

Ms. Xochil Johansen, Alliance Educators, United Teachers
Los Angeles

Mr. Andrew Junkin, Wilshire Consulting

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

ALSO PRESENT:

Mr. Jim Knox, American Cancer Society Cancer Action Network

Ms. Pamela Ling, Tobacco Education - Research Oversight

Mr. Michael Ring, Service Employees International Union

Ms. Kurt Scott, Service Employees International Union

Mr. Daniel White, Alliance Education, United Teachers Los Angeles

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P R O C E E D I N G S

CHAIRPERSON JONES: I'd like to call the
Investment Committee meeting to order.

The first business on the agenda is roll call
please.

COMMITTEE SECRETARY BICKFORD: Henry Jones?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY BICKFORD: Bill Slaton?

VICE CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY BICKFORD: Michael Bilbrey?

COMMITTEE MEMBER BILBREY: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

John Chiang represented by Steve Juarez?

ACTING COMMITTEE MEMBER JUAREZ: 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.

1 COMMITTEE SECRETARY BICKFORD: Ron Lind?

2 COMMITTEE MEMBER LIND: Here.

3 COMMITTEE SECRETARY BICKFORD: Priya Mathur?

4 COMMITTEE MEMBER MATHUR: Here.

5 COMMITTEE SECRETARY BICKFORD: Theresa Taylor?

6 COMMITTEE MEMBER TAYLOR: Here.

7 COMMITTEE SECRETARY BICKFORD: Betty Yee?

8 COMMITTEE MEMBER YEE: Here.

9 CHAIRPERSON JONES: Okay. Thank you very much.

10 Committee members, before we begin, I would like
11 to take a moment of personal privilege to acknowledge
12 Laurie Weir in light of her upcoming retirement.

13 We have been honored to have Laurie as a member
14 of the CalPERS team since 2007. She currently leads the
15 Investment Manager Engagement Programs, formally Targeted
16 Investment Programs.

17 During her time at CalPERS, Laurie has truly made
18 a meaningful impact not just on our organization, but in
19 the world of finance.

20 Her passion for the Emerging and Transitional
21 Manager Program has made it what it is today. Thanks to
22 her tireless effort, up-and-coming firms from around the
23 world have had the opportunity to put their talents to
24 work with the CalPERS Investment Office.

25 In addition, her work on diversity and inclusion

1 has helped establish CalPERS as a leader on the subject.

2 From the success of the Diversity Forum, to her
3 speaking engagements around the world on the fiscal case
4 for diversity, she has truly left her mark on this
5 important topic.

6 Laurie, I'd like to thank you for your passion,
7 commitment, and tireless work here at CalPERS. You have
8 set an exceptional example of how our organization can
9 make a difference in the world.

10 Thank you, and know you will be missed deeply.
11 But the important work you have been a part of many years
12 will be in the future.

13 So all the best for your retirement. And on
14 behalf of the Board, we want to thank you for your work
15 very much.

16 (Applause.)

17 CHAIRPERSON JONES: Now we can move to the --
18 back to the agenda.

19 Mr. Eliopoulos, Executive Report.

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

22 (Thereupon an overhead presentation was
23 Presented as follows.)

24 CHIEF INVESTMENT OFFICER ELIOPOULOS: I am
25 cognizant of the fact that it's 11 a.m. and we have a very

1 full agenda to go through today. I did want to cover one
2 topic. And as you'll note, we've moved up from the
3 consent Agenda Item 2a, which is our monthly strategic
4 asset allocation report. That lists our current
5 allocation and compares it to our, in this case, interim
6 strategic target.

7 And I'm joined by Wylie and Eric if there are any
8 questions on this on this item.

9 But really the purpose of calling the attention
10 and bringing this report to the front of the morning is to
11 underscore a decision that the Investment Committee made
12 in closed session in September. And we're reporting out
13 publicly this month as part of this item to change the
14 interim asset allocation of the fund, marginally but
15 importantly, to take some growth risk off the table and
16 reallocate it to other asset classes, notably our
17 inflation asset class and liquidity as well as a
18 percentage point to real assets.

19 So really for the benefit of the public, since
20 the Committee has seen this information and voted on it in
21 September, which gave us time to complete all the trading
22 activity through November. This slide we tried to --
23 tried to compile one slide that had the information and
24 maybe larger type than agenda item 2a.

25 And as you can see, in the summary of changes

1 from the previous interim asset allocation, which is on
2 the left, which was in effect through the September Board
3 meeting, to the current interim asset allocation that is
4 in effect and became effective on October first of this
5 calendar year, and is meant to be in place through the
6 next asset liability management process to carry us
7 through that roughly two-year period.

8 You can see the changes from the previous to the
9 current interim asset allocation are reflected with the
10 red arrow in the summary of changes below. You'll note
11 that the overall growth assets are reduced 7 percentage
12 points, from 61 percent of the fund to 54. And the major
13 changes within the growth portion of the portfolio is to
14 lower the target for global equity from 51 percent to 46
15 percent, private equity from 10 percent to 8 percent.

16 Now, the private equity reduction really is a
17 reflection of what we think we can do in the marketplace,
18 and as we've discussed many times over. The global equity
19 reduction was a conscious decision to take some growth
20 risk off -- out of the asset allocation for this two-year
21 period.

22 The balancing changes that were made were to
23 increase our real assets target by 1 percentage point,
24 from 12 to 13 percent; to increase our inflation asset
25 class from 6 percent to 9 percent; and lastly our

1 liquidity or mostly cash position from 1 percent to 4
2 percent.

3 It was the -- inflation asset class probably took
4 most of the trading activity through to November to
5 complete those purchases.

6 All of those changes in the asset allocation were
7 completed by the end of October, first week of November.
8 And you can see in the report before the Committee, 2a,
9 that the rebalancing is largely -- was largely reflected
10 in the October report to the committee.

11 The last thing I would say, just on the changes
12 to the allocation beyond the fact that the intent is for
13 this to be based on a two-year time horizon to take us
14 through the ALM process for July of 2018, it really took
15 into account both the current funded status of CalPERS,
16 the roughly 68 percent funded status, and negative cash
17 flow, and due consideration to some of the volatility of
18 the current market conditions at that time and, as we've
19 discussed many times over, that we expect to see carrying
20 through this next year and a half time period.

21 So with that, Mr. Chair, that was all our
22 prepared remarks. Obviously if the Committee has any
23 questions on that change, we could take that.

24 And one last point. I know during our briefings
25 there was a question asked on one of the other consent

1 items having to do with the Iran-Sudan Act. I could take
2 that up now and answer that. Or if the Committee would
3 rather that be -- you know, be taken off the consent and
4 answered at the end of the Committee, I can do either one.

5 My prepared marks are concluded.

6 CHAIRPERSON JONES: Why don't you go ahead and
7 answer the question now.

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: Okay,
9 great.

10 So in your -- in the Committee's consent reports,
11 we're forwarding our report to the legislature on
12 Iran-Sudan. One question that was asked is in the -- in
13 the newspaper reporting - I won't say which newspaper -
14 there was announced some deals or some agreements that
15 have been reached by Boeing and Shell with the Government
16 of Iran. And the question was whether or not our
17 legislative report needed to be revised to reflect those
18 newspaper accounts.

19 The short answer is no. One having to do with
20 the nature of the triggers in the Act for review. Those
21 have not been met yet. I can go into more detail, but the
22 short answer is the trigger has not been met.

23 The second piece is the legislation provides I
24 believe an 18-month period for engagement and review. So
25 until that time period is elapsed, it wouldn't be timely

1 to include in the report either.

2 So the short answer is for a few reasons. It's
3 not timely to include in the report at this time. But
4 certainly looking forward to next year and perhaps in the
5 year after it may very well.

6 CHAIRPERSON JONES: Okay. Thank you.

7 We do have one question on your earlier comment.
8 Mr. Jelincic.

9 COMMITTEE MEMBER JELINCIC: Actually I have two.
10 But I think it's important that our members, the people
11 whose money we're investing, understand the decision we
12 made on the asset allocation and why.

13 So I would like to move that we release the
14 closed session transcript pages 4 through 47, which is
15 where we discussed the agenda item; and also agenda item
16 4, which was the change, plus the attachments.

17 CHAIRPERSON JONES: Yes.

18 CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair,
19 I would just -- would want time to think through that and
20 analyze it. I think much of the written materials in
21 discussion included our thought processes around the
22 portfolio construction, so we'd want to be very thoughtful
23 from staff's perspective in what we would provide publicly
24 or not from the agenda materials and transcripts.

25 CHAIRPERSON JONES: Right. And so, absent

1 direction from -- he made a motion. Absent a second, I
2 will direct staff to meet with counsel and determine what
3 should be released from that meeting.

4 Hearing no second -- is this a second?

5 COMMITTEE MEMBER COSTIGAN: A question

6 CHAIRPERSON JONES: Okay. Mr. Costigan.

7 COMMITTEE MEMBER COSTIGAN: So I'm not going to
8 second the motion right now. I would like to know if you
9 can separate -- and I'm listening to Mr. Eliopoulos -- as
10 suggest the action item rather than the transcript,
11 because I agree the transcript would constitute
12 deliberative process and thought. But are we going to
13 release the action item at some -- I'm treading carefully
14 here. I don't quite know how to proceed. Because there
15 were two parts to the motion.

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: I think we
17 would appreciate the time to look through the agenda item
18 and parse through those sections that really reveal our
19 thinking around portfolio construction and scenario
20 analysis prior to them being made public.

21 CHAIRPERSON JONES: Yeah. And after
22 Mr. Eliopoulos has had an opportunity to meet with
23 counsel. Then we could have this -- come back with this
24 next month.

25 COMMITTEE MEMBER COSTIGAN: In January?

1 CHAIRPERSON JONES: In February -- next -- month
2 after next, in February.

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

5 CHAIRPERSON JONES: But I would want to make sure
6 that we had an opportunity to meet with counsel. Okay?

7 COMMITTEE MEMBER JELINCIC: Henry, I just think
8 that the members really deserve to know the decision we
9 made, why we made the decision. It's their money.

10 CHAIRPERSON JONES: Okay. Mr. Feckner.

11 COMMITTEE MEMBER FECKNER: Yeah, I just wanted to
12 see if General Counsel could weigh in or offer an opinion.
13 But if you want to cover that later, that's fine.

14 CHAIRPERSON JONES: Yeah. No, my direction was
15 that Mr. Eliopoulos meet with General Counsel to decide
16 what can be discussed, and we will bring it back to the
17 Committee.

18 COMMITTEE MEMBER FECKNER: Very good. Thank you.

19 CHAIRPERSON JONES: Okay. Mr. Jelincic.

20 COMMITTEE MEMBER JELINCIC: And the other issue
21 is, as I mentioned, on the briefing, I have argued that
22 for private equity we ought to be more aggressive on both
23 fees and disclosure. You have consistently argued and
24 been more persuasive than I that we shouldn't -- there's
25 too much risk in getting out in the front, that we ought

1 to be going along with ILPA. And yet in one of the
2 questions I've raised continuously is how do they make
3 their money. And it turns out that in 2011, ILPA adopted
4 a template that attempts to address that, the portfolio, A
5 Company Update.

6 Have we adopted that? If not, why not? And to
7 what extent do we get that information?

8 CHAIRPERSON JONES: Mr. Jelincic, I think when we
9 get to the private equity portion of the agenda, maybe
10 that's the appropriate time to raise that question.

11 So -- and we'll wait until that time to have a
12 deeper discussion on that issue.

13 Okay. So I'm going to move the agenda then.

14 Moving on to the next item on the agenda, the
15 Consent Items, Action Consent Items. We have -- we need a
16 motion.

17 COMMITTEE MEMBER MATHUR: Move approval.

18 Moved by Ms. Mathur.

19 COMMITTEE MEMBER YEE: Second.

20 CHAIRPERSON JONES: Seconded by Ms. Yee.

21 All those in favor say aye.

22 (Ayes.)

23 CHAIRPERSON JONES: Opposed, none.

24 The item passes.

25 Thank you.

1 We now have Consent Information Items. I've had
2 no additional requests to move anything from the agenda.

3 So we'll move on now to item 5.

4 5a, which is the Annual Report to the California
5 Legislature - CalPERS Emerging Manager Five-Year Plan.

6 And Mrs. Laurie Weir. One of your last
7 presentations.

8 (Laughter.)

9 INVESTMENT DIRECTOR WEIR: Here we go. Good
10 morning, Investment Committee members. Thank you so much
11 for the kind words. I will miss this place.

12 This agenda item requests Investment Committee
13 approval to forward the four-year report under the
14 Emerging Manager Five-Year Plan to the Legislature. The
15 enabling statute requires CalPERS to submit an annual
16 report by March 1st of every year.

17 This report covers from July 1, 2015, to June
18 30th, 2016. All of the workstreams in the plan are
19 complete, and staff has engaged in follow-on efforts to
20 make further progress and improvements under the plan.

21 And in light of the time, I will curtail the rest
22 of my presentation and ask if there are any questions?

23 CHAIRPERSON JONES: Yes. Questions or comments?

24 Ms. Mathur.

25 COMMITTEE MEMBER MATHUR: Yeah. I don't have a

1 question. I do have a comment.

2 CHAIRPERSON JONES: I figured that.

3 (Laughter.)

4 COMMITTEE MEMBER MATHUR: Very pleased with the
5 report. I just wanted to say personally how much I have
6 appreciated your contribution to this organization. I
7 think you have truly raised the bar each and every year
8 around diversity and various other elements under your
9 responsibility. And I think we've -- you've really set
10 the bar very high for other pension funds across the
11 nation. And we are truly going to miss you. So thank you
12 very much for all that you've done for CalPERS and our
13 members.

14 And I would like to move staff's recommendation.

15 COMMITTEE MEMBER LIND: Second.

16 CHAIRPERSON JONES: It's been moved by Mrs.
17 Mathur, seconded by Mr. Lind.

18 Okay. So all those in favor say aye.

19 (Ayes.)

20 CHAIRPERSON JONES: Opposed?

21 The items passes.

22 Thank you.

23 Wait, Mrs. Weir.

24 No. But, I mean, I think there's some more
25 comments.

1 (Laughter.)

2 Mrs. Yee.

3 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

4 I also too wanted to just express our gratitude
5 for all of your contributions, Laurie, to this
6 organization. And I think -- you know, you really have
7 charted a course for other pension funds and it's really
8 been noticed. And the -- not only just in terms of the
9 recognition of your contributions and the reputation
10 you've created but certainly in this fund as a leader in
11 this entire space here that we're talking about with
12 respect to emerging managers and certainly diversity and
13 bringing, you know, obviously new -- hopefully new
14 opportunities to the fund as well. So I wanted to add my
15 thanks.

16 Mr. Chairman, I did have a question on this item.
17 I don't have any problem with the report. If I could.

18 CHAIRPERSON JONES: No, go ahead.

19 COMMITTEE MEMBER YEE: I was just wondering, in
20 terms of timing, with the new allocations, have we seen
21 any uptick in terms of emerging manager proposals? Or is
22 it too soon?

23 INVESTMENT DIRECTOR WEIR: It's a little too
24 soon. We have -- one of the things that's reported in
25 this report to the legislature is that this past year we

1 did do work around the process and the timing for the
2 deployment of the new capital. Importantly, I want to
3 speak to the fact that we'll be doing a global
4 solicitation process starting in July of this year for
5 transition manager candidates. And, importantly, that
6 emerging manager capital will be deployed by the asset
7 classes as their programmatic needs arise for additional
8 capital.

9 For instance, global equity is completely
10 invested with their new capital. Not surprisingly, real
11 estate and private equity are taking a bit longer.
12 Understandably, they still have dry powder in their
13 current programs.

14 COMMITTEE MEMBER YEE: Sure.

15 Okay. Great. Thank you.

16 CHAIRPERSON JONES: Okay. Thank you.

17 Ms. Taylor.

18 COMMITTEE MEMBER TAYLOR: So I also just wanted
19 to comment.

20 Thank you so much, Laurie, for all of your work
21 that you've done in the space of emerging managers,
22 transition managers, diversity. I really appreciate the
23 work you've done, and I know we're going to really, really
24 miss you, and I wish you weren't leaving.

25 INVESTMENT DIRECTOR WEIR: Thank you.

1 CHAIRPERSON JONES: Mrs. Hollinger.

2 COMMITTEE MEMBER HOLLINGER: Laurie, I wanted to
3 thank you as well. You've really broken down some
4 barriers to entry, and that's a remarkable thing to do.
5 And the real measure is you're irreplaceable, and even
6 when we talk among ourselves. So it -- just thank you,
7 thank you for being you and your contribution.

8 INVESTMENT DIRECTOR WEIR: Thank you.

9 CHAIRPERSON JONES: Okay. Thank you, Laurie.

10 INVESTMENT DIRECTOR WEIR: A note to say thank
11 you so much.

12 CHAIRPERSON JONES: Okay. Okay, we now turn to
13 Item 5b, Review of Tobacco Restrictions.

14 This item is in response to a request from the
15 Committee. The Committee members will recall that as part
16 of the discussions regarding a number of proposed updates
17 to the Total Fund Investment Policy earlier this year, the
18 Committee decided in April to defer further considerations
19 of the divestments section pending a review of the current
20 tobacco restrictions.

21 Today's review of the CalPERS tobacco
22 restrictions is therefore both a prelude to further
23 discussions of our divestment policy, currently scheduled
24 to return to the Committee early 2017; as well as an
25 important means of fulfilling our fiduciary duties since,

1 as fiduciaries, we have an obligation to conduct a
2 periodic review of all of our pending and active
3 divestments to ensure they remain appropriate for the
4 fund.

5 I note that this is an action item.

6 I will now turn the floor over to Mr. Eliopoulos.

7 (Thereupon an overhead presentation was
8 Presented as follows.)

9 CHIEF INVESTMENT OFFICER ELIOPOULOS: All right.
10 Mr. Chair, thank you so much.

11 Today's item represents a continuation of the
12 efforts of this Investment Committee and your investment
13 staff in recent years to really drill down and evaluate
14 risk in the portfolio and all its multi-faceted dimensions
15 and, where appropriate, enable to reduce risk in the
16 portfolio. And certainly to find all ways to enhance the
17 tools in our toolkit for meeting the many challenges that
18 currently face CalPERS.

19 As I mentioned in my opening remarks, CalPERS is
20 currently situated with approximately 68 percent funded
21 status, and a negative cash-flow environment. So the
22 focus on risk and return that we can obtain in the markets
23 is paramount.

24 In response to the Committee's request this past
25 April for a comprehensive review of the CalPERS current

1 tobacco restrictions, staff has solicited input from our
2 stakeholders, as well as from a variety of experts in both
3 the investment and public health arenas, in an attempt to
4 examine the tobacco divestment from multiple different
5 perspectives. As a consequence, the item before the
6 Committee today explores the implications of the CalPERS
7 tobacco restrictions through these many lenses, and
8 presents the Committee with three alternative courses of
9 action.

10 While staff -- while your Investment staff is
11 recommending the removal of the tobacco investment
12 restrictions that are currently in the portfolio, we note,
13 as we do in our agenda materials, that the case for
14 investor caution has been made by two respected investment
15 firms, Allianz Global Investors and Fidelity Investments,
16 whose full analyses are included in attachment 1 of the
17 agenda item. And we discussed the most prevalent risks
18 that those reports underscore in our staff agenda item as
19 well.

20 We are here joined today by the Board's general
21 pension consultant, Andrew Junkin of Wilshire Associates,
22 and to his left, Allan Emkin with Pension Consulting
23 Alliance.

24 In addition, as we now move forward in a few
25 moments with the remainder of the presentation, Andrew

1 will be joined by Steve Foresti with the Wilshire team,
2 who will present Wilshire's updated analysis of the
3 estimated portfolio impacts of the tobacco restrictions
4 along with the results of a recently conducted peer survey
5 that Wilshire conducted on our behalf of divestment
6 practices at other funds.

7 After those presentations, we'll call up
8 Professor Stanton Glantz from the UC San Francisco Center
9 for Tobacco Control Research and Education, who we have
10 asked to join us for a presentation of some of the broader
11 social implications and health implications of tobacco,
12 all from a public health perspective.

13 Then before we certainly take -- during the
14 course of these presentations we'll certainly take any
15 questions from the Committee at whatever time the Chair
16 entertains.

17 But before we do take public comment on this
18 item - and I imagine there are some that wish to speak on
19 the item - I would recommend that we invite Mr. Emkin and
20 Mr. Junkin to speak to their respective opinion letters.

21 In terms of the Agenda Item 5b, the staff agenda
22 item is before the Committee. I think we've done -- well,
23 I'll say, I think we've done a really good job of putting
24 together, you know, a very full picture of this complex
25 choice that the Committee has before it. As I've said

1 many times before, these are -- this is a very difficult
2 policy and investment topic to take up, and I commend the
3 Committee for spending the time that it's spent over the
4 course of the last really 18 months and in the course of
5 this discussion today in evaluating all of the
6 permutations and complexities of this issue.

7 The staff report highlights in its recommendation
8 recommendations, alternative recommendations to move
9 forward. They're labeled as 1, 2 and 3 for the
10 Committee's consideration.

11 Recommendation Alternative Number 1 would be to
12 remove the current investment -- tobacco investment
13 restrictions. That's number 1.

14 I'll jump to number 3. Number 3 would be to
15 affirm the existing, what we call, hybrid approach, in
16 which the internally managed portfolios continue to remain
17 divested, but the external managers for the PERF continue
18 to have discretion to include tobacco-related securities
19 as an out-of-benchmark investment. And the Affiliate Fund
20 portfolios would continue to invest in institutional
21 commingled index funds.

22 Those are the bookends, I would say, that are
23 pretty clear and self-sufficient in their description.

24 Recommendation 2 is broken into two parts, 2a and
25 2b. 2a would extend the divestment of tobacco company

1 shares to the externally managed portfolios of the
2 publicly traded assets in the PERF. 2b would extend those
3 restrictions to the externally managed Affiliate Fund
4 portfolios.

5 All of those options are before the Committee for
6 action today on balance. The Investment staff recommends
7 Recommendation Number 1.

8 With that, I think the agenda item really does
9 speak for itself. And what I would plan to do would be to
10 turn it over to Mr. Junkin and Mr. Foresti to go through
11 their presentation.

12 CHAIRPERSON JONES: Thank you, Mr. Eliopoulos.

13 MR. FORESTI: Good morning, Mr. Jones, members of
14 the Investment Committee. Steve Foresti from Wilshire
15 Associates.

16 Probably a good opportunity to disclose this.
17 Allan was kind enough to help me hit the button here.

18 For those of you who don't know, I'm legally
19 blind. So in addition to not seeing that button, I can't
20 see your faces. I assume you're going to be smiling and
21 nodding at me as I go through this.

22 (Laughter.)

23 MR. FORESTI: And I also can't see the materials
24 in front of me, but I'll do the best I can from what's
25 trapped in here.

1 So, we were asked to perform an update of the
2 divestment analysis. And what's contained in the letter
3 that we provided are essentially two glimpses. One is an
4 ex post or backwards looking analysis of what the impact
5 of the 16 years or so of divestment have led to. And
6 secondly would be an ex ante or a forward-looking estimate
7 of what the risk impacts are in the portfolio to maintain
8 such a divestment program.

