MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FECKNER AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

MONDAY, MARCH 17, 2025

9:18 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chair

Mullissa Willette, Vice Chair

Malia Cohen, also represented by Deborah Gallegos

Michael Detoy

Fiona Ma, represented by Frank Ruffino

Eraina Ortega

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Theresa Taylor

Yvonne Walker

Dr. Gail Willis(Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Chief Operating Investment Officer

Stephen Gilmore, Chief Investment Officer

Michele Nix, Chief Financial Officer

Scott Terando, Chief Actuary

Peter Cashion, Managing Investment Director

Sarah Corr, Managing Investment Director

Sterling Gunn, Managing Investment Director

APPEARANCES CONTINUED

STAFF:

Drew Hambly, Investment Director

Michael Krimm, Investment Director

Brian Leu, Investment Director

Simiso Nzima, Managing Investment Director

Jonathan O'Donnell, Investment Director

Tamara Sells, Associate Investment Manager

Lauren Rosborough Watt, Investment Manager

ALSO PRESENT:

Eileen Baltan[phonetci]

Paul Baranich

Mary Bates, Meketa Investment Group

Jared Gaby Biegel, United Food and Commercial Workers

Dan Cohn, Institute for Energy Economics and Financial Analysis

Sheila Cox

Teresa Eade

Quinn Eide, Fossil Free California

Jakob Evans, Sierra Club California

Alyssa Giachino, Private Equity Stakeholder Project

Heidi Harmon

APPEARANCES CONTINUED

ALSO PRESENT:

Steve Hartt, Meketa Investment Group

Herminia

Nick Jacque, Service Employees International Union

Karen Jacques

J.J. Jelincic

Greg Lichtenstein

Michael Mark, Sheet Metal Workers Local 104

Jose Martinez, United Food and Commercial Workers

Steve McCourt, Meketa Investment Group

Susan Minato, Unite Here

Jennifer O'Dell, Laborers' International Union of North America

Andre Oliveira, Service Employees International Union

Brian O'Neill, Service Employees International Union

Paulita Pena, SEIU 503, SEIU International

Teresa Ramirez

Frank Ruiz

Megan Shumway

Jeremy Smith, State Building and Construction Trades Council of CA

Mark Swabey

Sara Theiss, Fossil Free California

Sheila Thorne, Fossil Free California

APPEARANCES CONTINUED

ALSO PRESENT:

Tom Toth, Wilshire Advisors

Barbara Washburn

Rev. Deborah West-Jones

Crystal Zermeno, California Common Good

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PROCEEDINGS

CHAIR MILLER: Okay. Welcome, everybody. I'd like to call the Investment Committee meeting to order. If everyone could kind of get settled in here. And the first order of business is our roll call.

BOARD CLERK ANDERSON: David Miller.

CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Mullissa Willette.

VICE CHAIR WILLETTE: Here.

BOARD CLERK ANDERSON: Malia Cohen.

COMMITTEE MEMBER COHEN: Here.

BOARD CLERK ANDERSON: Michael Detoy.

COMMITTEE MEMBER DETOY: Here.

BOARD CLERK ANDERSON: Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Present.

BOARD CLERK ANDERSON: Eraina Ortega.

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK ANDERSON: Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki.

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Present.

BOARD CLERK ANDERSON: Theresa Taylor.

COMMITTEE MEMBER TAYLOR: Here.

BOARD CLERK ANDERSON: Yvonne Walker.

COMMITTEE MEMBER WALKER: Here.

BOARD CLERK ANDERSON: Dr. Gail Willis?

CHAIR MILLER: Okay. So we don't have anyone remotely at the moment, so I'll pass on the attestation, and we'll move on to our executive report. And before we start the executive report, because we have so many folks here who I believe want to speak on the issues today, I would invite people that want to speak can come up and speak after the executive report, if they're here and they want to speak then, but you also could, if you wanted to wait till after a specific agenda item. I just don't want to -- I want to honor your time and if you don't want to have to sit through our entire agenda to get to your items that you want to make public comment on, since I know there are quite a few public commenters potentially would benefit from being able to speak earlier in the day. So I will make sure I extend that, so that you're aware of that opportunity.

So with that, I'll hand it over to our executive team.

CHIEF INVESTMENT OFFICER GILMORE: Thank you very much, Chair. We have a fairly full agenda today. Before I comment on that, I'd like to just make a couple of comments on some events I attended in the last week or two. The first one, which was last week, was a session organized by the California Professional Firefighters. It was a fire ops exercise, so I got a chance to don firefighting gear to go into a flame room to climb ladders, to force down doors to rescue people in smoke-filled rooms. And I've got to say, it was quite an experience, quite revealing. I never appreciated how heavy all the equipment was, wearing I guess fire resistant gear, a mask, helmet, carrying an axe, air bottle, et cetera.

So I got a much greater appreciation for what some of our members go through, the levels of fitness that are required. It was heavy and hot, even without the flames. So, just a word of thanks to the firefighters for giving me that opportunity.

The second thing I wanted to mention was Pacific Pension Investment Institute event, which was held in Seattle. Director Palkki was also there. I was invited to participate in a session -- a discussion on the total portfolio approach, and that was an hour. It was very engaging. It was a discussion between me and Gordon Fyfe from British Columbia. Very well attended. Very interactive. Really appreciated that.

In terms of the agenda for today, we have one action item, which is the third reading of the Responsible Contractor Policy. We also have a number of information items. We have the trust level review, which will be led off by our consultants, Wilshire and Meketa. Lauren and I will then comment on that. We have the next installment of our asset liability management total portfolio discussion. We also have other items. We have proxy voting. We have a report on the treasury. And I'm looking forward to, you know, going through these items. But with that, and with a note to the extent of the -- you know, the packed agenda, I will pass back to the Chair.

CHAIR MILLER: Okay. Thank you. I do have a request to speak from Kevin Palkki.

COMMITTEE MEMBER TAYLOR: The microphone.

CHAIR MILLER: Yeah, I'm trying. There we go.

COMMITTEE MEMBER PALKKI: Thank you. It was actually really good to see you in action in a conference atmosphere, but it was also great to see that the panel that you were on had a full house. So that was reassuring to see that -- the different people that were at this conference were very engaged and interested in your conversation there. So thank you again.

CHAIR MILLER: Okay. I'm seeing no more requests from anyone on the Board, so I thank you for the item. And I think at this point, we'll see do we have public speakers, public commenters at this time?

BOARD CLERK ANDERSON: Nope. Okay. We will move on -- that. We should. Let's see. I don't want to miss the opportunity to let people speak.

BOARD CLERK ANDERSON: We just don't have the list yet.

CHAIR MILLER: Oh, we don't have the list, so can we get a few people queued up.

BOARD CLERK ANDERSON: We can bring the sheets up, if you'd like. Do you want the sheets instead?

CHAIR MILLER: That would be fine, yeah. And the way this works is we'll have you come down. We'll have microphones here, so you can come down. I'll probably call you down, you know, maybe two, three at a time. And we'll queue you up, and you'll sit in these chairs right down to my left in the front here. You'll have three minutes to speak. When you introduce yourself and begin speaking, the time clock will start. And at the end of your three minutes, if you haven't completed your statement, you can give us something in writing, you can communicate to us in other ways, but I will need to cut you off at the end of your three minutes.

So I now have the list and I'll call the first few commenters.

CHAIR MILLER: Okay. We'll have Jeremy Smith, Michael Mark, and Mark Swabey come on down. And welcome

JEREMY SMITH: I think what Michael and I thought, we just put our papers in. We didn't realize it was so quick. So this is nice.

Thank you.

MICHAEL MARK: We're trying to speak on 5a. Is this the right time? We put 5a down on the paper.

JEREMY SMITH: Yeah. Is this the right time for it?

CHAIR MILLER: Yeah. Yeah. Well -- yeah, this will be fine.

CHIEF EXECUTIVE OFFICER FROST: It's really their choice. If they'd prefer to wait till 5a. They're given an early opportunity.

CHAIR MILLER: It's your choice. If you'd prefer to wait through the meeting till we get to 5a or if you would prefer to --

JEREMY SMITH: I think we'd prefer to wait till it's presented. Thank you through.

CHAIR MILLER: Okay. That will be fine.

Okay. So, okay. Okay. Which --

Okay. Here we go. Okay.

COMMITTEE MEMBER TAYLOR: Sit down and turn the mic on.

MARK SWABEY: Mark Swabey reporting on --

commenting on the Private Equity Program, which is item 6a. May I speak at the beginning of Item 6A on the agenda, please?

CHAIR MILLER: Um-hmm.

MARK SWABEY: Thank you.

CHAIR MILLER: Um-hmm. Okay. Next, I have Jared Gaby Biegel followed by Barbara Washburn and Sarah Theiss.

JARED GABY BIEGEL: Hi. My name is Jared Gaby Biegel with the United Food and Commercial Workers International Union. I'm here to talk about very recent events at Heritage Grocers, a grocery chain owned by Apollo Fund IX, in which you have invested $550 million.

Heritage Grocers is the parent company of Cardenas markets her in California and Tony's Fresh Markets in Illinois. We have spoken before this Board often about Cardenas's violation of your labor practices and risks stemming from its labor practices.

In the last month, sister company Tony's has escalated Heritage's anti-union campaign substantially. In february, workers at the Tony's chain in Illinois filed for a union election with the UFCW Local there, and Heritage began executing a fierce anti-union campaign using immigration status among other messages to intimidate workers. In one example, a management text to Tony's workers says UFCW has previously agreed to member firings over immigration related matters.

Given the backdrop of high profile immigration rates in Chicago, Heritage's apparent attempt to make Tony's workers think UFCW is an agent of immigration related firings, heightens fear in immigrant communities, where both employees and customers of Tony's stores live.

And other Tony's message says the National Labor Relations Board has ruled that collective bargaining is potentially hazardous for employees. We shared these examples with your staff last week. A union-busting consultant called People Results is sending these messages from Tony's management. Union busting is a questionable use of company resources, contradicts internationally recognized human rights standards, contravenes the spirit and often the letter of U.S. labor law, and is an affront to CalPERS beneficiaries, most of whom are union members.

Tony's anti-union campaign clearly violates your labor principle, which protects freedom of association and the effective recognition of the right to collective bargaining. Furthermore, as a business that relies on immigrants as workers and customers, Heritage's anti-union campaign and workplace practices pose risks to workforce performance, customer loyalty, and brand reputation.

Mitigating these risks highlights the value of enforcing CalPERS labor principles with Apollo. Just to remind you, Tony's anti-union campaign comes on top of violations of your labor principles as its sister company, Cardenas, including three outstanding sexual harassment lawsuits, two outstanding class action cases alleging violations of California Labor code, and an actual labor relations work complaint alleging Cardenas violated workers rights to free association.

The behavior of these portfolio companies raises serious questions about Apollo's oversight of workforce management. We have raised these questions directly with Apollo and the CEO of private equity -- and the CEO of Private Equity has told us in writing that Apollo does not take responsibility for its portfolio company's management of workplace issues. This is disappointing, because Apollo has taken such responsibility -- it's taken such responsibility before and knows how to handle the -- knows how to solve these types of problems.

It led negotiations with multiple unions for a neutrality agreement at the Venetian Las Vegas resort in 2023, which is also the same fund as Heritage Grocers. That neutrality agreement allowed workers to freely decide whether to join a union free from employer interference. Apollo has a platform to do this again with Tony's and Cardenas.

Finally, as you may be aware, Apollo is out raising money for a new $25 billion fund. Given the track record we have described, would it make sense for your beneficiary -- to your beneficiaries for CalPERS to make new investments to Apollo before it mitigates these risks? Almost certainly not. We urge you to withhold and new commitments until Apollo solves it workforce management problems at Heritage and mitigates the attendant risks to your investment.

Thank you.

CHAIR MILLER: Thank you.

Go ahead.

BARBARA WASHBURN: Hi. My name is Barbara Washburn.

CHAIR MILLER: Oh, I don't think the mic is on.

COMMITTEE MEMBER TAYLOR: Microphone.

CHAIR MILLER: Touch the -- there you go. Oh.

BARBARA WASHBURN: How about now?

CHAIR MILLER: Perfect.

BARBARA WASHBURN: Thank you. My name is Barbara Washburn and I'm a retired toxicologist. I used to work at the Office of Environmental Health Hazard Assessment at CalEPA. I remember you, David, from the 12th floor --

CHAIR MILLER: Yep.

BARBARA WASHBURN: -- I've seen walking up and down the floors.

One of our work-products - I know you know this David - is reports on environmental conditions in California. I worked on one of those reports. More recently, the focus of the reports has been on indicators of climate change in California. And as a matter of fact, many of the signs that these lamenters are -- have on their -- on their chests are some of the issues that are included in that report that OEHHA produced.

Our Department along with others at CalEPA, the various departments at the Natural Resources Agency, the Strategic Growth Council, and others have devoted untold hours and money to addressing, mitigating, adapting to and reporting on the effects of climate change in California. California is recognized as a leader on climate change. That is why it astounds me that my money, and the money of State workers, is being invested in -- by CalPERS in the very companies that produce the greenhouse gases that cause the problem we are trying to address -- all of us in California, State workers, and the State overall is trying to address.

So I implore you to adopt a meaningful plan to remove fossil fuels from CalPERS portfolio. I do not want my money invested in these companies. As is documented in the report from BlackRock, which I'm sure many of you are familiar with - it was written for the City of New York -

there are ways to divest. They identified in that one of the key drivers in the divestment effort is to reduce risk by divesting, avoiding the risk of stranded investments in fossil fuel companies.

In closing, I would like to read a few words from the 2015 Encyclical on Climate that was written by Pope Francis. And he said, "This sister (the earth) now cries out to us because of the harm we have inflicted by our irresponsibility." He goes on to say, "Let ours be a time remembered for the awakening of a new reverence for life and a firm resolve to achieve sustainability."

I ask you to please consider these wise words and to take action to divest from fossil fuel here at CalPERS. Thank you.

CHAIR MILLER: Thank you for your comments.

Next speaker.

SARA THEISS: Am I live?

COMMITTEE MEMBER TAYLOR: Yep. Go.

SARA THEISS: Okay. I'm Sara Theiss, and Happy Saint Patrick's Day to all of you esteemed Board members.

I'm going to start my comments with a -- today's climate forecast. And this comes from a British poet, Brian Bilston. "And on to today's climate forecast, where we can expect to see a prolonged spell of inaction interspersed with patches of hazy promises across many areas. Over Westminster and other centers of government, the build up of hot air will cause inactivity to soar to record levels over the coming days, in spite of the high pressure. Elsewhere, a front of chronic misinformation will sweep in from the east bringing with it a band of climate change deniers and the chance of scattered falsehoods, while powerful gusts of idiocy and ignorance set to blow across social media. In summary, unsettling."

So what I did recently was I looked at the materials from the March 18th, 2019 Investment Committee meeting, where I know I saw Ms. Taylor and Mr. Miller. And basically, there was a chart presented that had the strategic -- ESG strategic plan timeline. It went from 2017 to 2046. The focus was, of course, on getting companies to disclose -- well, it was disclose emissions, proxy voting research, and work with the Climate 100. Each year, CalPERS would engage with 20 companies. And by 2021 -- I think it would be 60 by 2021, and they would then have divested from -- reduced their emissions by half. And by 2046, the Paris agreement calls would be met. So that was 2021.

This report was seven years ago. I reviewed the proxy voting and corporate engagement update for today, and I see some of the same things, proxy voting, climate risk oversight, votes on environmental proposals, and the

Climate Action 100. But what I didn't see was a report on lowering emission targets that they were actually being met. So that's where it's at, as far as I know.

And I was, of course, very disappointed that 14 percent of Climate Solution Fund includes, you know, the companies mentioned, Exxon, Saudi Aramco, et cetera. And I'm waiting for an answer to the question that Ms. Taylor raised in the last year or so, which is what happens when they, the fossil fuel companies, do not play ball? What happens?

So thank you so much for your time and for your work. I wouldn't do your job for literally a million dollars a year. So thank you.

CHAIR MILLER: Thank you for your comments.

Next commenters. We've got Alyssa Giachino, Sheila Thorne, and Frank Ruiz.

ALYSSA GIACHINO: Good morning. My name is Alyssa Giachino with the Private Equity Stakeholder Project. CalPERS's leadership in sustainable investing and energy transition is crucial. Some of your private markets managers are exposing your capital to projects that are not aligned with a timely energy transition. CalPERS is invested in the controversial Rio Grande LNG, liquefied natural gas, export terminal, and may soon be exposed to the purchase of utility company elite, via an

$850 million commitment to global infrastructure partners five.

Rio Grande LNG's project owner, NextDecade, recently announced and anticipate expansion of the project that would double the number of trains or liquefaction -- and liquefaction plants. As originally proposed, this project would already -- was already estimated to emit the equivalent of 44 coal plants every year, or about 163 million tons of carbon dioxide annually. The newly announced expanded plan would substantially increase the emissions associated with this project.

The Rio Grande LNG has faced significant legal challenges with the D.C. Circuit Court questioning FERC's environmental justice analysis. The company has said it expects recent Executive Orders to be beneficial for developments -- developers, but this is not a certainty. The global LNG market is facing threats of trade wars and tariffs that create more instability. LNG exports pose risks for domestic energy prices as well, with a risk of increasing energy costs for U.S. consumers by over 30 percent according to a DOE report from December.

There continues to be significant opposition to Rio Grande LNG from nearby towns and affected low-income, indigenous, and Latino communities. The South Texas Environmental Justice Network has reached our to BlackRock as GIP's parent to dis -- for a meeting to discuss the LNG project and has not received a response.

Project delays, investors pulling support, permits revoked, environmental harms, and ongoing community opposition create uncertainty for the retiree dollars used to finance Rio Grande LNG. We urge CalPERS not to provide any additional capital to the expansion of Rio Grande LNG through GIP V, or through your GIP co-investment, or any other vehicle, and to halt the build-out of the dangerous terminal.

As part of the same fund, GIP V, it's seeking to purchase a public utility company in Minnesota, Elite, to take it private. The relationship between BlackRock, GIP and Elite has raised the suspicions of federal regulators and the Minnesota Attorney General who noted potential lack of ratepayer benefits, loss of transparency, and significant benefits to executives and shareholders in comments to the Minnesota Public Utilities Commission. We hope CalPERS will ask GOP and BlackRock to address concerns about competition rates and the public interest for consumers in the purchase of Elite.

Thank you.

CHAIR MILLER: Thank you for your comments.

Next commenter.

SHEILA THORNE: Hi. My name is Sheila Thorne and

I'm a CalPERS retiree.

It is a delusion to think that oil and gas companies will provide any kind of transition to green energy. Chevron's investment in green energy was only 0.2 percent of its capital expenditures. And most recently, that was cut by a quarter. Likewise, Shell dropped its wind development projects and abandoned key 2035 climate pledges in favor of continued production of oil and gas. Exxon dropped its already minuscule investment in algae research. BP Total Energy's, all the majors, at the same time as they made over 281 billion profits since the Ukraine war began, have pulled back from commitments to sustainability in favor of continuing and even expanding oil production.

It should be no surprise they've reneged on their commitments, because the oil and gas industry has been dishonest every since 1959 when they first realized their role in climate change, but lied about it. The extraction, production, and use of oil and gas is inherently harmful to people and their environments, be it in Ecuador, Angola, the Niger Delta, or Los Angeles, or Richmond, or Kern County, or the Carolinas, or Appalachia

Therefore, oil and gas companies are always inherently working against the interests of people and their communities. Fossil fuel air pollution kills one in five people worldwide by cancer, heart disease, asthma, maternal death. Climate change caused by fossil fuels kills by fire heat, flood, and drought, and harms people's lives irreparably. Yet, big oil spends $115 million a year lobbying against climate legislation. It spent 445 million to influence the 2024 elections. It wrote the Project 2025 section on energy development via Kathleen Sgamma, President of the Western Energy Alliance. And now, it is being rewarded with an unprecedented attack on our public lands and national parks to weaken them and open them up to more drilling and mining.

The oil and gas industry is fundamentally anti-democratic. There is not one positive thing to say about it. It kills, it spreads waste, it bribes politicians, and supports the worst dictators. CalPERS should not be giving cover to its malignant influence by investing in it.

CHAIR MILLER: Thank you.

Okay. Come on up gentlemen, next commenters. Come on up.

You can both come up and take a seat, if you're going to speak.

Okay. You're waiting.

FRANK RUIZ: Yeah, I apologize, to the Board. We would like to make our presentation in public comment on

Item 6a. Today, Wilshire -- Meketa and Wilshire will both be giving a presentation. We want to wait till their presentation is done, so that then we can present information that may be helpful to the Board.

CHAIR MILLER: Perfect.

FRANK RUIZ: Thank you.

CHAIR MILLER: Okay. We'll call you back up then. Thank you.

Okay. Next commenters, Susan Minato, Karen - I have no last name - and Paula and Eileen.

And while they're coming down, I understand that Dr. Gail Willis is now on the Zoom, so I need to do a quick attestation.

So, good morning, because we're not all present in the same room and Board members are participating from remote locations that are not accessible to the public, Bagley-Keene requires the remote Board members to make certain disclosures about any other persons present with them during open session. Accordingly, the Board members participating remotely must each attest either that they are alone or if there are one or more persons present with them who are at least 18 years old, the nature of the Board member's relationship to each person.

At this time, I will ask each remote Board member to verbally attest accordingly.

Dr. Willis?

COMMITTEE MEMBER WILLIS: Yes, I do attest to the fact that I am alone. Thank you very much.

CHAIR MILLER: Okay. Thank you.

We'll get back to our public comment.

First commenter, go ahead.

SUSAN MINATO: I just wanted to say I'm going to speak on 5a.

CHAIR MILLER: 5a. Okay. And your name was?

SUSAN MINATO: Susan Minato.

CHAIR MILLER: Susan. Okay.

Next -- Gail. Oh, okay. Karen.

KAREN JACQUES: Good morning. I'm Karen Jacques. I'm a PERS beneficiary, retired psychologist who spent my life since retirement trying to do my tiny bit to save what's left of our planet and press for climate change to be addressed.

I've come before this Board before going all the way back before the pandemic, and in written comments begging you to end the investment in fossil fuels to divest. Right before this meeting, I saw your announcement about the 100 billion climate solutions commitment. And I thought, oh, perhaps there's going to be some change in a positive direction. And then I read who you had invested in. And it includes all of the climate majors. It even includes Adani coal, which is coal being considered even worse than fossil fuels.

And I'm here today to plead with you to look at what's going on around you, look at what happened in LA, which is the city I grew up in, look at the catastrophes all over the world, listen to what scientists are saying. They are saying that we have to stop investing in fossil fuels and begin phasing them out now or we will pass tipping points and we will run out of time.

And so I am begging you to go back and reconsider what you were doing and do it in the context of -- you're one of the biggest retirement systems in the world, if not the biggest, what you do has an impact around the world, either to encourage others to act responsibly or to give others an excuse not to act responsibly. So please, go back to the drawing word. Look at developing a divestment plan that makes sense. I understand that it can't all be done at once, but you're risking our future. You're risking the future of every species on earth when you continue to contribute to this rapidly unfolding disaster.

And I continue to grieve for everybody in LA who was impacted. It's where I'm from. I would have been impacted, if I still lived there.

Thank you.

CHAIR MILLER: Thank you for your comments.

Next commenter.

PAULITA PENA: Am I on. Oh, there we go.

CHAIR MILLER: Now, you are. There you go.

PAULITA PENA: Good morning, everybody. My name is Paulita Pena. I am with SEIU 503 and I'm also -- which is out in Oregon, but I'm also with SEIU International as the Indigenous Peoples Caucus Co-Chair at the -- at that level. I am Lipan Apache. I'm also a PERS investor. I work for the State of Oregon.

And fossil fuel extraction and related industries disproportionately impact my community, the indigenous community, leading to environmental degradation, health problems, and economic challenges. For those who are unaware, indigenous people right now are still in a current active genocide. We have the highest health related issues due to fossil fuel extractions. We have the highest unemployment rates. We -- and while this is also impacting labor, through exploitations of folks who are being paid lower than our union employees, but it also creates man camps and that also leads to more missing and murdered indigenous women and our relatives.

Oregon currently in our legislation has House Bill 2200 where over 390,000 PERS employees and retirees, we are destined to be net zero, again net zero, by 2050 with fossil fuel investments. And this is having PERS members, our indigenous community, and our Latino, and especially our migrant workers actively involved with our current and State Treasurer Eliza -- in the State of Oregon.

So as a PERS employee who's going to be receiving PERS after working for the State of Oregon for 20 years and then some, please listen to our people, listen to the folks that are coming up here, and I thank you.

CHAIR MILLER: Thank you for your comments.

Next speaker.

EILEEN BALTAN[PHONETIC]: Eileen Baltan[phonetic]. I am a State worker. I am also a union member and I'm also indigenous.

I just want to say that the money that is in -- I would like our money to be divested from our retirement in this. This causes -- fossil fuel causes many harms to our people. It causes, in many states, you know, talking about MMIW, the man camps that go around and are missing and murdered. This helps -- this creates that environment for people to go onto our lands -- onto our lands and rape and pillage our people. That needs to stop. And this contributes to that.

You know, CalPERS -- whoops, I forgot my thing. Hold on. Okay. I just want to say CalPERS has over 27.9 billion invested in fossil fuel companies, more than any other public pension fund in the country. The State of California is suing five fossil fuel companies for misleading the public about climate change. And CalPERS invests pensions in all five of them.

Fossil fuel infrastructure causes asthma, respiratory disease, and cancer in California communities, including the communities where State workers live and work. Climate change contributes to wildfires, floods, and extreme heat, threatening everyone in California, especially the most vulnerable.