9 So I'll start with the backward looking, which is
10 the return impact. And this would be page 2 of the
11 divestment analysis summary letter that we provided. And
12 I'll spend a minute just setting up the methodology that
13 we followed.

14 So the analysis is forensic in nature, and that
15 it doesn't -- there's no qualitative element to it other
16 than settling on a methodology. The methodology simply
17 looks at return information provided by CalPERS index
18 supplier, which would be FTSE Russell. And we receive
19 index returns on the CalPERS Global Equity benchmark
20 without having any restrictions removed from that
21 portfolio. So we have returns on that portfolio. And
22 then a second return stream which removes tobacco-related
23 companies from that list.

24 So by looking at the difference in returns
25 through time - and we looked at quarterly returns for this

1 analysis - we can essentially look at period by period is
2 the return of the divested portfolio above or below the
3 return of the fully unrestricted portfolio.

4 And for the purposes of the analysis, on a
5 quarterly basis we would take that difference in return
6 and we would apply it to the asset base that the
7 restriction is imposed on. So that would be, in this
8 case, the global equity portfolio asset value.

9 The raw value in the table that's provided in the
10 letter is simply just taking the sum of all of those
11 individual quarterly impacts and adding them up, not
12 making any adjustment for time or present value. And that
13 would be the 2.39 billion figure over the past 16 years.
14 That includes the transaction fees from when it was
15 initially enacted as well as again that return impact that
16 I described.

17 We also present those in present value terms,
18 which is to take those historical quarterly impacts that I
19 described and essentially move them forward at the rate of
20 return of the total fund. And the rationale for that sort
21 of analysis is to try to understand what is the impact of
22 those historical return drivers against the asset base
23 today?

24 So to think about that conceptually, if it was 10
25 years ago, there was only one period in time when there

1 was a difference in return. That dollar amount, let's
2 make up a number, let's say it's a hundred dollars, would
3 then impact the wealth of the portfolio today by advancing
4 it by the total return of the portfolio. And that would
5 be in the name of "foregone returns" from that single
6 period.

7 We do that for each quarterly return and arrive
8 at the \$3.68 billion that we report in the letter.

9 Looking at those in terms of impact on total
10 wealth of the portfolio, that's a 1.2 percent net impact
11 on the overall fund.

12 Moving from what the historical impact was
13 towards looking forward and understanding what the risk
14 impact is on the portfolio, we ran -- again by receiving
15 holdings level information from your index supplier, we
16 ran the unrestricted global portfolio through our risk
17 systems against a tobacco divested portfolio. And by the
18 way, the figures I provided are as of your fiscal
19 year-end. So those were June figures. The analysis that
20 I'm describing here was also performed on that date.

21 So we ran those portfolios, the individual
22 holdings, the difference in holdings through our risk
23 systems. They were at that point in time 22 names that
24 were removed from the index. They represented within the
25 global portfolio just under 1 1/2 percent weight to the

1 portfolio. And we'd look at the expected impact on
2 tracking error from those names being removed, and that
3 figure would be about 17 basis points on annual tracking
4 error.

5 So a fairly modest percent impact on tracking
6 error, which on a large portfolio reveals itself into some
7 fairly meaningful quarterly and monthly impacts, which we
8 saw in that historical analysis.

9 We presented in the letter what that sort of risk
10 level implies in terms of a gain or loss. And I want to
11 underscore gain or loss because these risk statistics are
12 essentially just looking at it as a risk - not a cost but
13 a risk - with essentially equal likelihood that the impact
14 on performance can be a positive, or a gain, versus an
15 equal likelihood that that risk could manifest as a loss
16 to the portfolio.

17 And we just -- we show that tracking error figure
18 as a possible plus or minus, gain or loss, to the
19 portfolio in dollar amounts in a 1-in-5, 1-in-10, and a
20 1-in-20-type-year event.

21 And those figures are provided and reveal 330
22 million as a 1-in-5-year event, 423 million in a
23 1-in-10-year event, and 504 million in a 1-in-20-year
24 event.

25 If you look back at the history, that's pretty

1 consistent with the annual figures that we see. It's a
2 bit larger, and that's mainly because tobacco represents a
3 larger percent of the portfolio today because of its
4 relative performance than it has in the past. But the
5 figures that I've stepped through are pretty consistent
6 with the -- over the gains and losses that we've seen in
7 recent years.

8 I'll pause there. Be happy to take any specific
9 questions, either the backward-looking or the
10 risk-analysis work.

11 CHAIRPERSON JONES: Okay. We do have questions.

12 Mr. Juarez.

13 ACTING COMMITTEE MEMBER JUAREZ: Yeah, I just
14 wanted to check on something, because I didn't hear it.

15 So your analysis doesn't make any reference or
16 include any suggestion as to where those dollars could
17 have been invested otherwise other than in our index
18 funds; is that correct.

19 MR. FORESTI: That's correct. So the methodology
20 essentially implies that those dollars are prorated to the
21 rest of the portfolio.

22 ACTING COMMITTEE MEMBER JUAREZ: Okay. But
23 presumably they could have been directed somewhere had the
24 decision been made back when to do that?

25 MR. FORESTI: They certainly could have been,

1 right. That's outside of the numbers that are presented
2 here, correct.

3 ACTING COMMITTEE MEMBER JUAREZ: That's what I
4 wanted to make sure.

5 Chair, if I might, I do intend to make a motion
6 at some point. But I do -- I understand the Board will
7 want to hear from all folks who are interested in this
8 subject, so I'll hold on that. But just know that I would
9 like at the appropriate time to offer a motion.

10 CHAIRPERSON JONES: Okay. And I -- certainly we
11 could entertain a motion, but I've already been asked by
12 one of the Committee members to make a motion also.

13 So we will finish the presentation where we have
14 a number of people from the public that wish to speak on
15 this item.

16 ACTING COMMITTEE MEMBER JUAREZ: Certainly.

17 CHAIRPERSON JONES: We'll have that. And then
18 I'll honor the first person who asked to make a motion and
19 see where that goes and then we'll move from there.

20 ACTING COMMITTEE MEMBER JUAREZ: Okay.

21 CHAIRPERSON JONES: Mr. Jelincic.

22 COMMITTEE MEMBER JELINCIC: In the Wilshire
23 letter, you point out, "However, it's impossible to know
24 with any degree of certainty, a priori, if tobacco-related
25 securities will outperform or underperform the market."

1 And I understand that. It also says, "It is equally
2 likely that the restricted portfolio outperforms the broad
3 market as it is that it underperforms the broad market."

4 That seems to me that that gives no weight to
5 diversification and the values thereof.

6 MR. JUNKIN: Andrew Junkin with Wilshire. So
7 that's the opinion letter that I wrote that you're
8 referencing. That comment is specific just to performance
9 without respect to the risk associated with it.

10 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

11 MR. FORESTI: Can I -- maybe to add to that.
12 Because in the same opinion letter we did speak to the
13 estimated overall risk of the portfolio within and
14 without. And it's small, but it does capture that there's
15 a small diversification benefit. I think it was 10 basis
16 points against a risk of 12 something percent. But the
17 idea of whether it's a gain or a loss, that's a different
18 form of risk but it's -- it's not a diversification risk
19 in terms of whether it lowers or raises the overall
20 absolute risk of the portfolio.

21 COMMITTEE MEMBER JELINCIC: Thank you.

22 CHAIRPERSON JONES: Okay. Continue.

23 Whose next, Mr. Eliopoulos?

24 CHIEF INVESTMENT OFFICER ELIOPOULOS: So now --
25 actually now -- is it Allan or -- I thought that we were

1 going to have Dr. Glantz.

2 Would you like to hear their opinions first and
3 then we'll have Dr. -- why don't we do that.

4 CHAIRPERSON JONES: Yes, since they're there,
5 yes.

6 CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, let's
7 do the survey now.

8 MR. FORESTI: Okay. Great.

9 --o0o--

10 MR. FORESTI: So the survey which Wilshire
11 conducted in collaboration with CalPERS, we reached out to
12 other asset owners within the institutional industry. You
13 know, early October we collected the information. We sent
14 out -- we started with a list that was provided both by
15 CalPERS as well as Wilshire's client list as well as
16 looking at internal databases that we have of contacts and
17 reached out to 2- to 300 firms or organizations; received
18 responses from 32. And on this page you can see a
19 distribution of those. CalPERS is among the 32.

20 16 or half of that group of respondents were
21 public-defined benefit plans. Next biggest group was
22 endowments, which there were nine. Two foundations and
23 then five that would fall in a multi-employer, slash,
24 other category.

25 In terms of the asset bases that were represented

1 by respondents, on the next slide -- and let me set this
2 up, because the format of this particular page will be
3 consistent with some of the subsequent slides. So we
4 thought it would be helpful to break the information into
5 two components. The blue bars would represent the
6 segmentation of all respondents. So the 32 respondents
7 that I mentioned, the orange bars isolate and focus just
8 on the public defined-benefit plans. So we presented it
9 here in both ways.

10 But starting at the bottom, as you move from the
11 bottom of the page to the top, it would be the smaller
12 asset bases.

13 --o0o--

14 MR. FORESTI: So half of the respondents, 16 of
15 the total of 32, had 5 billion or less in assets. You can
16 clearly see that there's a bias towards the public defined
17 benefit plans being among the larger respondents. Indeed,
18 just three of those 16 with assets under 5 billion were
19 public defined benefit respondents. So the remaining 16
20 percent that are above 5 billion, all but three of those
21 were the public defined benefit respondents.

22 Essentially the important question that drove the
23 survey was to ask respondents about their historic and
24 current divestment activities. And the question
25 essentially that started to move down the track of

1 separating respondents in terms of their -- whether
2 they've had experience with divestment was to ask: Have
3 they divested or considered divesting from any security?
4 And I just wanted to make the point that for the responses
5 on this particular page, this is not specific to just
6 tobacco. So this would be any form of divestment, whether
7 it's fossil fuel, country specific, Iran-Sudan, firearms,
8 et cetera.

9 And you can see that from the total list of
10 respondents, there are 18 that answered in the affirmative
11 and 14 which have not either divested or considered
12 divestment in the past. And when we look at just the 16
13 public DB respondents, 10 answered in the affirmative and
14 6 have not.

15 And so of these -- of the 18 and the 10 that are
16 listed here, one of the respondents didn't answer future
17 questions. So as I go through kind of looking through the
18 numbers going forward, you'll see that they sum up on
19 total respondents to 17 rather than 18 and for public DB 9
20 versus 10.

21 --o0o--

22 MR. FORESTI: In moving towards for the group
23 that has divested, their approach and what they've done
24 with divested assets, all 18 who answered affirmatively to
25 divesting haven't had a special or targeted carve out for

1 those divested assets. So indeed they've simply
2 prorated -- consistent with CalPERS' approach, have
3 prorated those assets among the remaining sections of the
4 portfolio.

5 We asked the respondents who have divested
6 whether they have a process in place to track the impact
7 of the divestments in terms of the return impact on their
8 portfolio, as much in the case of what we just stepped
9 through a few minutes ago. And you can see from the
10 responses here again where we aggregate across all and
11 then just look at the subset of public DB plans, that the
12 small minority have a process in place. So of the 17, 5
13 of the 17. So just under a third of respondents do have a
14 process in place to measure the impact. And when looking
15 at the 9 public DB respondents, just 2. And one of those
16 is in this room.

17 --o0o--

18 MR. FORESTI: Kind of related, but next question
19 we wanted to understand is, is there a process to
20 reevaluate and reassess and consider reinvesting in
21 segments that had been previously divested. And the
22 responses here look very similar to what we just went
23 through in terms of whether the impacts are tracked. Just
24 one additional affirmative response versus what we just
25 looked at. So on the total of 17, 6 of the 17 have a

1 process in place to reconsider. And then for the 3 out of
2 the 9 public defined benefit plans have a process in
3 place, so about a -- 1 in 3 in terms of a percentage.

4 Turn now to understanding expectations on return.

5 --o0o--

6 MR. FORESTI: And just -- I think this was a
7 little interesting, because this is now specific to
8 tobacco. And we wanted to ask respondents who had
9 divested what their forward expectations were at the time
10 of that decision. Now, there were only 4 that had
11 disclosed divesting from tobacco, yet we received 12
12 responses in terms of market expectations.

13 Most of those were in the "did not consider,"
14 which makes I think perfect sense because it wasn't an
15 area that they had to -- divested from. But I wanted to
16 just disclose that up front.

17 Of the four that had communicated that they have
18 divested from tobacco, one believed that tobacco
19 securities would outperform -- modestly outperform the
20 general market, two believed that tobacco securities would
21 have market-like performance, and one felt that tobacco
22 securities would modestly underperform the general market.

23 And that being said, when you look at the 12
24 respondents who provided information, half of them again
25 did not consider, three felt that tobacco securities of

1 that segment would outperform the market, two that they
2 would be market-like, and one that they would outperform.
3 And you can see a much smaller subset for the public DB
4 two feeling like there'd be outperformance, in one
5 underperformance.

6 So kind of a mixed result on what the
7 expectations are, with most respondents either not
8 considering or looking at returns being market-like.

9 The next question we wanted to understand was the
10 views of these organizations in terms of their
11 understanding of fiduciary duty and divestment in terms of
12 its meeting their duty to act as fiduciaries. And here we
13 provided one of three choices when asking the question,
14 which is -- two in very absolute terms, either, yes,
15 divestment is consistent with fiduciary duty, 2, no it is
16 not consistent with fiduciary duty, and then a third
17 option, which is it may be consistent with fiduciary duty
18 provided other considerations are made. And you can see
19 that the vast majority of respondents confirmed their
20 understanding that divestment may be consistent with their
21 fiduciary duty. Indeed, when looking at the full list,
22 again not the subset of DB plans, five responded in
23 absolute terms in the affirmative that, yes, it's
24 consistent, five responded that it's not, and 21, the vast
25 majority said, yes, it may be consistent. That's their

1 understanding.

2 And you can see a similar distribution on the
3 public DB respondents, you know, one saying yes, 11 saying
4 maybe, and three saying no.

5 --o0o--

6 MR. FORESTI: A final question I wanted to share
7 with the Committee today is regarding respondent opinions
8 or views on whether the decision or the action of
9 divesting, specifically tobacco, can impact corporate
10 behavior.

11 And here I think the responses are pretty
12 overwhelming in terms of one direction, which is that the
13 vast majority felt like divestment in terms of an
14 investment activity is unlikely to impact corporate
15 behavior. Indeed, one of -- one of the respondents said
16 it's likely. But if you move down -- these are looking at
17 the blue bars now -- seven respondents didn't know, seven
18 felt like it was unlikely, another seven thought it was
19 highly unlikely, and six more thought it was definitely
20 not something that would impact.

21 And you see similar trends with the public DB
22 respondents within the survey.

23 I'll pause there. But be happy to answer any
24 questions, either generally about the structure of the
25 survey or any of the individual responses that we

1 received.

2 CHAIRPERSON JONES: Okay. We do have two
3 questions at this point.

4 Mr. Jelincic.

5 COMMITTEE MEMBER JELINCIC: That was on from
6 earlier.

7 CHAIRPERSON JONES: Okay. Mr. Juarez.

8 ACTING COMMITTEE MEMBER JUAREZ: Yes. Just
9 relative to the participants in the survey. And if you
10 can answer this, please do. And if you can't, I
11 understand.

12 Were both CalSTRS and UCRS in this -- in your
13 pool of respondents?

14 MR. FORESTI: I do not know that off the top of
15 my head. But we've been very careful, because when we
16 reached out to respondents, we made it clear that their
17 responses would be kept anonymous.

18 ACTING COMMITTEE MEMBER JUAREZ: Their individual
19 responses?

20 MR. FORESTI: Their individual responses.

21 ACTING COMMITTEE MEMBER JUAREZ: Right.
22 Okay. So you don't know for sure?

23 MR. FORESTI: Correct.

24 CHAIRPERSON JONES: Okay. Mr. Costigan.

25 COMMITTEE MEMBER COSTIGAN: So I'll ask the

1 inverse question. If they're anonymous, did you survey
2 among those who was invested in tobacco and not invested
3 as a policy?

4 MR. FORESTI: So we -- they're anonymous in that
5 we're -- we made a commitment not to disclose responses.
6 We collected the information with who the respondents
7 were. And as I mentioned, there were four that have
8 divested from tobacco.

9 COMMITTEE MEMBER COSTIGAN: Okay. And the others
10 have not or have no policy on divestment?

11 MR. FORESTI: If we can trust the answers, the
12 question was that they have not. So unless there was
13 misunder -- misinterpretation of the question, we can
14 assume the rest did not -- have not divested.

15 COMMITTEE MEMBER COSTIGAN: Not have a policy or
16 not divested?

17 MR. FORESTI: Not divested.

18 COMMITTEE MEMBER COSTIGAN: But they may have a
19 policy regarding tobacco?

20 MR. FORESTI: Correct. That was -- the specific
21 question was whether they have a -- whether they have
22 divested or have considered divestment.

23 COMMITTEE MEMBER COSTIGAN: Okay. Thank you.

24 CHAIRPERSON JONES: Okay. So that's all the
25 questions on that one.

1 What's next?

2 CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. So
3 I think -- thank you, Steve. I think you can take a seat
4 now. There's careful choreography that we have here.

5 So we'll call up Dr. Stanton Glantz, Professor of
6 Medicine at the University of California San Francisco,
7 and its director for the Center for Tobacco Control
8 Research and Education. And let me just underscore how
9 much we appreciate Dr. Glantz' participation here today
10 and the provision of information to us over the course of
11 the last few months.

12 Dr. Glantz.

13 (Thereupon an overhead presentation was
14 Presented as follows.)

15 DR. GLANTZ: Okay. Well, thank you for inviting
16 me. I actually have been quite involved in financial
17 issues at the university, having some years ago chaired
18 the systemwide budget committee for UC. And I can tell
19 you, UCRS is not in tobacco. They divested quite a long
20 time ago.

21 --o0o--

22 DR. GLANTZ: So I've been asked to briefly talk
23 about the future of the tobacco industry. And I think
24 that the first point to make is what you see in any
25 investment advice, and that is past performance is not a

1 guarantee of future returns. And I think -- I wasn't
2 involved in the original CalPERS decision to divest. I
3 know that was driven by a great deal of concern over the
4 huge litigation risks the tobacco industry was facing back
5 in the 1990s from state litigation, the federal
6 racketeering case, and others. And the industry did
7 financially weather the huge -- that
8 over-200-billion-dollar payouts that were generated by
9 those cases, and which are continuing indefinitely, by the
10 way.

11 The way the industry continued to maintain its
12 profitability was to just jack up prices on the reducing
13 number of smokers. And that's the basic strategy the
14 tobacco companies have used. They're selling a highly
15 addictive substance; and if they just keep -- as fewer and
16 fewer people smoke, the remaining smokers get charged more
17 and more money. But there is a limit to how far you can
18 push that. And while smokers are not totally price
19 sensitive, they are not insensitive either. And it's well
20 established that as prices go up, consumption goes down.

21 And also -- and if you look at the tobacco
22 companies' own internal research - and we have 90 million
23 pages of the tobacco industry's internal documents at UCSF
24 as a result of the litigation - they're very worried about
25 a threshold effect, that if smoking gets down to a low

1 level, somewhere below 10 percent, they're worried that
2 the whole behavior may just crash. And I actually think
3 they're right, and I think we're getting close to that in
4 California.

5 --o0o--

6 DR. GLANTZ: So as I said -- in addition to
7 raising the prices, the main ways the tobacco companies
8 have maintained their profits is through a lot of
9 unethical behavior - child labor, environmental
10 destruction, political corruption around the world.
11 They've -- they're -- as I said, they're selling a highly
12 addictive product and -- well, this is just what I said,
13 so I don't have to say it again.

14 --o0o--

15 DR. GLANTZ: Now, if you look at the situation
16 here in California, California voters just by about a -- I
17 think 63 percent passed the \$2 tobacco tax in the face of
18 a \$42 million campaign against it by Big Tobacco. And
19 that took California from being something like 37th to 9th
20 in the tobacco tax levels of the state.

21 But the most important thing that Prop 56 will do
22 is it will quadruple the size of the State's anti-smoking
23 program, which has been demonstrated to be very effective.
24 We now have smoking rates in California down around 11 or
25 12 percent. Most of the smokers are relatively light

1 smokers. A lot of them aren't even smoking every day.
2 And I think if -- if Prop 56 is properly implemented, we
3 could very well see tobacco eliminated in California in
4 five years if that threshold that the cigarette companies
5 are afraid of really exists.

6 Oh, I guess it was \$71 million campaign. I'm
7 sorry. It was 42 million last time.

8 --o0o--

9 DR. GLANTZ: Just some analysis done by a couple
10 of my colleagues at UCSF who are economists. Just the
11 price increase that will happen as the tobacco companies
12 pass the tax through to their customers is going to cut
13 cigarette sales by about a quarter of a billion dollars a
14 year in California. And that doesn't count the effect of
15 a reinvigorated tobacco-control program, more anti-smoking
16 advertising. Or if the tobacco companies, as they often
17 do, actually increases the wholesale price by more than
18 the offset in tax to try to maintain the cash flow, the
19 effect could be even bigger.

20 A really important thing to look at in the
21 California tobacco control program, which is viewed as a
22 world leader and has been amazingly effective - it's cut
23 smoking by more than half in the 20 years - is one of the
24 key themes in the program is industry denormalization,
25 that the tobacco industry just isn't a legitimate part of

1 society. And the divestment decisions by CalPERS, by
2 UCRS, by others I think is an important element in that
3 message.

4 Now, you have to ask the question: Well, does
5 the fact that people don't like the cigarette companies
6 make any difference? And the answer is yes. Pam Ling,
7 who's one of the other people speaking today, and I have
8 conducted research here in California nationally. And if
9 non-smokers say they don't trust and don't like the
10 cigarette companies, it cuts the odds that they're going
11 to start smoking by a factor of 6. That's a gigantic
12 effect. If current smokers don't like or don't trust the
13 tobacco industry, it increases the odds of a quit attempt
14 by a factor of 5. These are huge effects. And there's
15 just no question in my mind; and in fact if you look in
16 the industry documents, in the industry's mind, that the
17 industry denormalization message is a crucial part of all
18 the public health success we've had in California.

19 Another thing that we have estimated or my
20 colleagues at UCSF have estimated is that in the first
21 year After prop 56 is fully implemented it's going to save
22 Californians about a billion dollars a year in health
23 costs. That's direct medical costs, not lost
24 productivity, things like that. I don't know what
25 fraction of California's total health costs CalPERS pays,

1 but it's not zero. And this is a huge, huge, impact.

2 --o0o--

3 DR. GLANTZ: And as I said, I think with a little
4 luck, we could effectively be a smoke-free society within
5 five years. And just as the passage in implementation of
6 Proposition 99 really set a global model which other
7 places have followed, I think that if we can reach the
8 success here in California, it could contribute to global
9 reductions in tobacco use.

10 --o0o--

11 DR. GLANTZ: Now, in fact there's A lot of
12 evidence that all this stuff is happening. If you look at
13 the following tobacco sales in the United States over the
14 last three presidents, you can see there's been an
15 accelerating decline in reductions in tobacco use.

16 Now, of course we have President-elect Trump
17 coming in and no one knows what's going to happen. But I
18 can tell you that he has been very consistently
19 anti-tobacco for -- since at least 2015, up to and
20 including statements he made during the campaign. Now,
21 how that plays out, how it affects national policy, who
22 knows. But, I mean, I think we have a trend established.

23 --o0o--

24 DR. GLANTZ: The more important thing is that if
25 you look globally, tobacco consumption globally is now

1 falling. There is an international treaty called the
2 Framework Convention on Tobacco Control, 180 countries are
3 parties to this treaty. The United States is one of four
4 or five that aren't. But this is a treaty at a par with
5 the Climate Change Treaty, with other international
6 treaties. It was the first and, so far, only global
7 public health treaty, and it has committed the parties who
8 have signed it to actually implementing policies to reduce
9 tobacco consumption.

10 We've done work, both statistical analysis of the
11 impact of the FCTC on tax increases, tobacco
12 sale -- advertising bans, strong warning labels, and the
13 treaty has statistically significant detectable effect of
14 increasing these policies; and you can see that they're
15 starting to bite and that sales are dropping.

16 --o0o--

17 DR. GLANTZ: So if you in fact look at the
18 investment trade press - and I would not pretend to be an
19 expert with the people that are sitting at this table -
20 but just a little looking in the press, is that these
21 companies are beginning to lose sales and lose
22 profitability. And so I think -- if CalPERS is truly
23 interested in the long run, I think that this is not a
24 good thing to invest, and it's a bad thing socially, it's
25 a bad thing from a public policy point of view, it would

1 be totally out of step with the people of California.

2 But in addition to all that, it's probably really
3 a bad idea, because the thing that's happened with the
4 FCTC, I think very significantly, and also here in the
5 U.S., is -- one of the reasons I think that the tobacco
6 companies were able to continue to survive over the last
7 30 or 40 years is their dominance of the political
8 process. And we now have Mayor Bloomberg's foundation,
9 the Gates foundation, putting large amounts of money into
10 supporting global tobacco control efforts. And that's
11 what's helping to drive these changes.

12 Even Russia now has huge warning labels on
13 cigarette packs and smoke-free environments. In fact,
14 they have better warning labels than we do.

15 So that's my presentation. I'd be happy to take
16 any questions.

17 CHAIRPERSON JONES: Yes, we do. Thank you for
18 your presentation.

19 Ms. Yee.

20 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

21 And thank you, Professor Glantz, for your
22 presentation.

23 I'm struck by your presentation because it --
24 it's pretty expansive and it I think is -- encapsulizes a
25 number of the trending policy issues that are emerging

1 with respect to tobacco.

2 But perhaps this is maybe a good time to try to
3 focus kind of our decision today. And you've also shared
4 some findings that some of our consultants and other
5 organizations have brought forth that we have commissioned
6 reports from.

7 And, that is, you know, as fiduciaries, we need
8 to make a decision with respect to the options laid out
9 before us on an economic basis - and you certainly have
10 shared some findings along that line - rather than on a
11 public policy or a social-values-based basis.

12 So, you know, when I look at kind of where we are
13 with tobacco, I think the tests that we have to really
14 focus on is really making a decision that it's clearly not
15 prudent to invest in tobacco companies under current
16 circumstances that have been laid out for us by a number
17 of the reports that have been before us.

18 And I think there are some common themes with
19 respect to how we can look at that. And first I want to
20 just thank everyone who've worked on this, because I don't
21 think this decision is necessarily easy from a fiduciary
22 standpoint, but at the same time our focus will be on
23 really making the economic considerations to look at some
24 of the features about tobacco that will give us pause with
25 respect to presenting investment risk and certainly

1 effects on investment return.

2 So your point about the structural decline is
3 certainly one compelling point; and I think that's been
4 shared by many who have commented about this issue, that
5 not only are we seeing a structural decline in tobacco
6 sales volume here in the United States but certainly in
7 developed countries and some emerging markets too based on
8 lower smoking rates. So that I think is something that we
9 can consider.

10 Looks like price increases has been kind of
11 what's been keeping things afloat to some extent, and this
12 is probably going to be challenging to maintain over time.
13 I mean, there will be obviously price pressures that we'll
14 reach, and not so sure how sustainable that is.

15 Looking at the demographic challenges in terms of
16 a younger generation, both the United States and
17 internationally, I think is another factor to consider.

18 And I think the compelling finding that has come
19 forth, particularly from some of the consultants, is that,
20 you know, we are looking at an all-time high with respect
21 to trading of tobacco securities. And, I mean, I think
22 that should be met with a little bit of skepticism in
23 terms of how sustainable that is going forward.

24 But probably more importantly, which got us here
25 in the first place, was -- is just the increasing subject

1 of tobacco in terms of litigation and increased
2 regulation. And I think those two things do pose risks
3 economically. And, you know, just in terms of what we
4 have done here in California relative to taxation, we've
5 seen that governments around the world are doing the same,
6 imposing significant taxes on the industry and obviously
7 adding to pressures on prices.

8 And looking at litigation, while it's down right
9 now in the United States, I think it still is a
10 significant threat. And we've seen what's happened in
11 other courts around the world relative to litigation on
12 tobacco companies in terms of paying out -- payouts to
13 consumers.

14 This is an issue that I have found fascinating,
15 you know, from a fiduciary standpoint. Because we're
16 being asked as long-term institutional investors to
17 essentially look at what could be down the road with
18 respect to this industry, which is very unique, but also
19 taking into consideration current conditions.

20 And I just don't see -- you know, when we first
21 had this discussion there was some thought that we needed
22 broader stakeholder engagement and we should engage the
23 tobacco companies about, you know, their industry. The
24 tobacco industry's going to remain the tobacco industry.
25 And I don't know that there is really much that we can

1 expect that the tobacco industry will emerge as any other
2 type of industry. Perhaps marijuana, but we're not there
3 yet.

4 But I just think this is one where, as fiduciary,
5 we just need to in some ways put the blinders on relative
6 to the social-value-related considerations and
7 certainly -- even the public policy considerations,
8 because economically I just don't see how this is
9 sustainable as an industry down the road.

10 And so I think, given that, Mr. Chairman, I'd
11 like to just put a motion forth, but obviously entertain
12 more conversation, because, you know, question is -- to
13 Mr. Juarez' question about what we did with those assets
14 when we divested back when and they were allocated on a
15 pro rata basis throughout the portfolio.

16 But it may be meritorious I think to look at in
17 our next ALM process just to see, you know, what would we
18 have to do to the portfolio to kind of replicate, you
19 know, what we were getting from tobacco. We've never kind
20 of delved down that road. I don't even know whether it's
21 possible. But I think we have a responsibility to explore
22 that.

23 But I would like to make a motion --

24 CHAIRPERSON JONES: Ms. Yee, we have additional
25 presentations.

1 COMMITTEE MEMBER YEE: Oh, okay. I'm sorry.
2 Okay.

3 CHAIRPERSON JONES: So if you could hold. I did
4 get your request to be the -- to --

5 COMMITTEE MEMBER YEE: Okay. And then two more
6 things.

7 I think timing's also an issue with respect to if
8 we were to divest from the holdings with our external
9 managers. Obviously we don't want to have these stocks
10 sold in a down market. So monitoring of that will be
11 critical with respect to just being sure that we are doing
12 this responsibly.

13 CHAIRPERSON JONES: Okay. Thank you.

14 COMMITTEE MEMBER YEE: Okay.

15 DR. GLANTZ: And can I just react to that? Would
16 that be okay?

17 CHAIRPERSON JONES: Yes.

18 DR. GLANTZ: So just a couple of things that you
19 made me think of. There are now several countries that
20 have as a mat -- led initially by New Zealand, that as a
21 matter of national policy have set dates by which they
22 expect to be smoke free in the next 10 -- 10 or 15 years.

23 And the other thing about litiga -- a litigation
24 is when you're talking about litigation risk, the usual
25 thinking is lawsuits against the tobacco industry --

1 which, by the way, the Fed -- FCTC encourages, and has
2 happened -- there is happening in some other countries,
3 most notably Canada.

4 But the other thing is litigation by the tobacco
5 industry against governments who are putting in place
6 tobacco-controlled policies.

7 And Australia a few years ago mandated plain
8 packaging or standardized packaging of cigarettes. If you
9 go buy a pack of cigarettes in Australia, it is, by law,
10 the color of diarrhea. It has a huge pictorial warning
11 label on it, and the companies are only allowed a little
12 standard bit of text saying what brand it is. So all of
13 the branding is gone, which is a crucial asset to the
14 tobacco companies. They sued Australia domestically and
15 in -- in front of the World Trade Organization and another
16 investment thing and lost.

17 Uruguay has done 85 percent of the packages as
18 warning labels. They got sued and lost.

19 The tobacco companies sued -- just sued in
20 England trying to stop it. And the industry has lost all
21 of these cases against standard and plain packaging.
22 So -- I've lost track of how many countries are using it.

23 And, you know, one of the things that motivated
24 the FCTC, because -- it was a lot of the smaller countries
25 who were being invaded by the tobacco companies 10, 15

1 years ago as a way of keeping the revenues up. And I
2 think the last graph I showed you showing declining global
3 sales is showing that that is actually working, that those
4 efforts to implement global public health policies to
5 reduce cigarette consumption are actually working.

6 So, you know -- I don't have your job because if
7 I did, CalPERS would be broke. But, you know, I -- you're
8 not -- you're supposed to buy low, sell high. And I think
9 you're in a situation right now where you may be at
10 historic highs. Be a good time to just completely get out
11 and get rid of the little bit you've got left.

12 CHAIRPERSON JONES: Mr. Lind.

13 COMMITTEE MEMBER LIND: Thank you. Just a few
14 follow-up questions for Dr. Glantz.

15 This issue of the price threshold I find very
16 compelling, and certainly I think an issue that the folks
17 made this initial decision didn't have 16 years ago.

18 You talked about the recent proposition in
19 California adding \$2 per pack of a tax. And that only
20 brought us to number 9 nationally?

21 DR. GLANTZ: Yes.

22 COMMITTEE MEMBER LIND: Which is kind of amazing
23 I think.

24 So my follow-up question to that is, have there
25 been any studies as to, where other states have passed

1 higher taxes on cigarettes, how quickly and how severely
2 there has been decline in consumption?

3 DR. GLANTZ: Yes. I don't -- I don't have all
4 that in my head. But the price elasticity between
5 cigarette prices and consumption has, you know, remained
6 fairly stable over time. So you raise the price, the
7 consumption drops. But I don't have the -- I mean, I know
8 the elasticity's been -- estimates have changed a little
9 bit over time, but I don't -- I don't know those numbers.

10 COMMITTEE MEMBER LIND: Okay. Thank you.

11 CHAIRPERSON JONES: Mr. Costigan.

12 COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Chair.

13 Just a few questions, Dr. Glantz. Thank you for
14 being here.

15 I know you're a cardiologist. But your expertise
16 here today is tax -- or tobacco cessation programs and its
17 usage? I'm just trying to struggle, which is what's your
18 institute? What's -- the reason you're here today is?

19 DR. GLANTZ: Well, I was asked to come.

20 COMMITTEE MEMBER COSTIGAN: Well, I know that.
21 But the reason you were asked to come --

22 DR. GLANTZ: Okay. I'm A professor of medicine
23 in the division of cardiology. I'm actually a scientist,
24 not a physician. But I direct our Center for Tobacco
25 Control Research and Education. I've published 350 or 400

1 papers, including a lot of statistical analyses of the
2 effects of funding state tobacco programs --

3 COMMITTEE MEMBER COSTIGAN: And that's actually
4 the reason for doing that, because the -- I'm glad you're
5 here because the argument is -- it's not -- you're not
6 here as a cardiologist.

7 DR. GLANTZ: No.

8 DR. GLANTZ: No costs cost policy has have

9 COMMITTEE MEMBER COSTIGAN: You're here more as
10 an economist and the impact that tobacco policies have had
11 on an asset we own.

12 DR. GLANTZ: Yes.

13 COMMITTEE MEMBER COSTIGAN: So when you look at
14 Prop 56 -- and I'm not sure everybody agrees with the
15 wind-down in five years. I mean there are two
16 questions --

17 DR. GLANTZ: Well, that's a hope if it goes well.

18 COMMITTEE MEMBER COSTIGAN: But the question that
19 you're raising actually is the risk to a tobacco
20 investment is actually the public policy. Because while
21 we saw voters impose a \$2 -- from 87 cents to 2 something,
22 if the public or a policymaker truly wanted to end the use
23 of tobacco, or legal use of tobacco, there is a price
24 point at which you will raise that pack of cigarettes -- I
25 mean, we're going down that path.

1 DR. GLANTZ: Yeah.

2 COMMITTEE MEMBER COSTIGAN: So the risk to the
3 investment -- I mean, I'm just trying to connect it -- is
4 not necessarily the health cost. There is a health
5 cause -- and I've got some other questions on other
6 products. But what you're really -- at least as I read
7 your papers and advocate, it's the public policy. And
8 what I hear -- heard you said is at some point there's a
9 price point of diminishing returns for somebody using the
10 product because it becomes too expensive. Is that
11 correct?

12 DR. GLANTZ: Yeah. That's right. Although I
13 think the health costs associated with smoking are not
14 trivial either. There's a dollar cost associated --

15 COMMITTEE MEMBER COSTIGAN: But -- I mean,
16 there's a question as to whether or not we can look at
17 health costs. We can look -- we have to look at it in the
18 context of an investment.

19 DR. GLANTZ: Right.

20 COMMITTEE MEMBER COSTIGAN: And when I look at
21 the investment landscape, the question is, there are
22 policies being implemented around the world that from a
23 cost standpoint are going to diminish this asset because
24 what we're seeing is increased -- costs going up as a
25 result of the changing behavior, not the health impacts,

1 because what you're say -- I just want to make sure I'm
2 understand this. You're saying the increase in the cost
3 of tobacco -- of a pack of tobacco -- or cigarettes will
4 cause me not to use the product. It's not the fact that I
5 know it's bad for me. It's the fact that it's now become
6 too expensive.

7 DR. GLANTZ: Well, that's certainly -- the price
8 is certainly one of the important reasons. Although if
9 you look at the -- I wish I'd brought an Australian pack
10 of cigarettes to show you. But when you buy a pack of
11 cigarettes from Australia, buy -- what is a big eye
12 staring at you saying, "Smoking causes blindness." So
13 there is evidence that as people understand the health
14 dangers, that also affects behavior. Social norms affect
15 behavior. There's a whole range of policies that the FCTC
16 embodies; and, in fact, the California State Tobacco
17 Control Program pioneered and embodies, that when taken
18 together are what are contributing to this big drop in
19 consumption.

20 COMMITTEE MEMBER COSTIGAN: And that's again a
21 point I'm trying to make, is these are public policies.
22 The color of a package of cigarettes in Australia was a
23 public policy decision.

24 DR. GLANTZ: Yes.

25 COMMITTEE MEMBER COSTIGAN: The ads that are run

1 in California by the Department of Health Care Services
2 were based upon a public policy decision that tobacco is a
3 bad product. I mean, that's why they're -- and that the
4 public's sees that there is a -- some number in the future
5 where you're going to price this out. I mean, that's --
6 so I'm just trying to struggle from an economic
7 standpoint. There are other products -- and don't take
8 this line of questioning as to that I've made a decision
9 one way or another as to where I'm going -- is I'm just
10 trying to look at these correlations. Because you can
11 look at the issue of sugary beverages, sugary products,
12 which I know in the Bay Area has been a big issue. What
13 I'm trying to avoid is the correlation between the use of
14 a product and health care outcome. But it's the product
15 itself, or an asset, that based upon public policy is
16 going to see a decrease in the valuation going forward.
17 And what we've seen in tobacco is that public policy
18 across the globe have been policies put in place to
19 decrease its use, which has a long-term impact on it's
20 value?

21 DR. GLANTZ: Yes, absolutely.

22 COMMITTEE MEMBER COSTIGAN: Okay. That's a fair
23 statement?

24 DR. GLANTZ: Yeah, I think that's totally fair.
25 And I have to say, I started out when the idea of the FCTC

1 was first proposed, which actually came out of a professor
2 at UCLA. I thought it was a dumb idea because I just
3 didn't think it was possible at a global scale to
4 implement public policies that would drive down tobacco.
5 I thought the industry would be just too powerful. But
6 that was wrong. I mean, it is working. We see country
7 after country passing increased taxes, passing smoke-free
8 laws, passing plain packaging. All of these thing -- big
9 ad campaigns, bans on conventional marketing. All of
10 these policies working together have the effect of driving
11 down consumption. And, again, the fact that the Bloomberg
12 Initiative and the Gates Foundation are helping to fund
13 the public health advocates to do the lobbying, to do the
14 policy work, to see that there's a successful
15 implementation of the FCTC, I think is why that's
16 happening.

17 COMMITTEE MEMBER COSTIGAN: So one last question.
18 In your expert opinion, as the leader at the University of
19 California San Francisco and as a publisher of over 350
20 something odd economic -- or academic studies, you do not
21 see a global change in public policy that would reduce the
22 cost on tobacco going forward?

23 DR. GLANTZ: No, I see it just the opposite, that
24 we're seeing it going up.

25 COMMITTEE MEMBER COSTIGAN: Thank you.

1 DR. GLANTZ: Yeah. Thank you.

2 CHAIRPERSON JONES: Mr. Juarez.

3 ACTING COMMITTEE MEMBER JUAREZ: Yeah, I just
4 want to just weigh in. And I realize that we're going to
5 ultimately take motions. But I did want to just reference
6 the letter that you all received from the Treasurer
7 earlier last week relative to this issue, and so I think
8 that the arguments that he would state were he here are
9 clearly laid out in the letter, for a number of reasons;
10 in particular focusing on the non -- what we would
11 consider to be the nonfiduciary reasons. But also raising
12 issues that we have to consider. And that's -- I think
13 it's been raised here, what will be the future value of
14 investing in tobacco?

15 I think if we look at the analysis that was done
16 by a couple of the consultants, but in particular the
17 Alliance analysis, which clearly suggests there are a
18 number of risk factors that you would have to take into
19 account before you'd put dollar one or allow dollar one to
20 remain vested in tobacco, that would cause you to question
21 whether or not now is the time, if ever, to be investing
22 in this product.

23 And so I want to make sure that we're clear, that
24 it's not about just the health-related, the societal costs
25 associated with tobacco, but there are a number of other I

1 think well-founded, well-publicized reasons for this Board
2 to discontinue its investment totally, which is recognized
3 in items 2a and 2b of the staff report as part of their
4 recommendations, one that I would -- that's probably the
5 only version that I can support of the staff
6 recommendations. And, again, I think there are plentiful
7 reasons to fully consider taking that position.

8 I'll defer to others to make the motion. But
9 depending on what that motion is, I'll act accordingly.

10 Thank you.

11 CHAIRPERSON JONES: Okay. Thank you.

12 We're going to ask the two consultants to
13 comment, Wilshire and PCA. And then we're going to call
14 on our public speakers. And then we'll entertain a
15 motion.

16 MR. JUNKIN: Great. Andrew Junkin with Wilshire
17 Consulting. I'll try not to take too long because I know
18 a lot of other people want to speak about this. But I
19 think I'll try to distill our opinion letter, which is our
20 view on where you end up in some ways depends on where you
21 start.

22 And focusing on the process, as you all have
23 done, will help you make this decision. And it -- for us,
24 from an investment standpoint, an investment standpoint
25 only - we're not taking an advocacy position here - it's

1 about risk, which Mr. Jelincic talked about briefly,
2 return, and cost. And it's using the investment beliefs
3 that this committee put in place to really guide itself
4 through challenging decisions. I think there are a number
5 of things that sort of weigh in here:

6 Risk. The Committee's only willing to take risk
7 in investments when it's deemed to be worth it,
8 essentially, when you're likely to be compensated for it.

9 I think there have been a lot of comments here
10 about sort of significant event risks that are probably
11 challenging to price into a security because it's a tail
12 event. And so I'm not sure there's a -- there's a clear
13 answer there. I mean, we've done the quantitative
14 aspects, right, and we've said, well, the diversification
15 helps the total risk level a bit, but, as Steve said, 10
16 basis points really on the scale of the portfolio is --
17 it's hard for me to say that's a meaningful difference in
18 the risk that you're going to face.

19 Return. We've already said from our point of
20 view it could just as easily be outperformance versus
21 underperformance. I simply don't know.

22 So, using this risk-return-cost framework, the
23 only one that we know anything about is costs. And we
24 know there's going to be transaction costs to reinvest or
25 to further divest.

1 And so when you think about things that are
2 prudent or clearly not prudent, when risks and returns I
3 think are in the absence of any ESG factors a push, cost
4 becomes a pretty significant. Even though it's \$11
5 million on hundreds of billions, that's the only factor
6 that we can know. So that -- to me that becomes a
7 significant factor.

8 In terms of the rest of CalPERS Investment
9 beliefs, using your long-term horizon as an advantage, if
10 you deem this as a slow-moving risk, I think using your
11 long-term time horizon as an advantage would allow you to
12 step out of the way there.

13 And, frankly, just having worked with CalPERS for
14 as long as Wilshire has and for as long as long as I have,
15 you know, the history and the goal for CalPERS, as you all
16 well know, is to engage, not to divest.

17 But to a point that Priya made earlier, it's hard
18 to engage with a mono-line company and say, "Take yourself
19 out of business." They have a duty to their shareholders
20 that they can't do that.

21 So, you know, I think that the challenges here
22 are numerous, but I think that focusing on what you can
23 know and can control, which is really the cost here, is a
24 significant issue. And that would be the statement that I
25 would -- I'll end where I began: Where you end up

1 probably depends on where you start.

2 CHAIRPERSON JONES: Okay. PCA.

3 MR. EMKIN: Mr. Chairman, members. Allan Emkin,
4 PCA. And I'm unfortunately or fortunately one of the few
5 people who was here 16 years ago. Matter of fact, I was
6 here 25 years ago and 30 years ago. So I have lots of
7 history.

8 I'll be very brief. The staff has prepared
9 voluminous materials; and the materials are really
10 balanced and they're comprehensive. You have more than
11 enough information to make a reasonable decision.

12 Based upon that information, reasonable people
13 can really take different roads. There's not a right
14 answer here. It's your job to weigh that body of evidence
15 and do what you think is in the fund's best interest.

16 So we don't have an opinion. What we do have an
17 opinion on is diversification. And diversification is the
18 key to managing risks, and it's the only thing that is
19 universally accepted in the investment community. There
20 are very, very few things where there's consensus, and
21 diversification is it.

22 Divestment -- the issue of divestment, not
23 tobacco, the issue of divestment by definition reduces
24 opportunity and, therefore, reduces diversification.

25 Happy to answer any questions.

1 Mr. Chairman, thank you for the opportunity.

2 CHAIRPERSON JONES: Okay. Thank you very much.

3 Seeing no further questions, we're going to go to
4 our public speakers.

5 We have ten requests to speak on this -- ten
6 individuals to speak on this item. And typically we allow
7 3 minutes for public comment. But given the significance
8 of this item and the complexity, I'm going to allow 5
9 minutes -- up to 5 minutes for individuals to speak on
10 this item.