Floods and extreme heat, fueled by climate change, create unsafe working conditions and pulls the State resources away from the good jobs and benefits of the public workers. Many major institutional investors from the University of California to New York City public pension systems have divested from fossil fuels. We are State workers and union members and we need to organize and get our pensions out of fossil fuel.

Thank you.

CHAIR MILLER: Thank you.

Next, I have Andre Oliveira and Nick Jacque.

Go ahead.

ANDRE OLIVEIRA: Hi, everyone. Good morning. My name is Andre Oliveira. I'm a janitor and the Chief Steward of SEIU 521 at O'Connor Hospital, in the Santa

Clara County.

First of all, I would like to thank all of you, the members of the Board and the staff for everything you do to ensure that folks like myself are going to have a retirement.

Hi, Mullissa.

So, I'm here today together with some of my union Sisters and Brothers to encourage you to stay strong in you're commitment to meeting your fiduciary duty to CalPERS members, as you invest our retirement dollars into the wider economy. We are counting on you not to be influenced by the short-term interests or corporate actors, who are influencing federal policy in a way that threatens our retirement security.

I appreciate the consistent work of the CalPERS team to carefully steward these assets for the long term, so that all participants current retirees, people who have been in public service for many years, and new hires who won't retire for decades all can count on this fund to be there for them at the time of their retirement.

The fund has thought carefully about how to incorporate issues of systematic risk and opportunity into its investment approach for many decades. I'm here to encourage you to stay strong in that steadfast work. Now, more than ever, it is critical that CalPERS stay this --

stay this course.

Current, policies being moved at the federal level are a threat to the legal, economic, and regulatory frameworks in which CalPERS invests. There is clear evidence that these policies are not in the economic interests of working people or long-term investors.

For example, in spite of regulatory changes at the federal level, we need CalPERS to continue robust policy, incorporating protections for workers on the job at the companies in which it invests. Anyone who works day to day knows that being respected and fairly compensated on the job will lead to improved conditions to provide the most value to your employer.

So, for a long-term investor like CalPERS, make sure employees have the rights on the job, respected, and have conditions that allow them to come to work and thrive, provides the foundation for sustainable company performance that can deliver for investors over the long term.

I experience this in my job as a janitor and I know my family and friends who work in the private sector experience work this may as well. Please stay strong in your incorporation of these workforce issues into your investment process. It is critical to our retirement security. Thank you so much.

CHAIR MILLER: Than k you.

Next speaker.

NICK JACQUE: Hello. My name is Nick Jacque. I work as a paraeducator at Hester School Special Education in San Jose. I'm a CalPERS participant and a member of SEIU Local 521. Thank you to the CalPERS Board and staff for all you do to help ensure my co-workers and I will have secure retirement. I'm here today with my Union Sisters and Brothers -- hey, Mullissa -- to encourage you to stay strong in your commitment to meeting your fiduciary duty to CalPERS members as you invest our retirement dollars into the wider economy.

We are counting on you to not only -- to not be influenced by the short-term interests of corporate actors who are influencing federal policy in a way that threatens the security of our retirement. I appreciate the consistent work of the CalPERS team to carefully steward these assets for the long term, so that all participants, current retirees, experienced workers, and new hires who won't retire for decades can all count on this fund to be there for them at the time of their retirement.

The fund has thought carefully about how to incorporate issues of systemic risk and opportunity into its environment approach for many decades. I'm here to encourage you to stay strong in that steadfast work. Now, more than ever, it is critical that CalPERS stay this course. Current policies are being moved at the federal level that are a threat to the legal, economic, regulatory frameworks in which CalPERS invests.

There is clear evidence that these policies are not in the economic interests of working people or long-term investors. For example, in spite of regulatory changes at the federal level, we need CalPERS to continue a robust policy incorporating the risk and opportunities related to the energy transition the global economy must make to survive and thrive going forward.

The scientific and economic evidence is clear. If we do not rapidly and systematically reduce global carbon emissions, we are on a path to ecological and an economic catastrophe. If we need further evidence of this, we can look to the recent fires that devastated the Los Angeles area and many CalPERS beneficiaries just a few short weeks ago.

So, for a long-term investor like CalPERS, staying firm with your work to reduce carbon emissions is critical to your fiduciary duty. Please stay strong in your incorporation of these climate risk issues into your investment process. It is critical a to our retirement security.

Thank you for the opportunity to speak with you today.

CHAIR MILLER: Thank you.

Next I'll have Brian O'Neill followed by Quinn Eide, and Jakob Evans.

You're on.

BRIAN O'NEILL: Okay. My name is Brian O'Neill. I am a retiree from SEIU 521, and I am currently enjoying my -- the benefits of you in paying me every month, and please keep it coming.

(Laughter).

BRIAN O'NEILL: Hopefully, it will be better than Social Security right now. I don't know.

So I'm here to talk about, as the previous SEIU members, about DEI and maintaining that. So I want to give you -- I can repeat what they said, but I'm going to give you a little story, so bear with me. I moved here in 1960. I said bear with me. I was a kid. I lived in Saratoga. It was a nice neighborhood. It only cost $22,000 for my dad to buy the house and my mom. But there was one thing about that neighborhood. It was -- when the kids came out, there were a lot of kids. We all played. They were all white. There were maybe -- not as single Black kid in that neighborhood. And you know why? It's because it was in their CC&Rs that you cannot sell to a Black person.

Then, later on in California, in 1964, they decided to do a proposition, which the realtors were pushing, that would prevent homeowners -- or not prevent -- would allow homeowners to discriminate on who they could sell their house to. And so luckily the proposition passed, 65 percent yes, but it was shut down by the California Supreme Court for being unconstitutional.

So then later on, we had Fair Housing Act. We have Civil Rights Act. But then I started working, and I still worked in this Santa Clara County. I was a real estate appraiser at American Savings, if you ever heard of that. And when I first got there, what we -- they started talking about is redlining. So here we are, we did all these laws. We passed. There's -- you know, I mean, come on, this is decades, hundreds of years, and we're talking about redlining.

But that's -- after 1980, it kind of slowed down and requiring appraisers or banks to do anything, not surprising that Ronald Reagan was elected who did first endorse -- did not endorse Proposition 14, but later supported it. So there's no surprise it slowed down.

But in the '90s, then they started talking about how there was words you put in there in your appraisals that would prevent people from giving code words to mortgage underwriters.

So what I'm saying is nothing has changed. It's -- they're demonizing DEI. You need to be steadfast and push it. There is so much statistics about Black workers losing 113 million, that our GDP could be five trillion dollars in gross domestic product, if we were to do more to invest in Black entrepreneurs and making sure they have sales of homes.

So, again, please don't demonize DE&I. Don't let them do it. Thank you for letting me speak today.

CHAIR MILLER: Great. Thank you.

Next commenter.

QUINN EIDE: Hello. My name is Quinn Eide. I'm the Executive Director at Fossil Free California.

And just about a week ago, week ago tomorrow, the California Common Good coalition released the report on the $100 billion Climate Action Fund. That same day, many Fossil Free California members were gathered, either in Pasadena, where there was over 50 folks gathered, and they heard about this report. Similarly, 200 folks were gathered outside of Chevron in Richmond hearing about the fact that the very refinery they were standing outside the gates of was part of your Climate Action Fund. This is unconscionable.

And over the last four days, since we released the petition, we've gathered 695 signatures, mostly from CalPERS beneficiaries, who are outraged to hear that this fund has not only continued to invest in fossil fuels, but has classified them as climate solutions. I am pleading with you today, please take these companies out of your climate solutions portfolio now.

And in addition, in order to prevent this from happening again, please take them -- please take steps to increase transparency and ensure that there are clear rules, in order to determine what fits and what does not fit in this climate solutions portfolio. This should be building towards our future to protect our communities, not continuing to destroy the futures that we're trying to have.

I have with me today the list of petition signatures, and I would love to pass them off to you all. In addition, after this, we will all be going outside into the -- near the sign between the two buildings, and we'll be gathering with a big mural that was painted with the image of one of the chimneys of someone who lost their home in Pasadena. And it is painted with the ashes of CalPERS beneficiaries' communities. And I would really love for you all to be able to see this and to understand what many of these community members are going through and what they are concerned about when they are seeing their pensions invested in these fossil fuel companies.

Thank you.

CHAIR MILLER: Thank you. Next speaker.

JAKOB EVANS: Good morning. Thank you so much for the opportunity to comment. I'm Jakob Evans. I'm a Policy Strategist with Sierra Club California. I'm here today with interest and concerns about the implementation of CalPERS's Climate Action Plan. Your hundred billion dollar commitment to climate solutions investments is commendable, and your leadership is valued now more than ever as we see the federal government backsliding on commitments to addressing the systemic risks Of the climate crisis.

Sierra Club wants to see those bold plan investments solutions that will have the largest impact to many our environment and support communities on the front lines of climate change. We are concerned that the Climate Action Plan as of now will not create meaningful change. As the climate crisis poses threats to both our planet and our economy, meaningful change in our economy is needed to protect beneficiaries retirements and the fund's future.

It's disappointing to see fossil fuel companies included in the Climate Action Plan. CalPERS has chosen to identify the same stock or bond holding as partially included and partially excluded from its climate solutions portfolio. Counting portions of holdings that have climate impacts as climate solutions doesn't create a tangible effect on the green economy.

More importantly, equity investments do not represent new or restricted capital that drives green activities. Even more concerning is that CalPERS did not respond to requests for definitions of climate solutions or information on how the fund aims to reduce carbon emissions and climate risks. This is a complicated topic and we understand that CalPERS will need to be nimble and strategic about its investment decisions.

To do this though, there must be a dialogue between CalPERS and stakeholders across California. This requires transparency about how the Climate Action Plan is operating and what investments are being classified as climate solutions. Transparency is essential to allow beneficiaries and the public the ability to understand how CalPERS investments will reduce climate impacts for the portfolio, and what strategy the fund is executing to invest in proven technologies in climate investments.

To achieve a Climate Action Plan capable of creating meaningful change, CalPERS must, one, adopt strong science-based definitions of climate solutions, two, exclude companies in the Carbon Underground 200 list, three, annually disclose methodology and investments in all asset classes, four, commit to ongoing engagement with CalPERS plan participants and stakeholders to share updates that continue refining best practices.

I have copies of a letter that elaborates on these points signed by 782 members and supporters, from Sierra and the Alliance of Californians for Community Empowerment that I'd like to share.

We look forward to -- further dialogue about how the Climate Action Plan can become more robust and transparent.

Thank you.

CHAIR MILLER: Thank you for your comments.

Okay. Next, I would like to call Crystal Zermeno, Heidi Harmon, and J.J. Jelincic.

Okay. Go ahead whenever you're ready.

CRYSTAL ZERMENO: Hello. My name is Crystal Zermeno, Coordinator for California Common Good.

The labor and community groups in California Common Good network applaud CalPERS trustee leadership and CalPERS staff for setting the goal of investing a hundred billion in climate solutions, as well as the goals the fund has set to getting to net zero emissions by 2050. It is our desire to support the success of these goals that led us to sharing the analysis of the fund investments, based upon the information we were provided through our public records request.

(Clears throat.)

CRYSTAL ZERMENO: Excuse me.

We are eager to work with CalPERS staff and trustees on this incredibly important work and agree wholeheartedly that it's not easy, but it is absolutely necessary. Based on our review of the response letter that was sent to California Common Good regarding our memo, as CalPERS staff know, an essential fact is not in dispute.

The response memo states, "The inclusion of low-carbon initiatives from legacy energy companies seems to be California Common Good's primary objection to CalPERS climate strategy." This is absolutely correct. The CalPERS statement goes on to say, "Investing in these types of companies will raise our portfolio's total emission, the short-term, in order to provide financial and environmental benefits down the road." We, and so many experts, believe that this is not correct. There are many other options for investments that provide the fund with its desired rate of return, help address climate change, and move us towards a just transition.

Additionally, CalPERS has not demonstrated that investments labeled as transition, are made with criteria and accountability mechanisms that facilitate transition. Last, the inclusion of fossil fuel companies in a list of climate solutions prompts further questions."

CalPERS staff makes the erroneous claim that California Common Good's report calls for divestment of assets. California Common Good does -- it does not. Our re -- our memo did not claim that. What we are clearly saying is that about 14 percent of the assets being claimed as climate solutions should not be counted as such. We expect that the stakeholders and CalPERS staff will not always agree on the particulars of what constitutes a climate solution, but more urgently, the present publicly-available information and details made available in response to the PRA failed to illustrate how the Climate Action Plan will reduce risk and seek opportunities.

CalPERS put forth a strong vision for investing in solutions that reduce emissions and support adaptation, a vision we wholeheartedly support, but we remain concerned that it has not been implemented to its fullest potential.

Just very quickly, I want to just reiterate, we do not have a substantive disagreement around the need -- that we do have a substantive agreement around the need to have an increase in carbon emissions in the short term in order to get to the zero carbon investments that meet the fiduciary obligations to beneficiaries. And we really hope that CalPERS will consider reevaluating its position and talk to additional experts and stakeholders on these options.

Thank you.

CHAIR MILLER: Thank you.

Okay. Next speaker.

HEIDI HARMON: Good morning, Board. My name is Heidi Harmon. I'm the former Mayor of San Luis Obispo, which is something I did in 2016, something I never I thought I would run for office. I wasn't a politician. I wasn't wealthy. I was a single mother of two kids working as a maid, struggling to makes ends meet, but I was fueled by a deep and unwavering love for my children and a relentless concern for their future.

I don't normally bring up my children in these speeches, because it's hard to get through.

I had seen the threat of climate change creeping into our lives, into their lives, the wildfires, the heat waves, the toxic air. I knew I couldn't change everything, but I believed strongly in the power of local action, and I knew I had to try. Against all odds, I won by 46 votes. And over my three terms in office, I fought to make my community a leader in climate action, setting bold carbon neutrality goals, standing up to corporations profiting off our destruction and divesting our city from fossil fuels.

When I became a mayor, I was automatically enrolled in CalPERS. It was my first ever retirement plan, a moment that should have felt like a step towards security, a moment my mother was proud of. Instead, it was a strong step towards precarity. I discovered that my hard earned retirement savings, money meant to protect the future of myself and my children was being invested in the very corporations responsible for the climate crisis, the very corporations hell bent on destroying my children's future, Exxon, Shell, Chevron, the same companies that poison our air, fueling wildfires, and destroying the places that we call home.

Today, CalPERS holds nearly $30 billion in oil and gas investments, despite overwhelming evidence that fossil fuels are a financial disaster, in addition and more importantly to being a moral failure. Our State pension funds refuse to divest, clinging to the idea -- the idea that shareholder advocacy can change these corporations. Let's be clear, it won't.

The latest IPP reports -- report lets us know that we have a rapidly closing window and shareholder engagement will not stop wildfires, et cetera. If money talks, then what does it say when California, a supposed climate leader, keeps pouring billions into the very industries fueling this catastrophe.

But this isn't just about bad investments, it's about our very survival. In California, the climate crisis is not some distant threat. It's here. It's in our smolky air, our relentless heat waves and our water shortages. I was born and raised in Pasadena and Altadena where entire streets have been wiped out by fire. Seeing the devastation firsthand took my breath away, but it also ignited -- reignited a fury in me, a fury to fight harder, to demand better, and to ensure that we will no longer fund our own destruction.

A pension is an investment in the future, not just for retirees, but for our children, for my children. Their names are Zoie and Jack. They're about 30 years old and I hope that they get to least be my age or more. Every dollar poured into the fossil fuel industry is a dollar fueling our own demise and it's time for CalPERS to follow the lead of others and to divest from fossil fuels and invest in a future that supports life.

When we stop funding our own destruction, we start building possibility. So CalPERS, the choice is yours. Do you want to invest in collapse in a world of fire, droughts, and displacement, or do you want to -- do you want to divest in the destruction of the California dream, or do you want to invest in a future where our children and breathe clean air, drink safe water, and thrive in a world powered by justice and renewal.

A pension is mean to secure the future, so let's ensure that that future is one of hope and not harm. It's time to divest our money, my money, and my children's money from the very industries that are profiting off our destruction. So let's invest in life, and injustice, and in a world that we truly want to build and deserve before it's too late. Thank you.

CHAIR MILLER: Thank you for your comments.

I believe that's all the people we have here today in person to comment. Did I miss anyone that wanted to speak now? We have some folks on the phone that we'll move to next.

So let's bring up our first phone call in commenters.

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We have Jennifer O'Dell from Laborer's Union to speak to Item 5a.

Go ahead, Jennifer.

JENNIFER O'DELL: Hey. This is Jennifer. I was wondering if I could wait until you get to that part in the agenda.

CHAIR MILLER: Sure. We'll bring you back when we get to 5a.

JENNIFER O'DELL: Thank you.

CHAIR MILLER: Thank you.

JENNIFER O'DELL: Thank you, sir.

STAFF SERVICES MANAGER I FORRER: Okay. Next, we have Greg Lichtenstein. And he's on the line for general comment.

Go ahead, Greg.

GREG LICHTENSTEIN: Hi. Thank you, Mr. Miller and the Board for the opportunity to speak. My name is Greg Lichtenstein. I'm a CalPERS retiree with 33 years of service, as a physician and administrator with San Diego State University. More importantly, I'm a father and grandfather who would like to see a healthy planet for my progeny.

Given the Trump administration's decision to trash efforts to reduce greenhouse gas emissions and instead to promote the extraction and use of fossil fuels, it's even more important that the State pension plan play a larger role in promoting effective environmental policy. I previously expressed my desires that my pension investments do not include companies involved in extraction, transport, and combustion of fossil fuels.

The Board has cited instead its plan for large-scale investments in a Climate Action Fund. I was therefore I appalled when I read recent reports that disclose that this Climate Action Fund nevertheless contains almost $4 billion in securities of many of the highest greenhouse gas emitters, including oil and gas companies and utilities.

Additionally, researchers have been unable to attain details from CalPERS regarding about $25 billion in private equity, private debt, infrastructure, and real estate holdings that CalPERS classifies as climate solutions. I urge the Board to take a close look at these Climate Action Fund investments, as well as the quality of the advice that the managers are receiving. Major adjustments must be made to the portfolio to ensure clear definitions of climate solutions, so that these investments have a positive climate impact.

Investments must also be selected for their beneficial effects on communities, particularly those of color and lower income. Companies with the worst greenhouse gas records must be excluded. Information on all of these investments must be disclosed to the public to allow us to monitor the Board's promised commitment to halve the portfolio's carbon intensity by 2030 and cut the risks that climate change poses for the pension fund. And that last statement is directly from your website. Plan participants and other stakeholders must have regular opportunities to provide feedback.

And thank you for this opportunity to speak to you.

CHAIR MILLER: Thank you for your comments. Do we have another caller?

STAFF SERVICES MANAGER I FORRER: Chairman Miller, next we have Deborah West-Jones for general public comment. Go ahead Deborah.

REV. DEBORAH WEST-JONES: Good morning. My name is Reverend Deborah West-Jones. I'm a local Elder at the FAME Pasadena Church, and I was ordained in 2013. I'm also a retired nurse. I worked at the Huntington Hospital for over 16 years and retired in 2016. I'm a long-time resident of Altadena, a homeowner for 36 years. My husband and I have been married for 27 years and we both retired in 2016 and began a remodel for our master bedroom, and bathroom, and walk-in closet.

On January 8th, we lost everything in the Eaton Canyon Fire along with over 50 other families in our congregation. On the afternoon before the fire, our power went out about 3:30 in the afternoon. I had visited some friends in the desert and returned home early due to high winds. We went to bed early since there was no power and we were awakened at 3:30 a.m. to an alert on our cell phones, evacuate now. It's not safe to stay in your home. We gathered a few items in a haze of sleepiness and confusion as the smoke and the fire headed our way. It was very dark. And all the lights were still out due to no power.

We were able to assist our neighbor who was in her 80s and lived alone. We caravanned out of the area, all of our cousins who lived up the hill from us, and they were still in their home. We told them get out now. Apparently, they had power earlier and had received information to go to the shelter at the Pasadena Convention Center.

There were lots of families, elderly folks, wheelchairs, walkers, animals. The Red Cross provided blankets. We spent most of the day in a very large room. We didn't find out until later, that afternoon, that our house had burned down.

We were offered a place to sleep for the night by a friend in Monrovia. They also lost power. These friends became our foundation. As believers, their church provided a Zoom meeting that evening to inform folks impacted by the fires of next steps. This was indeed a blessing. Contact your insurance, file a claim, and apply for FEMA. We've been blessed to have a network of friends and family who have stepped up to help, a demonstration of community, unity, diversity, and yes inclusion.

The blessings have been exceedingly and abundantly more than one could imagine, and yet, so many remain displaced. And we need real solutions that prioritize community needs that have arisen from this natural disaster that has been made worse by climate change. Over 9,000 structures and 14,000 acres of land was burnt.

I want to close with a prayer that I wrote acknowledging what everyone was feeling after the Eaton Canyon Fire as we lament, grieve, and deal with our loss, anger, as we recognize the tragedy of loss, as we cry out to God. We are praying that our grieving can bring us closer to God, and as we trust and believe that God is doing a new thing. And that's from 2nd Corinthians 5 and 17. As we rebuild our lives and remember that your latter well be greater than your past from a song by Martha Munizzi.

Thank you for listening.

I also want to just let the -- CalPERS know that our church is part of sponsoring a National Faith and Climate Change Forum on the 27th of March. Thank you.

CHAIR MILLER: Thank you for your comments. Do we have another caller on the phone?

STAFF SERVICES MANAGER I FORRER: Chairman

Miller, next we have Sheila Cox for general public comment.

CHAIR MILLER: Go ahead, caller.

SHEILA COX: Hello. My name is -- Hi. My name is Sheila Cox and I'm a CalPERS retiree, formerly with California Franchise Tax Board. I'm here to comment about the holding of Tesla stock by CalPERS. Politics aside, Tesla is suffering due to Elon Musk's mismanagement of the company. Tesla has been hemorrhaging every since Elon borrowed against his Tesla stock to buy Twitter. CalPERS should divest from Tesla, because Tesla stock is widely overvalued.

CalPERS investment fund is a financial tool to help keep the State retirement stable. California is legally on the hook to make up any shortfalls in California pension funds. CalPERS has a fiduciary duty moral responsibility to divest immediately from all Elon Musk controlled companies, including Tesla, which is collapsing. Tesla stock has plummeted 50 percent since December. Tesla stock should be driven off the road in order to preserve the dignity of public employees, public lands, America's democracy, and the Constitutional checks and balances that sustain our liberties and keep tyrants at bay. Social Security is under threat now, so our pension stability is more important than ever.

And I thank you for your time.

CHAIR MILLER: Thank you for your comments.

Do we have any more callers?

STAFF SERVICES MANAGER I FORRER: Yes. Chairman Miller. Next, we have Teresa Eade for general public comment.

CHAIR MILLER: Go ahead. Thank you.

TERESA EADE: Hello. Thank you for this time to speak to the Board. I'm Teresa Eade. I'm a retiree with CalPERS. And for over 20 years, I was a public Educator and project manager on recycling programs for a JPA called the Alameda County Waste Management Authority.

And I'm here also to strongly urge you to sell off all CalPERS stock in Tesla. Even as I speak, Elon Musk and his private contractors are destroying federal public institutions critical to functioning democracy with an apparent end goal to concentrate power to the Executive Branch, sweep away consumer and environmental protections to benefit giant corporations, to take away programs that promote racial equity, to privatize public assets, and take away benefits, such as Medicaid and Social Security, from those in need in order to offset the cost for a trillion dollar tax break for the wealthy.

In addition, Elon Musk is using DOGE to apparently cancel and transfer illegally executed contracts to enrich his own firm, as well as to block several government investigations into his company's misconduct.

He is a known supporter for white supremacy, even publicly using Nazi salutes, and his behavior and track record are the antithesis of what your membership represents. The State of California and its local governments work in good faith to benefit the people and their piece of the planet. You must also know that a Dutch pension plan, ABP, divested all of its $600 million of Tesla stock last fall, solely on the inappropriate Musk CEO compensation package, because it demonstrated irrational and poor business practices.

I'm embarrassed and appalled that my pension program is supporting white supremacy, corporate misconduct, and the end of 200 years of American democracy. Surely, with the unprecedented actions of Elon Musk, you must see the need to act now and sell Tesla.

Thank you for your time.

CHAIR MILLER: Thank you for your comments.

DO we another commenter?

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We have Paul Baranich for general public comment. Go ahead, Paul.

PAUL BARANICH: Good morning, And -- good morning, and thanks for the opportunity to speak to you. I just have a brief comment.

My name is Paul Baranich. I'm a CalPERS retiree. I spent 35 years working for the State Department of Health Services and the California EPA enforcing environmental laws and regulations had a lot of success. As you may know, it took many, many years to get these environmental laws and regulations in place. And it's now -- the federal government is trying to dismantle the U.S. EPA, which will affect all the other states, these laws and regulations.

I appreciate the comments made by Heidi, the for Mayor of San Luis Obispo, as well as Sheila Cox, so I won't -- I'll just say that the State should divest from Tesla stock. It's an impossible situation and it's getting worse, and hard to believe we're at the point where we are in terms of environmental laws and regulations. You'd think they'd be more robust, but they're heading down the toilet at this point.

So anyway, as well as the fossil fuel -- as well as divesting from fossil fuel, extraction, and processing. But in any case, do the right thing, folks. And appreciate your efforts. And thanks for the opportunity to speak to you this morning.

CHAIR MILLER: Thank you, Paul.

Do we have another commenter?

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. Dan Cohn from IEEFA is on the line for general comments.

CHAIR MILLER: Go ahead, sir.

DAN COHN: Good morning -- Good morning, Mr. Chair and members of the Committee. Thank you for the time to address you this morning. My name is Dan Cohn. I'm an energy finance analyst with the Institute for Energy Economics and Financial Analysis. We examine global energy markets and comment on investor responses to climate risk. We have a footprint in about 30 countries.

And I thought I might provide some context to the comments this morning on the sustainable portfolio and the inclusion of fossil fuel companies. My main comment is that it appears that CalPERS is coming to different conclusions as to the role the fossil fuel sector will play in a low carbon world from other institutional investors. Other funds have been building similar portfolios, and you may very well already be familiar with some of what they've been doing.

I wanted to start by mentioning a Dutch fund referred to by the initials PFCW. The fund undertook an intensive two-year engagement with fossil fuel companies with the sole purpose of evaluating their climate transition strategy. This was a threshold for continued inclusion in the portfolio.

And when the fund announced its results, they decided to retain only seven listed oil and gas companies, and chose to sell 310 others that in their view did not align with the Paris Climate Agreement. They also committed to significantly increase investments in companies focused on the energy transition.

Closer to home, I want to mention the New York State Common Retirement Fund. The fund has been undergoing a methodical process with companies in the fossil fuel sector, along the same lines as the previous fund, generally evaluating their competitive positioning for an anticipated future where human society uses less fossil fuel than we do today.

And the review has proceeded subsector by subsector, beginning with thermal coal and oil sands, proceeded to shale drillers, Integrated oil and gas companies, and now electric utilities. It has been orderly and thoughtful. They've evaluated company goals, strategy, capital expenditures, and more. Now, the result of each stage has been a restriction on some of the companies evaluated based on the fund's criteria, almost in the vain of a relative value trade, if you will. The fund has also made significant investments in low-carbon index funds that heavily underweight the fossil fuel sector.

I want to close with just a few comments on the fossil fuel sector's posture that I believe underlie the sector's poor positioning to navigate the competitive pressures it faces going forward. First, the sector has been shrinking. It made up nearly 30 percent of the S&P 570 by value in 1980, but it shrunk to just 3.3 percent of that index as of February month end.

And over the past decade, the sector has delivered the single lowest returns and single highest volatility of all sectors in the S&P 500 and it actually would have done significantly worse had Russia's invasion of Ukraine not boosted commodity prices. And again, since the stock market trough of 2022, fossil fuels have seen the worst performance among sectors.

Looking forward, traditional energy phases increased Market headwinds that it appears ill-prepared to handle. It faces competition from low carbon technology that challenges growth trajectory and it's key-induced markets of electricity and transport, among others. It's kilo carbon technology is something called carbon capture and storage that is, at this point, not commercially viable without significant and perhaps even permanent public subsidies. And the technology faces technical, economic, geologic, and regulatory challenges as well.

And as you may have seen, if following the news on this subject, many of the oil and gas companies have been pulling back from diversification into renewable energy or power market. Instead, many eggs have been placed in the basket of liquefied natural gas where analysts are seeing a glut develop in global supply that is likely to lower prices and reduce margins for that business.

It is --

CHAIR MILLER: Okay. If you could wrap it up here pretty quickly. You've run out of time, so if you could wrap up and conclude, I would appreciate it.

Thank you.

DAN COHN: We believe there's a fair set of questions to be asked as to why these companies are included in the CalPERS sustainable portfolio. It does not seem that many even have a credible long-term plan B that will give them relevance beyond producing small amounts of fossil fuels for a smaller amount class of consumers. And I thank you for your time.

CHAIR MILLER: Okay. Thank you very much.

Next caller.

STAFF SERVICES MANAGER I FORRER: Mr. Miller, we have no more public callers -- or callers for general public comment.

CHAIR MILLER: Okay. At this point, I think we're done with public comment at this time. And we've been going now for quite a while, so I think we'll take a short break and then we'll return. So let's do, what, 15 minutes, sound reasonable?

Yeah. Let's do 15 minutes, so that will bring us back at almost 10:48 or so, somewhere around there. 10:50. Okay. See you soon.

(Off record: 10:33 a.m.)

(Thereupon a recess was taken.)

(On record: 10:49 a.m.)

CHAIR MILLER: Okay. Come on back, Board members. That means you, Frank. I think Ramón is going to get back to his seat before -- oh, Frank beat him back.

Frank did it. Frank got back before Ramón.

All right. Thank everybody for your patience and we'll get back in session here. It turns out that we did miss somebody who wanted to speak and so we're going to have one more public comment before we jump in back to our -- back into our agenda. And so, at this time, I would like to call up Megan Shumway for public comment. If you would come down and we'll have the microphone ready for you.

Thank you. And your mic is live, so you can start whenever you're ready.

MEGAN SHUMWAY: Good morning. My name is Megan Shumway. I'm a PERS retiree. I was a public health nurse and a child health and disability prevention deputy director. And I grew up in Los Angeles in the 50s and 60s and I have asthma.

I've seen firsthand and personally what fossil fuels do to people and I think the Board needs to understand that by investing in fossil fuels, they are harming the people of California. There are plenty of evidence that it's causing more preterm births, more small for gestational aged babies, and causing adults to have increased incidence of illness of various kinds.

I am appalled that I'm here again asking you to divest from fossil fuels, and that includes everything from coal to natural gas and all their products that cause harms to people.

We can't do this sustainably. And I want you to know that the PERS retirees are a savvy group of people and cannot be gaslit into thinking you're doing sustainable actions when you are not. So please, I'd like to see you divest from all forms of fossil fuels.

Thank you.

CHAIR MILLER: Thank you.

Okay. That concludes public comment. And so, moving on in our agenda, we get to our action consent items.

COMMITTEE MEMBER TAYLOR: Move approval.

COMMITTEE MEMBER PALKKI: Second.

CHAIR MILLER: Moved by President Taylor, second by director Palkki. So, any discussion on the matter?

Call for the question.

BOARD CLERK ANDERSON: Mullissa Willette?

VICE CHAIR WILLETTE: Yes.

BOARD CLERK ANDERSON: Malia Cohen?

COMMITTEE MEMBER COHEN: Aye.

BOARD CLERK ANDERSON: Michael Detoy?

COMMITTEE MEMBER DETOY: Aye.

BOARD CLERK ANDERSON: Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

BOARD CLERK ANDERSON: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK ANDERSON: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

BOARD CLERK ANDERSON: Yvonne Walker?
COMMITTEE MEMBER WALKER: Aye.
BOARD CLERK ANDERSON: Dr. Gail Willis?
COMMITTEE MEMBER WILLIS: Aye.
CHAIR MILLER: Okay. The ayes have it. The motion passes.
So that moves us on to our information consent items. I haven't had anyone ask to pull any of these.
So I'm not seeing any requests, so we will move on to our action agenda item 5a, Policy Change for Responsible Contractor Policy, Third Reading. And I will definitely have some public comments for this one queued up.
(Slide presentation).
COMMITTEE MEMBER TAYLOR: A little closer.
CHAIR MILLER: Okay. Yeah. And I know we do have some public commenters on this one before we take our action.
ASSOCIATE INVESTMENT MANAGER SELLS: Good morning. Tamara Sells, Associate Investment Manager, Sustainable Investments. Today, I will present Agenda Item 5a, Policy Changes for the Responsible Contractor Policy, Third Reading.
I will briefly review the Responsible Contractor Policy scope and history, and I will go over the timeline

of activities completed as part of the current refresh process, and I will also review all of the proposed policy revisions, as well as those considered, but not adopted.

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[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you. CalPERS has a deep interest in the condition of workers employed at CalPERS-owned assets. So the purpose of the policy is to promote careful and prudent action, while managing the Responsible Contractor Program. And it also demonstrates CalPERS's support and encouragement of fair wages and benefits for workers employed by our managers, contractors, and subcontractors. The policy applies to U.S. real estate and infrastructure assets, where CalPERS holds a greater than 50 percent interest on contracts equal or greater to 100,000.

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[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: As a reminder, the policy was established back in the '90s, and it has been formally reviewed and refreshed twice since its inception. The policy is reviewed on an ongoing basis by CalPERS staff, as issues, questions, or concerns are raised regarding implementation of the policy. And this currently fresh marks the third formal policy review since inception.

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[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: So the current -- this current RCP refresh has been underway for the past 18 months, and began in August of 2023. The first reading of the proposed policy revisions were brought forth at the March 2024 Investment Committee where staff sought and received the Board's feedback. After doing additional work, the second reading of the proposed policy revisions were brought forth at the June 2024 Investment Committee, where staff sought the Board's approval, and the Board asked staff to do additional work around fiduciary testing for feasibility of updating the policy to expand the language and scope around labor neutrality, expand the language of support for apprenticeships, and conduct market analysis for -- to determine the feasibility for mandating certain labor practices, such as labor peace agreements, prevailing wages, and big credits.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: Following the June Investment Committee, from July 2024 through February of 2025, CalPERS staff held follow-up engagements with trade union and labor stakeholders, our RCP managers, peers, legal counsel, fiduciary counsel, IT staff, as well as the Board's consultant.

And I will go into greater detail on the diligence work on the next slide, but today staff are bringing forth the third read of the proposed policy revisions with a recommendation for adoption.

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[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: The policy reviews and engagement process has been informed by a number of inputs and I will focus on the activities highlighted in yellow, which reflect the additional diligence work done in response to the Board's June IC direction of 2024.

So CalPERS staff research and reviewed all of the IC-directed items by compiling and reviewing all of the research and data provided by the stakeholders, and studies around labor practices and performance. We also undertook and additional review of our peer-benchmarking work by conducting interviews with six peers to better understand the core requirements and mandated practices within the various responsible contractor policies. We held a series of Q&A sessions with our managers to get their feedback and perspective on the proposed revisions, as well as those considered, but not proposed for adoption. We collaborated with legal and fiduciary counsel to complete fiduciary research, analysis, and review of our findings. And we also held an in-person stakeholder engagement with stakeholders to hear their perspective and provide them with an update on the ongoing diligence work.

CalPERS staff also collaborated with our IT staff to further build out the website requirements, and we've moved from exploration to implementation for the development and design of a centralized bidding website. We made additional edits to the policy. We reviewed those proposed changes with our Legal Office, as well as our Board consultant, and that encompasses the extent of the diligence work done post-June IC.

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[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: Recall that CalPERS staff carefully and thoroughly vetted 15 areas for potential updates and proposed updates to eight areas of the policy, which are reflected under the categories listed here on slide seven. The black text reflects proposed revisions that were bought forth in the first and/or second read. And today, staff are proposing additional updates to the policy which are reflected as the red text on this slide.

Under category number four listed as labor -- or excuse me, listed as neutrality/labor peace. Staff are proposing to add new language to the policy under the Transition Enforcement Monitoring and Administration Section of the policy, with new language around manager expectations when employees exercise their right to freedom of association. And I'll provide that specific language later on in the presentation.

Under Category Number six listed as skilled and trained workforce, CalPERS staff propose to expand the language around apprenticeships within the certification of responsible contractor status document, and I will also provide greater detail on that later in the presentation.

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[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: This slide reflects or shows the seven of those 15 categories were thoroughly vetted, but after careful consideration staff did not propose updates to the policy, and no further updates will be proposed for the third read on any of these categories.

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[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: So for the third reading of the policy, staff are proposing that the

Board adopt two additional revisions. First, we are proposing to establish a new section within the policy titled, "Manager's Expectation", and add the following language, "CalPERS supports managers cooperating and bargaining in good faith with workers who have chosen to be represented by unions. Managers, delegates, and subdelegates should not make threats, create an atmosphere of intimidation or fear, or retaliate against employees who are exercising their right to freedom of association." Note that with this proposed policy change or update, we would also like to incorporate the voluntary compliance language within this new manager's expectation section.

For the third reading, we are also proposing to expand the language around apprenticeships within the certification of responsible contractor status document outlined in Appendix 1 of the policy. Currently, the certification document inquires -- or asks whether firms will provide access to apprenticeships, but we would like to expand not only the accessing, but the hiring of apprenticeships, and we did call out the registered federal or State approved apprenticeship programs for that proposed edit.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: This slide is a summary of the proposed policy revisions that were brought forth before the Board for the second read of the policy. And those proposed policy revisions were to expand the language within the certification of responsible contractor status to include reference to debarments when the contractor is certifying its regulatory status to add the full text of the CalPERS Labor Principles, to add reference to commingled funds, and indirect investments within the voluntary Compliance language, and to add neutrality to the definitions section of the policy, and removing references to an old expired trial program.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: This slide is a summary of the proposed revisions brought before the board for the first read of the policy.

(Clears throat).

ASSOCIATE INVESTMENT MANAGER SELLS: The proposed revisions were to expand the definition of a responsible contractor, and to include reference of what is not a responsible contractor. We also propose to establish more streamlined and consistent outreach for bidding opportunities. And we'd also propose to add greater clarity and specificity around the expectations of our managers, as well as clarifying, updating annual reporting guidance for the managers. We also propose policy language to reference our support for skills safety training, and that all employee have the skills necessary to perform the work safely. And lastly, we propose revisions to encourage participation by a broader group of qualifying firms including those that are service disabled veteran owned businesses, minority owned controlled firms, and firms controlled by women.

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[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: Staff ask that the Board approve all of the proposed policy revisions as presented in the first, second, and third reads of the policy. If approved, the revised policy will provide greater clarity as to how we define a responsible contractor, promote greater vigilance in the competitive bidding process and in the hiring and selection of responsible contractors, provide greater clarity and specificity around the expectations of our managers. It would incorporate the full text of the CalPERS Labor Principles, establish more streamlined and consistent outreach for bidding opportunities, support enhanced communication between managers, labor organizations, trade stakeholders and our staff. It would reinforce our expectation for healthy and safe working conditions while performing services with respect to RCP investments, and encourage participation by a broad group of qualifying firms. It will address and clarify potential reporting gaps by our external managers, and it will also be improved by other technical and clarifying edits.

This concludes the presentation for the policy changes for Responsible Contractor Policy, third reading, and we'll be happy to answer any questions you have.

CHAIR MILLER: Okay. Thank you for the presentation. And it's been 18 months. There's been a lot of work, a lot of effort, a lot of communication with a lot of people, and I appreciate the work by the team, and everybody who's contributed within and outside of the organization.

So onto questions. We've got President Taylor.

COMMITTEE MEMBER TAYLOR: I didn't expect to be called on so quickly.

So, I want to thank the team for all the hard work. I know that we all sent you back to the drawing board sometime ago. I can't even remember now, September last year?

ASSOCIATE INVESTMENT MANAGER SELLS: June.

COMMITTEE MEMBER TAYLOR: June last year. I really appreciate all the hard work you guys put into this, all the research. I think we've come out with something for everyone, even if everyone doesn't agree, but I really think we -- our folks did a really good job trying their best to do the work within our fiduciary duty and the policy parameters that we have.

So thank you very much for the work.

CHAIR MILLER: Okay. Director Palkki.

COMMITTEE MEMBER PALKKI: Ditto.

(Laughter).

COMMITTEE MEMBER PALKKI: No, just the amount hours that went into putting this together, reaching out to the stakeholders and getting their perspective and their opinions, thank you for doing that. And again, just thank you to the entire team multiple teams actually that went into putting this together. Thank you.

CHAIR MILLER: Okay. Director Willette.

VICE CHAIR WILLETTE: All right. Thank you. Thank you so much for the presentation. I really appreciate the work that's gone into it. A lot of work has gone into it reaching out to our stakeholders, and a lot of man hours. And I think that that's really important. I think we've come a really long way since we started this process and the original RCP that we started with 18 months ago or longer, but I think that there are still a few gaps as a -- in if order for us to meet our fiduciary obligations to our members and in order to pay for the retirement security.

And one of those gaps I think is the absence of acknowledging or encouraging labor peace agreements. I think these agreements are important to prevent labor disputes that will disrupt operations and could adversely affect our investment returns, and thereby those retirements. I think incorporating labor peace would align with our fiduciary obligation to mitigate those risks. I'm also concerned about the inclusion of non-core real estate investments not being -- or not -- exclusion, excuse me of non-core real estate investments. I think more and more what is core what is not core is becoming a gray area. And to really delineate that in a policy without acknowledging part of our portfolio is not in line with our fiduciary obligation knowing that a Responsible Contractor Policy helps us ensure the security and the operational management of our investments.

And then I'm a little bit -- I appreciate -- I'm really excited about the new online system website, but I do think that we don't have an implementation plan. I think this policy is only so good as the paper it's printed on, until we have a robust implementation plan. And I'd like to see or hear about implementation plans to make sure that our investments are secured, aligned with that policy.

So I think that these are some gaps that I would like -- I would to see addressed in a RCP Policy update.

CHAIR MILLER: Okay. Next, I have Frank Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Am I on?

Thank you, Mr. Chair. And Treasurer Ma is pleased with the policy revision work and ditto, ditto, ditto, you know, being that she's been advocating some of these revisions from day one. So thank you to all the staff and stakeholders who have been working very diligently, and as has been said, it's been a long time.

And she certainly welcomes too the idea that CalPERS continues the role as a leader in responsible investment, and in the ability -- in our ability to secure appropriate risk-adjusted investment returns. That's very, very important to the Treasurer.

In that vein, I do have a quick question and I think you sort of addressed -- you answer it, but it's important for us -- for all to hear again. How do these policy changes help mitigate human capital and reputational risks, and -- but specifically what metrics will be used to measure their impact?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question. The overarching goal of the Responsible Contractor Policy is to promote responsible workforce practices on real estate and infrastructure assets, where CalPERS owns a greater than 50 percent interest.

And in doing so, we are trying to facilitate the success of the fund consistent with our fiduciary duty. And so we are -- a lot of the recommendations around enhanced vigilance in hiring and selection, for example, of contractors. These type of practices are those that we are trying to promote as greater best practices within the responsible contracting space.

Now, you asked about metrics and you are a bit head of the game in that -- and as part of the implementation as well as we're looking to possibly have additional metrics that we'd be able to track with enhanced -- like a website, and enhance reporting of that nature.

But when we're looking at the number of contracts, the contracts dollars, where it's going, and the attribution of way those contract dollars are moving up or down, we're also assessing the human capital practices as well within this space, and if there's been any disruptions and things of that nature, we're considering it in our overall analysis of how the policy is being implemented.

ACTING COMMITTEE MEMBER RUFFINO: Great. We're looking forward to those metrics in the future. And, Mr.

Chair, if I may add one small little comment on behalf the Treasurer too, I think she shares some of the concern that Director Willette just point out, you know, particularly in the space of peace agreements. And I know there is some legal concerns -- very serious legal concerns that we need to address and we need to look at it and I hope that in the future during the revisions, we'll be able to take a look at those and hear some of these opposing -- not necessarily opposing, but conflicting legal opinions, and see if we can make some progress in that respect, because I believe the Treasurer believes that the peace labor agreements, they could -- it could be an excellent tool to satisfy both, you know, the needs of the workers, as well as the needs of the investor.

Thank you, Mr. Chair.

CHAIR MILLER: Okay. Thank you. Next, I have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. I also -- I, too, want to thank the staff for all their work. And I also want to thank the interested parties, the stakeholders, they labor unions for raising their concerns as you should.

I am pleased with the final product. I know it's -- we have to stay within legal opinions as to what is our authority. But at the same time, we -- all our knowledge, that we -- what we do is in the best interests of participants and beneficiaries, looking at the long-term horizon.

And so that allows us to also -- allows us to we have -- we have this policy, but we can also make sure that through other actions it's clear to everyone that we encourage and support the best labor practices that would ensure the best return for human capital and our economic capital. And so I would ask, as you lay out the implementation program, that that be brought into consideration.

But again, thank you very much for great work and thank you all the advocates for pushing forward their views on this issue, which is very historic again. Thank you.

Thank you, Mr. President -- Mr. Chair.

CHAIR MILLER: Okay. Next, I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you, Chairman Miller, and thank you, Tamara, for your comments. I really do appreciate. I appreciate staff's diligence on this process for the last 18 months and how much it's taken to go through the whole process. You know, I was reading back the history of this -- of the -- of the RCP -- of the Responsible Contractor Policy, and I had come across that when it first was inceptioned -- the inception of it back in the '90s, it was actually an initiative from the trustees. That's my understanding from it, and it was interesting how it came about. And it was something that came out of that whole process that -- and I think it might have been from the -- actual from the whole era of the Council of Institutional Investors and so forth.

But what I found interesting was that it was driven -- it was a trustee driven policy at the time. And it has moved and has always been that way historically. And so when I'm reading this material, you know, I want to thank you for your comments and the work that you've done as of today. But as Vice Chair Willette says, there are some items that are -- that have fallen short, with respect to prevailing wages for instance, the apprenticeship program, because as I remember -- recall several sessions ago, I think it was back in November when we had our session on this -- not November, yes, September of last year when we had the apprentices come in and they spoke very, very passionately about what their work was and how they had done their work. I found it really moving that it has -- it has -- it had not only an impact on projects -- CalPERS projects, but just an impact on the whole community on our entire state. And it kind of resonated with respect to the California Impact Report and how that all comes together in respect to that.

So -- but I also -- I'm also very concerned about the labor peace agreements as well, and how they have -- how they're not -- they're not incorporated there. So these are items that I feel we have fallen short. And I just wanted to express my concerns. And I wanted to know if -- your thoughts on a roadmap moving forward on that, if you can elaborate further.

ASSOCIATE INVESTMENT MANAGER SELLS: Yeah. Thank you so much for the comments and the question. The labor peace agreements, as currently referenced within the policy neither prohibit nor obligate managers from entering into, but they are referenced, and they are something, as you've noted, that can be used as a tool between firms and unions to help negotiate certain concessions, if you will.

So with respect to, you know, the plan for implementation, I think there would be additional analysis or work that would need to be done with respect to if you're asking mandating --

COMMITTEE MEMBER PACHECO: Yes.

ASSOCIATE INVESTMENT MANAGER SELLS: -- labor peace agreements and mandating prevailing wages. And to that, I would defer to our legal on the work that would need to be done.

COMMITTEE MEMBER PACHECO: And that's a fair -- that's a fair statement then. Thank you so much for your comments. I appreciate it and I appreciate -- again, appreciate all the hard work your staff has gone through the last 18 months on this process. Thank you.

CHAIR MILLER: Okay. Next, I have Controller Cohen.

COMMITTEE MEMBER COHEN: Yes. Thank you. Can you hear me? Is this on? I can never tell.

CHAIR MILLER: Yes.

COMMITTEE MEMBER COHEN: It's louder in my head.

Good afternoon. It's good to see you again. I appreciate the, I think, 18 months is -- I thought it was closer to two years. I thought maybe you might be a little -- a little generous, but there are five things that I just want to go back over in the history, right?

So there were some policy changes that we discussed prior to our third reading. The Board asked CalPERS staff to review and also to explore the feasibility of updating the RCP Policy to clean up some changes, to address five things that I'm going to highlight.

First, expand the requirement of labor neutrality to non-CalPERS controlled investments. And I think that we are in agreement on that. Thank you.

And then the second one is to expand the requirement of labor neutrality to CalPERS-controlled investments that are managed by non-core real estate and infrastructure managers. And I think Nicole -- Mullissa spoke to that as well.

The third point that I wanted to just call into record was we encourage apprenticeship programs. And again, you incorporated that. I appreciate that.

The fourth point was mandate labor peace agreements. Now, this is kind of a squishy one, right, a little bit difficult to say yes and no. Now, staff came back and said that we needed to have a market study to cleat that. And I was wondering if you could give me a little bit more context as to what triggers a market study? Is it -- thank you.

GENERAL COUNSEL JACOBS: Good morning, Board members and Controller Cohen.

COMMITTEE MEMBER COHEN: Good morning.

GENERAL COUNSEL JACOBS: The Board can trigger it. The Investment Office can trigger it. We can just start down that path. But I would call -- ask my colleague Tiffany Reeves, your fiduciary counsel, to kind of expand upon what that process would involve to ensure that any decision that the Board would make to use that --

to incorporate a policy into our Responsible Contractor Policy would be fiduciarily sound.

TIFFANY REEVES: Okay. So, when we're -- when we're thinking about labor peace agreements specifically, one of the first things I what to point out is that when you're thinking about this from a fiduciary perspective and you're thinking about prudence specifically, it's focused on product -- process, right, and the prudence of the process that the Board undertook to arrive at a decision, action or inaction.

And part of a prudent process is looking peer practices. And one thing that Tamara identified in her review of peer practices is that you -- none of your peers that we looked at in the peer group have mandated labor peace agreements. And so then the secondary question that you would look at is well why? What is the impact on this specific labor practice on risk and opportunity? And as of yet, it's unclear that diligence has been undertaken by this organization to look at the impact of -- on risk and opportunity of this specific labor practice, and then also determine that that impact is material to your portfolio. And so, you would have to undertake a process of -- you know, that you deem appropriate to look at this practice and understand how it impacts your portfolio from both a risk and a return perspective.

COMMITTEE MEMBER COHEN: Is there an established practice that's already generally accepted? I'm sorry, is there an established process, excuse me?

TIFFANY REEVES: No. I mean, you would have to determine what kind of the credible, you know, experts are in this field to look at the research. You would have to kind of define what your process is --

COMMITTEE MEMBER COHEN: Okay.

TIFFANY REEVES: -- who are the credible experts that we could look at, how would we determine -- you know, to go about this, how have we tested our portfolio to determine how this impacts risk and opportunity, and, you know, what are the -- what are the -- what access to data and performance data do you have to look at?

Tamara can talk to, I think, a little bit to what you've determined kind of at a high level, that there's not a lot of information out there about how this impacts risk or opportunity and that your peers have looked at this and have determined it's not appropriate for their portfolio.

I don't know if Tamara if you have any kind of think to add from a diligence perspective about how you -- of the feedback you got from peers?