11 And I'm going to call the names. And I'm trying
12 to see if there's enough seats behind Ted there to
13 accommodate the people.

14 (Laughter.)

15 CHAIRPERSON JONES: Now there are.

16 (Laughter.)

17 CHAIRPERSON JONES: And as I call your name, come
18 on. And you will go in this order as you signed up. And
19 the mike will be on for you. And then at the 5-minute --
20 if you take up to 5 minutes, we will -- you'll watch the
21 clock to see when you should conclude.

22 Cynthia Hallett. Dennis Cuevas-Romero. Pamela
23 Ling. Jim Knox. Terry Brennand. Lindsey Freitas. Kevin
24 Wehr. Kat DeBurgh. Bronwyn King. And Karen, I think,
25 Guma.

1 Okay. So everybody that's scheduled to speak is
2 up here. So you -- okay. You may begin.

3 Indicate your name and affiliation please.

4 MS. HALLETT: Yes. Thank you.

5 Good afternoon. My name is Cynthia Hallett. I
6 am the president and CEO of Americans for Nonsmokers'
7 Rights. We are a national member-supported nonprofit
8 public health advocacy organization working to protect
9 nonsmokers' rights to breathe clean air. In addition, my
10 organization also works to track industry interference.

11 I'm here this morning to offer testimony in
12 opposition to the staff recommendation to remove all
13 tobacco investment restrictions from the current CalPERS
14 investment policy.

15 Tobacco holdings in our opinion are inconsistent
16 with CalPERS' mission and value and its firmly established
17 world-leading reputation for responsible investing.
18 Responsible investment strategies, which avoid exposure to
19 companies producing products which harm the health of
20 American citizenry, are more common today than ever and
21 have a good long-term performance track record.

22 CalPERS was an early adopter and leader in
23 tobacco divestment in the year 2000, as well as an early
24 supporter of the principles for irresponsible investing.

25 I urge you to consider the impact of your

1 holdings in tobacco on the people of California and the
2 ripple effect around the world.

3 CalPERS has a fiduciary responsibility to invest
4 in ethically responsible industries, and tobacco does not
5 fall into this category in my opinion. In 2006 tobacco
6 companies were found by a federal district court to have
7 engaged in racketeering acts in violation of the RICO Act.
8 Judge Kessler noted in her ruling that the industry's past
9 five decades of illegal behavior was likely to continue in
10 the future. In fact, the tobacco industry continues to
11 cause damage to the economy by reducing worker
12 productivity, causing increased health care costs for
13 smokers and nonsmokers who are getting sick or dying from
14 tobacco use or exposure to secondhand smoke, and
15 contributing to environmental damage

16 Americans for Nonsmokers' Rights is one of the
17 six public health intervenors in the case and is actively
18 seeking remedies including corrective statements which
19 would potentially have an impact on tobacco stock
20 performance in the future based on the fact that they will
21 have to admit publicly on packages, on websites, and
22 newspapers that they lied to the American public about
23 their product.

24 We believe that tobacco is a sunset industry and
25 that it would be unwise, perhaps fiscally imprudent, for

1 CalPERS to have ownership interest in tobacco companies.

2 CalPERS should not be aligned with, or invest in,
3 companies whose addictive products are responsible for
4 diseases and death in smokers and nonsmokers.

5 CalPERS should not invest in an industry that
6 ruthlessly, and unapologetically, profits from injuring,
7 disabling, and/or killing its customers and innocent
8 nonsmokers. There's no socially redeeming value to
9 tobacco. And we should not reward an industry that lacks
10 transparency nor contributes positively to the global
11 health of people or the environment.

12 The proposed reversal on the investment policy to
13 allow investing in tobacco companies is contrary to the
14 mission, purpose, and positive impacts that has
15 characterized CalPERS for the past 16 years.

16 I urge CalPERS to remain divested of tobacco
17 stock and to extend those restrictions to external fund
18 managers. In addition, I urge CalPERS to exercise
19 leadership and responsible ownership as stewards of its
20 beneficiary's capital by following the principles of
21 responsible investments and to think about the impacts
22 that the companies it owns has on the people and the
23 economy of California as well as the world around us.

24 Thank you.

25 CHAIRPERSON JONES: Thank you very much.

1 MR. CUEVAS-ROMERO: Good afternoon, Chairman and
2 members. Dennis Cuevas-Romero, Government Relations
3 Director for the American Heart Association and American
4 Stroke Association.

5 I'm here today to urge the Board to extend the
6 tobacco-related investment restrictions to all third-party
7 investment managers and continue its tobacco investment
8 restrictions.

9 As you all know, smoking is a leading cause of
10 preventable death in the U.S., specifically here in
11 California. Smoking kills about 40,000 Californians
12 annually.

13 Tobacco use costs the State as much as \$23
14 billion in health care costs and loss of productivity,
15 including 3.5 billion in direct cost to taxpayers for
16 treating tobacco-related illnesses.

17 AHA wants to highlight the problematic position
18 CalPERS is thrusting itself into by reconsidering its
19 investment restrictions in tobacco companies.

20 It's incomprehensible for CalPERS to invest in
21 tobacco companies while the State concurrently spends
22 billions of dollars per year to fight the harmful effects
23 of tobacco.

24 There's precedence for CalPERS to weigh its
25 ethical obligations along with its fiduciary duty to its

1 investors. In 2013 this Board voted to eliminate
2 investments in certain manufacturers of assault weapons by
3 making a pledge to reduce -- help reduce acts of gun
4 violence.

5 CalPERS' fiduciary duties to act -- we know
6 CalPERS' fiduciary duties to actively seek the best
7 outcome for its pension plans. However, it is not shown
8 that it has exhausted all other viable investment
9 alternatives. Moreover, the recommendation to remove all
10 tobacco investment restrictions is all the more
11 distressing because this restriction was established 16
12 years ago.

13 Using this well-established restriction as a
14 guide, the American Heart Association and the American
15 Stroke Association asks for this committee to reject the
16 staff's recommendation and facilitate CalPERS' advancement
17 of our state's well-being. We implore this committee to
18 maintain the existing restriction on tobacco investments.

19 Furthermore, this committee should extend all
20 investment restrictions to third-party investment
21 managers. By taking this action, the Board will send a
22 clear message that the State of California will not put
23 its bottom line ahead of the health of Californians.

24 Thank you.

25 CHAIRPERSON JONES: Okay.

1 MS. LING: Thank you. My name is Pamela Ling,
2 and I'm a member of the Tobacco Education and Research
3 Oversight Committee, or TEROC, which is a legislatively
4 mandated committee that oversees the use of Proposition 99
5 tobacco tax revenues and the agencies that will be
6 enacting the revenues from Proposition 56 for tobacco
7 control, education, and research in California.

8 So TEROC appreciates the opportunity to offer the
9 public comment and strongly urges CalPERS to continue and
10 expand its divestment from the tobacco industry.

11 Reinvesting in the tobacco industry conflicts
12 with California tobacco control policies, sends mixed
13 messages about tobacco use, and could potentially link
14 CalPERS to racketeering.

15 The public policy of California since Proposition
16 99 passed in 1988 has been to save lives by reducing
17 tobacco use. Tobacco consumption has steadily decreased
18 since this time.

19 The recent passage of Prop 56 will further
20 decrease tobacco consumption and indicates that California
21 is not looking to support this industry.

22 CalPERS' reinvestment would lead to preservation
23 rather than a cessation of the tobacco business. As a
24 provider of health benefits, it's in CalPERS' best
25 interests to support efforts to reduce tobacco, death and

1 disease, and reduce tobacco health care costs.

2 TEROC also urges CalPERS to consider the impact
3 on its reputation if it reinvests in businesses that
4 continuing to be part of a racketeering enterprise.

5 The U.S. tobacco industry was found by a federal
6 court to have engaged in a massive 50-year scheme to
7 defraud the public by covering up the health risks of
8 smoking and marketing the products to children in
9 violation of the RICO Act. As a result of this ruling,
10 the industry will have to publicly admit to the world that
11 it engaged in misrepresentation and fraud. This, along
12 with increasing regulations worldwide and by the U.S. FDA,
13 shows the tobacco industry will continue to decline.

14 Stepping away from my role as a representative of
15 TEROC, I did also want to share some research that
16 Professor Glantz mentioned that he and I conducted showing
17 that young adults in California that have strong attitudes
18 against the tobacco industry, including wanting to see the
19 industry go out of business are one-sixth as likely to
20 smoke, and those who do smoke who have those attitudes are
21 over five -- over four times as likely to wish to quit
22 smoking.

23 CalPERS' position to divest from the tobacco
24 industry has sent a clear message that it does not support
25 marketing to youth; it reinforces the industry

1 denormalizing attitudes that are linked to smoking
2 behavior.

3 Conversely, a decision to reinvest in the tobacco
4 industry would undermine this important effort.

5 In closing, all sectors of California government
6 need to do their part in reducing tobacco use, the leading
7 cause of preventable death. CalPERS has a long history of
8 recognizing the harms incurred by tobacco and the industry
9 that supports it. We encourage CalPERS to continue to
10 provide leadership and to continue to divest from the
11 tobacco industry.

12 Thank you.

13 CHAIRPERSON JONES: Thank you.

14 MR. KNOX: Thank you, Mr. Chair, Committee
15 members. My name is Jim Knox. I'm the Vice
16 President/Government Relations for the American Cancer
17 Society Cancer Action Network, which is the policy
18 affiliate -- the advocacy affiliate of the American Cancer
19 Society.

20 We know now that the previous perception that
21 CalPERS is not currently invested in tobacco is inaccurate
22 given that there is over half a billion dollars in tobacco
23 stocks in CalPERS' portfolio.

24 We believe that CalPERS ought to be completely
25 tobacco free, as is CalSTRS, I might mention. And that is

1 why we urge you to adopt option number 2, to become
2 completely divested of tobacco stocks.

3 Investing in an industry that kills 40,000
4 Californians a year and inflicts \$27 billion worth of
5 damage to California in the form of health care costs and
6 lost productivity, and which imposes substantial cost to
7 the CalPERS system and your nearly 2 million members,
8 simply does not make sense and, indeed, would be
9 irresponsible.

10 No matter the short-term financial lure of
11 investing in tobacco is a bad bet. The industry is
12 indisputably in decline. And now it is faced with a
13 renewed assault from California, where we have imposed
14 precedent-setting setbacks to the tobacco industry just
15 since you considered this issue last April.

16 These new policies will likely spread across the
17 globe and nation, as did a previous generation of
18 aggressive anti-tobacco controlled policies in California.
19 I'm talking about Proposition 56, which will enact the
20 highest tobacco tax in the history of the United States.
21 Uncharted waters. Will also, as mentioned, triple funding
22 for the State's successful anti-tobacco control program.
23 And also legislation which will increase the legal age of
24 tobacco to 21. This is going to restrict access to the
25 industry's most important target, young people. And it's

1 a policy that has not been mentioned in your background
2 reports or so far this morning.

3 But the crackdown is coming globally as well, as
4 has been mentioned, perhaps most notably in the form of
5 the accelerated commitment from the 180 nations
6 representing 90 percent of the globe's population to
7 implement the greater restrictions on tobacco through the
8 Framework Convention on Tobacco Control, as has been noted
9 by Dr. Glantz.

10 These developments are likely to accelerate the
11 decline of tobacco consumption and the financial health of
12 the industry and make tobacco a bad investment. We urge
13 you to support the option 2.

14 Thank you very much.

15 MS. FREITAS: Good afternoon. My name is Lindsay
16 Freitas. I'm the Senior Director for Tobacco Control
17 among Health with the American Lung Association in
18 California. As a leading public agency fighting against
19 tobacco use and encouraging and promoting tobacco
20 cessation, we are here in strong opposition to the staff
21 recommendation to undo the divestment policy, and actually
22 encourage that we go a step further and encourage you to
23 accept option number 2.

24 We've heard a lot of discussion today about how
25 the tobacco tax is going to impact long-term sales of the

1 tobacco industry. But one thing we haven't talked about,
2 as Mr. Knox referenced, was how some of the policies we've
3 recently adopted here in California are going to impact
4 that. One of those policies, the one that raises the
5 minimum purchase age of tobacco to 21, is going to have a
6 significant impact on tobacco control and the use of
7 tobacco across the country.

8 The IOM report in 2015 expects that should the
9 entire country raise the minimum purchase age to 21, we'll
10 see a 12 percent reduction in tobacco use across the
11 country. And we are well on our way there. California
12 has adopted this policy. Hawaii's adopted this policy.
13 And many, many more states are looking at this policy,
14 including 200 municipalities across the country that have
15 adopted this at the local level. So we're seeing movement
16 in that direction and we're going to see that impact to
17 the long-term use of tobacco.

18 Not -- I highly urge you guys that CalPERS stand
19 with the rest of California as we become a leader once
20 again in tobacco control, and include that -- I
21 apologize -- and adopt option number 2.

22 Thank you.

23 MR. BRENNAND: Good afternoon. To quote Yogi
24 Berra, "This feels like déjà vu all over again." I'm
25 actually one of the people old enough to have been here

1 when you originally adopted the tobacco policy that you're
2 currently considering overturning and reversing.

3 And I don't want to repeat any of the
4 well-reasoned and well-researched economic reasons from
5 Dr. Glantz, my colleagues in the Save lives Coalition, or
6 well-laid-out in the Treasurer's letter to the Chairman of
7 this committee, but just go where I think I went last
8 time, which was I don't want to go back to my retirees and
9 tell them that their retirement is dependent on investing
10 in companies that pedal disease, death. That's not how
11 they want to collect their retirement money. They don't
12 want to have to rely on disease and death of other
13 individuals in order to retire in dignity.

14 So, please, reject this reinvestment option, and
15 adopt the expansion of it in option -- I can't remember
16 whether it's 2a or 2b now, but that option.

17 Thank you very much.

18 MS. DeBURGH: Thank you, Mr. Chair and members.
19 My name is Kat DeBurgh. I'm the executive director of the
20 Health Officers Association of California, representing
21 the physician health officers in California's city and
22 county local health departments. And my colleague said it
23 much better than I could. I just echo that tobacco is the
24 leading cause of preventable death and disability, and we
25 urge you to oppose reinvestment in tobacco.

1 Thank you.

2 MS. GUMA: Hi. My name is Karen Guma. I'm
3 speaking as an individual. I'm retired and I'm on a
4 CalPERS pension.

5 A lot has been said about the harmful effects of
6 tobacco products. I would just like to add to that, that
7 tobacco has been a real pioneer in dis-information
8 campaigns, where if you don't like what the science is
9 saying, you hire your own scientists, who will say what
10 you want. And it doesn't have to disprove the science.
11 All's it has to do is sow a sufficient doubt and disbelief
12 so that nobody believes the real science anymore.

13 And the same scientists and the same foundations
14 and think tanks have been used by climate change deniers.
15 So we have yet to see how much harm this particular policy
16 of the tobacco industry is going to cause.

17 It's easy to sound like an expert and to sound
18 very authoritative when you have a very narrow focus, when
19 you're only focusing on risk or return or something like
20 that. When you're talking about matters of public health
21 and clean air, clean water and safe climate, it's a lot
22 more vague and it's not clear who has the corresponding
23 responsibility that corresponds to fiduciary
24 responsibility to protect the common good.

25 But if you don't do that, who will?

1 CHAIRPERSON JONES: Thank you.

2 Is Mr. Bronwyn King in the audience?

3 Oh, it's Ms. Okay.

4 Or Mr. Kevin Wehr in the audience?

5 Okay. Those were two that had requested. So we
6 will now move on to our discussion.

7 And, Ms. Yee, you wanted the mike. If you could
8 put your...

9 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

10 CHAIRPERSON JONES: Yes.

11 COMMITTEE MEMBER YEE: If I might. And thank you
12 for everyone who came forward to testify.

13 I would like to put forth a motion that we
14 broaden the tobacco investment restrictions through both
15 expanding the divestment requirement to externally managed
16 portfolios of the publicly traded assets for the Public
17 Employees' Retirement Fund, and extending all the
18 restrictions to the externally managed affiliate fund
19 portfolios currently invested in institutional commingled
20 index funds.

21 COMMITTEE MEMBER MATHUR: Second.

22 CHAIRPERSON JONES: Okay. It's moved and
23 seconded.

24 Before the discussion, Ms. Yee, could you also
25 add that further instruct staff on implementing the

1 tobacco restrictions for externally managed portfolios to
2 exercise prudent and determining the timing and the method
3 of such implementation.

4 COMMITTEE MEMBER YEE: Yes, I would add that to
5 the motion and. And I don't think this needs to be part
6 of the motion, but I would like to see whether there is
7 the possibility of adding a more extensive discussion
8 during our ALM process with respect to looking at just --
9 not a substitute asset but certainly how we can have our
10 portfolio, you know, really take up what we saw was the
11 performance of the tobacco assets.

12 CHAIRPERSON JONES: So who was the second? Ms.
13 Mathur?

14 COMMITTEE MEMBER MATHUR: Yes.

15 CHAIRPERSON JONES: Okay. You okay with the --

16 COMMITTEE MEMBER MATHUR: Yes

17 CHAIRPERSON JONES: Okay. Great.

18 Okay. So now discussion.

19 Mr. Costigan.

20 COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Jones.
21 I will be supporting the motion. But before, I do want to
22 thank staff. First of all, it was a great discussion.
23 It's very difficult. I know tomorrow we're actually going
24 to be having a discussion on the discount rate. And every
25 time we pull something off the table, it makes us -- it

1 makes it even harder for us to achieve that return.

2 So I just want to say to you and the consultants,
3 to our Board consultants, thank you. I know this is very
4 difficult. And the work is not going unnoticed. And then
5 I just to remind folks, your primary mission is to try to
6 get the highest rate of return, trying to take the
7 emotion, the politics, and everything else out of it. So
8 I wanted to thank you. But I will be supporting the
9 motion.

10 CHAIRPERSON JONES: Ms. Mathur.

11 COMMITTEE MEMBER MATHUR: Thank you.

12 It's clear that there is abundant compelling and
13 strong public policy arguments to stay out of tobacco.
14 And I won't -- I won't go into great detail, but some of
15 the arguments that have been raised today are child labor,
16 environmental impacts, health impacts, health cost
17 impacts, et cetera, for our members, California citizens,
18 national citizens, the globe.

19 And that is not why we can make a decision today.
20 We must make a decision based on our fiduciary duty and
21 financial considerations.

22 And I have reviewed all of the data that was
23 before us, and it's clear to me that, you know, investment
24 experts indicate that the tobacco industry is facing a
25 structural decline in terms of the volume of sales and

1 their ability to gain revenues, for a number of reasons:

2 Heightened global awareness of negative health
3 consequences of smoking, including e-cigarettes facing --
4 they're facing increasing regulations; and taxes around
5 tobacco; smoking restrictions; denormalization, which was
6 one of the things that Dr. Glantz raised. And that those
7 are long-term trends that are going to I believe
8 significantly harm the tobacco industry and ultimately
9 erode their contribution to the performance of our fund.

10 And in the short-term, the Fidelity report shows
11 that tobacco stocks are currently trading at an all-time
12 high. And that given sort of the rising interest rate
13 environment that we are in at the moment, as just
14 evidenced by recent actions here domestically, that that's
15 likely to also harm tobacco stocks in the short-term.

16 So given all of that together, I believe that it
17 is clearly not prudent to remain invested in
18 tobacco-related stocks. And therefore I support the
19 proposal and motion made by Controller Yee.

20 Thank you.

21 CHAIRPERSON JONES: Thank you.

22 Mr. Juarez.

23 ACTING COMMITTEE MEMBER JUAREZ: Yeah. I don't
24 think you can say it too often. I want to both thank and
25 compliment staff. You gave us all that we would need to

1 take any one of the positions that you posed in terms of
2 the information and background that you provided as part
3 of your own staff report and certainly as part of the
4 folks that you had weigh in with information that we could
5 look at prior to making this decision.

6 So I just want to publicly acknowledge the good
7 work that you did. Whatever it ends up being in terms of
8 the vote, it's not a reflection on the quality of the
9 analysis that was done. So thank you for that.

10 CHAIRPERSON JONES: Okay. Mr. Jelincic.

11 COMMITTEE MEMBER JELINCIC: I'm going to vote
12 against the motion. And I actually would support number
13 1.

14 A lot of bad things have been said about tobacco,
15 all of which are true. But they also produce significant
16 tax revenues. They produce significant jobs, some of
17 which are very good jobs. And then just as -- from a
18 retirement viewpoint, they provide for some actuarial
19 gains.

20 But I am not aware of anyone who smokes or
21 doesn't smoke based on whether CalPERS invests or doesn't
22 invest. And if we're not changing behavior, then what are
23 we getting for the money we're giving up?

24 The current market price reflects all available
25 public information. So it reflects all the risks. And if

1 you don't believe that, then you really have to question
2 why we are an index fund. And so that -- I think that we
3 should do that.

4 That they are bad people? I'm not -- that it's a
5 bad industry. Won't make it individual.

6 You know, I'm not going to dispute. But this
7 Board is perfectly willing to indemnify vendors for
8 allegations of criminal behavior, and yet, you know, that
9 doesn't seem to breach our fiduciary duties.

10 So I think that we -- in light of everything --
11 in light of the fact that we are a pension fund, our
12 obligation is to pay the benefits, I will oppose this
13 motion and would support number 1.

14 Thank you.

15 CHAIRPERSON JONES: You're welcome.

16 Ms. Taylor.

17 COMMITTEE MEMBER TAYLOR: Yes. Thank you
18 Mr. Chair.

19 I also want to thank the staff for bringing this
20 forward. I know when this initially came up, you guys
21 were thinking of the fund first and foremost and making
22 sure that we make our returns. So I do appreciate that.

23 And then we are the ones that asked for this
24 voluminous amount of information, so I know how hard you
25 worked. I appreciate that.

1 I'm going to be supporting Ms. Yee's motion.

2 A couple of things that I kind of disagree with
3 J.J. One of -- one of the things that I saw as I was
4 reading is as we continue to denormalize smoking, such as
5 divesting from it, that impacts the industry itself.
6 Right? It brings down those -- it brings down those
7 returns eventually.

8 There's price pressures based on taxes. There's
9 litigation that is currently going on. There's a big
10 litigation case in Canada. There's -- across the globe
11 there's all kinds of regulations - standard and plain
12 packaging - other regulations that are being passed across
13 the world that are going to impact that investment. So I
14 think it's very important. And as we look at -- it's the
15 highest it's ever traded, I think we need to look as a
16 factor that we -- this will be an impact on tobacco,
17 either in the short term or the long term.

18 So again, I support the motion made by Ms. Yee.
19 And thank you again for your hard work.

20 CHAIRPERSON JONES: Mr. Lind.

21 COMMITTEE MEMBER LIND: Thank you. I too
22 appreciate the breadth of information that we received on
23 this issue. And as I think Mr. Emkin said, you know,
24 there's enough information here that any decision that we
25 make is going to be, you know, a correct decision based on

1 the facts.

2 And I'm inclined to support the motion. I
3 definitely am not in favor of reinvesting or changing our
4 current policy regarding tobacco. I do have some concerns
5 about extending it. And I would like to get some more
6 information. And maybe this is dealt with in the timing
7 issue that the Chair and that Betty responded to. But
8 some more information about staff time, transaction costs,
9 when this is going to happen, what the timing is. I think
10 if we're going to do this, there's going to be a broad
11 amount of flexibility involved so we don't do it in a way
12 that negatively impacts the fund.

13 So I don't know if somebody wants to respond to
14 me on that now or, you know, if we -- if the motion really
15 takes that into consideration.

16 But that's my biggest concern.

17 CHIEF INVESTMENT OFFICER ELIOPOULOS: If I may,
18 Mr. Chair. Just a couple of things on timing.

19 I think with respect to the external managers,
20 we'd want sufficient amount of time that our managers
21 can't get picked off by the market, knowing that they have
22 this direction.

23 So we'd want to think about it a little bit more.
24 But my sense is about have at least a year to do it. That
25 would be -- give you just a sense of timing. And I think

1 the costs of that are well within the Wilshire -- well,
2 you know, up to \$11 million in total. It's a much smaller
3 number just for the external managers, I believe, I have
4 it front of me.

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

6 Wylie Tollette, Investment Office staff.

7 It's actually in the agenda item, Mr. Lind. It's
8 in table 4. You can see the transaction costs for
9 extending the divestment are estimated.

10 COMMITTEE MEMBER LIND: I did see that. But
11 there was also discussion in that report about staff time
12 and resources and timing and all that. So I just want
13 to -- my biggest concern is the timing, I think.

14 CHIEF INVESTMENT OFFICER ELIOPOULOS: So on the
15 resources and timing on the external manager fund it's
16 easier.

17 On the externally managed affiliate fund
18 portfolios, that's where we'll need much more time to
19 really think through how we would approach changing the
20 index funds, you know, having negotiations and discussions
21 with the index providers. That we think would take more
22 than one year to conceptualize and effectuate, especially
23 since we have other priorities at least during this first
24 year to accomplish that. So the number that we thought is
25 up to three years to accomplish that, just to give you a

1 sense of the timing that's inside our own heads as to what
2 might be -- might work within our own resources as well as
3 externally.

4 COMMITTEE MEMBER LIND: So do you think that the
5 motion as it's currently worded gives enough flexibility
6 to deal with that timeline?

7 CHIEF INVESTMENT OFFICER ELIOPOULOS: It does so
8 long as -- and that's why I took the time to -- and I
9 really appreciated that line of questioning, because I
10 wanted to make sure the Committee was aware of and
11 comfortable with those timelines as well and it wouldn't
12 be a surprise. But I think that's from a staff
13 perspective what would be in our best interests in terms
14 of effectuating the direction that's very clear.

15 COMMITTEE MEMBER LIND: Okay. Thank you.

16 CHAIRPERSON JONES: Okay. Ms. Hollinger.

17 COMMITTEE MEMBER HOLLINGER: Thank you.

18 I also want to thank everyone. And I so
19 appreciate your work product and all the effort that staff
20 has put in this particular agenda item.

21 I'm going to be voting against the motion. I
22 guess I come from an insurance background and I look at
23 risk. And every time we divest, we're chipping away at
24 the diversity of the portfolio. And with Mr. Costigan in
25 vice chairing the Finance and Administration Committee,

1 we're already 5 billion a year cash flow negative. So, by
2 divesting, it puts us costs with that, the costs that go
3 with reinvesting. And then the pressure to even meet our
4 investment returns.

5 So my duty -- and I see my fiduciary duty here as
6 maximizing and securing benefits to our beneficiaries. So
7 I don't want to -- I want our portfolio to be as
8 diversified as possible, because that's one thing we know
9 maximizes returns over the long term is diversification.

10 So I would be supporting option 1. I'm not a fan
11 of smoking, but that's where I would stand.

12 CHAIRPERSON JONES: Okay. Mr. Slaton.

13 VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.

14 First of all again, my thanks for the thorough
15 job that staff did in bringing this item to us. You gave
16 us more information than I thought was humanly possible.

17 (Laughter.)

18 VICE CHAIRPERSON SLATON: But you did that.

19 So first let me say that I am not personally in
20 favor of investing in tobacco stocks. I think the product
21 is dangerous. It's expensive to society. However, it's a
22 legal product. And as long as it is, I don't believe I'm
23 fulfilling my fiduciary duty to our members by continuing
24 to restrict our investment staff regarding tobacco.

25 The health costs associated with the use of

1 tobacco are huge and they're well known. So are the
2 health costs of obesity, diabetes, excessive alcohol
3 consumption. Studies show that the estimated annual
4 societal cost of tobacco use in the U.S. is \$289 billion;
5 cost of diabetes, 245 billion; excessive alcohol, 223; and
6 obesity, 147.

7 There are companies that we have an ownership
8 stake that contribute to these costs. In fact, we can all
9 find companies whose behavior we would correct because
10 their products have a harmful effect on the citizens or we
11 don't like some other aspect of their behavior. We have
12 had and will continue to have citizens address this Board
13 advocating for divestment.

14 I don't subscribe to the argument that investing
15 in tobacco companies somehow legitimizes or normalizes the
16 product. Nor do I believe that reinvesting would result
17 in increased usage of the product, just as I see investing
18 in fossil fuel companies or liquor companies does not
19 result in increased consumption of those products.

20 I believe our fiduciary duty requires us to
21 ensure that we have the best and brightest investment
22 staff and intelligent and insightful external investment
23 advisors, while we're charged with providing reasonable
24 and attentive oversight.

25 Our investment staff has asked us to lift this

1 ban based on their view of the value to the fund of
2 diversification rather than a particular view of the
3 short- or long-term performance of tobacco stocks. I'm in
4 favor of lifting the ban and letting them manage your
5 investments to the best of their abilities. This gives us
6 the best chance of meeting our investment goals and
7 providing retirement securities -- security to members of
8 CalPERS.

9 So I'll be voting against the motion.

10 CHAIRPERSON JONES: Okay. Seeing no further
11 requests to speak.

12 I think it's probably -- when I asked that you
13 modify your motion, Ms. Yee, I made reference to the
14 externally managed portfolios. But I think I need to also
15 include the affiliate funds. Okay? So that's okay for
16 that requirement?

17 COMMITTEE MEMBER YEE: (Nods head.)

18 CHAIRPERSON JONES: Okay. So I think what we
19 need to do is take an electronic vote on this.

20 (Thereupon an electronic vote was taken.)

21 CHAIRPERSON JONES: Okay. The item passes.

22 Okay. Thank you. We will now take a break for
23 lunch, and we will return at 2 o'clock.

24 (Off record: 12:57 p.m.)

25 (Thereupon a lunch break was taken.)

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

2 (On record: 2:00 p.m.)

3 CHAIRPERSON JONES: Okay. We'd like to reconvene
4 the Investment Committee meeting.

5 We will move to Item 6, Program Reviews,
6 Responsible Contractor Policy Program Annual Report.

7 INVESTMENT DIRECTOR WEIR: Good afternoon,
8 Investment Committee Members. Laurie Weir, Investment
9 Director. I am pleased to introduce to you today Ms.
10 Carry Douglas Fong, who will present the RCP Annual Report
11 today.

12 ASSOCIATE INVESTMENT MANAGER DOUGLAS-FONG: Good
13 afternoon. Carry Douglas-Fong, Associate Investment
14 Manager, Investment Manager Engagement Program.

15 I'm pleased to present you with the Responsible
16 Contractor Program Policy Annual Report for the fiscal
17 year 2015-16. This is the first report under the 2015
18 Responsible Contractor Program Policy.

19 In March 2015, the Investment Committee voted to
20 incorporate neutrality for core real assets managers into
21 the base RCP Policy, in addition to other enhancements.
22 On July 1st, 2015 real assets managers began operating
23 under the enhanced RCP Policy for the reporting. For the
24 2015-16 reporting year, managers reported a combined 99.73
25 compliance with the RCP Policy.

1 That ends my presentation, and we're happy to
2 take questions.

3 CHAIRPERSON JONES: Okay. We have Mr. Juarez.

4 ACTING COMMITTEE MEMBER JUAREZ: Yeah. My
5 question isn't so much about the annual report. I think
6 I'm fine with that. It's -- it's -- I'll just bring it up
7 in the context of this item. And I think President
8 Feckner knows I was intending to do this, and that's to
9 raise the issue of the Treasurer's letter from last month
10 asking just for some kind of background and analysis for
11 the staff to provide at an upcoming PERS meeting,
12 preferably February, where we could look at just the
13 historical nature of why we have the policy, and I think
14 more importantly, at least to the Treasurer, whether or
15 not it has any applicability to the other aspects of
16 CalPERS either operation or investments, recognizing there
17 may be some difficulties with trying to extend it beyond
18 just what we have today.

19 But if we could, at some point, direct staff to
20 come back with us with a report in February, I know the
21 Treasurer would greatly appreciate that.

22 CHAIRPERSON JONES: Okay.

23 ACTING COMMITTEE MEMBER JUAREZ: And I think
24 there may be some people in the audience who want to speak
25 to that same issue, so...

1 CHAIRPERSON JONES: Yeah, we do have a couple
2 people who request to speak on this item, but we will
3 finish the dialogue and see what -- you want to respond,
4 Ted, to that question?

5 CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure. You
6 know, obviously, of course, it's up to the Committee to
7 direct us to conduct any research or provide any reports
8 back to the Committee at any time. I think with respect
9 to the investment portfolio, we have, from time to time,
10 looked at this topic of expanding the RCP to other assets,
11 other than real estate and infrastructure. And each time
12 over the course of really, I think, 2 decades, the
13 conclusion has been that the other asset classes really
14 aren't conducive to that type of expansion.

15 In other words, our fixed income portfolio we're
16 lenders, and it's really not -- it doesn't have
17 applicability to take the Responsible Contractor Program
18 Policy and apply it in a lender context where there's
19 lender liability issues, as well as other things.

20 With respect to the other asset classes, private
21 equity and public equity, we're many times, you know, in
22 public equity less than 1 percent owners of companies, and
23 in private equity we're usually no more than 10 percent LP
24 in funds that we don't have control over. So it would
25 make it very difficult and problematic to try and extend

1 our RCP policy, which applies to partnerships where we
2 have just about complete control of the asset and the
3 partnership.

4 So we've looked at this from time to time in the
5 Investment context. And each time, the answer has come
6 back to keep the policy directed at those areas that we
7 have significant control. In the context of contracting,
8 whether it's in our health care, or other contracting, or
9 vendor relationships, that's not an issue for me to opine
10 on.

11 CHAIRPERSON JONES: Right.

12 INVESTMENT DIRECTOR WEIR: If I may, I'd add one
13 thing. And that is I was one of the people involved in
14 really looking at this issue for the RCP or something like
15 that in other asset classes. I think Ted hit it just
16 right, when you created the Investment Beliefs, you
17 created a tremendous tool for staff. For myself and
18 particular and for the staff that I work with, Investment
19 Belief 3 provides us with the basis to engage on labor
20 issues across the total fund without having the formality
21 of a Responsible Contractor Program Policy, and all of the
22 complexity and difficulty that that creates.

23 So while we find that it would be very difficult,
24 for instance, commingled funds are expressly exempt from
25 the real estate Responsible Contractor Program Policy.

1 Private equity as an asset class is almost exclusively
2 commingled funds. So what we find though, and I think
3 this is a very positive thing, is that we have never not
4 engaged on a labor issue once the Investment Beliefs gave
5 us that platform and that basis to do so.

6 So I actually think it's a very positive thing
7 with respect to the Investment Office. And I can honestly
8 tell you that it isn't at all clear to me that a policy
9 would add anything above and beyond what we're able to do
10 under the Investment Beliefs.

11 CHAIRPERSON JONES: Okay. Mr. Jelincic.

12 COMMITTEE MEMBER JELINCIC: Yeah. The -- I talk
13 to LiUNA a lot, in case you hadn't remembered. But they
14 have actually developed a responsible lender policy that
15 they've gotten a number of, particularly insurance
16 companies and banks, to adopt. And it's something that I
17 think we ought to at least look at rather than say, you
18 know, because we're lenders in fixed income, we can't do
19 it.

20 The other issue that I would raise is, you know,
21 we can set minimum standards for the partnerships we go
22 into. Now that's -- there is some risk to that, and that,
23 you know, some people won't play with us. But I think if
24 it's an important issue, we ought to be willing to accept
25 that.

1 The other issue that LiUNA has traditionally
2 raised -- and I will acknowledge they did not raise it
3 this year -- is testing the enforcement. I mean, if
4 the -- if we get a report that says, yes, we did 100
5 percent, we don't do any sampling to see if that actually
6 has happened. And they have been concerned historically
7 that not all those reports are accurate.

8 So if you're going to be looking at it, I would
9 encourage you to at least think about whether it might
10 make sense to put some testing in there.

11 Thank you.

12 CHAIRPERSON JONES: Okay.

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: The only
14 thing I's add, Mr. Chair, is if we were to reopen the RCP
15 to look at it to extend it to these other areas, we would
16 need to really look at our workplan and take a significant
17 amount of work off our plate. Because as you know, every
18 time we reopen and look at this RCP program, and look at
19 extending it in any direction, it takes an incredible
20 amount of our time and stakeholder work to conclude. So
21 this would be a significant time and resource effort that
22 you'd be directing us to undertake.

23 CHAIRPERSON JONES: Okay. Mr. Lind.

24 COMMITTEE MEMBER LIND: Thank you.

25 I certainly support the Treasurer's intention on

1 this. And I know I and some others were involved in
2 lengthy conversations around this. I know it was 2 or 3
3 years ago. I've kind of lost track now, and -- yeah, I'm
4 not the only one, but -- and I appreciate the concern
5 about staff time. And I think there could be some value
6 to a review, particularly with Laurie leaving.

7 And, by the way, I want to add my thanks to your
8 work, because it was great. You know, given my
9 background, Laurie, I got a lot of, you know, phone calls
10 from certain stakeholders about issues and it was great
11 for me to say, oh, I know somebody you should talk to,
12 right? So thank you for that.

13 (Laughter.)

14 INVESTMENT DIRECTOR WEIR: Thank you.

15 COMMITTEE MEMBER LIND: So February time frame
16 probably wouldn't work, because I remember from last time
17 how much was involved. Also, I would suggest that we do
18 decide to take another look at this. We -- the guy that's
19 really got the -- that has the institutional knowledge is
20 Allan Emkin, because I remember spending a lot of time
21 with him last time.

22 So I support, again, the Treasurer's intentions,
23 but I think we should be, you know, fairly flexible on
24 timeline around it, so that staff can, you know, adapt to
25 that request.

1 CHAIRPERSON JONES: Mr. Costigan.

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

3 I just wanted to get come clarification. I think
4 Mr. Eliopoulos addressed some of this. We're only going
5 to stay inside of Investments. This is not going to
6 extend to personal service contracts, or the others. And
7 then if I heard it correctly, even setting this on
8 February is too soon and too broad.

9 CHIEF INVESTMENT OFFICER ELIOPOULOS: It's too
10 son. And then the question is how the Committee wants us
11 to spend our time in the coming year. So if it was to be
12 a year from now, 2 years from now, this is a significant
13 policy undertaking, when we concluded it 2 years ago.
14 Yes. The -- I think our understanding collectively was
15 that we weren't going to reopen this discussion
16 imminently.

17 So I just -- I can't say it anymore directly. If
18 you want us to take up this topic, it takes a considerable
19 amount of policy time, which involves lots of work with
20 stakeholders and others to bring a thoughtful conclusion
21 to you. And having said that, having worked through each
22 of these issues with respect to the investment portfolio,
23 the conclusion with respect to the asset classes, as I
24 mentioned, has been the same conclusion we've reached
25 every time we've looked at it.

1 COMMITTEE MEMBER COSTIGAN: So just a couple
2 things. Ms. Weir, you've done a fantastic job. I know
3 you and I have not always seen eye to eye. I've had my
4 issues at times with this program. So I will just ask
5 you, do you feel there are any shortcomings in the program
6 right now before you leave?

7 INVESTMENT DIRECTOR WEIR: CalPERS has the most
8 comprehensive Responsible Contractor Program Policy bar
9 none in the public pension field today. I can say that
10 without hesitation. Nobody has the neutrality
11 requirements that we have. Nobody has the compliance
12 requirements that we have. Nobody has the breadth of the
13 policy that we have.

14 Our policy is at a place where we've worked so
15 hard to move it so far that we have honestly found that
16 place, where staff's role is to constantly balance the
17 needs of our investment managers in the marketplace, and
18 the need to remain competitive in the marketplace with our
19 value, our unwavering value, for the condition of workers
20 at CalPERS-owned assets.

21 I do not lack imagination. I would be hard
22 pressed to find ways, meaningful ways, to improve on this
23 policy. And we have genuinely looked at other asset
24 classes, because frankly we've engaged so much on labor
25 issues across the total fund, it would be incredibly

1 challenging and it would actually go to the heart of maybe
2 needing to change the way we invest in order to make the
3 types of changes that might be contemplated here. So I
4 can fully tell you we are at the cutting edge in the
5 responsible contracting space today.

6 COMMITTEE MEMBER COSTIGAN: Thank you so much.
7 Thank you, Mr. Jones.

8 CHAIRPERSON JONES: Thank you.
9 Mr. Bilbrey.

10 COMMITTEE MEMBER BILBREY: Thank you, Mr. Chair.

11 So I wanted to wait till this item came up to
12 echo my comments to you. Everybody jumped on the first
13 one. I'll jump on this one. I think this is your legacy
14 for CalPERS. You have the work and time spent on this
15 policy is modeled that so many look to and actually use.
16 So you should be very proud of the work, and we're proud
17 of you. And thank you for the time and dedication. No
18 matter what the issue, I always hear from constituent
19 groups that you sit down and talk with them. And that's
20 all, most of the time, people are asking, to have a
21 conversation, to be heard, and to try to work through
22 something that may be very difficult. Sometimes we can,
23 sometimes we can't, but we make an effort.

24 But I wanted to get clarification, because I
25 support the Treasurer's idea, but more so on the outside

1 of the investment realm. I thought I -- and I don't have
2 the letter in front of me, but it talked about other
3 contracts, including health care. And that kind of
4 fascinates me and I would like to know more about that on
5 that aspect of it.

6 CHAIRPERSON JONES: Okay. Mr. Juarez again.

7 ACTING COMMITTEE MEMBER JUAREZ: Yes. Let me
8 respond to that question first. Yes, I think counter to
9 what Richard might have intimated. Our hope was to do a
10 broader look, not just about the investment field. To
11 have -- to have a look at contracts. I want to make sure
12 that we're clear here. It, in fact, is implicit in the
13 letter is a recognition of how well the policy is working
14 as it relates to real estate investment.

15 So everyone who's been laudatory of that, you
16 know, kudos. And we recognize the importance of it. It's
17 whether or not -- and you've sort of answered it today,
18 but I'd like a more formal look as to why it might not
19 apply to other asset classes understood.

20 Again, without pre-judging the issue one way or
21 the other, but the idea was to then extend it also where
22 else we might do business. And we can talk about setting
23 thresholds or, you know, itemizing our attention to a few
24 things where it makes sense.

25 And then one of the questions I'd like to see

1 resolved. And I'm -- I'm sensing a little reluctance on
2 the part of staff to want to deliver this by February and
3 don't want to press too hard on that. But to have to wait
4 a year or 2, if that's what you're suggesting, I would say
5 that that's probably too long, so I would hope we could
6 accelerate it a bit.

7 But to the points that were being made before, I
8 just think we can do this in a way that's not intended to
9 be holy exhaustive, but hopefully thorough and resolve the
10 issue. And I would think that one of the things I'd be
11 interested in, and with Laurie leaving, it may be a chance
12 to look at it through another set of lenses, the extent to
13 which corporate governance sort of intersects with the RCP
14 Policy. Are there ways in which you can take what might
15 be in a policy and otherwise conduct yourselves with these
16 businesses where it doesn't apply. And so I would hope
17 that we could have staff look at that as well.

18 And so while I'm not necessarily wedded to
19 February, I would hope that we could find a time in the
20 foreseeable future to have staff report back to us.

21 CHAIRPERSON JONES: Okay. Ms. Taylor.

22 COMMITTEE MEMBER TAYLOR: Yeah. I wanted to kind
23 of chime in on the Treasurer's proposition. And I kind of
24 agree, but I -- I think on one hand, Laurie, your shop has
25 done such a really good job of responding to labor issues,

1 in general, I see where there -- there would be an issue
2 maybe moving forward with it.

3 While I would like to see our Investment staff
4 working too invest and finding ways to make the fund
5 money, I think it's probably very important that we kind
6 of look more at the Responsible Contractor Policy. And I
7 think the last thing that Mr. Juarez was talking about,
8 which was maybe using ESG instead of responsible
9 contracting. So maybe the verbiage is wrong, where we
10 could, I don't know, some -- a company the Carlyle owns
11 for example is having bad labor issues, and we find out
12 about it. And you guys never hesitate. You do what you
13 need to do. But is there something we can put in a
14 process, so that that doesn't occur?

15 Because I think when we look at the incoming
16 administration, and who they're appointing for their
17 certain -- their different areas and how much
18 de-regulation we might be looking at, et cetera, it might
19 be an important avenue to start looking at, so that we can
20 protect workers better, in the future, as we're looking at
21 this.

22 And I know you're leaving, but I think a process
23 to be looked at isn't a bad idea. And maybe, it doesn't
24 have to be FCP. Maybe it -- maybe it should be called
25 something else.

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: The context
2 that -- hearing that conversation, the context that this
3 would, I think, best be considered is we have a 5-year
4 global governance plan, including our ESG plan, where RCP
5 is one of the P -- is the S of the ESG. So what we would
6 do is just look at that 5-year plan and ask what resources
7 you'd like to commit to this, and likely what things you'd
8 like to take off our plate.

9 If it's something -- if it's a review that you'd
10 like us to conduct over the course of the next 5-years,
11 then I think we need to reopen our governance plan and
12 look at it, and see where this fits as a priority.

13 CHAIRPERSON JONES: Okay. I think the minimum is
14 to provide some historical perspective of the Responsible
15 Contracting Program review of how we got to where we are,
16 and without going through a full-blown new study. Because
17 there are a couple of new members here, and I do remember
18 that 3 or 4 year process of getting to where we are. And
19 I don't -- I'm not asking that we restart that again, but
20 it may be just informational at this point of what the
21 program is, how it works, what steps have been taken to
22 get to where we are now. So there's information.

23 And if the -- there's a majority of members want
24 to broaden the concept beyond investments, then I think
25 that needs to go to another committee, because I don't

1 think it's in your purview to start dealing with contracts
2 relating to a whole series of other issues. So that may
3 be the starting point is to look at -- make sure we all
4 understand what we have. And then if there's some desires
5 to go beyond that, then determine where should it go?
6 Probably Finance Committee.

7 Click.

8 Okay. There you go.

9 ACTING COMMITTEE MEMBER JUAREZ: Maybe it's just
10 I'm being inartful about how we approach this. But in
11 actuality I think the interest was to look beyond even the
12 investment field, and probably with less concern about
13 investments recognizing -- because I think the Treasurer
14 understood some of the limitations there, and also what
15 we're doing in terms of corporate governance and ESG, but
16 to look at contracts. And that was the driving -- sort of
17 impetus for this all in the first place.