ASSOCIATE INVESTMENT MANAGER SELLS: Yeah, and just to add to that. In addition to using the publicly available information for our peers, we did interview the peers, because we wanted to really dig into what were the core principles and tenets within the policy, what are the mandated practices? We tried to focus on those peers that had revised their policies from 2015 and beyond -- post-2015. So we can really just learn from each other and understand if there's any examples of success within those areas, and in particular around those practices that you all asked us to look into.

COMMITTEE MEMBER COHEN: Okay. I think my slight pushback is that we like to provide ourselves on being industry leaders, not necessarily looking around to see what others are doing, but taking the bold step to move forward and setting and charting the way. Of course, that also means bringing and checking in with our stakeholders, so I understand it's a delicate balance that has to ensue.

I want to talk a little bit about the prevailing wage requirement. There has been a little bit of discussion already on it. Aren't most markets in which we operate in already -- aren't we governing and aren't we already using prevailing wage -- wages. And so my question really is is why is this such a stretch to incorporate into this policy?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question. We are currently using prevailing wage as a factor, that is reviewed amongst like public work projects that are in similar geographic areas. So it's currently just a factor, an indicator that is used.

COMMITTEE MEMBER COHEN: So is there some kind of value ascribed to this factor? What's the significance of identifying it as a factor?

ASSOCIATE INVESTMENT MANAGER SELLS: There's no -- I don't -- I don't have a response to that question. But what I will say is that what you've asked us to do is mandate it.

COMMITTEE MEMBER COHEN: Um-hmm.

ASSOCIATE INVESTMENT MANAGER SELLS: And currently, the policy says that we don't use the government definition for prevailing wages. So I think we would have to start with a process where we have a prescriptive definition of prevailing wages starting there first. And then we would move to whatever the market testing is necessary to test the mandating of it.

COMMITTEE MEMBER COHEN: So if the government had a standard, then we would be able to incorporate it in our policy?

ASSOCIATE INVESTMENT MANAGER SELLS: Yeah. It would definitely be informed within our review of establishing our own definition, whether we verbatim use their process or establish our own, yes.

COMMITTEE MEMBER COHEN: Okay. Thank you. I have no other questions.

CHAIR MILLER: Okay. Next, I have President Taylor.

COMMITTEE MEMBER TAYLOR: So I just want to -- I'm glad Tiffany is here, so I probably need some input from you, although, I think you already said. So labor peace, we already -- you already sent out a memo to us, an ACP memo, but basically, we -- if we were to take on a market review without having what you said was peer experience -- we don't have peer experience. So are you saying that we would have to come up with the parameters for that market review?

TIFFANY REEVES: So the point is that a prudent fiduciary cannot speculate. So when it comes to how these labor practices would impact risk and opportunity in your portfolio, you have to have hard data and have undertaken an analysis to determine whether or not these things materially impact performance positively or materially, impact performance negatively and have a full, you know, data and information to inform your perspective. And so rather than making assumptions that labor peace is going to have a certain impact in your portfolio, it would be appropriate for you to do the diligence to make the determination about how that impacts your performance from a risk and a return perspective.

COMMITTEE MEMBER TAYLOR: Okay. All right. So then in addition then, I had -- I think we did a sentence in there, Tamara, that you talked about just a second ago, where we encourage labor peace, nothing withstanding we -- okay. So it's in here somewhere that I haven't seen.

But I finally -- I want to address -- I don't think it's our job to go back out to stakeholders with -- fighting legal opinions. I just don't think that's our job, okay? But what I want to also emphasize is prevailing wage is the law in many blue states, correct, I would say? California for sure, New York. But -- so where we operate, where it's the law, we have to do that, because it's the law, is that correct, Tamara?

ASSOCIATE INVESTMENT MANAGER SELLS: Yeah, that's my understanding. Yes.

COMMITTEE MEMBER TAYLOR: Okay. But we also operate in states that do not have prevailing wage laws, so we can't mandate that in our investments, is that correct?

ASSOCIATE INVESTMENT MANAGER SELLS: We would have to test the market to understand if we could mandate it.

COMMITTEE MEMBER TAYLOR: Okay. And what would that exactly require for us to test the market for prevailing wage?

ASSOCIATE INVESTMENT MANAGER SELLS: It would encompass what Ms. Reeves has ironed out with respect to testing the markets for mandating any type of labor practice, including labor peace agreements, prevailing wages. So whatever this Board would -- however we would define that process, we would then test the market on the impact to labor -- or to performance, if we were to mandate those type of practices -- specifically those practices.

COMMITTEE MEMBER TAYLOR: And then after engaging with our stakeholders, all of our stakeholders, we have explained -- and we had a stakeholder meeting, long before this meeting, and it has been explained that we are encouraging the use of these things, but this is -- this is why we're not mandating it?

ASSOCIATE INVESTMENT MANAGER SELLS: Yes, that --

COMMITTEE MEMBER TAYLOR: But would you encourage the adoption of this, and then if the Board wants something else, to move that later?

ASSOCIATE INVESTMENT MANAGER SELLS: Yes, that is correct.

COMMITTEE MEMBER TAYLOR: Okay.

CHIEF EXECUTIVE OFFICER FROST: And, Ms. Taylor, I wouldn't say the language says we encourage it, but it does have language that says, you know, if this is -- if these labor practices are determined to be feasible or reasonable between the two parties, that CalPERS would support that.

COMMITTEE MEMBER TAYLOR: Okay.

CHIEF EXECUTIVE OFFICER FROST: So, it's like a neutral position --

COMMITTEE MEMBER TAYLOR: Something like that, yeah.

CHIEF EXECUTIVE OFFICER FROST: -- but it doesn't encourage, because you have to be careful when you say encourage. That might be well we really mean require.

COMMITTEE MEMBER TAYLOR: Correct. Okay.

CHIEF EXECUTIVE OFFICER FROST: Yeah.

COMMITTEE MEMBER TAYLOR: All right. All right. So that's what I was just trying to get to. I think we've heard from a lot of our stakeholders. We know that some of them aren't happy with these things, but that it would require much more work for us before we would get there. And right now, I think it's important for us to just get these -- the RCP in place is my recommendation. So I would recommend our action be to approve this. Thank you.

CHAIR MILLER: Okay. I have no more requests from the Board to speak on this. And I think before we go forward call for any action, we do have some members of the public that wanted to speak to this item.

Question for Matt, do I need to have a motion on the table before we go to those comments or do we go to comments?

GENERAL COUNSEL JACOBS: You can do it either way.

CHAIR MILLER: Okay. Let's go to our commenters. We've been -- they've been very patient with us today. So on this item I have -- let's see, who do I have here?

Susan Minato, Jeremy Smith, Michael Mark, and Mark Swabey. Nope. Nope. Sorry. That's wrong.

Okay. Let's go with our first two and then we'll figure it out from there. I've got so many notes here, I can't keep track of them.

SUSAN MINATO: Good morning, everyone. My name is Susan Minato. I am Co-President of Unite Here Local 11, one of the stakeholders. We represent hospitality workers in Southern California and Arizona. We do appreciate -- absolutely appreciate the continued work of CalPERS staff and trustees to update this Responsible Contractor Policy.

Unfortunately, 19 months after the initiation of the RCP refresh discussion in August of '23, 23, it's our belief that the new proposal fails to adequately protect the fund from risks associated with strikes and labor disputes. We recommend that Board members vote no on this policy. We are here today because abuses of private sector workers and labor disputes in the private sector undermine the retirement security of CalPERS beneficiaries, like the SEIU 521 members we heard earlier

The mishandling of labor disputes, which can result in lengthy strikes and boycotts harms investments. To site just one example, Economist Douglas Holtz-Eakin and Sarah Murad found that the impacts of strikes at Boeing have repeatedly reached into the billions of dollars. With the latest strike in 2024, lasting 53 days, it cost Boeing $2 billion and contributed to a net loss for the third quarter of 2024. So we can see that they're quite serious.

Given the recent uptick in strikes, 2023 saw 24.8 million work days lost to strikes, the highest number since 2000. The risk that labor disputes may impact investments is significant and cannot be ignored. Given these risks, in October 2023, 12 local, State, and national labor unions, including the California Labor Federation, the national AFL-CIO, the State and national building trades wrote a letter to the CalPERS Sustainable Investment Program -- Investments Program staff recommending changes to the RCP.

The first recommendation was that CalPERS include labor peace language in the updated policy not as a mandate, but as a tool that the fund can employ to mitigate risks associated with strikes and labor disputes. This language was prepared by Richard McCracken, who crafted the first labor peace policy on behalf of the City of Pittsburgh. He also did it for the City of Los Angeles for related to LAX and many other jurisdictions concerned with mitigating risks associated with strikes and labor disputes.

Both the Third and Ninth Circuit Court of Appeals have ruled in favor of labor peace, and any challenges the Supreme Court denied cert. So it made it the law of the land.

The draft labor peace policy for CalPERS was specifically tailored to be fully consistent with help to fulfill the fiduciary duty of pension fund leaders. Your rejection of the labor peace tool is based on your 2000 legal memo shown in the public stakeholder meetings. That basis is faulty. We have provided you legal analysis for you based on the original -- based on legal advice from the labor peace drafter originally, but you have -- which you have not rebutted.

CHAIR MILLER: If you could wrap-up.

SUSAN MINATO: So I -- we recommend that you vote no and include more robust language and tools, especially in these times --

CHAIR MILLER: Okay. Your time is up.

SUSAN MINATO: I'll just -- I'll conclude -- both in the RCP and across asset classes that will protect CalPERS beneficiaries from risks associated with strikes and labor disputes.

Thank you.

CHAIR MILLER: Thank you.

Next, we have Jeremy Smith followed by Michael Mark.

JEREMY SMITH: Thank you, Mr. Chair, members of the Board, Jeremy Smith here on behalf of the State Building and Construction Trades Council of California. We represent north of 450,000 construction trades workers and unions up and down the state.

As the comments from the speaker from Unite Here illustrated earlier today, the Responsible Contractor Policy in place now does not -- now does not do what you all want it to do, protect workers on CalPERS funded projects, nor does the update to that policy do what you want it to do. Because of that, staff have left us no choice but to opposed today's efforts to update these policies.

Furthermore, we've been left with no other choice but to work with our public employee union Brothers and

Sisters, and go to the California Legislature with AB 1439 to compel staff to fully support the concepts we outlined in our letter from August 2023 to use the RCP to require, first, the payment of California prevailing wage on California-specific CalPERS-funded projects that are both new construction and those being maintained, as defined as Labor Code section 1773.

Secondly, the requirement to use a public contract code defined skilled and trained workforce that ensures a percentage of the construction workers on California-specific CalPERS-funded projects will be graduates of California state-approved apprenticeship programs, or that are still apprentices in the system being trained, which will ensure not only that these will be the most highly trained workers available, but that they will be California workers. There is no mandate to use apprentices in the RCP before you today and there needs to be.

Those -- these two concepts protect construction workers and provide them with access to and a living wage on these jobs, but they also uplift good responsible contractors, those that willingly sign up to bid on the types of large projects that CalPERS invests in or builds; those that seek out and use apprentices so they can be trained to be the next generation of construction workers;

those that find no problem with treating construction workers with dignity and respect on the job.

Contractors who treat workers with dignity and respect are high-road, law-abiding contractors, who will better protect our members but also CalPERS retirees investments, helping meet this Board's fiduciary duty. These contractors will likely be registered with DIR to build large public projects, those who willingly stay out of the underground economy and the degree to be known and to follow State labor law.

By our read, nothing in the Responsible Contractor Policy being debated today will do any of those things and will create real consequences, and it will be a lost opportunity for CalPERS to use its market power to hold employers accountable and uplift the lives of local California construction workers and apprentices. For these reasons, we respectfully oppose the version of the RCP before you today and urge you to vote no so that we can continue to work.

Thank you.

CHAIR MILLER: Okay. Next -- thank you. Next, I have Michael Mark.

MICHAEL MARK: Good afternoon. Hi. My name is Michael Mark. I'm with Sheet Metal Workers Local 104 proudly serving Northern California.

There was a lot of great comments by the Board. I think one thing that we want to make sure is clear there is a -- no mandate on prevailing wages before us. There is no mandate to create opportunities for apprentices within this RCP. That is correct. So the added language that we requested was for the self-certification of contractors. So the contractor just has to click the box say "yes" or "no", do I -- do I -- am I going to break the law or not? And it's self-certification. There is no real teeth in that.

One of the things that we did ask -- and if you go back, it was on slide 9, right? The portion of do you offer an apprenticeship program to your employees and/or do you -- will hire apprentices from a joint labor management apprenticeship program? The second part is great, because then you're -- that contractor if he clicks yes, he's actually committed to hiring a labor management apprenticeship person from the trades.

The portion before is too confusing. When we are talking about the various stakeholder meetings, yes, I attended a stakeholder meeting, yes, I asked a lot of the questions at said stakeholder heating. My questions -- a lot of my questions were not answered by staff during the -- during the portion -- there was a lot of talks about fiduciary duties of the Board, which is very important as a pension trustee. I understand that. I get that.

But one thing, too, is making sure that when you are building a product as taking ownership of that product, you want to make sure it's built correctly, hundred percent on time, on budget. There are studies shown when you're utilizing a unionized workforce to build your product, it's going to cost the owner, which would be CalPERS, four percent less money versus open shop. So that's just as a fiduciary duty, you would want to make sure that your product -- your projects are built to the highest standards, and that's using prevailing wage. That's using skilled and trained apprenticeship programs. That's using -- making sure that the Brothers and Sisters that spoke at previous meetings, you're providing an opportunity to them. These are your California residents, right?

I want to make sure it's stressed that the question regarding prevailing wages across the country, there is different laws, but what we were proposing was making sure that in California there was a mandate for state prevailing wages, only in California. And what my brother from the State Building Trades data Jeremy Smith stated was, there is already laws in place. Everyone understands how prevailing wages work. You can set the bar -- what Ms. Cohen stated -- said, lead by example. CalPERS is large. Lead by example. Do the right thing. We respectfully ask you to not vote for this RCP third reading. Thank you.

CHAIR MILLER: Thank you.

Next, I have Jennifer O'Dell on the phone for 5a. And I believe that concludes the comments for 5a.

Okay. Can we get on the phone.

STAFF SERVICES MANAGER I FORRER: Yes, Mr. Miller. We have Jennifer O'Dell.

JENNIFER O'DELL: Good morning. This is Jennifer O'Dell from the Laborers' International Union of North America. Thank you so much for all the hard work that has been done on this policy so far. I just want to make three quick points. First, I think it's very telling that not a single labor organization has spoke in favor of this proposal. While again we appreciate that there has been three readings of this for the revised RCP, there is no labor organization that is supportive of the proposal including my union the Laborers.

Second, the neutrality language that's included in the proposal specifically excludes construction. You know, we think that that is a -- that is a old reading of the law. And if we had been allowed to talk to General Counsel or the Legal Department, we probably could have had that conversation, but both of those issues are -- were denied.

And finally, for the neutrality language, there are a number of exceptions to which the CalPERS staff and Board can grant for an exception to the neutrality language. So, we're really concerned about that language as well. We think that you could basically, to borrow a term, drive a truck right through those neutral -- those exceptions to neutrality. So we're concerned about that.

We think that, more than anything, violations of the Responsible Contractor Policy create investment risks for CalPERS as an asset owner. Wage theft, health and safety issues, product delays and construction defects can lead to fines and penalties by public agencies, and litigation by workers, and frankly other end users.

We think that these negative outcomes and financial risks can eat away at a construction project's investment returns. So, for that reason, we urge you to make a more robust Responsible Contractor Policy taking into consideration of stakeholders. Again, thank you for your time and we appreciate it.

CHAIR MILLER: Okay. I think that does it for public comment on 5a, so we'll continue on.

So okay, what's the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIR MILLER: Approval moved by President Taylor.

Is there a second?

COMMITTEE MEMBER RUBALCAVA: Second.

CHAIR MILLER: Seconded by Director Rubalcava.

Discussion on the item?

Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. Is there -- I'm not sure about the protocol or even the verbiage, but is there a way to ask for an amendment or to amend the motion to include something? Can -- is that in order?

CHAIR MILLER: Yeah, you could.

ACTING COMMITTEE MEMBER RUFFINO: Okay. So can we add to the motion to approve the ability to do the quote/unquote, it's been called the testing the market, or the market study to be part of that with respect to the labor peace agreement and neutrality, as has been discussed?

CHIEF EXECUTIVE OFFICER FROST: So, Ms. Taylor, since it's your motion and he's making a friendly amendment, do you accept that motion or that additional language to your motion?

COMMITTEE MEMBER TAYLOR: Sure. I don't know. I had to

CHIEF EXECUTIVE OFFICER FROST: And the second also?

COMMITTEE MEMBER RUBALCAVA: Yes.

CHAIR MILLER: Second also.

CHIEF EXECUTIVE OFFICER FROST: Okay. Otherwise it would be a substitute motion.

ACTING COMMITTEE MEMBER RUFFINO: Thank you.

CHAIR MILLER: So let me -- so this adds to the original motion that we would also be authorizing moving forward on the experience study for the -- was it the labor neutrality or prevailing wage, which one, or both?

ACTING COMMITTEE MEMBER RUFFINO: Both.

CHAIR MILLER: Both, for labor neutrality and prevailing wage to do the market studies to inform future revisions, I would assume.

CHIEF EXECUTIVE OFFICER FROST: So labor peace agreements is that the language?

CHAIR MILLER: Labor peace agreement.

CHIEF EXECUTIVE OFFICER FROST: Just to make sure we're clear on the motion.

CHAIR MILLER: That's.

COMMITTEE MEMBER COHEN: Is there any discussion?

CHAIR MILLER: Well, do we have to do the amendment first, then back to the discussion? Matt's the parliamentarian.

CHIEF EXECUTIVE OFFICER FROST: So if -- yeah, Matt.

GENERAL COUNSEL JACOBS: The new motion is the amended motion. So, you're free to discuss that.

CHAIR MILLER: Okay. So discussion now on the amended motion.

And who did I have? Okay. Was that it for you, Frank?

ACTING COMMITTEE MEMBER RUFFINO: I'm sorry?

CHAIR MILLER: Are you done?

ACTING COMMITTEE MEMBER RUFFINO: Yes.

CHAIR MILLER: Okay. I'll move on. I have -- next, I have Director Palkki followed by Controller Cohen.

COMMITTEE MEMBER PALKKI: Thank you. Just clarification. Does this have to be an amendment to the motion or we can just assign this as Committee direction?

CHIEF EXECUTIVE OFFICER FROST: You can, either way.

COMMITTEE MEMBER PALKKI: Yeah. Thank you.

CHAIR MILLER: Okay. We have a motion on the floor. We're in discussion, so I'll go to Controller Cohen.

COMMITTEE MEMBER COHEN: Okay. Thank you very much, Frank. Appreciate you listening and trying to bridge the gap based on what you heard.

I actually would like to get staff feedback. What I heard was adding to this policy being passed and understanding that we will have a market study to review prevailing wage requirement and labor peace agreement requirements. Is that -- did I understand that correctly?

ACTING COMMITTEE MEMBER RUFFINO: Yes.

COMMITTEE MEMBER COHEN: Okay. My question is is how often is this policy reviewed? That I'm not clear of.

It's not.

CHIEF EXECUTIVE OFFICER FROST: It is.

COMMITTEE MEMBER COHEN: It is.

ASSOCIATE INVESTMENT MANAGER SELLS: I think we talked about this last time. There's no specific cadence right now, but right now, we've been like every 10 years or so.

COMMITTEE MEMBER COHEN: Oh. Okay. Thank you. That answers my question.

I turn it back over to you, Mr. Chair.

CHAIR MILLER: Okay. Next, I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. I just want -- I want some clarification on this motion. So, we can do Board -- we can do Board -- Committee direction for this study, is that correct? Is that -- instead of being part of the study?

CHIEF EXECUTIVE OFFICER FROST: (Nods head).

COMMITTEE MEMBER PACHECO: And I how would that play out? I'm just -- it would just -- it would come back to another meeting? Would it be part of the annual review of the RCP? Because we have the -- at the end of this agenda, we have the annual review of the Responsible Contractor Policy, which we were supposed to do in November, I believe, and now we're bringing it here, so please I want some clarity -- if you could provide some clarity. Thank you.

GENERAL COUNSEL JACOBS: I think if the Board is so inclined to do it, what you would do would be to direct staff to explore the cost and the scope of the investigation that would be required, because you -- just to take cost as an example, you don't really want a direct staff to do something that ends up costing $10 million without considering that cost, and the potential benefits of spending that kind of money.

COMMITTEE MEMBER PACHECO: So can I just follow up with that. So you're basically asking for us to do a benefit-cost analysis on that -- on the scope of that, is that -- is that my under --

GENERAL COUNSEL JACOBS: That would -- that would be one way of putting it. I think -- I like the way I put it better.

(Laughter).

COMMITTEE MEMBER PACHECO: No, I do. I do like the way you put it better. Yeah, definitely, definitely. It's just the economist in me coming out. So, just, that's all. But no, no, I agree with you. So I just wanted some clarity on that. Yes, sir.

TIFFANY REEVES: So just to add to it. Just aligned your duty to manage the costs of the system, you want to understand what is the proposed scope of this review, and how much that would cost to undertake that review, and just have a more kind of established understanding of it before you direct staff to undertake that.

One of the other things too that I wanted to mention is that it's important for the Board to think about policymaking and good governance around policymaking, and then distinguish that from tactics. And one of the much things that you're reviewing here when it comes to labor peace, when it comes to prevailing wage, are tactics based on market practices and how these things are -- impact your portfolio in different markets. And so, with policies, you want them to be flexible enough to account for the realities of executing on your investments in those markets.

And so when you make a determination at a policy level that's going to have a broad impact across geographies, you need to have full information about what those -- what those impacts will be.

COMMITTEE MEMBER PACHECO: Thank you. I just want -- just a follow-up then. So parliamentary procedure, is it possible to ask for Committee direction for this study -- this study to be done to bring in the scope and costs, in fact, instead of lumping it into the -- into the action -- into the action item? I'm just trying to -- like how do we separate that or is that -- do we have to do another vote or how does that work?

CHAIR MILLER: Another amendment.

GENERAL COUNSEL JACOBS: Well -- am I On? You can go back to the original amendment without the -- excuse me, the original motion without the amendment and then have a separate motion on the direction. That would probably be the cleanest way to do it. But these are procedural niceties. I mean, you could really do it either way. It's -- as long as the part -- so you've got part one of the current motion, which is approve the RCP as drafted. And the second part is direct staff to explore whatever language you want to use there. You can combine it in that motion, which is now pending, although it requires a little more clarity on the second part, or you can split it up.

COMMITTEE MEMBER PACHECO: Okay. Thank you for that. And I would -- I would defer back to my colleague, Mr. Ruffino, to -- if you would.

COMMITTEE MEMBER TAYLOR: I'm next.

COMMITTEE MEMBER PACHECO: Oh, you're next. Sorry. Sorry.

COMMITTEE MEMBER TAYLOR: Thank you.

COMMITTEE MEMBER PACHECO: Thank you. Thank you very much, sir.

CHAIR MILLER: Okay. Let me get you, Theresa.

COMMITTEE MEMBER TAYLOR: Okay. I'm just going to ask for the acceptance of the friendly amendment. I'm just going to say no to the friendly amendment, and let's vote on this, and then direct staff to do what the Board seems that it wants to do. And then, you guys -- you know, if we've got everybody is in agreement, then that works -- should work fine.

CHAIR MILLER: Okay. So let me clarify, so we're back to the original amend -- the original motion --

COMMITTEE MEMBER TAYLOR: Correct.

CHAIR MILLER: -- which is to approve the RCP as proposed by staff, and have direction from the Board for staff to go forward and bring us back what it would take to do the market studies to address --

COMMITTEE MEMBER TAYLOR: Yeah. How much it would cost.

CHAIR MILLER: -- to address the questions around prevailing wage and labor peace agreements and their impact for potential inclusion in a revision of the RCP when we calendar it next.

GENERAL COUNSEL JACOBS: Is that the motion, Ms. Taylor?

COMMITTEE MEMBER TAYLOR: Yes. And I also -- I wanted to say something real quick.

CHAIR MILLER: I hope so, because I can't say it again.

(Laughter).

COMMITTEE MEMBER TAYLOR: Yeah. No. That is the motion. Basically, let's just vote up or down on the recommended action. And then, yes, you, as the Chair, can direct the Board.

CHAIR MILLER: I would be my direction.

COMMITTEE MEMBER TAYLOR: I also want to make it clear that we asked for this RCP review. And at any time, the Board can ask to re-review the RCP, especially as we're looking at the implementation of the new stuff that's in this. So at any time, the Board can say, hey, I'm not seeing this being implemented right. I'm seeing it as a check box or something like that. So, at any time, the Board can bring that back forward.

So, yes -- actually, the last time we did it was in, I think, '23. We just saw it at beginning, right, 20 -- or before that it was 2017 -- '15. So it wasn't 10 years. It was quite -- it was eight years or so.

Anyway. So, yes, my motion is to approve the recommended action on Agenda Item 6a. And it was seconded by?

CHAIR MILLER: Director Palkki.

COMMITTEE MEMBER TAYLOR: Yeah

COMMITTEE MEMBER RUBALCAVA: I seconded.

CHAIR MILLER: Oh, Ramón had the second.

CHIEF EXECUTIVE OFFICER FROST: Second by Ramón.

CHAIR MILLER: Okay. Okay. So continuing the discussion, I have Director Walker.

COMMITTEE MEMBER WALKER: Oh. No, I meant to pull myself off.

CHAIR MILLER: Okay. Then I have Director Rubalcava.

GENERAL COUNSEL JACOBS: For clarity, that's -- for clarity, that's 5a. Ms. Taylor mentioned 6a.

COMMITTEE MEMBER TAYLOR: I'm sorry, 5a.