18 So if we're parking this in Investment Committee
19 and being told, well, we can only look at it through
20 Investment eyes for the time being, then let me recast the
21 request --

22 CHAIRPERSON JONES: Okay.

23 ACTING COMMITTEE MEMBER JUAREZ: -- because it's
24 implicit in the Treasure's letter. It was too look at
25 sort of aspects beyond just where it applies today, and

1 that would include contracts.

2 CHAIRPERSON JONES: Okay.

3 ACTING COMMITTEE MEMBER JUAREZ: So if that's the
4 Governance Committee, then we need to get it over to the
5 Governance Committee to have this discussion, because I
6 don't want to sort of come back in February and find out,
7 well, so we figured out what we're going to do on
8 investments, now we're -- we need take another 3, 4, 6
9 months to figure out where we go with it next.

10 CHAIRPERSON JONES: Right. Well, maybe the
11 alternative then is not to have staff look at reviewing
12 what we have. Maybe we just need to have a discussion
13 item in maybe the Finance Committee about contracting, and
14 see --

15 ACTING COMMITTEE MEMBER JUAREZ: I would be -- I
16 would be okay with that.

17 CHAIRPERSON JONES: Yeah. Because this goes
18 beyond. And I don't -- we shouldn't impose additional
19 work if, you know, the ultimate outcome is not going to be
20 where you want to go. So that's what I would suggest is
21 not have them to go review where we are, but if Mr.
22 Costigan --

23 ACTING COMMITTEE MEMBER JUAREZ: Yeah. And not
24 to preclude the possibility that we might ask staff at
25 some point to do that --

1 CHAIRPERSON JONES: Oh, yeah, sure. Sure. They
2 could be --

3 ACTING COMMITTEE MEMBER JUAREZ: -- but I'm
4 wholly comfortable with your suggestion. And with Mr.
5 Costigan's help, I'm happy to defer to the Finance and
6 Administration or the Governance Committee, whichever the
7 appropriate committee is.

8 CHAIRPERSON JONES: Yes.

9 ACTING COMMITTEE MEMBER JUAREZ: Thank you.

10 CHAIRPERSON JONES: Mr. Costigan.

11 COMMITTEE MEMBER COSTIGAN: Oh, I was going to
12 say we'll take this up tomorrow, Mr. Juarez, but I would
13 be happy working with Mr. Jacobs, Ms. Mathur's folks, Mr.
14 McKeever and others to make it at least an informational
15 item in February, along the lines of what Mr. Jones was
16 talking about. We'd go back and revisit it, and they we
17 could take a breather and see where we go, because it
18 sounds as though, Ms. Mathur, your Committee would be
19 impacted, Finance and Admin, Governance, Investments. So
20 I think we can start there, as just a straight contracting
21 issue and go from there, but we can take it up tomorrow as
22 well.

23 CHAIRPERSON JONES: Okay. Thank you.

24 Okay -- oh, Ms. Mathur.

25 Ms. Mathur.

1 COMMITTEE MEMBER MATHUR: Sorry. Thank you. I
2 think -- thank you, Mr. Costigan. I think that is
3 sensible. I don't imagine that we could have a white
4 paper at -- which is -- was I think part of what was
5 contemplated completed by February. That seems quite
6 aggressive, particularly given some of the transitions
7 that we're going through within the organization, so --
8 but to have a first conversation about what we are looking
9 at might be worthwhile having in February. So maybe we
10 need to expand the time frame just a little bit and figure
11 out what's reasonable in what time frame.

12 CHAIRPERSON JONES: Okay. We do have a request
13 to speak on this item. We have Mr. Michael Ring and Kurt
14 Scott, and Joshua Golik -- Golka. Thank you.

15 MR. RING: Chairman Jones, members of the
16 Committee. Good to see you all again. Happy Holidays.
17 Michael Ring with the SEIU Capital Stewardship Program.

18 First, a moment of professional privilege. I
19 just wanted to give special thanks to Laurie Weir, and
20 recognition to her for a tremendous career here at
21 CalPERS. Our members have certainly benefited from her
22 skill, her professionalism, her leadership, and she is a
23 true asset to CalPERS and will be sorely missed. So have
24 a great next step in your journey, Laurie.

25 So on the specifics of the RCP, I just wanted to

1 reiterate on behalf of the organ -- SEIU Capital
2 Stewardship Program, as you know, SEIU views the
3 Responsible Contractor Policy as a fundamental risk
4 measurement tool that positions CalPERS as a leader, as
5 Laurie referred to, in real estate investing, which we
6 believe is fundamental to your fiduciary duty to have
7 long-term success in the real estate market by including
8 all stakeholders in the process of bringing about
9 sustainable returns.

10 We thank CalPERS staff, Board, and your
11 investment managers for your participation in this
12 groundbreaking effort that we believe should be an
13 industry norm, and believe it makes you leading
14 fiduciaries in this area.

15 One thing I would like to call your attention to
16 is that in September, the Governor signed AB 1978. And
17 this legislation was groundbreaking, and is intended to
18 give extra -- among many things, is to give extra
19 protection to women who work and clean these buildings
20 that we all profit from, where there's been an inordinate
21 amount of sexual harassment and violence in this industry.
22 And this legislation will help ensure that investors are
23 protected from risk, but most importantly that workers are
24 safe on the job.

25 And we look forward to working with CalPERS

1 staff, Board, and investment managers to implement this
2 legislation, which we feel is very important.

3 Thank you very much for your time.

4 CHAIRPERSON JONES: Okay. Thank you very much
5 for your comments.

6 MR. SCOTT: Good afternoon. My name is Kurt
7 Scott, and I'm a researcher from SEIU UHW, a local that
8 represents close to 100,000 front-line health care workers
9 here in California. And I'm here to voice support for
10 CalPERS extending its RCP policy to health care
11 purchasing.

12 The variation and quality from one health care
13 provider to another has serious implications for
14 beneficiaries. In fact, a recent study -- and by recent,
15 I mean, it was released last week and written up in the
16 New York Times, that surveyed 22 billion hospital
17 admissions found patients at the worst U.S. hospitals are
18 3 times more likely to die, and 13 times more likely to
19 have medical complications than they are at the best
20 hospitals.

21 I want to introduce one case, Pomona Valley
22 Medical Center. It's a 260-bed hospital and the largest
23 acute hospital serving the East San Gabriel Valley. We
24 have serious concerns about infection rates at this
25 facility.

1 For several years Pomona reported C. diff, a
2 bacterial infection that can cause kidney failure or
3 decreased white blood cell count at a rate worse than the
4 national benchmark. And looking at State databases, we
5 found that 143 people who were diagnosed with C. diff at
6 Pomona did not have the infection when they were admitted
7 to the facility. From 2012 to 2014, there were 19
8 patients who had a C. diff diagnosis that was not present
9 on admission, who later died in the hospital.

10 While the public data does not specify the exact
11 cause of their deaths, we are deeply concerned that C.
12 diff may have been a complicating factor.

13 It's for this reason that we believe a robust
14 Responsible Contractor Policy that applies to network
15 health providers and subcontract -- excuse me,
16 subcontracted providers is necessary. While CalPERS is
17 not subject to ERISA standards, both ERISA and the
18 Department of Labor, frame a fiduciary's responsibility to
19 consider quality in health planned administration and
20 health care purchasing, not just the lowest bidder.

21 In fact, the Department of Labor's guidance says
22 failure to take quality of services into account in the
23 selection process would constitute a breach of the
24 fiduciary's duty under ERISA, when the selection involves
25 the disposition of plan assets.

1 We also believe the approach of existing CalPERS
2 policy and investment markets, which demands transparency,
3 accountability, in some instances process improvements,
4 can and should be extended to health care providers,
5 particularly in instances where quality concerns have been
6 raised by media reports, front-line health care workers,
7 or regulators at the federal and State levels.

8 So we strongly believe that such a policy would
9 limit CalPERS beneficiaries' exposure to medical risk and
10 drive superior long-term health outcomes.

11 Thank you.

12 CHAIRPERSON JONES: Thank you for your comments.

13 MR. GOLKA: Good afternoon, Mr. Chair and
14 members. Joshua Golka with the American Federation of
15 State, County, and Municipal Employees. We would like to
16 thank the Treasurer's office for bringing this forward.
17 And we appreciate his efforts to take a broader look at
18 the application of this policy. And we look forward to
19 working with all of you and staff as we move forward on
20 this issue.

21 Thank you.

22 CHAIRPERSON JONES: Okay. Thank you.

23 That's the end of that item.

24 We now will move to the next item, Investment
25 Manager Engagement Programs Update.

1 INVESTMENT DIRECTOR WEIR: Great. Laurie Weir
2 again. Last time today.

3 Since our June update to the Investment
4 Committee, the Targeted Investment Programs has evolved
5 and is now named Investment Manager Engagement Programs.

6 (Thereupon an overhead presentation was
7 presented as follows.)

8 --o0o--

9 INVESTMENT DIRECTOR WEIR: The Targeted
10 Investment Program functions -- turn to page 2. No, it's
11 good. The Targeted Investment Program functions and
12 responsibilities that you're all familiar with have
13 carried over to the Investment Manager Engagement
14 Programs.

15 In addition, the new program has been tasked with
16 establishing the External Manager Monitoring and
17 Evaluation Program.

18 I am pleased to introduce to you Mr. Diego
19 Carrillo to present the External Manager Monitoring and
20 Evaluation Program. And then I will conclude with a
21 presentation of the Emerging and Transition Manager 2020
22 plan.

23 INVESTMENT MANAGER CARRILLO: Thank you, Laurie.

24 Good afternoon, Investment Committee members.
25 Diego Carrillo, Investment Manager, Engagement Programs.

1 It's a pleasure to be here.

2 --o0o--

3 INVESTMENT MANAGER CARRILLO: The context behind
4 establish -- can we move? Oh, great. Thanks.

5 The context behind establishing a centralized
6 manager monitoring and evaluation function includes:
7 Reducing cost and complexity; improving alignment,
8 transparency, and risk awareness in our external manager
9 relationships; and, increased total fund emphasis.

10 --o0o--

11 INVESTMENT MANAGER CARRILLO: The work will focus
12 on externally managed universe of the portfolio, which as
13 of June 30th totaled \$90 billion of assets under
14 management and 160 external managers. Four-fifths of the
15 manager count and two-thirds of the assets under management
16 exist in the private asset classes, and private equity
17 alone makes up 60 percent of the manager count.

18 --o0o--

19 INVESTMENT MANAGER CARRILLO: This slide provides
20 a high level overview of the current and prospective
21 future State of the Investment Office as it relates to the
22 manager monitoring and evaluation function. The path
23 forward will promote information sharing and best
24 practices with the Investment Office to achieve a holistic
25 view of the total fund.

--o0o--

INVESTMENT MANAGER CARRILLO: The program is driven by 4 long-term strategic goals, including reducing cost and complexity, developing a centralized manager monitoring and evaluation function, clearly delineating the roles and responsibilities of the asset classes versus the Investment Manager Engagement Programs, and developing a deeper understanding of our managers.

Working collaboratively with the asset classes is fundamental to my team's approach, and I view this approach as critical to the success and realization of our stated goals.

--o0o--

INVESTMENT MANAGER CARRILLO: The proposed fiscal year '16-'17 action plan has 3 distinct phases. Phase 1 includes gathering information from internal and external stakeholders. Phase 2 is considered the heavy lift and will conclude with a set of proposed recommendations to senior Investment Office staff. And phase 3 is likely to carry over into the next fiscal year, and will focus on implementing the approved recommendations.

This concludes my portion of the presentation, and I'd like to pause for any questions from the Investment Committee.

CHAIRPERSON JONES: We have one. Mr. Jelincic.

1 COMMITTEE MEMBER JELINCIC: On page 7 of 17, 492
2 of the iPad, part of the vision is a common approach to
3 evaluating external managers. And yet we ask external
4 managers to do very different things. I mean, a small cap
5 emerging manager, versus a private equity manager, versus
6 one of the MAC accounts, I mean, how do you really develop
7 a common approach, if you're measuring very different
8 expectations?

9 INVESTMENT DIRECTOR WEIR: So this is an
10 important question. And one that we will be looking at
11 carefully. We have found and identified that for all of
12 our manager monitoring and evaluation, there are certain
13 common functions that we believe can be brought into a
14 total fund perspective. That by no means, means that one
15 size will fit all, and that the asset classes will no
16 longer be involved. In fact, the asset classes will
17 retain significant and idiosyncratic involvement with
18 their external investment managers.

19 We acknowledge that investment strategies dictate
20 different investment managerial types and styles. We do
21 think that we see certain commonalities that run across
22 the total fund. And it is that work that we will seek to
23 bring into that total fund work that we're putting
24 together now.

25 COMMITTEE MEMBER JELINCIC: I think -- thank you.

1 I mean, I'm not sure that I completely understood, because
2 I mean they really do sort of different functions. And,
3 you know, a common approach to evaluating different
4 functions just -- I'm not sure I completely understood
5 what you were saying.

6 CHIEF INVESTMENT OFFICER ELIOPOULOS: Here's
7 another. Think of it this way, and your point is very
8 well taken. And also, you know, part of the construct of
9 the from-to statement, but there should be some
10 commonality in terms of how often a manager is evaluated.
11 In other words, if we found in fixed income, a manager was
12 evaluated formally once every, let's say, 30 years, where,
13 you know, and --

14 COMMITTEE MEMBER JELINCIC: I hope they were
15 performing well.

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: Exactly.
17 So there might be some common -- you know, common
18 approaches in terms of the timeliness of the valuation,
19 what are some of the components of what the evaluation
20 should review. Performance, how should performance and
21 attribution be done? What are the -- you know, what are
22 the must-haves across the managers that we want to make
23 sure occurs on a regular basis? It's those type of things
24 that we're going to look to, you know, make comment
25 across.

1 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

2 Thank you, Ted and Laurie. Those are excellent
3 additions to the answer. I would add that one of the
4 other elements that we currently don't really do in a
5 common way is sort of the systems environment, sort of
6 the ecosystem that all of this information exists within,
7 within the Investment Office. Within each asset class,
8 they use their individual approaches to collecting that
9 information, storing it, and then disseminating it.

10 And by bringing some of that information
11 together, we hope in a common systems platform, we can
12 better leverage the intelligence and insight that we're
13 getting from our external managers.

14 That's not something we're doing. I would give
15 our -- you know, we're not -- we haven't taken advantage
16 of all of the information in the best way possible across
17 the different -- across the total fund. And we're hoping
18 that this program can help us do a better job of that by
19 consolidating it in a common ecosystem.

20 COMMITTEE MEMBER JELINCIC: Thank you. And I now
21 have a much better understanding of what that phrase
22 meant.

23 CHAIRPERSON JONES: Ms. Paquin.

24 ACTING COMMITTEE MEMBER PAQUIN: Thank you. I
25 guess my question -- and I appreciate the explanations

1 that you just gave. But will the IMEP team be involved in
2 monitoring the managers as well, or just setting up the
3 framework, and then leaving it to the various asset
4 classes?

5 INVESTMENT DIRECTOR WEIR: The IMEP team will
6 have a responsibility related to monitoring of external
7 investment managers, but only in those common functions
8 that we've identified as appropriate to pull into the
9 total fund level.

10 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank
11 you.

12 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I
13 would add one additional element, and you'll be hearing
14 about this a few agenda items in the future. One of the
15 other elements that the IMEP team will be taking on is the
16 manager expectations work and ensuring that those manager
17 expectations that we're currently piloting begin to
18 transition into a regular operational component of our
19 manager monitoring activities.

20 CHAIRPERSON JONES: Okay. Thank you. Okay.
21 Seeing no additional questions, we do have a request to
22 speak on this item.

23 INVESTMENT DIRECTOR WEIR: Wait. I have a little
24 bit more to go on my presentation.

25 CHAIRPERSON JONES: Okay.

--o0o--

INVESTMENT DIRECTOR WEIR: I'm promise to be fast.

I'm going to shift gears away from manager monitoring and talk for a minute about our Emerging and Transition Manager 2020 Plan.

So in partnership with asset classes, staff has developed the new Emerging and Transition Manager 2020 Plan. The 2020 plan is intended to continue efforts and initiatives under the first emerging manager 5-year plan, which expires in June of 2017. The plan period extends from July 1, 2017 through June 30th, of 2020.

The plan will focus on 6 key initiatives that are intended to maintain CalPERS leadership in emerging and transition manager investment programs. CalPERS will continue and enhance efforts initiated under the original 5-year plan, including tracking and reporting costs, exposures, diversity, and performance of emerging managers; engaging and participating in stakeholder events; and, fostering relationships with emerging and transition managers.

In addition to those continuing efforts, the plan establishes new initiatives, the first of which is initiating a global solicitation process for transition manager talent. For this initiative, staff will work with

1 asset classes in Public Affairs to develop a communication
2 plan, including press releases, website development, and a
3 webinar, to educate managers and the public around the
4 process, around the timing, and around our interest and
5 requirements.

6 The second new initiative under the plan, staff
7 will work with asset classes and the emerging manager
8 community to determine how best to foster information
9 sharing, intelligence gathering, and leverage that
10 information into actionable insights where possible. We
11 believe this will be a meaningful way to further integrate
12 managers into and across our asset classes.

13 Lastly, toward the end of the 2020 plan, staff
14 will conduct a comprehensive review of our Emerging
15 Manager Programs with the objectives of identifying
16 lessons learned, and laying the foundation for the next
17 decade.

18 --o0o--

19 INVESTMENT DIRECTOR WEIR: In conclusion, it's a
20 time of change and challenge for the Investment Manager
21 Engagement Programs. Importantly, a new Investment
22 Director is expected to start soon, and staff will run
23 that global solicitation process across 3 asset classes
24 simultaneously, and we will take over the leadership of
25 the external manager expectations project with respect to

1 ESG integration.

2 And I can say with confidence that the Investment
3 Manager Engagement Program staff are talented and capable
4 and ready to take on these challenges.

5 That ends my remarks. Thanks so much.

6 CHAIRPERSON JONES: Thank you very much, Laurie.

7 Okay. Mr. Jelincic.

8 COMMITTEE MEMBER JELINCIC: Laurie, since this is
9 your last, last, I think --

10 (Laughter.)

11 INVESTMENT DIRECTOR WEIR: This should be it.

12 COMMITTEE MEMBER JELINCIC: -- I would like to
13 thank you as a Board member for all the work you've done.
14 But I would also like to acknowledge that I enjoyed
15 working with you as a fellow staff person. You've been a
16 real asset to this System over the years, and I wish you
17 luck.

18 INVESTMENT DIRECTOR WEIR: Thank you.

19 CHAIRPERSON JONES: Okay. Thank you, Laurie
20 again. Okay.

21 We have one request to speak on this item.

22 Mr. Michael Ring.

23 MR. RING: Sorry, everybody. I know I'm slowing
24 us down.

25 Chairperson Jones, the Committee, and again, all

1 due respect to Laurie. I'd like to on behalf of the SEIU
2 Capital Stewardship Program, thank CalPERS for both the
3 report on the emerging manager work carried out since 2012
4 to the present and for the Emerging Manager and Transition
5 Manager 2020 plan.

6 As you all know, SEIU under the leadership of our
7 international president Mary Kay Henry and local 1000
8 president Yvonne Walker has actively moved the program
9 calling for increased diversity in the financial markets
10 for some time now.

11 SEIU firmly believes that increasing diversity in
12 all areas of the financial market industry will contribute
13 significantly to increased per -- to better performance
14 and to better risk management.

15 We strongly support CalPERS objectives, as stated
16 on page 5 of the 2020 plan. One, generate appropriate
17 risk-adjusted returns by ID'ing early stage funds and
18 managers with strong potential for success.

19 Two, access unique investment opportunities that
20 may otherwise be overlooked.

21 Three, cultivate the next generation of external
22 investment management talent.

23 SEIU strongly supports these objectives, and we
24 look forward to working with CalPERS as CalPERS continues
25 its leadership in this area through the Investment Manager

1 Emerging -- I'm sorry, Investment Manager Engagement
2 Programs. I got caught up there with the change from the
3 earlier name.

4 So thank you all once again. Happy Holidays.

5 CHAIRPERSON JONES: Thank you again for your
6 comments.

7 Okay. Now, we will move on to -- thank you -- to
8 the next item on the agenda, which is the proxy voting and
9 corporate engagement update.

10 (Thereupon an overhead presentation was
11 presented as follows.)

12 MANAGING INVESTMENT DIRECTOR BIENVENUE: All
13 right. Dan Bienvenue managing Investment Director of
14 Global Equity.

15 First of all, you'll recall from the August
16 update of the ESG strategic plan, the 5-year plan, we had
17 a set of reporting requirements that were listed in that
18 plan that said policy currently calls for quarterly
19 reporting on proxy and engagement. And that's the reason
20 that we're here today.

21 We will look to align both the policy with the
22 timings that were in the plan for reporting with the
23 expectation that some policy language will be coming back
24 to this group in February for a proposal of new policy
25 language to -- as I say, to sort of align the reporting

1 requirements from the plan with that policy.

2 Secondly, you'll recall from that plan update
3 that some of the activities that happened in this
4 global -- what had been global governance space has been
5 moved down into the asset classes, specifically in global
6 equity. So I'm once again joined by Anne Simpson to
7 demonstrate our continued solidarity and team work in this
8 space. But I'm also joined By Simiso Nzima, which is
9 where the proxy voting and corporate engagement activity
10 has now been located within global equity.

11 So with that, I'll turn it into -- turn it over
12 to Simiso to take us through the presentation.

13 INVESTMENT MANAGER NZIMA: Thank you, Dan.

14 Mr. Chairman, members of the Investment
15 Committee, good afternoon. My name is Simiso Nzima. I'm
16 an Investment Manager in Global Equities. I'm here today
17 to present to you an update of the proxy voting and
18 corporate engagement activities.

19 I'll start with proxy voting.

20 --o0o--

21 INVESTMENT MANAGER NZIMA: Staff voted
22 approximately 1,400 company meetings during the third
23 quarter of 2016. And we supported about 84 percent of
24 management proposals and 69 percent of shareowner
25 proposals. As the Board knows, really the bulk of the

1 proxy voting activity happens during Q2, where we perform
2 about 62 percent of the activity.

3 --o0o--

4 INVESTMENT MANAGER NZIMA: Moving on to our
5 shareowner campaigns in 2016, we're really focused on 3
6 areas: Proxy access, majority vote for director
7 elections, and climate risk reporting.

8 On proxy access, we went with New York City Funds
9 to get companies to adopt proxy access. And we ran 18
10 proxy solicitations, of which 13 received majority vote,
11 and 5 failed.

12 We'll continue to work in this area. Just to
13 give you context, in terms of the uptick in proxy access,
14 in December, 2014, for example, only 17 companies had
15 adopted proxy access. By December 2016, about 331
16 companies have proxy access, and about 47 percent of the
17 S&P 500 companies now have proxy access.

18 Majority vote for director elections. Staff
19 wrote to 50 companies and we engaged these companies to
20 adopt majority vote. Forty-three companies have adopted
21 or committed to adopt majority vote as of today, 4
22 companies got acquired, and 3 companies we filed
23 shareowner proposals. We actually expect that we may be
24 withdrawing these shareowner proposals if the companies
25 actually adopt the majority vote provision.