GENERAL COUNSEL JACOBS: Yeah. Thank you.

CHAIR MILLER: Okay. Any further discussion?

Yeah, I will call for the question.

Oh.

COMMITTEE MEMBER RUBALCAVA: No. No. I'm fine. I withdraw.

CHAIR MILLER: I'll call for the question.

BOARD CLERK ANDERSON: Mullissa Willette?

VICE CHAIR WILLETTE: No.

BOARD CLERK ANDERSON: Malia Cohen?

COMMITTEE MEMBER COHEN: Abstain.

BOARD CLERK ANDERSON: Michael Detoy?

COMMITTEE MEMBER DETOY: Aye.

BOARD CLERK ANDERSON: Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: No.

BOARD CLERK ANDERSON: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: No.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK ANDERSON: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

BOARD CLERK ANDERSON: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK ANDERSON: Dr. Gail Willis?

COMMITTEE MEMBER WILLIS: Aye.

CHAIR MILLER: Okay. I believe the ayes have it.

Okay. Thank you. That's -- the motion passes.

And that brings us to our information items.

6a, CalPERS Trust Level Review consultant report, what you've all been waiting for.

Come on down. Welcome to our consultants.

COMMITTEE MEMBER TAYLOR: David?

CHAIR MILLER: Yeah.

COMMITTEE MEMBER TAYLOR: Weren't you supposed to have Boar direction.

COMMITTEE MEMBER RUBALCAVA: Supposed to do Board action -- Board direction.

CHAIR MILLER: Okay. Yeah. I will repeat the Board direction that went along with that, that staff will come back to us with a package related to the market studies to understand and potentially use in future revision on prevailing wage and labor peace agreements as part of our RCP. Okay.

CHIEF EXECUTIVE OFFICER FROST: Got it.

COMMITTEE MEMBER RUBALCAVA: Thank you.

CHAIR MILLER: Okay.

(Slide presentation).

TOM TOTH: Ready to go?

CHAIR MILLER: Yes.

TOM TOTH: Good afternoon. Tom Toth with

Wilshire Advisors. The trust level report includes a number of slides on Wilshire's market outlook to provide some context around portfolio performance. Just a couple of comments on the broad economy. As we saw global economic growth moderate in 2024 with stability in U.S. growth being offset by weakness in other advanced economies.

As we move forward in 2025, Wilshire sees a higher probability of lower real growth as the lagging impacts of tight monetary policy and tariff disputes weigh on the economy. The uncertainty around the scale, scope, and timing of tariffs could lead business to delay investment decisions and to take a more cautious stance on hiring. Furthermore, credit and equity valuations are elevated, which has important implications for our expected market returns moving forward.

And I want to spend a few minutes talking through that dynamic. If we could flip forward to slide four --

[SLIDE CHANGE]

TOM TOTH: -- we've highlighted a few of our key asset class assumptions. Specifically, I wanted to focus on the expected equity risk premium, which is highlighted in red on the bottom right-hand side. The equity risk premium is currently negative. And you can think about the expected -- equity risk premium as being the compensation that investors receive for taking on investment risk. And it's usually a positive number, somewhere between one and a half to four percent.

The next set of slides plots the cumulative returns by decade for historical context and I'll focus on slide eight, again related to that equity risk premium --

[SLIDE CHANGE]

TOM TOTH: -- where we show the cumulative return that investors have received for investing in stocks relative to bonds. And we've circled the 2020s there, and you can see that investors have received outsized returns relative to other decades so far in the 2020s. This has led to pushing valuations higher. And if we flip to slide nine, this quantifies how changes --

[SLIDE CHANGE]

TOM TOTH: -- in valuation can impact capital market pricing. I'll just focus on one number on the bottom table there on the far right-hand side. Valuation contributes about three quarters of the risk for U.S. equities. In other words, investor sentiment around fear and/or greed significantly impact capital market pricing. So valuation is important. And on page 11, we plot a number of equity market metrics.

[SLIDE CHANGE]

TOM TOTH: And you'll note that all four of those are currently price plotting at one standard deviation expensive.

So why does that matter?

It's nice to talk about valuations, but what does that mean going forward?

Historically, starting valuations have been indicative of future realized equity market returns. And on page 12, we've charted two examples of this.

[SLIDE CHANGE]

TOM TOTH: On the left-hand side, we show the price-to-earnings ratio for the U.S. equity market and subsequent five-year excess returns. Higher valuations plot to the right and tend to lead to lower realized returns. The right-hand chart shows a similar dynamic for a different valuation metric. That's the CAPE ratio, or the Cyclically Adjusted Price-to-Earnings Ratio, and we show that relative to 10-year forward-realized returns.

So the combination of high valuations, uncertainty around economic growth, and declining consumer confidence has set up to be a challenging environment for institutional investors, such as CalPERS. So it's important to ask how was the CalPERS portfolio structured to manage in this environment?

The CalPERS portfolio includes diversifying exposures to fixed income, and factor-weighted equity, as well as private asset classes to reduce downside volatility. The ongoing discussion around the total portfolio approach can also provide implementation flexibility to manage risk, and ultimately capitalize on market dislocations.

On page 13 --

[SLIDE CHANGE]

TOM TOTH: -- we provide Wilshire's expected return for the target portfolio. On the left-hand side, you can see over 10 years, our expected return at about 6.4 percent and 7.3 percent over the 30-year time frame, with expected risk or volatility of 13 percent.

Now, markets have been very volatile recently with U.S. equity bouncing back a bit over the last few days after entering into a correction for the first time since 2023. As such, I'll keep these last comments on past performance fairly brief.

If we turn to page 23 --

[SLIDE CHANGE]

TOM TOTH: -- the total fund declined modestly in the first -- fourth quarter with a return of minus 1.1 percent, slightly behind the benchmark return of negative 0.7 percent. The full calendar year, however, was up nine percent. Although, it did underperform the policy benchmark by 1.9 percent. As you look at those one-year returns across asset classes, the best performing asset class over the past year was public equity up 16 percent followed by private debt and private equity with were -- with -- were both up double digits.

Real estate did lag other asset classes with a return of negative 1.7 percent, though it did meaningfully outperform its benchmark. And to dive into some of the drivers of the relative performance between the portfolio and the benchmark, if you would turn to the calendar year attribution on page 26.

[SLIDE CHANGE]

TOM TOTH: You'll note the private equity comparison was the largest relative performance driver. As we've discussed in the past, and you've heard from staff, this is driven by the benchmarking of private equity to a public equity benchmark plus a premium. We would expect through time that those impacts are going to moderate as valuations in private markets catch up to public markets or vice versa.

In fact, as you think about the current environment, private market valuations are likely to hold up better in the recent downturn, though we won't see those impacts until later this year. It's also worth noting that private equity has been the best performing asset class over the past 10 years returning 11.1 percent, while public equity was up nine percent over the same time period. We expect private equity to continue to be a meaningful contributor to total fund performance moving forward.

I'm happy to take questions around the economy or the portfolio before I turn the presentation over to Meketa who is next.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you -- thank you, Tom, for your candid remarks. With respect to the economics and so forth, how the geopolitical issues playing into this -- into the returns and so forth, if you can elaborate on that?

TOM TOTH: Sure. I think elevated geopolitical concerns it ultimately leads to more risk. We lived through that with the Russian invasion of Ukraine, where capital markets there reacted, you know, very negatively. Other geopolitical flash points that you think about East Asia, China, and Taiwan. We would expect, you know, similar levels of volatility. So thinking about how to manage through that I think is key from a risk management standpoint for any institutional investor.

Now, that being said, timing that is a challenge, which ultimately brings us back to first principles from a portfolio construction standpoint, which is one of diversification, not concentrating in any one particular asset class to try to spread out your bets, so to speak, to dampen some of that geopolitical uncertainty.

COMMITTEE MEMBER PACHECO: So with respect to like more geo -- geographically -- spread the risk around the globe and so forth, is that what you're saying?

TOM TOTH: That's correct.

COMMITTEE MEMBER PACHECO: Okay. Very good then. And then with respect to any inflationary concerns in the United States and so forth, do you see that -- have you seen -- when you were doing the analysis here, how is that playing out and so forth. I know it spiked a little bit, but I'm just curious what your thoughts are.

TOM TOTH: So the Federal Reserve and the actions that they took to increase interest rates brought inflation down quite a bit.

COMMITTEE MEMBER PACHECO: Right.

TOM TOTH: However, it sort of flatlined at call it about three percent inflation and has been kind of stuck there for some time. And I think the big concern that markets are wrestling with currently is what the impact of tariffs might be on inflation. Estimates there are it could be a tailwind for inflation to the tune of 30 to 60 basis points, which is pretty meaningful when we're talking about inflation -- an inflation target of two percent, and actual inflation closer to three.

COMMITTEE MEMBER PACHECO: And that is the target that the Federal Reserve wants is to be at the two percent level.

TOM TOTH: Correct.

COMMITTEE MEMBER PACHECO: And we have not been there -- when was the last time we were there? We were there before COVID or I don't recall.

TOM TOTH: 2021 we probably would have been back around the two percent number.

COMMITTEE MEMBER PACHECO: And we've just been hovering at three percent right now. All right. Very good, sir. Thank you very much for your comments.

TOM TOTH: You're welcome.

CHAIR MILLER: Okay. Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. Just curious from your perspective, are there any emerging investment teams or structural market shifts that CalPERS should proactively consider in future investment decisions?

TOM TOTH: So in terms of structures, I think the partnerships that the Investment team has engaged in with strong managers is a structural tailwind and benefit for the portfolio as a whole, and being able to drive strong opportunities. And then implement those opportunity, I think that is very much a benefit for the CalPERS portfolio. As Stephen is working with the Investment team's total -- the Total Fund management team and looking for other alternative risk premia with that still under investigation and is ongoing, that's another opportunity to add value to the total portfolio, done judiciously and at appropriate size.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Thank you. Thank you, Mr. Chair.

CHAIR MILLER: Okay. I have no more requests to speak from the Board, so I thank you for --

TOM TOTH: Thank you.

CHAIR MILLER: -- your report. And I guess it's time for Meketa to come up.

And welcome.

STEVE McCOURT: Good morning, Mr. Chair. Steve McCourt, Meketa Investment Group, here to present the summary of our trust level reviews for the four private market asset classes, private equity, private debt, real estate, and infrastructure. I've got asset class-specific experts behind me to answer your difficult questions after my summary.

Just to remind you, Meketa conducts these trust level reviews to assist the Investment Committee in its responsibility to monitor the delegated authority that it's provided to staff in each of these asset classes.

We work with staff on an ongoing basis and monitor their investment activity. These reviews provide us an opportunity to provide you our independent thoughts and assessment of performance, implementation, and policy compliance.

All four private market asset classes are invested within policy parameters and in a manner consistent with their respective strategic plans. From a market perspective, I'll highlight that the private market asset classes are not as impacted as the public markets are from day-to-day volatility. It's too early to tell what impact tariffs and other elements of the current economic policy will have on the private markets, but it's something that we and your staff are focused on.

Historically, all four private market asset classes have produced favorable returns. Three of the four, private equity, private debt, and infrastructure have produced long-term returns roughly at or above 10 percent per year, higher than public securities, public stocks.

Real estate, over the last decade, has returned roughly half that, a return about halfway between that of stocks and that of bonds. All the asset classes have performed within long-term expectations in your capital market assessments.

Speaking to a little bit of detail on each of the four asset categories without being redundant from prior commentary. The private equity portfolio for the year returned 11.9 percent, strong absolute return. 21.8 percent below the return of the benchmark, which is the public equity market plus 150 basis points. Over longer term periods, the return of the private equity portfolio has also been very strong on an absolute basis, up 13.3 percent per year over the past five years and 11.1 percent per year over the last 10 years. Those returns are slightly below the benchmark, but higher than public equity returns over those same time periods.

The bulk of the capital in your Private Equity Program continues to be invested in buyout strategies and growth equity opportunities. Those also are the areas that have had some of the strongest results longer term. We'll also highlight that one of the near-term initiatives within private equity over the last several years was to increase the amount of capital deployed through co-investments. And over the course of the year, co-investments were your highest performing type of investment vehicle, up 15.5 percent. It was also the highest returning component of the program over the past three years.

Now, I'll just highlight that the program continues to be directed with an eye towards the strategic plan, which calls for $15 billion roughly of committed capital a year, increasing cost efficiency through the use of co-investments and lower cost customized investments accounts, enhanced diversification into more venture growth equity and middle market buyout strategies, and elevating relationships with highly sought after general partners.

Switching to private debt. This is your newest private market program. And our performance record for private debt goes back a little less than five years at this stage. Returns were quite strong for the year, up 14.5 percent, surpassing the return of the benchmark by 3.6 percentage points. And since inception, the private debt portfolio is up 10.5 percent per year, 2.6 percent higher than the return of the benchmark. Our only observation here is these are significantly higher returns than long-term expectations for the asset class. So there's some potential that these returns will moderate in future years.

The private debt portfolio continues to be operated in compliance with all policy parameters and consistent with the strategic plan. It has continued to be in a ramp-up phase with significant capital deployment over the last year.

Switching to real estate. Real estate completed its second consecutive year of negative returns, driven by both rising interest rates and COVID-related dislocations in the real estate markets. The one-year return for your portfolio was negative 6.3 percent, slightly above the policy benchmark of negative 7.9 percent.

Your portfolio today is roughly 90 percent invested in core properties that you've really focused the strategy on over the last 15 years. Those core properties have had returns that have exceeded the benchmark level over the last five and 10 years. And it's noteworthy that as real estate markets have experienced some level of distress in recent years, your staff is beginning to look at some deployment, again in value-added strategies, that are achievable at a better price point today than they have been in many, many years.

Finally, I'll highlight infrastructure. Infrastructure also had a very strong year from a performance perspective, up 13.1 percent. You'll recall that the benchmark for infrastructure today continues to be the real estate benchmark, which was down 7.9 percent. So the outperformance of infrastructure was 21 percentage points for the year. Over longer-term time periods, the infrastructure asset class for CalPERS has returned 8.1

percent per year over the last five years and 9.6 percent per year over the last 10 years, easily outpacing its benchmark, and also the forward-looking capital market expectations for the asset classes over those time periods.

With that, I'll conclude my comments and happy to take questions on any of the four asset classes.

CHAIR MILLER: Okay. Thank you for that. And we do have questions. I'll start with Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you. Thank you, Mr. Chair. Thank you for the presentation. I'm very interested in hearing a little bit more about the private equity. In your memo, you mentioned how it's good -- I mean, the co-investment has been proven to be the right direction, and I'm glad that we -- the Board has a preference to do that and we're doing that, but we also change the benchmark recently. How has that impacted our returns and was it -- you know, can you give us -- was -- does that reinforce it was the right thing to do or not? And I understand from the memo, there's a lag with the private -- with the public sector -- so, I mean, public equity, and that's why we're where we are. But that's the first question and maybe it's related to the second one. I don't know.

And I notice we're way behind the benchmark for year one. So how does changing the benchmark impact those results or findings?

STEVE HARTT: Thanks very much. Steven Hartt, Meketa Investment Group. The performance of the -- as we -- as Stephen described, the performance of the private equity co-investment segment of the program over the last several years has been strong. It's been the strongest segment of the private equity program. So that kind of buy itself shows some positive aspects to it.

So some of that performance is undoubtedly driven by the fact that there is lower or no fees and carry compared to the fees and carry that are charged to the fund. So structurally, the co-investments have extra advantage there. And some of that advantage is undoubtedly being reflected into the performance of that segment of the -- of the asset class.

So, as we've talked about over the years that using CalPERS advantage of size and scale to be able to take advantage of these structural benefits of the lower fees, really makes sense for the program, and that's been executed over the last several years, so look to continue to see that. So that seems to me a good choice for CalPERS.

You asked about the changing of the benchmark. That was done, if I recall, in 2019.

STEVE McCOURT: 2018.

COMMITTEE MEMBER RUBALCAVA: Oh, that was done --

STEVE HARTT: 2018. So that was a long time ago where there was a slight change to the -- both the index and then the premium. So that was -- that was quite a while ago.

COMMITTEE MEMBER RUBALCAVA: Okay. I keep hearing -- reading headlines anyway that it's taking longer for distribution from the private fund stuff. Has that impacted our does it -- does that matter to us because we're going more to the co-investment and does it matter if it's -- we're into buyout or growth on that issue?

STEVE HARTT: So it has been noted that, you know industry-wide there's been a slow down in the distributions. The rate of activity in the private equity market has been lower pretty much across all of the different segments buyouts, growth, and venture. The -- as a -- as a long-term investor in the private equity asset class, it doesn't affect CalPERS that much. Just those sorts of ebbs and flows are not the biggest consideration.

I would say that the tilting towards more co-investments will make both the deployment of capital a little bit more quick, and should make the return of capital also a little more quick, because instead of -- with the funds making a commitment to that fund and then that being drawn over -- drawn down over say five years and then ultimately recouped, the co-investments generally are deployed on day one. That capital is put in the ground right away and would be, you know, back within the time frame in a shorter time than generally the way that the funds are being -- you know, how those generally self-liquidate.

COMMITTEE MEMBER RUBALCAVA: Thank you. Thank you for the question. Thank you for the answers.

CHAIR MILLER: Okay. I'm not seeing any other questions or requests to speak.

One of the things that I -- we did talk a little bit in our briefing, but -- and it still strikes me that, you know, as we've moved into doing much more in the private equity and private asset space, I have to say that I am pleasantly surprised. I'm encouraged -- I, frankly, was a little skeptical. I thought it would take us much longer to really regain our footing and to be seen as a trustworthy, credible partner, and to be able to get capital deployed with the quality and scale that we hoped for and envisioned.

And I just hope to see that continue. And I think that opportunities -- the opportunity sets in the private space are going to continue to grow relative to the whole market. I mean, we saw that, that if we weren't there, we'd be missing opportunities. And I don't see that slowing down.

And so, do you think that's going to continue? Do you think we'll still continue to see this burgeoning move toward more opportunity in the private space and -- or do you think that slows down and stabilizes sometime soon?

STEVE McCOURT: Yeah. Interesting question. The trends certainly favor, for most of the private market asset classes, continued growth and opportunities. Arguably, the private equity asset class has grown in part because of the growing preference for companies to remain private as opposed to going public. So absent a change in regulation or other characteristics of being a public company, one might expect that preference to continue. Private debt has grown its opportunity set largely as companies' financing needs have increased in the face of less significant lending from traditional banking channels. And so, unless banks releverage their balance sheet and pursue much greater lending activity, one might expect a continuation of further opportunities in the -- in the private debt area.

And infrastructure, you know, likewise is, you know, arguably now a growth industry in this country and much of the world and one that appears to be financed predominantly through private capital as opposed to public capital. So one can't predict, you know, these trends obviously, but a lot of the reasons people have pointed to towards the increased popularity of private financing over the last couple of decades are still in place today.

CHAIR MILLER: Yeah. Some good, some not so good, but all good reason for CalPERS to be, you know, playing a leadership role in bringing our values to the way we do things there.

Great.

Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Mr. McCourt. I'd like to ask you a question regarding the private debt. And I saw that in the private debt area with the diversification by strategy, as of December 20 -- December 31st, 2024, the majority of our -- of our strategy was in the direct lending. Is that a trend? Is that a trend in the industry, in that -- in that -- with respect to direct lending versus specialty lending, if you can elaborate more on that?

MARY BATES: Thank you. So general speaking, many plans do start with direct lending when building out -- building out allocations. You are, as a plan, looking to diversify and are actively diversifying your exposure across other strategy types. So over time, one should expect that direct lending allocations to decrease as a percentage of your total program, as other components grow.

COMMITTEE MEMBER PACHECO: Oh, I see. And then with respect to structure, I noticed there was also a small component of co-investment in the -- that would be the similar idea or trend?

MARY BATES: Your staff is similar to other components of the program being very strategic with their investment managers and leveraging your size and scale to secure preferred economics on behalf of the plan. So, yes, one should expect that to continue to grow.

COMMITTEE MEMBER PACHECO: Excellent.

STEVE McCOURT: Add just to add to that, because there's a little bit of a categorization challenge with private debt --

COMMITTEE MEMBER PACHECO: Yes

STEVE McCOURT: -- the reporting shows one percent of NAV and co-investments as a category. But most of your co-investments fall under the customized investment accounts with the relationships that you have with managers where you commit capital to funds, but then they'll provide access to co-investments in that -- in that vehicle. So just be aware you have more than one percent in co-investments in private credit.

COMMITTEE MEMBER PACHECO: So it is actually more than just one percent --

STEVE McCOURT: It is.

MARY BATES: Absolutely.

COMMITTEE MEMBER PACHECO: -- because it's part of the CIA.

MARY BATES: Correct. Yes.

STEVE McCOURT: That's right.

COMMITTEE MEMBER PACHECO: Oh, I see. Now, that makes -- that makes sense. I didn't understand that when I was reading that before. Thank you.

And then the other question I have is -- the other one is infrastructure. It's basically the -- I was reading about the data centers and so forth. And I just wanted to understand. It seems to be the trend is still focusing on data centers and on infrastructure there, because of the AI and so forth, but if you guys can elaborate more on that.

STEVE McCOURT: Yeah. Data centers have become sort of a massive growth area for capital deployment across a number of asset categories, but probably infrastructure most significantly. And the infrastructure capital has flowed into data centers at sort of two levels. One is at the data center level itself, building, owning, leasing out data center capacity, but the other is because data centers are so energy intensive, infrastructure strategies have supported energy generation to support the energy needs of the data centers as well. So -- and both of those are very high-scale large-scale, capital intensive endeavors.

To date, there's still strong -- a strong belief that data center development in the U.S. and outside the U.S. is likely to be strong for some time. There's differences of opinions on how strong. But just to give you a sense of the magnitude on the energy generation side, which was noted in past CalPERS meetings, energy generation capacity in the U.S. has roughly been flat for the last decade, maybe slightly positive, largely because of data center development. Depending on who you speak with, many people expect that the demand for energy generation within the U.S. will grow at two to four percent per year for the next decade. So a significant change in the landscape of energy generation, transmission, and then data center usage as well. So it's been a big topic for many asset classes. Infrastructure is probably most impacted by it and it's become a meaningful sector within most infrastructure strategies.

COMMITTEE MEMBER PACHECO: I found that

interesting, because I've been reading some articles that I believe these small nuclear modular reactors are helping supporting some of these data centers and so forth, and to provide the -- supplement the energy usage of these -- of these large data centers around the world.

Thank you so much for your comments.

CHAIR MILLER: Yeah. Okay. I'm seeing no further requests to speak from the Board. I know we have public commenters on 6a, and so I'll ask them to come on down. Mark Swabey, Frank Ruiz, and we have some on the phone as well. So we could queue up our phone caller first as the others make their way down.

STAFF SERVICES MANAGER I FORRER: Mr. Miller, our caller for Item 6a hung up.

CHAIR MILLER: Oh, they hung up. Well, they're missing out, but maybe they'll come back on before the end of our meeting and we can get them in.

Okay.

STAFF SERVICES MANAGER I FORRER: Sounds good.

CHAIR MILLER: Yeah, they're coming down. Now, I finally called you down at the right moment.

MARK SWABEY: I think so. We're pretty close.

Pretty. Close we can't -- we can comment on this subject.

CHAIR MILLER: They're doing better at realizing

I need big print. Now, I've got nice big print and I still get it mixed up, but at least it's -- I can read it now.

MARK SWABEY: Okay. Well, thank you members of the -- My name is Mark Swabey. I am a CalPERS retiree, 32 years with the -- in State service, much of that with Caltrans.

Thank you members of the Investment Committee, CalPERS executives and staff, Meketa and Wilshire contractors, and all other attendees, and I wish you all a Happy Saint Patrick's Day.

Commenting on the Private Equity Program, or PEP. They have asked for 17 percent of the FY 25-26 Public Employees' Retirement Fund, or PERF, approximately $85 billion.

I am asking the Board in a future action item to allocate only 12 percent of the PERF to the PEP for the -- with the following reasons in mind and other investments together, to increase returns and bring more liquid assets to the PERF: twelve percent of the PEP, five percent to public equities to establish perhaps a public equity dividend-focused portfolio perhaps with asset management industry stocks. These would include companies such as Apollo, Ares, Bain, Blackstone, BlackRock, Carlyle, KKR, Oaktree lending, and TPG.

Such an allocation -- such an allocation would encourage the PEP to mark to market its maturing contracts to obtain revenue to augment a 12 percent PEP. This would also reduce the PEP portfolio of mature and maturing contracts on the AIV excerpt that we submitted to the Board.

We would also ask that the -- as a tactic, that the contracts would be changed to a minimum of 2.5 to 4 billion dollars each contract. This would encourage the G -- the general partners to return money in billions to CalPERS and would also result in fewer than 50 contracts per year.

Please approve this request to the CalPERS executives. Thank you for your time.

CHAIR MILLER: Thank you.

Next commenter, please.

FRANK RUIZ: Thank you for allowing me, Frank Ruiz a CalPERS retiree, an opportunity to address the CalPERS Board guests and CalPERS staff. Thank you for your report presentations from Meketa and Wilshire, and also likewise Happy Saint Valentine's Day.

(Laughter).

FRANK RUIZ: So, it's welcome back to the upside down, substandard deviation world of private equity nightmare investing. The question is why is a caterpillar like a private equity contract? Why? Why is a caterpillar lake a private equity contract? Both have the ability to transform themselves into something new. As in Alice in Wonderland, Absolem the caterpillar transforms into a butterfly. As butterfly he flies away to add beauty and wonder to Wonderland.

Private equity contracts have a similar ability to transform themselves into revenue-generating income for CalPERS. However, not in the present form. In the current process, the PEP contracts are links in a chain that keep CalPERS from attaining a 600 billion to a trillion dollar plateau. The PEP contracts are squeezing investment billions into a non-transforming cocoon that will continue to lose billions for CalPERS.

Both the Meketa report, Agenda Item 6a, Attachment 3, page one of 10, and the Wilshire report, Agenda Item 1, page 65 of 66, perform the continued underperformance of the 13 to 17 percent industry benchmark for private equity. The promise of private equity was an investment return of 13 to 17 percent. We do not see in the PEP asset class performance on the Wilshire chart presented on page 65 how can an asset class with 98.7 -- 98,799,656,719 billion invested not be in the chart. Why isn't it in the chart? What has happened to private equity? It should be here, so that we can actually see what the investment returns are over a five-year period.

The CalPERS alternative investment vehicle report for fiscal year '23-'24, Agenda Item 4f, Attachment 1, page 13 verifies our observation that the PEP has not returned the principal billions nor any additional returns invested in the program for 26 years. There it is. Right here in your report given to you fiscal year '23-'24 on the bottom line. Looks for yourselves.

As a consequence, the request for an additional 17 or a five percent incremental discretionary increase from PERF for fiscal year '25-'26 and '27-'28 is not a data-driven request. If approved, the PEP will have 80 billion from fiscal year '23-'24 and another 85 billion from fiscal year '25-'26, or 185 billion from the PERF. If continued for fiscal year '26-'27, the PEP will have 250 billion, or 48 percent of the PERF. In addition, if CalPERS approves an additional five percent discretionary investment or 10 percent for the next two years --

CHAIR MILLER: Okay. Wrap it up. Your time

FRANK RUIZ: -- it will have 301.6 billion, or 58 percent of the PERF.

CHAIR MILLER: Okay. Your time's run.

FRANK RUIZ: I'm done. Thank you for your time --

CHAIR MILLER: Okay. Thank you.

FRANK RUIZ: -- and attention.

CHAIR MILLER: You bet.

Okay. And did our caller come back on?

Yeah, our caller is back on, we'll go to your caller.

STAFF SERVICES MANAGER I FORRER: Hi, Mr. Miller. Teresa Ramirez is on the line to speak to Item 6a.

CHAIR MILLER: Okay.

STAFF SERVICES MANAGER I FORRER: Go ahead Teresa.

TERESA RAMIREZ: Hi. This is Teresa with UFCW Local 881. I have Herminia here from Tony's Fresh Market and she would like to make a comment. Herminia.

HERMINIA(through interpreter): (Spoke in Spanish.)

CHAIR MILLER: Okay.

TERESA RAMIREZ: I will now translate her statement into English for everyone.

CHAIR MILLER: Okay.

HERMINIA(through interpreter): Hello. My name is Herminia and I have worked at Tony's Fresh Market in Chicago, which is owned by Apollo for nine years. My co-workers and I have filed for our union election one month ago. And since then, we have faced daily harassment by management in our store. The company has started by pulling everyone from one department into a meeting and telling us that we already have sick days, funeral leave, vacation, and insurance, saying why would we need a union?

The truth is we don't always get these things. We don't always get these things. And when everyone tried to speak up in those meetings and ask questions, like why our insurance is getting so high, they acted irritated and shut us down. Then they started sending in HR, store managers, and all the former family owners like Tony and his extended family. Now, every day, they are coming into the store and telling us not to vote for the unions, including Tony's sons and grandsons.

Many of my co-workers are scared for their jobs. Every day, they are seeing text message and fliers telling them to vote no. Many of my co-workers are now afraid to vote yes for the union, because they were told by managers that if they vote yes, then the union would ask for your documentation. We were also told that we would have to pay a $250 initiation fee and $50 a week in dues. None of this is true, but it is scary for people to hear.

The managers are also questioning us one-on-one. That pulled me aside and interrogated me asking why are you voting for the union? And he made a comment why are you so angry? I told him it's because we are tired of the way you treat us, the way we don't get can increase, and I'm upset because we deserve better.

Imagine, every day being confronted by managers and former owners of the company with pressure to vote no. On Friday, I worked from 7 a.m. to 3 p.m. And they came in as early as 6:30 a.m. and were still there when I left from work. This is making work stressful and scary for us, not knowing when you will be approach by someone. When I first started at Tony's, I would get a review every six months and a pay increase. Ever since Heritage came in, they stopped doing that. I haven't had an increase in a year.

We are tired of false promises of improvements that don't come. We are tired of doing the work of two to three people. We want a better life, better wages, better treatment. Ever since Heritage took over, it's been false promises, which is why need a union contract. Customers support the workers and see that we are short staffed. Customers ask questions like why aren't there more people? And it's sad, because want to have more people.

So Heritage, it's time to respect us, and hire more people, and give us more hours.

CHAIR MILLER: Thank you very much.

Okay. I think that does it for the public comments.

At this point, I think we'll recess for lunch and let's come back at 12:30 -- 1:30, does that work?

1:30 back here. See you soon. Enjoy your lunch.

(Off record: 12:47 p.m.)

(Thereupon a lunch break was taken.)

AFTERNOON SESSION

(On record: 1:32 p.m.)

CHAIR MILLER: Okay. Welcome back, everybody. I hope everyone had a nice break, a nice lunch. And we'll be jumping back in, reconvene here, for Item 6b, the CalPERS Trust Level Review.

Here, we go.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. I'd actually like to start by inviting Peter and Nelson to comment on sustainable investment and our climate solutions, given that it's fairly topical and we've come out with a letter today.

Peter, I'll pass it over to you.

MANAGING INVESTMENT DIRECTOR CASHION: Thank you, Stephen. Peter Cashion, Head of Sustainable Investments.

I appreciate the opportunity to comment and clarify on our approach to climate solutions and our commitment to decarbonizing the economy with the clear objective to generate outperformance.

First, I'd like to reference the open letter that was posted today on the climate solution accounting approach. This is entitled, "CalPERS Sets the Record Straight on its Climate Action Plan," and it addresses many of the comments that were raised today. First, I'd like to present the approach we have for determining a climate solution.

As you know, our current climate count, based on 2024 data is $50 billion, up from 47.3 billion in 2023. We have three criteria for determining a climate solution. The first is mitigation. This is a company that provides or enables green products for services. The second category is adaptation. So this is where a technology or services -- or service is used to prevent or respond to a climate change impact. In the third category, which is very important, is transition. These are companies that operate in high-emitting or hard-to-abate sectors that have credible Paris-aligned decarbonization plans.

In terms of measuring these solutions, we have publicly shared our approach since November 2023 and we use globally recognized data providers, such as Bloomberg, FTSE, and MSCI. And we often choose the lower estimate from this group, or at least an average amongst them to maintain full conservatism.

I'd like to comment on the CCG report. And their report states that CalPERS includes some investments in the oil and gas sector as climate solutions. Indeed, this is correct. CalPERS does classify a small proportion of its investments in the oil and gas sector as climate solutions. This is because CalPERS takes a balanced- and science-based approach to classifying investments as full or partial climate solutions, and we focus on the activity rather than the ownership.

We don't believe in an all-or-nothing approach, rather balanced and pragmatic and give credit where credit is due. The report lists seven oil and gas companies that are in CalPERS portfolio that have a climate solution. Two percent of these -- of the exposure to these companies, or $67 million, we've classified as climate solution. This is because those companies had green biodiesel, green hydrogen, carbon capture, or sustainable aviation fuel, as based on these data provided by the providers.

It really is warranted to provide partial climate credit solution, if it meets our criteria. And this has been part of our methodology from the start. It reflects our belief that a green asset is a green asset, regardless of corporate ownership, and it should be accounted for accordingly. A green asset on an oil producer's balance sheet is as green as if it was held by a stand-alone entity.

I'll make a quick comment on net zero by 2050. This is what CalPERS has embarked upon. But, in fact, it's a requirement and an objective across the entire economy and will require all actors, including oil and gas. It is for this reason that we must engage with oil and gas -- oil and gas companies, and we must identify and even promote the green business lines that they enter.

We are, in fact, already doing this with our climate transition index. Here, we factored in climate risk, such as physical risk and transition risk. And in the oil and gas sector, we've significantly underweighted those companies that do not have a credible transition plan. We deployed over five billion to this strategy in July 2024.

I want to briefly comment on transition assets. This is -- these are high emitters that have made commitments that have been validated by external third-party providers to transition from brown to green. It's critically important that we include these types of companies in our mix, because we want to help decarbonize the entire economy, not just superficially our own investments in portfolio. We want to make a contribution beyond ourselves.

We've also had our approach reviewed by Mercer, most recently in November 2024, where they stated that our approach is generally aligned with global standards, such as the invest -- Institutional Investor Group for Climate Change Standards. They also identified in that report potential greenwashing risks. We have taken all those on board and factored them in to our methodology, so that we take a conservative and resilient robust approach.

Looking forward, the most important part of our Climate Action Plan is not what's in the ground today, but what we intend to do going forward. This is the incremental $50 billion that we plan to invest in climate solutions by 2030. As we know, we're doing that to generate outperformance, put CalPERS on a pathway to net zero, and also contribute to the decarbonization of the entire global economy. This is really our focus and our objective. And we are coming at this from each of the six different asset classes and we have a very robust and strong plan in place.

Thank you very much.

CHAIR MILLER: Okay. Thank you. I have a question from Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you so much. Really appreciate it. I was glad to hear that, you know, the understanding -- I mean, the perspective that we have to take a balanced look, and we're actually conservative in what we count. So I guess -- and I understand the whole thing about a green bond, a green bond, but how do we -- how do we -- I guess, what assurances do we have that they are actually doing that? I mean, how do we know they're not issuing a bond to get cash in, and get our money in? I mean -- I mean, it's a little naive question, but I just want to make sure we know that, you though, a green bond is a green bond, right? It's not -- like you said, we have -- you have Mercer looking at it. You have -- we're taking a conservative approach. I just want to make sure the obvious question is. I want to make sure we're not being hood-winked or anything like that, right?

I just want to say it.

MANAGING INVESTMENT DIRECTOR CASHION: So the -- yeah, so very good point.

COMMITTEE MEMBER RUBALCAVA: So I can say -- I can repeat this to people when they ask. Thank you.

MANAGING INVESTMENT DIRECTOR CASHION: Very good point, Mr. Rubalcava. So the International Capital Markets Association, ICMA, is one of the leading green bond standard setters. So, issuers need to comply with that. And then there are also, particularly as it relates to transition, there are bodies, external third parties, that review and validate those plans. So there is review and validation of commitments that have been made.

We do rely, as I said, on external party data, such as MSCI, FTSE. So there is, you know, that -- we need to have that confidence that they are identifying the correct amount of green revenues, a correct proportion.

COMMITTEE MEMBER RUBALCAVA: Thank you. This is exactly what I want to hear. There is review and validation. That's what I need.

So the only area where I guess -- where there is honest disagreement is whether we should be even involved with oil companies and all that, but -- because CalPERS does believe in invest -- engagement, that's what we're doing. And so I think I got it. Thank you very, very much. I'm good, Mr. Miller. Thank you.

CHAIR MILLER: Okay. Thank you. I'm not seeing any other requests to speak. And I appreciate your coming up and making the comments and we'll move on.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. Could we go to the first, please.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Now, we've already heard from Tom and Steve, so I don't really want to repeat all the information they Provided. I'll just highlight a couple of things. One of the numbers you can't see on there is the nine percent return for the 12 months to the end of December, which is good. And you can see that fiscal year-to-date, which was the -- I guess in June to end December, 4.1 percent. But of course a lot has happened since then. And that's really what Lauren and I are going to be talking about, because we've had inflation expectations, you know, coming up a bit with tariffs being proposed or implemented. We've got growth expectations a little bit lower. We've had some very important changes in the fiscal sings in Europe, geopolitical events as well. So, I think it's worth, you know, Lauren and I talking a little bit about that and how we see that.

I would also make a couple of comments on the portfolio performance since the end of December, because, of course, there has been a lot of focus on the equity market declines in the U.S. Now, of course, most of those have been concentrated in the large cap tech stocks. Our portfolio, as Tom was saying before, is more diversified in the sense that we do have that geographical exposure, so we have benefited from some of the strong rallies in -- that's at the European markets.

We also have an effect sleeve to our equity exposure, which has benefited from low vol. So there is that natural diversification within the portfolio.

With that, I would just pass over to Lauren to talk about what's happening and what's going to happen.

INVESTMENT MANAGER ROSBOROUGH WATT: He holds far too much faith in me.

Well, good afternoon, everyone. Lauren Rosborough Watt, CalPERS Investment Office.

Tom, at Wilshire, spent a lot of time talking around some of the asset market levels and some of the returns. I'm going to spend a little bit more time talking about the macroeconomy, and as Stephen said, talking about what's going on right now and what that might mean going forward.

I think it's fair to say that since January, there's been an overarching theme, and that is one of policy uncertainty that's broadened into economic uncertainty. Now, specifically, the uncertainty comes from the speed at which some of the adjustments and announcements have been made, the size of these changes or announcements relative to the prior administration, and also some of the on again, off again announcements that we've seen that's caused some uncertainty around the direction going forward.

So economic uncertainty clouds many aspects looking forward. But what we do know is that when people feel uncertain, they tend to be more cautious and more hesitant, both consumers and businesses. And that, of course, tends to lead to lower employment growth, lower income growth, lower spending growth, and ultimately lower real GDP.

Are you able to show the stylus, please.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: I ant to bring this -- apologies. I'm not very good. I'm not much of an artists. I want to bring this back to the schematic that Stephen spoke to you about in our last Board report. And if you'll recall, we had this diagram. This is a simplified version. On the right-hand side, we're talking about periods where growth -- and I've got a lower case "gdp" -- so growth rate is higher than potential in the U.S. The potential growth rate is around 1.8 to 1.9 percent per annum and on the left side there is where economic growth is lower than potential.

And vertically, to the top of this schematic is where inflation is higher than target. Now, the Fed's core PCE target is two percent, translating that into CPI, or headline inflation terms, around 2.2, 2.3 is the target. And then lower inflation below the line is when inflation is below the target.

And you'll recall we spoke last time that we were sitting -- the U.S. economy was broadly sitting about here and that is growth was running around 2.6 percent, inflation around 2.8, or was 2.8. So growth above trend and inflation above target.

When we think about what's been happening for the last two months, economists had anticipated growth this year to slow towards two and a half percent. They've now revised that down to around two for the U.S. economy. So we're broadly moving in this direction, in terms of growth. When analysts add on the impact -- the expected impact of tariffs, now there's uncertainty around that impact, and there has been some retaliatory tariffs, expectations are that growth will be moving down towards one and a half percent over the calendar year 2025. So we're moving below this potential growth into this area.

So that's the, as I said, uncertainty causes these demand side effects where people feel less certain and so don't spend or consumption falls. But tariffs are what we call a supply-side effect and also the desire to increase immigration, reduce the labor supply. These are supply-side effects that has an impact of increasing prices. And if your wallet, for example, doesn't change, but the price of what you want to buy goes up, then you can't buy as many goods as you -- as you would have wanted to.

So prices go up. The volume or real GDP growth declines. And so we're sort of moving, as I said, sort of in this diagonal direction. I tell you I'm not an artist, but there we go. Hopefully you can follow me.

This quadrant up over here was the quadrant that was titled stagflation, and you're likely to hear that in the news quite a lot. I want to be very clear around that. Stagflation is typically, from an economist's perspective, is the 1970s -- late 1970s period with inflation much higher than where expectations are for inflation to go this year, and for growth to be zero or negative, and expectations are not there. So this is in that direction. But, as I said, you might hear the narrative that it's simply moving in that direction, not necessarily designated the term stagflation going forward.

So we're looking a sign posts for the movement in the U.S. economy in this direction. It's not a very common quadrant that economies sit in and there are some quite distinctive asset responses. Tom earlier noted the forward price earnings for the U.S. was around 22. And as Stephen said, there has been some revisions in the last couple of months. The 12-month forward price earnings ratio is now around 20, long-run average is round 18. So it has come down somewhat, but still remains above that long-run average.

Just to finish off, Stephen also mentioned -- and maybe to respond in part to the questions earlier around some of the geopolitical side, and some of the geography, just to point around Europe. Now, when there are surprises in policy announcements, there's often unintended consequences. And they aren't always negative as it were from an investment opportunity perspective for example.

But to give you one example around some of these unintended responses is what has been going on in Europe. European officials are -- they've announced at ReArm Europe, which is 800 billion Euros worth of additional spending -- sorry, designated spending towards defense and infrastructure. Germany is a particular case where there -- they decide tomorrow to change their constitution that will allow 500 billion worth of infrastructure spending and up to 400 billion Euros worth of defense spending over the next 10 years. And to put that into perspective, that's, at current Euro amounts, is around 11 percent of GDP. If you spread that over 10 years, the impact is approximately 0.2 to 0.3 percentage points on GDP.

So you'll recall, last year, I spoke a lot about Europe and how it was really struggling to get itself out of a very slow growth, if not somewhat negative growth period. Now, we have a potential for, you know, upwards of five years to a decade of tailwind of growth from the fiscal side going forward. And so as I said, some of these changes that we see can present opportunities going forward.

I'll leave it at that. I'll turn it back to Stephen at this point. Thank you very much.

CHIEF INVESTMENT OFFICER GILMORE: Sorry. Can we have the first slide up again. Thanks. I just want to correct the record. The 63 percent allocation to actively managed assets is correct, but we had a typo with the previous quarter, so we will fix that and replace that document on the website.

CHAIR MILLER: Questions. Jose Luis.

COMMITTEE MEMBER PACHECO: Yes. Is it now working?

Yes. Thank you. Thank you very much for your comments. As you were mentioning in your graph, and thank you for that illustration of the graph, with respect to the stagnation -- stagflation. Now, if I recall from -- in the 1970s, that there was two components. There was the inflation component, but there was also a high unemployment. And right now unemployment is at what -- what percentage is unemployment at this time?

INVESTMENT MANAGER ROSBOROUGH WATT: 4.1 percent.

COMMITTEE MEMBER PACHECO: So it's not -- it's not exactly the same kind of scenario then. So how do you see that playing out with respect to our -- the whole -- our investments and so forth, because it is -- it is somewhat unique -- different from the actual classical analysis of the '70s with respect to stagnation and inflation, as well as I believe interest rates were high as well. And it was almost a triple -- trifecta approach in that time. Thank you.

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you for your question. I appreciate that and that's exactly the point in that. While you might hear in the news media the term stagflation, I want to characterize this as a move in that direction. Perhaps for me, answering your question would be thinking around what are the sign posts by which that next step might be. So we have had some -- to extent a repricing of asset markets, equity markets in particular.

Some of the sign posts that I'm looking for around the feedback loops about whether this will continue are the consumers. Now, I spoke to you in 2023 when the economy was weakening, how lower income consumers were struggling and whether that was going to extend out or widen out across the economy.

It's a similar situation to today. High-income earners, the top 10 percent of income earners, approximately spend around 50 percent of consumption in the U.S. They tend to buy services, not goods, so they're less affected. That said, they have a high designation of their assets -- their balance sheet towards financial assets. So 42 percent of U.S. households is now allocated towards equities. So when the stock market falls it will affect how they feel about the future and their spending.

And around, I think it's, 72 percent of their total assets are in housing, because house prices have appreciated. And that affects the higher income cohorts. So I'm watching to see whether there's again a spread towards a widening of individuals who are struggling going forward.

The secondary that I'm looking at are businesses. So when there's uncertainty, businesses tend to slow down in terms of their investment. And we know some of those intentions have changed. To give you an example, the top four companies out of the Mag 7 -- or sorry, four out of the Mag 7 have announced 325 billion worth of CapEx pending this year. Now, that's an announcement. I'll watching to see whether that's realized or not. So those are some of the sign posts that I'm watching.

COMMITTEE MEMBER PACHECO: And that's a really good point that you bring with respect to capital good expenditures and so forth. Are you seeing -- are you seeing more of that or is it something of -- because I have read about that, but I wanted your assessment on that.

INVESTMENT MANAGER ROSBOROUGH WATT: I think this comes down to the speed. Some of the speed of some of these announcements have resulted in the soft -- what we call soft data.

COMMITTEE MEMBER PACHECO: Um-hmm.

INVESTMENT MANAGER ROSBOROUGH WATT: -- so sentiment surveys, confidence surveys, have been released and they are looking quite weak. They've turned quite rapidly. We haven't yet seen it in the hard data. Now, we did have a January number for personal consumption expenditure, but there -- it was a cold -- there was some one-off effects in January.

COMMITTEE MEMBER PACHECO: Right.

INVESTMENT MANAGER ROSBOROUGH WATT: So thinking going forward we're really looking for some of that hard data to come through that will tell us whether the change in sentiment has been realized and actual numbers.

COMMITTEE MEMBER PACHECO: So we have time -- basically time to tell.

INVESTMENT MANAGER ROSBOROUGH WATT: Time to tell.

COMMITTEE MEMBER PACHECO: Yeah. And then we have to also take into consideration an seasonality association with the data as well.

INVESTMENT MANAGER ROSBOROUGH WATT: That's right. And once again, just to mention - Tom mentioned this as well - monetary policy is currently in a restrictive stance -- slightly restrictive stance, and that will also be slowing the economy this year or intended to slow the economy somewhat this year.

COMMITTEE MEMBER PACHECO: I see. With respect to your -- you were talking about with respect quantitative easing or is that --

INVESTMENT MANAGER ROSBOROUGH WATT: So interest rates are relatively high, for example. Mortgage rates are still quite high.

COMMITTEE MEMBER PACHECO: That's true.

INVESTMENT MANAGER ROSBOROUGH WATT: And as a result, the housing market has been quite soft. So these things that tend to impact on like durable spending.

COMMITTEE MEMBER PACHECO: Right.

INVESTMENT MANAGER ROSBOROUGH WATT: When you buy a house, you need to buy things to fill it with. Those things have been quite soft.

COMMITTEE MEMBER PACHECO: Very good then. Thank you very much. That's all my questions.

CHAIR MILLER: Okay. I'm not seeing anymore requests to speak, so we'll continue on.

CHIEF INVESTMENT OFFICER GILMORE: Okay. I guess we move to the next item.

I'm not going to go through these other slides, because I think they've been discussed in the context of the consultant's reports. So I'll move to the next agenda item, if that's okay, Chair.

CHAIR MILLER: Yep. Sounds good.

CHIEF INVESTMENT OFFICER GILMORE: Okay. So we'll call up Michele and Scott.

(Slide presentation).

CHIEF FINANCIAL OFFICER NIX: Is this on?

Okay. All right. Good afternoon. Michele Nix, CalPERS team member.

Today's presentation is another installment in our asset liability management process. And we're going to spend most of our time today talking about governance and performance reporting.

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CHIEF FINANCIAL OFFICER NIX: We thought it would be useful to review the process that follows the normal ALM cycle and then how governance and reporting would change if we used the total portfolio approach.

Next slide.

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: So this slide talks about our ALM process and the Board-adopted ALM Policy. This slide highlights the main points of the policy. For today's discussion, just know that we're going to primarily focus on the PERF, because the Affiliate Trust ALM will follow the PERF.

So let's get into it.

The Board-adopted ALM Policy provides oversight to the Investment Committee and it also provides oversight to the Finance and Administration Committee. The ALM program coordination and oversight of the process has been delegated to the CFO under the direction of the CEO. This is a four-year process, so it happens every four years. And, of course, this is the year. And then the policy requires the staff to bring strategic asset recommendations to the Board for formal adoption. Also, the policy requires that we bring Board analysis and recommendations to inform the ALM decisions.

In ALM years, such as 2025, we also have provided the Board educational session -- well, in past years and this year, we will provide educational sessions and build towards those recommendations. September will be the first reading of the recommendations for the actuarial assumptions, discount rate, and investment recommendations. November will have the final reading, and if you choose to approve it, then the ALM cycle will take effect on July 1st of the following year 2026.

Just as a note of reference, the ALM Policy requires us to communicate and do outreach to employers and key stakeholders for their feedback, so we'll be hosting a couple webinars during this year for that purpose as well.

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CHIEF FINANCIAL OFFICER NIX: Okay. So in this slide, we want to talk a little bit about the ALM process and how -- what deliverables we'll get and whether or not it will change under the TPA. So let's see what slide is this, four?

The ALM deliverables are shown here for both the Investment Committee and the Finance and Administration Committee. We deliver capital market assumptions and risk metrics versus targets through the Investment Committee. We deliver actuarial assumptions and economic assumptions and through -- and the experience study results through the Finance and Administration Committee.

We deliver -- just as a reminder, the CMAs when we deliver those in the Investment Committee, they represent opinions of all our business partners. And we use those as -- those results from the CMA analysis in both of our investment and our actuarial analysis. And then the risk analysis discussions in the past have really been centered around the drawdown and the volatility risk metrics.

Also actuarial assumptions are tested by comparing our assumptions with our actuarial experience. And to identify where we are different with our actual results from what we -- what we are -- what we had assumed when we had the last study. And additionally, it also helps us predict what we think the future years our assumptions should be.

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CHIEF FINANCIAL OFFICER NIX: This slide shows that the current process with respect to the ALM Board decisions as they currently are and how we, if we go through the TPA -- if we use the TPA as our approach to the investment strategy, if we use that how will it change?

So under the strategic asset approach, we present the permissible risk levels using drawdown and volatility metrics. But under the TPA, risks would be considered by proposing a reference portfolio of some percentage of equity and bonds, and the level of discretion using active investment management decisions that the staff would need to take to achieve the target investment rate of returns.

These active risk decisions are necessary because it is unlikely that the mix of just equities and bonds will yield enough to actually exceed or equal our investment expected rate of return.