1 The third focus for the shareowner campaigns was
2 the climate risk reporting. This is one of those where
3 you have a tale of 2 cities really. For the proposals
4 that we filed on global companies, the 3 global companies,
5 we got 96 percent shareowner support.

6 However, we also ran proposals -- proxy
7 solicitations at 9 U.S. companies, where we got shareowner
8 support of between 20 and 42 percent. The average support
9 that we actually got was about 33 percent. Again, an
10 improvement compared to prior years where the climate risk
11 reporting proposals was getting under 20 percent of
12 shareowner support.

13 Moving on to enhanced forecast focus list.

14 --o0o--

15 INVESTMENT MANAGER NZIMA: On our focus list
16 activity really was focused in the Japanese market, which
17 is the second largest equity market outside of the U.S.
18 Staff met with executives and board members at the focus
19 list companies, and also we met the 2015 companies that we
20 engaged.

21 We also signed on to the Japan stewardship code
22 in March 2016. We're the second U.S. institutional
23 investor to do so after the UC Regents. And we also
24 shared our CalPERS Investment Beliefs with companies in
25 Japan. These were translated to Japanese.

1 In terms of the next steps on the focus last
2 engagements --

3 --o0o--

4 INVESTMENT MANAGER NZIMA: -- we take a look at
5 the responses that we're getting from the companies, and
6 then decide on the engagement activity going forward. I
7 would expect that to come back to the Investment Committee
8 in 2017 to give sort of an update where we are with that
9 engagement process.

10 At this moment, I'll pause and see if there are
11 any questions.

12 CHAIRPERSON JONES: Yes. Mr. Jelincic.

13 COMMITTEE MEMBER JELINCIC: Yeah. If I can go
14 back to slide 4 of 14, 458 of the iPad. We had 9
15 proposals that failed from 20 to 42 percent, I think it
16 was. What is the argument people are giving against
17 reporting on climate risk?

18 INVESTMENT MANAGER NZIMA: So it's --

19 COMMITTEE MEMBER JELINCIC: And also, you know,
20 why would only 20 percent of the owners want to know?

21 INVESTMENT MANAGER NZIMA: So it's not an
22 argument against climate risk per se. I think one of the
23 things, if you compare with -- to what's happening across
24 the pond, where climate risk reporting is something which
25 is much more at a progressive stage, as opposed to here in

1 the U.S.

2 And these proposals were actually filed at petro
3 chemical companies -- petroleum-based companies. And
4 really the issue that we see there is that these -- sort
5 of a lack of understanding in terms of what it is that is
6 required by the companies to do. And in that aspect, I
7 think task force on climate-related financial disclosure,
8 which was, you know, under the FSB, Financial Stability
9 Board, just released last Wednesday, sort of,
10 recommendations in terms of what companies can do to
11 report on climate risk.

12 So there's an issue that these -- they're not
13 standardized reporting requirements. And we expect that
14 with that and with people understanding much more what it
15 is that you're asking companies to report to. And that
16 will improve the percentages.

17 COMMITTEE MEMBER JELINCIC: Thank you.

18 CHAIRPERSON JONES: Okay. Thank you.

19 No further questions on that part?

20 Next.

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: Is that
22 concluded on that -- on 6c, or you have more to present?
23 That's it, right?

24 Yeah, that's everything in 6c, so we'll be ready
25 to move to 6D.

1 CHAIRPERSON JONES: Right.

2 (Thereupon an overhead presentation was
3 presented as follows.)

4 INVESTMENT DIRECTOR SIMPSON: Thank you. Good
5 afternoon. Anne Simpson, Investment Director for the new
6 sustainable investment.

7 I'm here to report to you on quite a
8 long-standing, but very important, project that was
9 launched last year. And we've got several slides just to
10 recap what the purpose of the project was. And then in
11 the back, in an appendix, we've given you more detail from
12 each of the asset classes that's been carrying out this
13 work.

14 And Dan and I, as you know, co-chair the new-ish
15 Governance and Sustainability Subcommittee. And we're
16 glad to say that sitting close by are the asset class
17 representatives who've been putting together this work.
18 So they'll be available if you have any questions.

19 Anyway, the --

20 --o0o--

21 INVESTMENT DIRECTOR SIMPSON: Slide 2 really
22 explains where we were at about 18 months ago when we
23 started this. And as the from box says, we had varied
24 levels of understanding, maybe even bafflement in some
25 quarters. And certainly interpretation and integration on

1 sustainable investment considerations just simply wasn't
2 clear, I think, either internally or externally.

3 And you recall, some years ago when we first
4 start mapping, and we had the famous 111 plus different
5 initiatives. I think CalPERS has a very long and proud
6 history in this arena, but we didn't have a strategic
7 framework.

8 So the purpose of this project was to get to a
9 new state, in which all the asset classes, all the
10 programs across the portfolio would have clarity about
11 what sustainable investments relevance is to their risk
12 and return agenda, but also we'd have consistency, but not
13 too much consistency.

14 Part of the goal here was to find out really what
15 should be the common platform right across the fund, but
16 also where we needed to tailor the approach. And I think
17 this was a point that was touched on a short while ago.

18 --o0o--

19 INVESTMENT DIRECTOR SIMPSON: Again, a slide from
20 way back last year when we first started this work, we
21 explained that the -- there were unique parameters for
22 each of the asset classes. The most important probably at
23 the top is whether it's money that's internally or
24 externally managed. And, of course, within that, what our
25 control rights are, whether we have direct or indirect

1 ownership, whether in a commingled or a single customer of
2 one structure, and also our position in the capital
3 structure.

4 We also knew, at this early stage, that it would
5 matter whether the strategy was based on a passive or
6 indexed approach. Dan would never have me passive. I
7 think it's an actively managed index quantitative
8 strategy.

9 (Laughter.)

10 INVESTMENT DIRECTOR SIMPSON: Takes a lot of time
11 and attention, or it's an active -- it's an active
12 process.

13 Also, we therefore knew from that that it would
14 be a question of considering whether the factors on
15 sustainable investment were relevant at the level of the
16 security, the investment vehicle, or the index that was
17 being tracked.

18 And also, another consideration, given that some
19 of the asset classes were engaged in very specific
20 restructuring processes, it didn't make a lot of sense to
21 spend time with the whole of the portfolio of managers,
22 when some it was a matter of saying, you know, thank you
23 and goodbye. It was important to be thinking whether
24 strategic relationships would lie.

25 So with that really as the context --

1 --o0o--

2 INVESTMENT DIRECTOR SIMPSON: -- where have we
3 got to -- each of the asset classes now has their own
4 sustainable investment practice guidelines. There's been
5 a significant amount of due diligence research, compare
6 and contrast, surveys, and really significant work that's
7 gone on within those different parameters that the asset
8 classes have.

9 So we think we're at the point, and ready to hand
10 over the centralized part of monitoring, to the manager
11 expectations oversight piece of the Investment Manager
12 Engagement Program -- try all those acronyms after
13 lunch -- but under the correction of Wylie, as our COIO,
14 because this is a new project. Wylie will be overseeing a
15 new unit, and we want to have enough room to breathe and
16 see how this evolves in the coming months.

17 Behind this short overview, as I said, you have a
18 few slides from each of the asset classes sussing out some
19 of the activities that they've undertaken, their lessons
20 learned, and some of the next steps, which vary a little
21 because of the different strategies that have been
22 employed.

23 All of the asset classes, it's not considered
24 work that's completed. It will continue. But the
25 ultimate goal is not only to have established, but also to

1 implement documented guidelines and procedures right
2 through the life cycle of the investment process.

3 And finally, we do want to explore which excerpts
4 from those sustainable investment practice guidelines
5 should go into the public domain. And we think the
6 natural place for that would be the investment portal,
7 which is where potential managers come to see where
8 capital might be available, or to bid for, and under what
9 terms and conditions.

10 So with that -- excuse me -- let me pause and see
11 if there are any questions, either for me or for Dan or
12 for the asset class reps.

13 CHAIRPERSON JONES: Yes, we have one. Ms.
14 Mathur.

15 COMMITTEE MEMBER MATHUR: Thank you. Well, I
16 think the -- I see this as a very important effort, so I
17 appreciate the Investment Office's focus and attention on
18 this project or pilot that is now going to be, I think,
19 integrated more fully.

20 I would like a deeper understanding of what it
21 all means, sort of, what -- what kinds of questions are
22 being asked in the manager selection phase, what kinds
23 of -- what kind of requirements are going -- are being
24 incorporated into contracts, what kind of questions are
25 being reviewed during the monitoring phase, and -- you

1 know, around policies, processes, practices, practices,
2 integration, measurement and -- of performance and of
3 impact, and investment strategies, if there's sort of a
4 more proactive -- approach, investment thesis, for
5 example, that is being -- so I guess that's where I'm
6 still feeling like it's very, very high level. I'm not
7 quite fully understanding and grasping what it is. So I
8 just wanted to --

9 INVESTMENT DIRECTOR SIMPSON: Yeah. No, it's all
10 high level and worthy and that's all in the interests of
11 brevity.

12 I just mentioned this to Dan. And we thought the
13 most useful way to explain what it really means in
14 practice is actually to ask one of the asset class
15 representatives to talk about what they're doing.

16 So, Beth Richtman, if you'd kindly join us and
17 talk about the approach in real assets and infrastructure,
18 we think that would -- that would -- that may be helpful.

19 INVESTMENT MANAGER RICHTMAN: Members of the
20 Board, Beth Richtman, Investment Manager, Real Assets.

21 So to address Ms. Mathur's question, I'll talk
22 about some of the commonalities though across the total
23 fund, and which we're also doing in real assets. One
24 starts with questions we asked during the due diligence
25 phase.

1 And this actually I give credit to our Private
2 Equity Group, because they were the first to actually do
3 this, but to have a set of questions that they regularly
4 asked all the managers. And those questions include, you
5 know, what are the policies in place at the organization,
6 if it's a fund, examples of how they've incorporated ESG
7 risks and opportunity monitoring, or basically analysis
8 into their own due diligence with assets they're either
9 considering adding to their portfolio or ones that they
10 have within their portfolio.

11 For real assets, you know, we asked these set of
12 questions during due diligence, but you also asked about
13 monitoring. Recently, at the annual program review for
14 Real Assets, we announced that we've selected GRESB to
15 monitor our infrastructure as well as our real estate
16 managers.

17 And that's in part because they have a set of
18 questions that asks, in a comprehensive way, what the ESG
19 practices are, key metrics are, for the assets and also
20 portfolios within our larger part portfolio.

21 So, for instance, to give you an idea of a couple
22 questions that are asked within the GRESB survey, so one
23 is, you know, what sustainability-related strategies and
24 objectives are in place at the organizational level, and
25 what actions have been taken to implement these strategies

1 and to achieve the objectives? So that's a question that
2 would be asked to our real estate managers and our
3 infrastructure managers.

4 And also, things like what are -- what
5 environmental, social, and governance policies are in
6 place at both the organizational and portfolio level.
7 They also ask about the greenhouse gas emissions, the
8 energy use, water uses, waste use, and things like what
9 kind of climate risk policies are in place?

10 So that's sort of an idea of what we're doing in
11 Real Assets. And I think that's enough examples.

12 COMMITTEE MEMBER MATHUR: Thank you. Thanks very
13 much, Beth. So I real -- that is very helpful from sort
14 of in -- for one asset class perspective. I guess, I
15 would like to -- I would like a little -- personally, I
16 would like more detail myself about what the questions are
17 being asked in each asset class. And I also would love to
18 see -- you know, you're doing this monitoring, you're
19 collecting data, at what point are you going to share sort
20 of the aggregation of that data with the Board, and will
21 that include both external managers and internal managers?

22 So what kind of a report are you contemplating,
23 so that the Board has a sense of, you know, how this is
24 working, how it's manifesting throughout our investment
25 chain?

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll ask
2 Anne and Dan, as the chairs of the Committee, because
3 that's one with of the questions that they're grappling
4 with as well. I think the first step is to do what we've
5 done now, which is to standardize it, ask the questions,
6 go out and start receiving all this volume of information
7 from different external managers and from our own internal
8 teams as well.

9 The lessons learned, as you glean the various
10 pages here, is that there -- you know, there isn't a
11 simple easy one-size-fits-all answer to all those
12 questions. So I think part of the answer for us
13 internally is to have these committees in place to discuss
14 the information that's coming back, find common themes,
15 find common questions and practices that can be useful.
16 And I think having -- I think, we now have sub -- 3
17 subcommittees to Dan and Anne's overall Sustainability
18 Committee that really breaks out the work into 3 different
19 groups. So that's a huge volume of activity and review.

20 The next step after that will be, well, how can
21 we most effectively and efficiently report it to the
22 Committee? And I think that's still a to-do item. We
23 know it is one of -- it's -- it is an integrated effort on
24 behalf of the whole office.

25 And that's where I'll pause and maybe turn it to

1 Anne and Dan and talk a little bit about the compiling of
2 all this data and information now, the work of your
3 subcommittees, and when you think you might -- we might be
4 in a position to begin reporting out some of the common
5 themes and findings of the work?

6 MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah.
7 Thanks, Ted. That is exactly it. It's something that
8 we're struggling with. I mean, candid -- and when I say
9 struggling with, I mean we're just trying to balance
10 between not just overburdening the Board with too much
11 information, right, because candidly when Ted -- when we
12 talk about different assets classes have a different way
13 of implementing it, even within global equity, for
14 example, a fundamental manager is going to use -- is going
15 to apply expectations in the ESG space and ask questions
16 differently than a quantitative manager, differently than
17 our internal management capabilities.

18 So even just with that, there are, you know, a
19 number of nuances and sort of how ESG considerations can
20 make their way into the portfolio. So the key thing for
21 us is that they are, and that we're asking the questions
22 around how are you doing it, what are you doing? And as I
23 say for the internal management capability, it's about
24 proxy voting and engagement and things likes that for some
25 of the external fundamental managers. It's much more

1 about being very specific about, you know, weighing in ESG
2 type topics in their investment decisions.

3 But it really isn't a one-size-fits-all. And as
4 I say, our balance -- you know, and Ted mentioned our 3
5 working groups, it's probably worth mentioning, as part of
6 the Governance and Sustainability Subcommittee. I think
7 you're aware that the Governance and Sustainability
8 Subcommittee is made up of, you know, pretty senior
9 Investment Manager and Investment Director level people,
10 and then as Anne said, co-chaired by ourselves.

11 We've also created 3 working groups under the
12 Governance and Sustainability Subcommittee that we think
13 can help us really be effective and efficient in figuring
14 out -- you know, how we want to address certain
15 situations, and then also what we want to bring to the
16 Investment Committee.

17 Those working groups are, one, around regulatory
18 and legislative work and what we want to advocate for,
19 another one around proxy voting. We know that the
20 majority of the proxy votes are pretty, I don't want to
21 say rote, but they -- it's pretty easy to look at our
22 principles and decide how to vote on them. But then there
23 are a number of them that require some judgment. And so
24 this proxy voting group, and that's being led by Simiso,
25 and the regulatory one is being led by Don Pontes.

1 But so those 2 working groups are going to, you
2 know, address regulatory and proxy. And then the last one
3 is a research working group that's led by Anne, but again
4 with members across the Investment Office.

5 But those groups are then going to come up with
6 sort of perspectives on various topics, and then come to
7 the Governance and Sustainability Subcommittee with, sort
8 of, decision making or what we want to do at the
9 Governance and Sustainability Subcommittee, in terms of
10 taking positions. But then really importantly than
11 that -- than that GSS is figuring out what we bring to the
12 Investment Committee, because I can tell you we've been
13 trying to figure out how we stay effective. And that's
14 the reason that we established these working groups,
15 because there is just -- there's just a lot here in trying
16 to figure out how to, you know, be effective and not bring
17 to much information, but also bring enough information is
18 something that we're working on.

19 COMMITTEE MEMBER MATHUR: Okay. Well, I
20 certainly appreciate that it is complex, particularly
21 given the different asset classes and various programs and
22 strategies, et cetera, but I do think -- and I do think
23 that there is, you know, an appetite to have some kind of
24 sense of how our efforts are impacting our investment
25 chain and/or -- and vice versa.

1 I mean, there might -- there could be lessons
2 learn -- for us to learn, I'm sure there are, from some of
3 our external managers. And there's somethings for our
4 external managers to learn from what we've done
5 internally. So I'm hoping that that is part of this
6 effort as well.

7 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah. We
8 can take that as a homework item to look through at our
9 next -- in our reporting schedule, how to bring sort of
10 excerpt -- you know, in the next level down of responses
11 that we're receiving, and maybe we'll roll them out, you
12 know, on different intervals, take one asset class first,
13 or we'll look at whatever is efficient for your time as
14 well.

15 So that's a good --

16 COMMITTEE MEMBER MATHUR: Thank you. I
17 appreciate that.

18 CHIEF INVESTMENT OFFICER ELIOPOULOS: That's a
19 good suggestion.

20 COMMITTEE MEMBER MATHUR: Thanks very much.

21 CHAIRPERSON JONES: Mr. Jelincic.

22 COMMITTEE MEMBER JELINCIC: Beth, in real assets,
23 lesson learned. There's a reference to the Global Real
24 Estate Sustainability Benchmark. And I don't know what
25 that means?

1 INVESTMENT MANAGER RICHTMAN: Sure. So the
2 Global Real Estate Sustainability Benchmark, or GRESB, you
3 may have heard that -- us talk about that before, it is a
4 benchmarking tool, and it's really platform, that we
5 started using for infrastructure. About a year ago, we --
6 CalPERS became a co-founder of this initiative. It's the
7 first of its kind to comprehensively look at or survey
8 infrastructure assets and also managers.

9 And it actually started as a real estate
10 benchmarking tool in 2009. And currently, I think for the
11 2016 year, they surveyed \$2.8 trillion worth of real
12 estate assets. It's a fairly large survey at this point.

13 Fifty-eight pension funds use it, including many
14 members of our global peer exchange. And CalPERS
15 announced that we will actually have our real estate
16 managers reporting into it starting the 2017 year.

17 COMMITTEE MEMBER JELINCIC: So it's really a peer
18 comparison?

19 INVESTMENT MANAGER RICHTMAN: It is, but it's
20 also a surveying tool that's going to be very useful for Real
21 Assets staff to do ESG monitoring of our assets and
22 managers.

23 COMMITTEE MEMBER JELINCIC: How does it help
24 monitor those?

25 INVESTMENT MANAGER RICHTMAN: Right. So it will

1 ask our managers to report in key metrics, such as
2 greenhouse gas emissions, energy use, water use, waste
3 use, as well as asking them about their policies, their
4 practices generally, and it asks a significant amount of
5 questions. Actually, that's -- it's pretty comprehensive
6 in terms of the types of questions it's asking, which will
7 help us have greater insight and understanding of how our
8 managers are actually practicing ESG. And not only that,
9 we'll get to see how they compare to other managers.

10 COMMITTEE MEMBER JELINCIC: Okay. And then --

11 INVESTMENT DIRECTOR SIMPSON: Yeah, I -- I was
12 just going to add a small point to Beth's comments. I
13 think the GRESB and the GRESB infrastructure are a
14 practical example of this theme on data and corporate
15 reporting standards that is one of our strategic
16 cross-cutting initiatives.

17 In other words, we know we've all been lost in --
18 betwixt and between, because of poor data or poor quality
19 data, and we haven't had standards. So I think the fact
20 that asset owners have come together to define a standard
21 and a portal for gathering data, I hope -- thinking of Ms.
22 Mathur's request about reporting, we're going to actually
23 be in a position to not just look at ourselves alone
24 against our own ambition, but compare where we are against
25 our universe of global peers. And certainly, we learn a

1 lot in that process.

2 But I think it's just an excellent practical
3 example of we are having to build under our own feet to
4 make progress on this topic. But this is a really -- a
5 really encouraging example.

6 And Beth represented us on the design and
7 build-out of the infrastructure piece of this standard.
8 So thank you.

9 COMMITTEE MEMBER JELINCIC: And then, Dan, on the
10 global equity slide, it was slide 8, mostly ESG
11 integration is a risk control attribute rather than an
12 alpha source. I'm not sure how you have a risk control
13 attribute that's not an alpha net. So can you expand on
14 that?

15 MANAGING INVESTMENT DIRECTOR BIENVENUE: Sure.
16 Really just that most of our managers, and most of our
17 involvement tends to see ESG integration as more of
18 mitigating sort of severe downside. So you can have, you
19 know, let's say an asset that has -- or a pool of assets
20 that has an arithmetic expected return that's higher than
21 others, but it also has greater downside that will result
22 in the same geometric return. That's kind of the place
23 that, I guess, kind of analogous to what I would say is
24 where we see this, is that the expected return component
25 from ESG integration is really about consistent with

1 the -- with what we expect from the universe, but we
2 expect to avoid more severe downsides just by avoiding,
3 sort of, tailrisk events.

4 COMMITTEE MEMBER JELINCIC: But wouldn't that
5 have a risk-adjusted return -- a positive risk-adjusted
6 return impact, and that's the alpha?

7 MANAGING INVESTMENT DIRECTOR BIENVENUE: Well,
8 again, if the -- if -- you know, if you take a -- if you
9 take a portfolio with a -- say a sort of a lower
10 arithmetic return, but also lower downside risk, you would
11 expect a geometric return to be about the same, right? So
12 it would have a better info -- Sharpe Ratio. But again, I
13 think that most of what our managers see in this space is
14 that -- and most of the research that we've done around,
15 even ESG-based strategies, are that the expected return is
16 about the same, but the distribution of the returns is
17 narrower. The tails aren't as fat and the downside
18 skewness isn't as bad.

19 COMMITTEE MEMBER JELINCIC: Thank you.

20 CHAIRPERSON JONES: Okay. Ms. Paquin.

21 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

22 Thank you for this work. This is a lot of work,
23 and I understand that and appreciate that. And I also
24 agree with what Priya was suggesting too, it would be very
25 helpful to have some feedback as you start to digest the

1 information.

2 And I guess my question is, as you have gone
3 through with the different asset classes, did you feel or
4 find that the internal managers or the external managers
5 were ahead as far as actually implementing ESG, or are you
6 both coming at it from a different aspect?

7 INVESTMENT DIRECTOR SIMPSON: We can't bet
8 against our own side. Come on, the internal managers --
9 no, I'm teasing.

10 I don't think there's a consistent pattern. I
11 think that for -- you know, for fixed income, which is
12 actively managing most of the portfolio internally, they
13 have such a deep insight into companies. And Lou, forgive
14 me if I'm paraphrasing, I think part of the discussion
15 with the Fixed Income team was, oh, well, we don't call
16 that ESG.

17 That part of our due diligence, in working out
18 risk-adjusted rushes, it's part of our normal appraisal of
19 what the opportunity is so. So I know Curtis Ishii and I
20 were talking about what is the project for fixed income,
21 and really said it's to articulate how these factors are
22 integrated into the process.

23 I also, again pointing to the fixed income
24 slides, note that they have found, even over the period of
25 the pilot, that in talking to their external managers,

1 there's much more activity and interest in the topic than
2 there was even a year ago. Because I think a lot of the
3 thinking here is growing up around the idea of public
4 markets.