Under the strategic asset approach, the Board receives recommendations on permissible asset classes and related segments. Under the TPA, the Board would still receive recommendations on permissible asset classes that effectively limit what we can invest in. The strategic asset approach has recommendations that were -- that are made to the Board to determine the range of how much we should invest in each asset class. Under the TPA, there would no longer be ranges for each asset class, because investment decisions would be made with the total fund in mind, instead of managing to the asset class targets.

Under the strategic asset approach and the TPA, we would still have investment return goals. Under the TPA, as noted in past presentations and in the appendix on slide 23, each reference portfolio has a range of returns associated with the passive portfolio, which depend on the amount of equities that are held. As our equity exposure increases, the expected return potential also increases, as well as the risk.

We may end up using a mean return for setting expected investment return goals, but it is important for the Board to understand that the range of outcomes possible for each passive portfolio choice changes. Lastly, we will recommend a discount rate to the Board. This doesn't change under the TPA approach.

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CHIEF FINANCIAL OFFICER NIX: So on this slide, we begin to discuss the investment reporting and -- that you will see under the TPA approach. So for that, I'm going to turn this over to Stephen for the remainder of the presentation.

CHIEF INVESTMENT OFFICER GILMORE: Thanks very much, Michele. I guess what the Board is really interested in is what are they going to see, if we, you know, adopt a total portfolio approach and what are the changes. The biggest change in reporting probably lies with the trust level review, which you've just seen for the most recent quarter.

What I would expect that we would be reporting in the future, if we adopt a total portfolio approach, would be, yes, we would report absolute return, because that's the most important thing in terms of, you know, the funded status of the scheme, but we would also be reporting the perform of the reference portfolio, and we would be reporting the performance of each of the investment strategies with respect to the funding cost of those strategies or the reference portfolio weights.

We would also want to know how each of the strategies has done relative to, you know, an asset class benchmark. When you've heard some discussion earlier on private equity, we think our portfolio has done really well in the context of performance against private equity benchmarks or even, you know, peers in recent years, but it's lagged the public markets. I think there's useful information to the Board to see it from multiple perspectives. And I would expect our trust level review would be doing that, so rather than just focusing on one comparator. It would be a more all-encompassing view.

The other changes I think are likely to be, you know, less significant. It will be that trust level review that would be the most important, I think, in terms of changes.

If you'd go to the next slide.

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CHIEF INVESTMENT OFFICER GILMORE: Again, key performance metrics. Total return, it's the most important aspect under either an SAA or a total portfolio approach. The reference point for value-add and active risk, a bit different. Right now, we have a policy benchmark which comprises 11 different benchmarks. So it's fairly complicated. Under the TPA, it's a reference portfolio, so we want to know whether we, as a team, have actually add value -- added value over an off-the-shelf simple index, which represents the Board's risk appetite. So it's much clearer, with respect to whether we've done a good job or not.

In terms of deviation from a reference point, historically, we haven't deviated too much from the policy benchmark. Going forward, if we adopt a TPA, the deviations will be higher. You've seen that with private equity, which is benchmarked to listed equities. You can have big unders and overs. The expectation is that, yes, there would be more deviation relative to that reference point, but the expectation is also that you would have a higher expected return, because of the efficiencies that come with a total portfolio approach.

Also, with respect to the reporting, right now, we focus on, you know, those 11 asset classes. And in the future, we would focus more on the underlying investment strategies. So when you're looking at private equity for instance, there's quite a big difference between how we think about buyout and venture capital. Quite different characteristics. And you don't necessarily see that when we're reporting at the moment. So I would expect that to change and for you to have more insight into why we are pursuing, you know, each individual investment strategy.

If you can go to the next slide.

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CHIEF INVESTMENT OFFICER GILMORE: Next one.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: That's just showing wha we have at the moment, in terms of those asset class perspectives.

If you can go to the next one.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: In the future, you'll see more granularity by investment strategy.

Next slide.

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CHIEF INVESTMENT OFFICER GILMORE: I think this is also interesting, because now we report the net asset value or the dollars we've allocated to each particular asset class, but you don't got a sense really for how much risk we're taking. Yes, we do focus on some tracking error. There are actually tracking error in the listed markets. You don't see so much on the tracking error in other markets. But that's a relative thing. What I think is important is that we would focus much more on where we're taking the risk. So we would have risk metrics and we'd also translate those to dollar values, in terms of the exposure.

If you look at this metric here, we've looked at the top 15 contributions to active risk. And, you know, core real estate stands out as the single biggest contributor to that active risk. Not surprising, private equity buyout is also a very large contributor.

But what I wanted to highlight also was how different it will feel for some of the teams, because some of the teams, you know, pursue investment strategies, and those investment strategies perform very similarly to their particular benchmarks. They don't deviate very much from their policy targets. With a move to a total portfolio approach and proxying relative to a reference portfolio, some of those investment strategies are going to feel like on risk.

So, if you're sitting in let's say the global fixed Income team, all of a sudden, it's very hard to hide, because you can't always point to a particular benchmark, because you could be judged against the cost of funding. Yes, we will also want to know how you've done relative to say a global fixed income benchmark, but really makes the whole team think much more about where we're allocating that risk and I think there are big advantages to that.

You also see that for listed equities, the global factor-weighted index is the biggest contributor to risk. That's been a drag on the portfolio for quite some time. It's actually been a big contributor when equities sold off, you know, earlier this year, coming into the last few days. But, you know, the question for us really is is this a good use of risk that we're allocating. And that's for a future discussion.

If we can go to the next slide.

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CHIEF INVESTMENT OFFICER GILMORE: And the one after that.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: A reminder, and you've seen versions of this chart before. This is just a reminder to repeat that we can proxy our actual portfolio -- our fairly complex actual portfolio just using equities and bonds. Here, we've taken a mix of around 71, 72 equities and 28 percent bonds. You can see through time - this is going back to 2009 - those two track each other pretty closely. You can also see from the performance, you know, our actual portfolio has performed similarly to a simple off-the-shelf index.

I think we have to aspire to do better than that, and it will be much easier I think for the Board to be assessing the performance, to be looking at something like a reference portfolio, and judging us against that in terms of the active risk we take, and the expected return or additional excess return we expect to get from taking that risk.

If you'd go to the next slide.

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CHIEF INVESTMENT OFFICER GILMORE: I've made a comment about the apparent variability for returns. Same return in this particular chart, but it will look different in terms of the relative outperformance and underperformance. You can see from the burned orange bars. This is the portfolio performance against our current policy portfolio. Small outperformance, small underperformance depending on the year, but it's fairly close. Moving to a reference portfolio, those deviations will look a lot larger.

Now, as I've mentioned in previous discussions, it really probably becomes more important to be thinking about long horizons when assessing that performance. Our expectation would be that the -- you know, the average return will be a little bit higher following a reference portfolio, total portfolio approach as well, if we -- if we do it well.

If we can go to the next slide.

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CHIEF INVESTMENT OFFICER GILMORE: Something else also looks a bit different. We've talked about private equity lagging the benchmark that we currently have. There's actually a lag with a benchmark, but just looking simply at the previous five year's return and using a -- you know, relevant proxy for private equity, it actually looks like one of the best outperforming asset classes. So some of the numbers will look different. Returns are the same, but the relative performance will look a bit different.

Infrastructure core has also been a big contributor, but there have been drags, real estate core, the factor-weighted index. So even though the returns are the same, our interpretation of those returns may be different. And again, as I say, we're looking at it, in opportunity costs and in risk-adjusted terms.

If we can go to the next slide.

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CHIEF INVESTMENT OFFICER GILMORE: More specifically private equity, we can show here that buyout has, over the last five years, outperformed just a market cap equity index, although it lagged the Cambridge Buyout Universe. I expect that you'll see better relative performance through time, because private equity is one of those areas where we have a particular advantage. Because of our size, because of the qualities of the relationships, we can be, you know, one of the most important LPs, and also because of the strategy the team is pursuing with respect to co-investment. So I would expect that to be better going forward.

Next slide.

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CHIEF INVESTMENT OFFICER GILMORE: Real estate, it's a little bit different in terms of the portfolio we have outperforming the index, but lagging the cost of funding.

Next slide.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And in terms of reporting, you'll see the same total return numbers. Here, we've looked at the excess relative to reference portfolio and the benchmark. Those excess numbers are slightly different. So you get a somewhat different perspective. If you go to the next slide --

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CHIEF INVESTMENT OFFICER GILMORE: -- you'll see the same thing with respect to the private market assets. And if you go to the final slide.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: One more.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Just talking about measuring the level of risk. The thing I would highlight here, is there's no single measure for risk. And I would expect to provide the Board with a wider range of risk metrics, as we go forward. And we've highlighted some of those in the appendix. And with that, I'll pass it back to the Chair.

CHAIR MILLER: Okay. Director Ortega.

COMMITTEE MEMBER ORTEGA: Thank you. Thank you very much for the presentation. Two quick questions that are about the reference portfolio and what we will understand about the portfolio. So one is will there be a listing of the funds -- the actual underlying -- the one chart that shows is just broken into the two treasuries and equities that -- but then the one next to it has the detailed categories. But I'm just wondering is there underlying funds that will be tied to those categories that we would know what they are.

CHIEF INVESTMENT OFFICER GILMORE: I'll respond to that question for -- your second question. We have to decide on just what equity index should be in the reference portfolio. The same goes for bonds. We haven't settled on just what those things are, but we should be very transparent about what those indices are. I would like that to be, you know, liquid, transparent, simple. So, at this point, we haven't settled on a recommended index. Expected it to be, you know, we were diversified, as I say, you know, market cap, but the actual detail we need to come back to on that recommendation, but it will be very transparent. It will be easy for people to assess our performance relative to that.

COMMITTEE MEMBER ORTEGA: Okay. I think that answers my second question, which was about how you will select an index fund. And so I'm assuming when you come back and tell us what they are, you'll kind of talk about the process you used to determine the right.

CHIEF INVESTMENT OFFICER GILMORE: We'll propose something, and, you know, hopefully that will resonate with the Board.

COMMITTEE MEMBER ORTEGA: Okay. Thank you.

CHAIR MILLER: Okay. I'm not seeing any further requests.

Okay. We've move on. Thank you. Very good.

CHIEF INVESTMENT OFFICER GILMORE: Thank you.

I will call up the next colleagues, proxy voting. Drew and Simiso.

(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: Where's Dan? He can't hide.

(Laughter).

INVESTMENT DIRECTOR HAMBLY: Okay. Good afternoon, everybody. Drew Hambly, Investment Director, INVO staff. I'm here today to provide our annual update on our proxy voting and engagement activities from 2024 and then give a preview of what we're -- our early expectation will be for the proxy season 2025, which will be underway in the next week or so.

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INVESTMENT DIRECTOR HAMBLY: You've seen this before, so my function covers the proxy voting and engagement activities primarily responsible for our public equities portfolio.

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INVESTMENT DIRECTOR HAMBLY: This slide just gives a highlight of some of our key volume issues. For example, we voted over 10,000 meetings last year. We engaged with nearly 450 companies, engagements covering more than 50 percent of the public equity AUM. We try to hold directors accountable. We do so in a variety of ways. We oppose directors on climate issues. We've explained that before, where we see compensation concerns, Board composition concerns, and performance concerns. So we use our vote against as a signal to make improvements and then follow up with engagement to, you know, help further get within best practices.

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INVESTMENT DIRECTOR HAMBLY: So this just highlights a couple of the key votes. Some things you might have seen in the headlines in 2024. They come -- cover a number of issues like pay, governance, human capital management. And so just a couple of meetings that were top of mind for people in 2024.

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INVESTMENT DIRECTOR HAMBLY: In terms of our support for shareholder proposals, you know, the key here is if it's a well-written, well-targeted shareholder resolution, we consider each one on a case-by-case basis, but as you can see, we have a higher level of support for well-targeted proposals at the right company, and have continued to do so for many years.

I know this year we'll see some challenges. The SEC made some very late-in-the-game changes to how it interprets no action relief. So our expectations coming into 2025 is we may see the SEC issue no action relief more frequently than they have done in the last two or three years. That's our expectation. We will see how it plays out. They have given companies an opportunity to ask for again, under the new guidance, which came out the beginning of February for no action relief. So a little hard to tell today, but that would be our initial expectation. We might see less proposals in the 2025 season, especially around proposals dealing with environmental and social issues.

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INVESTMENT DIRECTOR HAMBLY: And so here, we just have some comparison of proposals how we supported in the U.S. -- U.S. Shareholder proposals. I point to -- well, there's some differences in the percentages, but if you look at the blue bars on total support, 398 supported proposals in this last proxy season compared to 399 the previous season. So I think that demonstrates the consistency of the proxy voting guidelines and principles and our continued level of support.

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INVESTMENT DIRECTOR HAMBLY: And so once again, just to highlight some of the work we did in 2024. We continue to vote against executive compensation plans, especially in U.S. I will say, you know, overall the marketplace, these proposals generally get about 95 percent support. So our 39 percent support against is high relative to a lot of U.S. asset managers. But we also believe there's some structural issues in compensation that need attention, hence our high level of against.

We have seen in the news in the last two quarters, companies rolling back some commitments to DE&I. Staff has been proactive in reaching out to companies. We're just highlighting a number that we did in the -- in the fourth quarter, specifically where it was publicly disclosed that a company might be rolling back some of their initiatives. So we want to be proactive in talking to our portfolio companies on an important issue like this. And then just down at the bottom for the first time we've always been transparent about our voting. You can go to the CalPERS website. You can see our vote history dating back to 2015. For the first time, as part of the Dodd-Frank bill, asset owners had to disclose how they vote on say-on-pay, so we are in full compliance with the NPC filing. That said, we had been doing it for many years anyway. Just a little bit of extra work and an extra filing for us.

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INVESTMENT DIRECTOR HAMBLY: And we just talked about support on say-on-pay. I would point out in 2023-2024, we had robust returns in the equity markets, 20 plus percent. 2022, as you remember, I think the S&P was down about 10 percent that year, so slightly higher against support in such a downmarket. A little more support in the last two years. And we think some of the engagement we've done with companies has certainly helped some of that and less votes against in the last season.

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INVESTMENT DIRECTOR HAMBLY: We continue our work with the CA 100. We are lead engagers on 20 names in that coalition. Very much a part of that and will continue our work engaging companies on climate issues.

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INVESTMENT DIRECTOR HAMBLY: In terms of oversight on climate, We have been voting against directors for a number of years, where we believe there's not good disclosure and governance of their climate footprint. We continue to do that. We target about 350 companies in our equity portfolio to focus our attention on. And we do vote against, we endeavor to contact those companies and have a discussion about why we did that. In the last year, we did about 110 of those discussions, where we voted against.

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INVESTMENT DIRECTOR HAMBLY: And so we had a couple of discussions last year. And so in our proxy voting guidelines this year, we are making just a couple of small adjustments to align the guidelines with the Governance and Sustainability Principles, which is the governing document as it pertains to the labor principles that we added to the governance and sustainability document. So it wasn't changing our voting patterns. We were doing these things anyway. But we wanted with the new changes and the added language in the Governance and Sustainability Principles around the Labor Principles, we wanted to mirror some of that language in the proxy voting guidelines. So very consistent what we've been doing, so we made these slight changes to be in alignment between the two documents.

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INVESTMENT DIRECTOR HAMBLY: And then so coming up for 2025, we're still going to focus on human capital management, governance and pay, and climate. And so we don't see any changes to the program and what our approach is going to be, but we are certainly dealing some challenging times. The SEC is making it a little more difficult to exercise stewardship duties across the U.S. But nonetheless, we know companies are reaching out to us, because they want to talk to investors that are still willing to engage on these important topics.

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INVESTMENT DIRECTOR HAMBLY: Oh, and go to the next one.

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INVESTMENT DIRECTOR HAMBLY: Okay. So I'd like to stop here. That's my prepared remarks. In the appendix is just a bunch of charts that are up on our website that go into a little bit more detail on our voting patterns. If you have any questions about those, I'm happy to -- you know, take those, but open to questions at this time.

CHAIR MILLER: Yeah. Thank you very much. And, yeah, point very well taken that this -- potentially, you know, more challenging times to be leading in this area, but glad to hear that, you know, everybody has not been frightened off.

So President Taylor.

COMMITTEE MEMBER TAYLOR: Thank you. Drew, thank you very much. I appreciate the detail in this and your work into it. What I was really interested in, so I'm going to ask, is your engagement, even though -- and I'm going to ask on a bunch of different ones, but even though Climate Action 100+ we lost some folks that were signed on, right, are we still engaging with them to see if -- is that what you're doing to make sure that maybe they're not signed on to Climate Action 100+, but maybe they're doing stuff on their own?

INVESTMENT DIRECTOR HAMBLY: Yeah. So at the end of last proxy seasons, we engaged with about a dozen or so managers that CalPERS employs, that have stewardship teams like ours to talk about the things that were important to us and what they were doing. We had follow-up meetings in the third quarter of last year to those discussions, and then my team met with all of them in the first quarter of this year to talk about what we think is going to happen and what we're going to do for the 2025 season.

So not all of the -- matter of fact there's only one or two that we actually use directly in equities, as a manager, but we just wanted to reiterate the things that were important to us, and we're going to continue to have those conversations. We weren't directing anybody to vote a certain way or engage a certain way. We're just reiterating what our program is doing and reminding them of the things that are important to us.

COMMITTEE MEMBER TAYLOR: Well, especially considering -- if we consider -- go ahead, Simiso, if we consider this one of our top three risks to the portfolio. I think absolutely -- go ahead, Simiso.

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah, thank you for that question. What I was going to add to what Drew said, is that even for the managers that have left Climate Action 100, they've not said that they don't believe in climate change. They've left because, you know, they say their own internal stewardship are teams to do this or they say they no longer need Climate Action 100, but they're not saying climate change is not an investment risk. I think it is important to note that, that even though they are leaving, they're not saying they're not doing this work anymore.

COMMITTEE MEMBER TAYLOR: So does that mean, Simiso, that they're keeping their own records for carbon emissions, and TCFD, and stuff like that, or -- because as I understand that, that was one of the problems, right, was that, I think, Climate Action 100+ was starting to prescribe that they were supposed to be reporting those emissions at this -- a year ago or so, two years ago, whatever it was.

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah, I don't really know about the specifics of what they do, but I think it was really instructive almost for all of these managers when they left that, you know, they didn't say that they didn't believe in climate change. They said they'll continue to -- now they have their own internal teams to do this work, as opposed to being part of Climate

Action 100. I think that to me was real instructive.

COMMITTEE MEMBER TAYLOR: Well, that's good. Then I -- the same question kind of on DE&I. This is something that's -- CalPERS has no intention of changing course on, but everybody is like backed off. And then I saw an article from Jamie Dimon where he was like we're perfectly, you know, legal, and so we're just going to keep going with what we're doing. And then BlackRock who had said we're not doing this anymore, then came out and said, but we are still looking at it, some -- I mean, it was kind of -- you know, it was kind of really vague, but -- so, are we asking or engaging on DE&I as well?

INVESTMENT DIRECTOR HAMBLY: Yeah. So we looked at engagements we've had over -- since November 1st, so just before the election, and 67 percent of the time we're talking about human capital management issues, which include DE&I. So we continue to press companies on this. I think a lot of companies are trying to figure out what all these Executive Orders mean like everybody else. And so, it's not that they're not doing things, but they're trying to work out what may or may not be legal. But once again, we continue to talk to these companies about the importance of it, why it's important to CalPERS, and that we'll continue to monitor what they do there.

COMMITTEE MEMBER TAYLOR: Okay. I sort of had the same question on the say on pay. Do we see that going away now that there's reporting SEC changes?

INVESTMENT DIRECTOR HAMBLY: So I haven't -- so that is part of the Dodd-Frank law that -- so unless that's repealed, I think companies will still have to do it. Even if there wasn't a say-on-pay vote, you still have the opportunity to vote on members of the compensation committee. And so that was sort of the compromise that of Dodd-Frank is the directors didn't want votes against in the beginning, so it was sort of seen as a -- you know, you vote against say on pay one year, and then maybe the next year, if you don't see improvements, you might do the compensation committee. So even though if there weren't a say-on-pay mechanism, it's such an important aspect of governance that we would still have the opportunity to hold compensation committee members accountable for how they pay the CEO.

COMMITTEE MEMBER TAYLOR: Okay. Thank you very much.

CHAIR MILLER: Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you very much, Drew. So I want to -- I want to go back to your -- the -- let me go back to the -- on the stewardship on the 2024 key proxy votes, you know, one of our -- the leadership of last year, we had with respect to

ExxonMobil, and in terms of, you know, withholding votes from the entire board, all 12 nominees and the significant governance concerns around that.

You know, even though we did that, you know, how -- it seemed like they still -- we didn't have enough momentum. And I'm just wondering what your thoughts are that with respect to that, and how that could play out differently. I'm just curious if you can just elaborate more on that, sir.

INVESTMENT DIRECTOR HAMBLY: Yeah. So I think if you look at the voting pattern -- so if you think most asset managers will have a set of proxy voting guidelines, and most of them don't cover a situation like this. So it was difficult for some of them that didn't fit neatly into the box. If you looked at the vote results from the lead independent director got about four percent less than they had year over year. You could attribute a lot of that to the asset owner community that did step up, but you still have asset managers that own, you know, top 20 -- you know the top four or five owned probably 25, 30 percent of ExxonMobil.

And so their policies and procedures make it difficult to do situations like this.

COMMITTEE MEMBER PACHECO: Yeah.

INVESTMENT DIRECTOR HAMBLY: And so I don't think it's a lack of momentum. I think that meeting had everybody taking a look at it. It probably is a little easier sometimes for owners to, you know, pull the trigger on a vote like that. So it wasn't that what we did wasn't seen in the marketplace as important, but sometimes that at the ballot box, there might be different operational challenges for, you know, managers to go outside of the prescriptions in their policy.

COMMITTEE MEMBER PACHECO: Right.

INVESTMENT DIRECTOR HAMBLY: Our policy is principle based, which makes it a little easier for us to do things like that.

COMMITTEE MEMBER PACHECO: And talking about principle based, the other one that I also found really -- during the same last year was the vote against the ratification of Mr. Musk's 2018 stock option award. That one I also thought was very -- the leadership there, I definitely appreciated that with CalPERS. But again, it didn't have -- again, where -- it didn't have the meat that it needed to move that forward, and that's another question.

INVESTMENT DIRECTOR HAMBLY: So in that case, there's a handful of companies that have an unusually high retail shareholder base, and that company happens to be one of them. I think it was nearly 40 percent. And so, some of the people might buy that for other reasons, other than just performance, because they don't --

COMMITTEE MEMBER PACHECO: Right.

INVESTMENT DIRECTOR HAMBLY: -- you know, like the company or the car. And so it's one of those household names that has a high retail vote, which might be more inclined to just vote with management than an institutional base.

COMMITTEE MEMBER PACHECO: So there was more of the retail voting process rather than --

INVESTMENT DIRECTOR HAMBLY: I think that was part of it. I think -- so in a say-on-pay vote if you get between 50 and 70 percent, that usually signals some unhappiness. I think that one was round 72 percent and I think what we saw is a high, high support from that 40 percent retail base.

COMMITTEE MEMBER PACHECO: That retail class, rather than the institutional class, that would be -- that would represent the other portion of that.

INVESTMENT DIRECTOR HAMBLY: That's correct.

COMMITTEE MEMBER PACHECO: Very good then. And the last item is I just wanted to compliment your stand on Board diversity and how you kept on moving with respect to that. I think that's an important area. That again shines our -- or aligns with our values of making sure that we have diversity, especially gender diversity with respect to the boards and so forth, but also of all diversity on the boards.

INVESTMENT DIRECTOR HAMBLY: You know, I saw a stat when I was preparing at the end of last week. Right now in the Russell 3000, I think only 11 percent of boards don't have what would be considered at least one diverse director. And so if you think of the work that this organization has done dating back to 2016 or '17, that's been a real positive. A lot of people have put attention on increasing diversity in the board rooms. I think the S&P 500 now is 30 percent average women on the board. And so there's been a lot of progress. We don't want to backslide on that. And so our U.S. portfolio doesn't own the whole Russell 3000. So even in our U.S. portfolio, there's very few companies I think left that we own that don't have diverse representation on the Board.

COMMITTEE MEMBER PACHECO: Are you also reaching out to any of the infinity organizations like the National Association of Corporate Directors or the National -- the National -- the American -- the National American Alliance, and other organizations around the country to, you know, align yourself with --

INVESTMENT DIRECTOR HAMBLY: Yeah.

COMMITTEE MEMBER PACHECO: -- their partnerships and so forth.

INVESTMENT DIRECTOR HAMBLY: Yeah. So I did a webinar for NACD, National Association of Corporate Directors, about a month and a half ago talking about many of the topics we've talked about today and met with their senior leadership team probably a month and a half ago as well. So certainly -- we're not doing any direct partnerships, but certainly talking to them about issues that are key to us that would benefit their membership.

COMMITTEE MEMBER PACHECO: Absolutely, there's a -- I think the other one is the Latino -- the Latino Corporate Directors Association as well. So, yeah, that's really good then.

Thank you so much. That's all my questions, sir. Thank you.

INVESTMENT DIRECTOR HAMBLY: Thank you.

CHAIR MILLER: Okay. Thank you.

Director Willette.

There it goes.

VICE CHAIR WILLETTE: Thank you so much. Thank you for the really good presentation and the work that's done by you and the team over there. I know it's a lot of work and the numbers, you know, don't even give it justice.

I just had a question kind of zooming out, and apologize that this question is going to come out is really clumsy, but what's the situation or how is it the situation resolved where there is a policy conflict? Like, if you want to vote if a board of a company is not engaging with us, but we want to -- so we, you know, maybe want to vote against them, but, you know, essentially they're doing something really good that we want to support, how do we resolve those kinds of conflicts, when we have a lot of really important priorities that our proxy voting covers.