5 So for us to find this innovative work in real
6 assets, and in fixed income to see external managers
7 setting up committees, and processes, and new policies,
8 this is really very encouraging. You know, we're at the
9 beginning of something very important, but we have to
10 accept it really is the beginning. But so far, so good.
11 I think a positive response, both internally and
12 externally.

13 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank
14 you.

15 CHAIRPERSON JONES: Okay. No additional
16 questions at this time.

17 Thank you for the presentation.

18 And we'll now to the next item on the agenda,
19 Investment Office Roadmap and Targeted Operating Model
20 Update.

21 (Thereupon an overhead presentation was
22 presented as follows.)

23 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

24 Thank you, Mr. Jones. Wylie Tollette, CalPERS
25 Investment staff.

1 As the Investment Committee knows, every 6 months
2 or so, we bring back an update on the Investment Office
3 Roadmap, which is essentially our business plan.

4 --o0o--

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: And
6 for the last several years, we've been updating the
7 Committee on our -- what we call our 2020 Vision.

8 And the key elements of the 2020 Vision are
9 listed on the slide. Essentially, it's to manage the
10 investment portfolio in a cost effective, transparent, and
11 risk-aware manner.

12 Our vision focuses on being repeatable,
13 predictable, and scalable. And that's served as a very
14 useful test for all of our strategies, our operations, and
15 our activities.

16 --o0o--

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: In
18 the interests of time, and I'm not going to go through all
19 of the slides, but I'm happy to take questions on slides
20 that I don't cover or on the slides that I do cover.

21 So this diagram, which we came up with about 18
22 months ago, has actually proven strangely prescient, in
23 terms of our actual activities. So Ted and I continue to
24 be surprised and, you know, occasionally impressed with
25 how -- how accurate we were in predicting what we should

1 be working on.

2 We've gotten a few things wrong, but for the most
3 part, we've stuck to this plan, which we roughed out 18
4 months ago. As you can see in 2015-2016, we refined our
5 strategic objectives. We really developed our mission.
6 We -- essentially, the core goal of which is to help
7 simplify our portfolio and our office, and to focus on
8 risk, return, and cost.

9 This year, the current state we've really been
10 focusing on continuing to enhance our internal Investment
11 Office decision making architecture around investments,
12 and you heard some of that just a moment ago from Anne and
13 from Dan. For example, last year, we initiated the
14 Governance Committee of our Investment Strategy Group, and
15 your heard the refinements that we're going through this
16 year, where we've created some working groups underneath
17 that.

18 And these committees have been really fundamental
19 to the way we've been re-architecting our decision making.
20 One of the key elements of these committees is their
21 cross-functional cross-asset class. And the idea there is
22 to really help increase the level of dialogue across the
23 asset classes.

24 It's quite common for the asset classes to
25 develop their own internal lingo, their own dialogue, and

1 importantly their own way of thinking about risk and
2 return.

3 And by putting all these folks on common
4 committees, what they're having to do is to begin to find
5 a common language for risk, and a common language for
6 return and opportunity and cost. That's been very helpful
7 in starting to sort of break down silos within the office
8 and improve the quality of our decision making, and
9 improve that focus on the total fund, which increasingly
10 is important as we look at having to make decisions to
11 deal with negative cash flow, and a, you know, a 68
12 percent funded ratio.

13 So you can see one of the other key projects for
14 the last year has been really building out our risk and
15 attribution review. You saw we brought to this Committee
16 the results of our total fund attribution model in August,
17 and you'll continue to see that in February and during our
18 trust level review meetings. We're continuing to build
19 out that framework.

20 And then our asset allocation team has been
21 leading a very large effort. Again, it's been brought
22 forward within the context of our investment strategy
23 group, and our internal governance structure to look at
24 all the benchmarks, our asset segmentation approach, and
25 the role of each asset class. And you'll see and hear an

1 update on that at the January off-site.

2 Next year, we expect to continue to work on what
3 we call trust level capital allocation. And that's really
4 dealing with the month-to-month impact of funding the
5 negative cash flow. How do we do that in the most
6 efficient way possible with a minimal impact on long-term
7 asset class investment?

8 The other thing that you've heard us talk about
9 is we'll be continuing to work on examining the business
10 model for investing, primarily within the private asset
11 classes, and private equity in particular, trying to find
12 new opportunities and ways to engage in that asset class.

13 Supporting all of these efforts are actually a
14 total of 18 underlying roadmap initiatives. That's a
15 slight reduction from last year, where we had more than
16 30. And 10 of those are carryovers. Each of those
17 initiatives is led by an executive sponsor, as well as a
18 project leader. And we have a total of 104 team members
19 from the Investment Office involved in those initiatives.

20 Once again, it's a way of helping our asset class
21 teams interact with one another and really have more of a
22 focus on the total fund.

23 --o0o--

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

25 This slide should be quite familiar to the

1 Investment Committee. There haven't been any dramatic
2 changes from the May report. We've refined a few of the
3 definitions of our operational -- our operating model --
4 our Target Operating Model. And we've also reduced a
5 couple of risk levels, delegations, for example, is one
6 I'll highlight where we've gone through and had a chance
7 to work with the Compliance Office and the Legal Office.
8 And our delegations have really been completely revamped
9 over the last several years.

10 We had those at medium risk, and our Operating
11 Committee, having examined all that work, decided to
12 reduce the risk around delegations. We think they're
13 quite clear now following the changes over the last couple
14 of years.

15 --o0o--

16 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

17 This slide is worth poking into a bit more. You
18 may recall in the middle of the year, the Investment
19 Office went to a modest sized realignment of some of our
20 activities. Those are highlighted in the blue outlined
21 boxes there.

22 You might recall that we developed and with the
23 Board's authorization and approval funded a new group, the
24 Opportunistic Credit Strategies Group. We're in the
25 process of hiring a leader for that, and we'll be building

1 out the policies. And those will all be coming back to
2 the Investment Committee over the next year or so, in
3 terms of what that group is going to invest in, what types
4 of risks they're going to take and not take, what types of
5 benchmark we use to evaluate them. All of that remains to
6 be done, but we're excited about seeing this move forward.

7 A cash flow water fall monitoring team, that has
8 basically been waiting on hiring a leader, which we're
9 about to engage in. We had to work through adapting to
10 Laurie's retirement, but that is coming to a close.

11 And the next thing on the list will be building
12 out the cash flow waterfall monitoring team, whose goal it
13 is to really look at the waterfall for our private asset
14 classes, and private equity in particular, and ensure that
15 our interests are protected through that process.

16 You can see you just saw Dan and Anne and the
17 changes around sustainable investment, and global equity,
18 where proxy voting activities have been moved into Dan and
19 Simiso's teams.

20 And as I said earlier, we've increased the
21 resources, and the focus in our Investment Risk and
22 Performance team to really understand where -- where we're
23 taking risk. Is it generating return, and are we
24 intentional about those risks, and are we aware of where
25 our return is, so we can make sure to separate skill from

1 luck in that regard.

2 And then finally, you've seen our changes around
3 the Investment Manager Engagement Program, or IMEP,
4 function where we've taken some of the lessons that we
5 learned in TIP, with centralized activities and monitoring
6 of managers, and we're really trying to take some of those
7 lessons and expand them to create a new ecosystem for
8 looking at our external managers.

9 So, much work in progress. A lot of it is done.
10 Some of it's still work in progress. We will continue to
11 bring back our progress on this to the Investment
12 Committee. I think the next one scheduled is in May.

13 --o0o--

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

15 Finally, on this slide, I'll highlight, we're
16 still at about 160 external managers. That's down quite
17 significantly, as we recalled back in May. We've gone
18 over the last 2 years from 300, to about 212, to now we're
19 right around 160.

20 We think that -- I guess, the short answer here
21 is that a lot of what I'll call sort of the low-hanging
22 fruit has been picked. We're now getting higher up in the
23 tree, and that's going to require a little bit more work.
24 But that's part of the reason that we're organizing
25 ourselves with the Investment Manager Engagement Program

1 team to make sure that we're well prepared for that next
2 push, where we eventually hope to arrive at around 100
3 managers in the year 2020.

4 And then finally, I'll highlight that we're
5 midway through our Global Investment Performance Standards
6 Implementation Project. We've been examining the
7 possibility of complying with the voluntary GIPS
8 standards, promulgated by the CFA Institute.

9 And it looks good. It looks good. It look LIKE
10 we're in good shape to begin claiming compliance next
11 July. There are several other public plans in the country
12 that do claim compliance with GIPS today, several
13 sovereign wealth funds, but we'll be the largest plan by
14 far to do that. And we're hopeful that it will help drive
15 some improvement in the overall quality of performance
16 reporting across the public pension space.

17 So with that, I'll pause and if there's any
18 questions

19 CHAIRPERSON JONES: Yes, we do.

20 Mr. Slaton.

21 VICE CHAIRPERSON SLATON: So let's talk for just
22 a second about the 160 managers. So the goal is to get to
23 100. And as you said, you're going to -- you're getting
24 further up in the tree. What's magic about 100? In other
25 words, when you get up in that tree and you find, you

1 know, there's really 140 managers that are just performing
2 well, and, you know, we -- we don't want to -- we think
3 it's in the best interests of the fund. So how do you
4 take kind of an artificial number and get to the real
5 point that you're trying to get to?

6 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

7 Yeah, I'll take a first crack at that and then
8 I'll -- I'm happy to hear from Ted on the 100. But the
9 100 serves as a nice shorthand goal that you can --
10 everyone in the office can easily retain. Over the course
11 of a 5-year strategic plan, it's important that we -- we
12 came up with one goal, and then stick with it. If we get
13 close to 100, and we decide that 105 is really the number
14 or 89 or, you know, it's a possibility we may end up at
15 60, who knows?

16 But we're not wedded to the number necessarily,
17 but we are wedded to the progress in that direction. And
18 having the 100 out there really served as a useful
19 milestone for us to keep our eyes on.

20 VICE CHAIRPERSON SLATON: I think it also -- just
21 one other question that maybe you can answer, Ted, as
22 well. I think I read somewhere that somebody's opinion on
23 the outside was that that would produce additional pricing
24 pressure on us, as we reduce the number of managers. If
25 you could comment on that as well?

1 CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure.
2 Well, the 100 was derived from really a top-down look at
3 our strategies within each asset class, and, you know,
4 really formulating what we thought we would need to access
5 externally to accomplish -- to pursue those strategies.
6 So that's how that process went through.

7 And, of course, as we go through the bottom up
8 process of evaluating each manager, we're not going to cut
9 our nose to spite our face. I think that's -- you know,
10 we'll take into consideration all the things that you just
11 mentioned and Wylie mentioned.

12 We think we'll have better pricing power, and
13 having larger strategic relationships. That's our theory.
14 We've seen it play out in the real estate portfolio. But
15 the counter to that is perhaps, you know, those few
16 managers that are part of that group will feel that we're
17 captive, you know, we don't have other choices. But it's
18 a wide universe of managers out there. It's hard to
19 imagine us being captive to anyone.

20 VICE CHAIRPERSON SLATON: Okay. Thank you.

21 CHAIRPERSON JONES: Okay. So no additional
22 questions.

23 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
24 Great. Thank you very much.

25 CHAIRPERSON JONES: Okay. Thank you.

1 Okay. Then we will move on to Summary of
2 Committee Direction.

3 Ted.

4 CHIEF INVESTMENT OFFICER ELIOPOULOS: There was
5 one.

6 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

7 Yeah, there's -- thank you, Mr. Chairman. We've
8 recorded one Chair-directed item. And it was basically
9 for Investment staff to convene with our General Counsel
10 on the September closed session asset allocation item to
11 determine what can and should be disclosed publicly
12 related to the deliberations and the documents around
13 that.

14 CHAIRPERSON JONES: Okay.

15 CHIEF INVESTMENT OFFICER ELIOPOULOS: At our
16 February meeting.

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

18 At our February meeting.

19 CHAIRPERSON JONES: Okay. Good. And while it
20 wasn't a direct direction, but meet with the Finance
21 Committee, or the staff responsible for that, on our
22 contracting issue, that the Controller's letter was -- the
23 Treasurer's letter. So that's not a direct direction, but
24 I just -- we don't want to lose site of that, okay?

25 Okay. Well, thank you very much.

1 And now, that moves to the last item on the
2 agenda, public comment. And we have 3 requests to speak.
3 And Ms. Forrester, Mr.[sic] Johansen, and Mr. White.

4 Woops, I'm sorry. Ms. Johansen.

5 MS. FORRESTER: Good afternoon. Thank you for
6 the opportunity to speak and for your work in protecting
7 the retirement system of California's public employees.

8 My name is Betty Forrester. I'm a 42-year old --
9 no, 42-year career educator. I wish I was 42.

10 (Laughter.)

11 MS. FORRESTER: I'm vice president of UTLA, vice
12 president of the California Federation of Teachers, which
13 represents 8,000 CalPERS members, and a vice president of
14 the California State Labor Fed.

15 I'm speaking on behalf today of United Teachers
16 Los Angeles, and particularly for the educators at
17 Alliance College-Ready Public Schools, who are organizing
18 a union, two of whom you'll hear from in a moment. They
19 could be with me today, because it's winger break for
20 students this week.

21 On behalf of UTLA, we want to thank CalPERS staff
22 and Board members who are working with us to find
23 solutions to this challenging issue. And I want to
24 explain how teachers organizing at Alliance is relevant to
25 CalPERS.

1 First, Alliance, the largest charter system in
2 L.A., is the poster child for the Eli Broad-Walmart plan
3 to convert half of L.A. USD schools to charter schools.
4 This could amount to tens of thousands of school employees
5 moving out of L.A. USD into independent charter schools.
6 Other urban districts may follow suit.

7 The growth of non-union charter schools creates
8 fiduciary concerns for CalPERS, as you wisely acknowledged
9 in your September Audit and Risk Committee Report.

10 Some charters schools have chosen not to
11 participate in CalPERS, which may increase, as
12 contribution rates rise. And collective bargaining is the
13 best way to ensure participation in pensions.

14 Alliance is also relevant to CalPERS, because
15 principals of 2 of your investment managers, Aries and TCW
16 have played high profile public roles at Alliance
17 Charters, both in governance and in providing financial
18 support, including at the time the schools chose to fight
19 its educator's efforts to unionize in 2015.

20 Alliance teachers want to advocate for their
21 students and advance their profession. In response, the
22 management launched an aggressive anti-union campaign that
23 violated labor law by engaging in coercion, intimidation,
24 surveillance, direct retaliation against teachers and
25 more.

1 The behavior was so egregious, that the Labor
2 Board sought an injunction against Alliance that was
3 granted last December. Despite numerous legal rulings
4 against them, Alliance continues its anti-union campaign
5 against educators. No public employee in California
6 should have to experience this level of intimidation and
7 coercion at work.

8 We urge you to fully review the actuarial and
9 fiduciary risks to CalPERS from the widespread growth of
10 charter schools where collective bargaining is denied, and
11 where participation in CalPERS or CalSTRS is not
12 guaranteed.

13 Thank you for your time.

14 CHAIRPERSON JONES: Thank you for your comments.
15 Next.

16 MS. JOHANSEN: Thank you, Board members and staff
17 for all that you do. My name is Xochil Johansen.

18 I'm a fourth year special education resource
19 teacher at Alliance Marc and Eva Stern Math and Science
20 School which is a high school in east L.A.

21 I am early in my teaching career, but I intend on
22 staying at this school for many years, as I'm dedicated to
23 my students and our community, which is also why I'm
24 committed to forming a union at the Alliance.

25 Teachers like myself should have a voice in the

1 decisions that affect our kids and our classrooms. When
2 we first announced our campaign to organize, Alliance
3 initially said that they would respect our right.
4 However, this message changed very quickly when they
5 launched an anti-union campaign against us.

6 Some administrators even went as far as to
7 directly intimidate pro-union teachers like myself, trying
8 to pit us against our colleagues. Many teachers are too
9 afraid to voice their support for a union, much less stand
10 up against these unfair and oppressive practices.

11 The story of one colleague stands out. She's
12 always been outspoken, always standing up for what she
13 believes is right. She teachers at the same school, where
14 a dedicated and highly effective teacher was terminated
15 because of their union leadership.

16 After seeing him lose his job, she became afraid
17 for hers. When resources at our school were not being
18 allocated to serve the kids who have disabilities, she was
19 afraid to speak up. She said that on the day after the
20 Presidential election when her kids needed her the most,
21 she was silenced by her administrator who directed her not
22 to discuss it at all, and act as if it were a normal day.

23 She knows that having a union and a voice is
24 exactly what she needs to be a strong advocate for her
25 students and for herself. But she's also intimidated by

1 our administration and Alliance's anti-union campaign, so
2 she is reluctant to raise her concerns publicly.

3 This stories of these teachers, and many like
4 her, have pushed me to believe that we need a union and a
5 voice. We deserve to have the same labor standards and
6 rights in our charter schools, as our colleagues in the
7 district schools do.

8 I appreciate that as a pension fund, you value
9 labor rights, and that you support neutrality for workers
10 in the properties and companies that you own.

11 We appreciate your support as we continue to work
12 towards having those same rights in our schools.

13 Thank you.

14 CHAIRPERSON JONES: Okay. Thank you for your
15 comments.

16 MR. WHITE: Good afternoon, ladies and gentlemen.
17 Thank you for taking the time to listen to us today. My
18 name is Daniel White. I am currently in my 5th year
19 teaching science to underprivileged children in south Los
20 Angeles.

21 I appreciate all the work that you do to protect
22 the retirement security of public employees in California.
23 In my short career as a teacher, I have found that public
24 employees are really the bookends that hold every school
25 together. At Ouchi Alliance High School, where I teach

1 environmental science, the office staff are the first to
2 arrive in the morning, making sure the school is ready to
3 go at full speed from the minute the first student walks
4 through the door at 7:00 in the morning, until the last
5 one leaves at 6:00 in the evening.

6 But learning gets quite messy sometimes, and
7 without the maintenance staff to put it all back together
8 at the end of each day, it would not be possible.

9 I am grateful for the opportunity to teach 10th
10 graders from south Los Angeles, a rigorous curriculum,
11 that teaches them to recognize that all people are
12 connected to each other, and to the environment.

13 I am especially proud that some of my students
14 have gone on to pass the A P environmental science test,
15 and get up a leg -- get a leg up on going to college.
16 Most of my students will be the first members of their
17 family to have that opportunity.

18 I feel a great responsibility to do all that I
19 can to make sure my students receive the best opportunity
20 possible to succeed beyond the confines of Ouchi High
21 School and south Los Angeles.

22 I believe that teachers like me who spend all day
23 in the classroom with the students, have the best
24 perspective and training to know what is best for the
25 students.

1 I became active in organizing a union for the
2 teachers and counselors of Alliance College-Ready public
3 schools, because I quickly became frustrated with the lack
4 of transparency surrounding decisions that affect the
5 success of my students, and fellow educators.

6 I was alarmed at the high turnover of our
7 teachers and counselors due to their similar frustrations.
8 This is not the way to create a positive learning
9 environment.

10 I want to make sure educators are apart of the
11 decision-making process that shapes the learning
12 environment of our students. Collective bargaining the
13 only way to ensure that our charter school boards and
14 administration listen to their teachers, and do what is
15 best for the students.

16 It is also the only way to ensure that they
17 continue to offer pension plans, like CalSTRS for teacher,
18 and CalPERS for other essential education employees.
19 Charter schools have a choice on which form of retirement
20 they provide without collective bargaining rights, we fear
21 our pensions will be on the chopping block, ultimately
22 harming the recruitment and retention of both our
23 educators and our students.

24 We want to thank CalPERS for working with us to
25 find solutions to this challenging issue. We urge you to

1 fully review the risks to CalPERS from the growth of
2 Charter schools, where collective bargaining is denied and
3 where participation in CalPERS is merely optional.

4 Thank you.

5 CHAIRPERSON JONES: Okay. Thank you all for your
6 comments. And I understand you have been in discussions
7 with our staff on these issues. And so I would just
8 suggest you continue to work with them on these issues.

9 Okay.

10 On that?

11 Mr. Juarez.

12 ACTING COMMITTEE MEMBER JUAREZ: Yeah. Thank
13 you, Chair. The Treasurer has been closely monitoring the
14 developments between Alliance and UTLA. And he wants --
15 he's offered to mediate meetings between the 2 groups to
16 determine if there are mutually agreeable -- ground rules
17 for ensuring a fair and equitable process whereby Alliance
18 teachers can decide if collective bargaining is in their
19 best interests. The Treasurer's office remains a standing
20 one. He would also support any efforts by CalPERS, the
21 Board, or its staff to help resolve the ongoing dispute or
22 to determine if there are any fiduciary concerns
23 associated with the current situation.

24 Thank you.

25 CHAIRPERSON JONES: Thank you.

1 Okay. Ms. Taylor.

2 COMMITTEE MEMBER TAYLOR: Yes, I want to thank
3 our speakers for coming out today. But I also wanted to
4 say that I very much support what you're doing. I
5 understand that we can't -- we don't have a fiduciary
6 connection there, but I would like to see what we can do
7 to support them.

8 Thank you.

9 CHAIRPERSON JONES: Okay. Mrs. Mathur.

10 COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

11 Yes, I also just want to thank Ms. Forrester and
12 Ms. Johansen, and Mr. White for making the trip up to see
13 us today. Clearly, CalPERS has a history of being very
14 much in support of neutrality. And to the extent that we
15 can be supportive of your efforts, I think, in a way, that
16 is in accordance with our own fiduciary duty, and there's
17 a nexus there, we will certainly, I think, endeavor to do
18 that. So I am sure this is an effort that will continue
19 for quite awhile.

20 CHAIRPERSON JONES: Mr. Bilbrey.

21 COMMITTEE MEMBER BILBREY: Thank you, Mr. Chair.

22 I also want to thank you for coming today. It's
23 good to see you, Betty. The engagement that's happened so
24 far has been, I think, very productive. I think you've
25 now made the right step next. President Caputo-Pearl has

1 reached out to them, since there's been a discussion from
2 CalPERS. And I'm anxious to see what the next steps are
3 after they receive that letter, and if they -- and now
4 with the added help, it sounds like from the State
5 Treasurer's Office, I think you definitely have some
6 options that will help you move forward on what you're
7 trying to do, which is such important work with the
8 students.

9 CHAIRPERSON JONES: Okay. Thank you.

10 So that --

11 CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair,
12 I just want to make -- make clear, if it wasn't in the
13 discussion, that the Alliance for Schools is a
14 not-for-profit organization, in which CalPERS in no way
15 has any ownership interest and none of our external
16 managers do either. So we've been happy to engage,
17 communicate, and hear these concerns, but in terms of our
18 policies of engagement, there's not really anything for us
19 to do from an engagement standpoint, but we'll certainly
20 do what we can to communicate some of our policies and how
21 we treat these issues.

22 CHAIRPERSON JONES: Okay. Thank you for that,
23 Mr. Eliopoulos.

24 Okay. So that ends the agenda, so we're going to
25 adjourn the open meeting, and we'll convene the closed

1 session at 3:50.

2 (Thereupon California Public Employees'
3 Retirement System, Investment Committee
4 meeting open session adjourned at 3:41 p.m.)
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C E R T I F I C A T E O F R E P O R T E R

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

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, 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 23rd day of December, 2016.



JAMES F. PETERS, CSR
Certified Shorthand Reporter
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