INVESTMENT DIRECTOR HAMBLY: Yeah. I think we'll do out best. So, you know, if we have something that's important to us and a company repeatedly won't engage with us, we might use our vote against as an opportunity to signal, you know, hey, we're unhappy with that level or lack of engagement.

And certainly, we have companies that are doing some, you know, good things, and then they might do a governance or a pay thing that we disagree with. As we've said in the past, when we vote against a director in an uncontested election, we're not trying to throw them off the board. We're trying to get their attention and point out some aspect of whether it's governance, disclosure, an environmental or a social issue that we'd like to talk about, and, you know, hopefully have them improve over time. And so when we vote against, we're not trying to throw the baby out with the bathwater, but we want to have that engagement.

And if we can't have the engagement, we might continue to vote against. There are some controlled companies that don't feel they have to talk to us, because they control all the vote, but that is the exception not the rule. Most companies will take our call.

So not everything a company does is perfectly aligned with us, so we use that vote, so we can advance that discussion on that particular point.

VICE CHAIR WILLETTE: Thank you. And then in your experience have we been successful with using that vote?

INVESTMENT DIRECTOR HAMBLY: Well, I think we have. We just talked about, you know, if you look back to 2016 or '17, the average gender diversity on the S&P 500 was probably around 15 percent. It has since double, and that took time.

Things like proxy access, which are done under private ordering, for example, that this organization is undertaken, you wouldn't see the uptake in that without the engagement that we've done.

Do we think three-year vesting on equity is long term? We don't, and that's why we vote against a lot of pay package, for example. So that hasn't quite worked as well as we had hoped, but we keep at it. You know, my previous role, I remember talking to one company for seven straight years on a -- to get them go declassify their board before they finally did it. So we don't always get something on the first phone call, but we're not going to stop pursuing it just because we don't get everything the first time around.

VICE CHAIR WILLETTE: Thank you. Thank you.

CHAIR MILLER: Director Rubalcava.

Hang on. I don't think it did that right. I've got touch just this exact little tiny microphone. There you.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair -- Mr. Chair.

Great report. When you were -- on slide five, you were talking about shareholder proposals, you mentioned the term no action relief.

INVESTMENT DIRECTOR HAMBLY: Um-hmm.

COMMITTEE MEMBER RUBALCAVA: Can you just explain it. I think I know what it is, but is -- the SEC is now -- we expect them to get more of those letters out to prevent shareholder proposals to be on the -- that we voted on, is that what we're saying?

INVESTMENT DIRECTOR HAMBLY: Yeah. So in the

U.S. if you own a certain amount of stock, I think it's around $2,000 or a little bit more than that, and you've been a stockholder for a year, you can file a shareholder resolution, if it meets certain aspects of what's called 14a-8. So there's a bunch of rules. You know, one being if -- there's a word limit. You know, if you write, it has to be 500 words.

So, anybody can file one of those if they meet those requirements, and then the company can seek what's called no action relief with the Securities and Exchange Commission. And what they're asking for is if we don't include this in the proxy statement, will you seek any action against us? So they're -- so they company can just put the proposal in and not talk to anybody and just move on, or if they don't think they want to face that proposal for whatever reason or they don't think it's germane to their business, they can seek no action relief with the SEC.

In 2021, the SEC was a little more permissive in categories like social issues and were letting in a few more proposals than they had in the past. They have since changed the guidance under the new administration, and we think they're going to be less permissive of letting certain types of proposals, especially around environment and social issues, into the proxy statements this year.

So that's why we think the no action relief will go up, meaning less proposals on the ballot than we've seen in the last two or three years. It's still a little early to tell, but that would be our expectation, given the guidance the SEC came out with on February 12th.

COMMITTEE MEMBER RUBALCAVA: Thank you.

And I also want to take this moment to thank you for your presentation at the C -- the Council of Institutional Investors. It was a very good panel and I really enjoyed it, so thank you.

INVESTMENT DIRECTOR HAMBLY: Thank you very much.

COMMITTEE MEMBER RUBALCAVA: It was good to see CalPERS there and to learn that you're on the Board -- I mean, on the thing. Thank you.

INVESTMENT DIRECTOR HAMBLY: Thank you.

CHAIR MILLER: Okay. Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair and thank you to the team, and Drew in particular, you know, for this great report.

Question. Given the uncertainty -- well given the current unprecedented risks, right, and the market volatility, are there any policy or regulatory developments that could impact our proxy voting or corporate engagement efforts in the near future?

INVESTMENT DIRECTOR HAMBLY: So I don't see any direct threats to our ability to engage or cast a proxy vote. That said, the ecosystem in which we operate in, there have been some recent rulings by the SEC that might make large holders, five percent or more of the stock, file what's called a 13D filing versus a 13G. We don't think that would directly impact our ability to engage, because we generally own much less. We're usually not anywhere near that five percent threshold, but it could affect some of the large indexers in how they approach this and their willingness to make additional SEC filings.

There is a DOL rule that oversees ERISA funds that has made some rulings that say maybe you don't have to vote everything if you don't want to. That was done under the first Trump administration. The Biden administration said they weren't going to enforce that. So we could see some people in the marketplace maybe not vote quite as often. We vote everything and so that wouldn't affect us. So I don't see any direct challenges to CalPERS's ability to do these two activities, but it's certainly having some effects on other people that participate in this ecosystem at this time.

ACTING COMMITTEE MEMBER RUFFINO: Great. Thank you. Stay the course. Don't get intimidated.

Thank you, Mr. Chair.

CHAIR MILLER: Yeah. Seeing no more requests, thanks. I really appreciate the report, the work of the team. It will be -- there's some reason to be encouraged that it seems like people are like us where we recognize there's changes in the external environment that may impact how we go about things strategically or certainly tactically, but we're still just as committed as ever about the risks posed and about our values, and just looking forward to what the future holds.

Thank you.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. We'll move on to the next item, which is the Treasury overview. So if I can call up Jonathan, Brian, Sterling and Michael.

Jonathan.

INVESTMENT DIRECTOR O'DONNELL: Thank you, Stephen. I was going to say good morning, but good afternoon. Happy Saint Patrick's Day.

My name is Jonathan O'Donnel. I'm an Investment Director in the Total Fund Portfolio Management.

(Slide presentation).

INVESTMENT DIRECTOR O'DONNELL: I'm joined by my partner Brian Leu who is also an Investment Direct, Michael Krimm, Investment Director, and Sterling Gunn who is our boss.

So we'r really excited to bring this item to you all today. It really represents a lot of the hard work that the team has done over this past, I'd say, seven plus years in terms of liquidity management space. We often are sitting up on the desk and we hear questions -- listening to these Board meetings and we often hear questions from Board members about -- you know, that touch on our ability to pay our benefits, our ability to pay our bills at the end of the day.

And we take that as a little bit of an interest in your part, rightfully so, to understand a little bit of how this goes, how this stuff works. This is the first presentation I think you've seen that prevent -- that provides a lot of detail on the treasury management function. I'm going to make a lot of references to investment treasury in this presentation. If I inadvertently leave the word investment and I just say treasury, please know I'm talking about investment treasury.

So we can move on to slide two.

[SLIDE CHANGE] owed

INVESTMENT DIRECTOR O'DONNELL: Today, we're going to just discuss what investment treasury actually is, how we interact with other parts of INVO, and the broader organization, and also to give you -- importantly to give you some insight into some of the current activities that we have going on and how that differs from the past. The single most important objective that we have here today, if you get nothing else out of this, is to come away with this -- from this presentation, with a sense of confidence around our resiliency and robustness around our liquidity management processes and our ability to actually pay benefits when the time comes.

So move on to slide three, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: It's important to note that the investment treasury team doesn't operate in isolation. There are many different parts of the ecosystem that have an impact on cash and liquidity. So we think that liquidity management works best when it's Holistic and centralized. While this is a busy slide and I'm not going to go over all the detail in each box here, it does convey the breadth of people that are involved in liquidity management generally speaking.

We have multiple touchpoints in the Investment Office, as you'd expect, from our portfolio design team in TFPM, which when we talk about and we deal with allocation management activities, to obviously other pieces of the asset classes, and we're implementing strategy, or we're talking about portfolio construction.

Importantly, on the left-hand side, we do interact with FINO on a fairly regular basis too in terms of cash flow forecasting, reporting, and just general kind of liquidity management topics.

So the next two slides we go through are going to explain a little bit more about treasury management in detail.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: So thank you for switching to slide four, asking the question what is treasury management? This team is directly responsible for the top of the house liquidity management and financing management. So we can effectively fund our operations and portfolio strategies through our leverage -- through strategic and active leverage.

The combination of these two functions enables a much more efficient and flexible portfolio construction and cash management, which in turn allows us to harvest returns from our balance sheet and realize some of the natural advantages that we talk a lot about.

Also as important, from my perspective, having good processes in place allows me to kind of sleep and not worry about liquidity every night.

Next slide.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: So the investment treasury's primary objective always begins ends with liquidity management. Our team's lead operating principle is to always secure stable and timely cash by combining both liquidity and the financing functions. So if we're looking at points A and B in orange on this slide here, we view these functions as inseparable, as more like a continuum rather than separate functions that are managed independently.

So under point A, we manage our cash and our balance sheet holdings together to ensure we have adequate liquidity, and to reduce the overall funding cost in the portfolio.

On point B, we use the financing markets combined with our balance sheet to create a balance and diversified funding portfolio that complements the liquidity management side. Once we're confident and only once we're confident the PERF's liquidity needs are being met, we turn our attention to monetizing the balance sheet. That generates obviously additional returns from one of our strategic advantages.

Slide six, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: So talking about those strategic advantages. Stephen has talked to you a lot about playing to our natural strengths -- CalPERS natural strengths. Investment treasury management is one of those functions that can convert those opportunities afforded to us by those advantages into real tangible returns to the portfolio. We talk about size being a natural advantage. Our size means that we have a large set of cash equivalence in a diverse set of high quality liquid assets on the balance sheet that we can use in liquidity and financing management activities.

Our long horizon promotes stability in the asset -- in the balance sheet, the assets on the balance sheet, that in turn gives the team confidence that we can use those assets to generate stable and safe liquidity on demand in our investment strategies.

And third, we're fortunate that we have a team of dedicated folks that have a ton of experience -- decades of experience, I should say, in securities lending, in repo, in derivatives management, cash reinvestment, et cetera, and that allows us to be innovative and capitalize on the different market -- the different opportunities that come up to us in the market when they arise.

So altogether, these relative strengths allow to us take advantage of market dynamics to shift funding from one part of the portfolio or the market when it makes sense, and oftentimes when there's a lot of information of other people on the street that can't do that. So we built in a lot of flexibility.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: So moving from how we're leveraging our advantages to the specific benefits we're realizing from the investment that we've made in investment treasury. First and foremost, as I've been saying I think over and over, is enhanced liquidity resiliency, enhancing our confidence to pay benefits and our other obligations. We have a comprehensive view into the portfolio's liquidity needs and risk posture. We've consolidated and operationalized our balance sheet assets, which lets us use them to generate liquidity on demand and broadly diversifies risk to stress in any single funding channel.

Now, I want to highlight the last column on this slide, portfolio performance. It wasn't really all that long ago that the PERF had an explicit allocation to cash in the SAA. Typically, it was, I think in the past, it was one to five percent of the portfolio depending on how far you go back. The activities that we're talking about today have enabled us to eliminate that cash allocation in the SAA, which gets rid of that massive -- that large cash drags we'll talk about, and it has actually improved liquidity situation in the portfolio. So from my eyes, and I think a lot other folks, this has been a humongous win-win for the organization.

Slide eight, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: All right. So we talked a little bit earlier that our team doesn't operate in a vacuum. The same holds true, and you're looking at our governance structure, it all starts with the Board. And shortly, in a couple slides, we're going to discuss one of the key policy decisions that the Board made historically that kicked off all of this work. From a staff perspective, we engage and we're directly held accountable by Stephen and our direct governing, which we're calling -- which we call, the Liquidity Governance Group. Pretty catchy name.

That group is comprised of the DCIO of Capital Markets, so Dan, the MID of TFPM, so Sterling, and the MID of fixed income, Arnie. The treasury team itself is comprised of a lot of senior folks that have been in the markets for a really long time. We're the subject matter experts that answer questions about liquidity and financing, and we manage the portfolios obviously.

And then on a weekly basis, we pull all of those folks together, along with a bunch of folks from the asset classes, to our weekly liquidity huddle. That meeting typically has 20, 25 participants, where we're talk about PERS liquidity situation, the posture of the portfolio, the market environment, upcoming activities that may impact our liquidity, et cetera. And importantly, I think, it also allows the broader team to ask us probing questions about some of the decisions that we're making on liquidity management in the fund, which I think just makes for much more robust conversation at the end of the day.

Slide nine.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: This is just a quick view into how the Investment Treasury team fits into the Total Fund Portfolio Management group. We borrowed this slide from last year's trust level review. I guess it was last November, and specifically calling out that treasury management sits within the portfolio implementation function. We have a lot of interaction, as I mentioned earlier with the portfolio design team when we talked about liquidity dashboards, et cetera.

And I did -- we added here the asset class teams to give a nod that they have a critical contribution in liquidity management too from that portfolio construction and implementation function.

Slide 10.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: All right. So there's a lot going on on this slide, but I do think it shows a really important view as to how our liquidity management processes today have evolved since the GFC. So first and foremost, this is the decision that the Board made from a policy perspective. Back in 2008, we had a policy that explicitly prevented us from using leverage in the portfolio. And the effect of that was to really constrain staff's ability to respond to the challenges of the time. We couldn't use derivatives as effectively, et cetera, et cetera.

Contrast that with today, in 2019, the Board specifically approved the leverage policy, which enabled staff to build this financing infrastructure out. And that really gives us a ton of flexibility and enhances our liquidity management processes.

So then looking at the next line down, in 2008, we only had one established funding channel, and that was a securities lending channel. And then we could only use treasuries and equities in that channel. Today, moving over further to the right, we've operationalized numerous derivatives wrappers, repo agreements or repurchase agreements, in addition to the securities lending market. And all of that we can do using a multitude of asset types, so treasuries, equities mortgage-backed securities, and different credit products that are on our balance sheet.

Next line down, our governance structure. As you know, we've -- our governance structure used to represent -- it was something that was much more siloed and uncoordinated and people were looking at it from that asset class perspective, whereas today, we've man -- we've evolved that governance structure to something that is essentially managed and takes that holistic portfolio-centric view of liquidity management and sources in financing management.

The management tools in the financial crisis were centered around how the asset classes interacted with the market and modeled the market from their own perspectives. Whereas, today, we have several -- we have numerous liquidity dashboards that are looking at our posture through different lenses that includes stress testing and explicitly -- explicit management-directed liquidity coverage minimums that we have to maintain.

And the last line talks a little bit about the success that we've had in navigating more recent stress episodes relative to the GFC. So in the GFC, as you know again, we were forced to sell assets to ensure that we had -- to ensure our liquidity position was stable, which came at a great cost. We sold assets that we didn't want to sell to make sure that we could pay the bills that we had to pay.

In the current paradigm, we managed through the COVID crisis, and put money to work, when your rebalancing models suggested to do that. And when Silicon Valley Bank and Credit Suisse went belly-up, we maintained sufficient liquidity to meet our obligations, to pay our bills, stay on strategy, and maintain a lot of excess dry powder for opportunities as they should -- if they were to have arisen.

So moving to slide 11 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: -- it's our last slide for open session, trying to pull everything today. Again, this is a little bit of a busy slide, but there's a lot of stuff going on here. In the middle of the diagram sits investment treasury represented by that continuum of liquidity and financing management. That continuum allows us to source liquidity, so moving to the left side of the -- of the slide, through multiple and diversified funding channels, so we can fund again through repo, through derivatives, through securities lending again in the different asset types.

So leveraging our strategic advantages, the Treasury team -- the Investment Treasury team uses those sources to ensure that our liquidity is safely managed, and is -- and stable, and all of our needs are adequately covered. Those uses, most importantly I referenced it six, seven, eight times now, are to pay benefits, to make capital calls and margin calls, and to fund our broader environment strategy.

So with that, that is -- concludes the prepared remarks. We're happy to answer any of the questions you have, and we thank you for allowing us to take the time.

CHAIR MILLER: All right. Thank you for all the work of the whole team. A lot going on there to try to -- a lot of moving parts and a lot of coordination communication. So I really appreciate the explanation and seeing it all -- how it all fits together is very helpful.

So Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. This is very exciting. It's a success story from, you know, 2008, with -- you know, when we needed liquidity and we learned. And so I really appreciate -- I think this is the first team I actually heard the Investment Treasury Management group. So this is good. Thank you. Thank you, Stephen. I guess you're the one responsible.

But my question is - this is excellent - how would your team change its procedures or how is it impacted if we move into the total fund approach?

CHIEF INVESTMENT OFFICER GILMORE: Can I just chip in there, because I actually think this is an enabler of the total portfolio approach, and I also think this is one of those areas that's a relative strength for us. I think the team has done a lot of really good work in terms of collating information. And I also to shout-out to those people who have allowed me to view the portfolio, the liquidity position, on my phone. So thanks to all the people behind the scenes who've made that work.

So, enabling position for TPA and the relative strength.

COMMITTEE MEMBER RUBALCAVA: Thank yo. Thank you very much.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Again, I also want to say that Dr. -- to Mr. Rubalcava, this is also a very interesting presentation. I just want to go back with respect to the then and now slide, with respect to -- you were mentioning about the stress monitoring and stress testing. If I recall in the trust report, the liquidity was set at 2.4x a 30-day tier one stress liquidity coverage ratio. And is that the -- is that the benchmark, is that our base or I'm just trying to understand that level?

INVESTMENT DIRECTOR O'DONNELL: Yeah. So that coverage ratio comes from one of the models that looks at our liquidity man -- or liquidity posture from the top-down perspective in the portfolio. 2.4x simply means that we are, you know, well covered by, you know, getting down to a 1.0 as the minimum amount of liquidity we have to have to pay those bills. So 2.4 is obviously better than that.

We have other models that are much more nuanced now that look at the operationalized liquidity sources that will allow us to be much more precise in how tight or how loose we can run liquidity. So, I mean, to directly answer your question, 2.4 is not a benchmark. It's just a stat of -- a status of where we sit today. The coverage ratio minimums, and you can't draw a complete parallel, because the models are a little bit different right now, but we do have coverage ratio minimums, more along the lines of a 1.75, 1.5 depending on which model you're looking at.

COMMITTEE MEMBER PACHECO: And with respect to the stress testing on models themselves, I know that when I read some of the materials in the past that it's usually been the global financial crisis. We've -- bench. We've utilized I believe the 1998 -- 1986 crash, and so forth. And then other -- and then, of course, COVID. Do you feel that those are -- those are okay stress tests or you feel there should be additional -- parameters for additional testing?

INVESTMENT DIRECTOR LEU: Yeah. That's a good question. I think that's an area that is evolving, so we do -- we do run GFC. We've run stocks and bonds, both down, so, you know, where there's -- you know, both are -- you know, don't -- there's not a negative correlation between them --

COMMITTEE MEMBER PACHECO: Yes.

INVESTMENT DIRECTOR LEU: -- but actually right. We've run flash-crash. So there are more than those that we've run. And that's an area that we want to continue as we talk about stagflation or other kind of scenarios. Those are ones we want to make sure we run through. And so it's a developing area. We've done a lot of progress on that time -- on that area, but we're still building a lot of the tools to be able to model every scenario.

COMMITTEE MEMBER PACHECO: So the tools are still being developed over time. It's a work-in-progress then?

INVESTMENT DIRECTOR LEU: Yeah. And we've made -- we've made a ton of progress. And so, all of those scenarios have already kind of been run-through, but we do want to also do stress testing as an organization, almost like, you know, tabletop exercise, where we --

COMMITTEE MEMBER PACHECO: Yes.

INVESTMENT DIRECTOR LEU: -- make sure operationally too everyone knows what to do.

COMMITTEE MEMBER PACHECO: Exactly. And I think that would be a -- that would be actually very interesting exercise to have a tabletop exercise in this -- with respect to this treasury management process. So look forward to your continued discussions.

INVESTMENT DIRECTOR O'DONNELL: I suspect we'll see a tabletop exercise soon.

COMMITTEE MEMBER PACHECO: Very interesting. Well, thank you. Thank you so much.

CHIEF INVESTMENT OFFICER GILMORE: We will.

COMMITTEE MEMBER PACHECO: Mr. Gilmore, you were going to say something, sir.

CHIEF INVESTMENT OFFICER GILMORE: We will see a tabletop exercise reasonably soon.

COMMITTEE MEMBER PACHECO: Okay. Very good. Thank you. Thank you so much.

CHAIR MILLER: Yeah. That will be very interesting and I just think so many -- you know, when you think about scenarios and so many of these, well, that will never happen, but we've seen some really wacky stuff happen fairly recently that -- so it just reemphasizes the value of really, you know, looking at things from a what-if and -- yeah, and I'm appreciate the -- it goes back to, you know, our whole approach to looking at -- looking at risks. And looking at risk is one of our real -- is rather than just putting things in silos as we have in the past, and just taking that more siloed scattered approach. This is encouraging to me as well. So thank you.

Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. Thank you to the team as well for the report. Just quick -- a couple quick questions. On the -- I believe it's page eight, the chart on the liquidity governance. So can you elaborate a little bit about -- on the governance of the different investment teams in the chart -- in the chart?

INVESTMENT DIRECTOR O'DONNELL: Yeah. So we believe that liquidity -- like liquidity management should be considered from that top-down total portfolio holistic view. I mean, that's really I think in this environment the only way you can -- you can look at that.

So that's the way we've structured the governance. Obviously, it starts with the decisions that the Board makes. And Stephen has a lot of contribution and input into how we're looking at this stuff. But we felt like it was important from the Liquidity Governance group of three, so Dan, Sterling, and Arnie, among others that may be appointed, to have that kind of broad asset class view, to bring different perspectives in how we're managing the program. And then add to that, I mean, the Investment Treasury team, Brian and I, came from different spots of the house as well. I was in fixed income. Brian was in equities. The rest of our team was kind of pulled from different spots too to have a different perspective on liquidity management generally speaking.

And then pulling in the asset class teams, the operations team, the performance management teams on that weekly liquidity huddle that gives anybody that wants to talk a chance to probe the decisions that we're making, I think just gives us a much more robust platform to grow this from.

ACTING COMMITTEE MEMBER RUFFINO: Can I have a quick follow-up? So, what issue do you think might require, for example, the CIO input as opposed -- as opposed to the weekly meeting that you guys are having?

INVESTMENT DIRECTOR O'DONNELL: It could be that, you know, the CIO obviously has, you know, authority to direct us to do whatever he or she sees fits at the time. And there could be a situation where the broader team is more comfortable with the liquidity posture, but there's something in the market that's happening that the CIO has a different view on, they can -- you can tell us to change our liquidity coverage ratios to re-liquify to have more cash on hand should we need it, so things like that.

I don't know. Do you have something else, another example?

INVESTMENT DIRECTOR LEU: Yeah, maybe just add to that. We have in our -- we have in our procedures that if, you know, our liquidity coverage ratios get violated or they go below that that, you know, for a certain period of time then that requires automatic notification. And so The LGG will be notified of that. And then I guess I could see, you know, depending on how severe the scenario that, you know, we would want guidance in terms of maybe the best approach to bring that coverage ratio back. We have triggers where we would automatically do that, but there may be certain circumstances where they may not be the best, you know, holistic thing to do for the fund, you know, in terms of how it might look.

So, our job is to provide a liquidity plan, wha we should do, how to mitigate that risk, what we would do to bring, you know, the coverage ratios back in line.

ACTING COMMITTEE MEMBER RUFFINO: And finally, for the benefit of our audience and the folks that are listening -- and I know we talked about a ratio, but in more simplistic terms, can you tell us what is the decision process for establishing the level of cash?

INVESTMENT DIRECTOR O'DONNELL: So there's a model that we call the liquidity coverage matrix, so they have the Matrix like the movie, which lists all of our sources on one axis and all of our uses on another axis. And our uses include things like how much risk do we see in the liquidity markets or given the positions that we have on today, what do we think our value at risk might look like?

And we pair off our most readily available sources of cash against the most urgent needs of -- for uses, pension benefit payments or margin calls, et cetera. So we always make sure we have enough cash on hand to make those calls. And then we kind of waterfall down through the rest of the sources and uses of things that may not be quite as likely or may have a longer time horizon associated with them, so that we can calibrate our liquidity minimums at a different relevel. I hope that helps.

ACTING COMMITTEE MEMBER RUFFINO: That does help. And the Treasurer gets asked all the time, you know, whenever she speaks particularly to our stakeholders, the retirees, the beneficiaries, and their number one question is always, are you going to run out of money, do you have enough money to pay my pension, please don't run out of money. So for those retirees that are listening, you just heard from the beginning that we are solid ground. So you're going to get your pension and --

INVESTMENT DIRECTOR O'DONNELL: Absolutely.

ACTING COMMITTEE MEMBER RUFFINO: -- and you're going to get your benefits that you deserved. Thank you, Panel, and thank you, Mr. Chair.

CHAIR MILLER: Okay. I think that's it for us for questions from the Board. Anything you wanted to add their, Stephen?

CHIEF INVESTMENT OFFICER GILMORE: Yeah. I'll just -- I'll just say we can also use the Treasury function to take advantage of the markets. So, of course, the main focus is to ensure there's enough liquidity. But when we think we've got more than adequate, there are times when we see opportunities in the market, and that's when we'll get together as a team and discuss those opportunities to enhance return as well.

CHAIR MILLER: Excellent. Thank you. Thanks for this.

Okay. And that moves us on to --

CHIEF INVESTMENT OFFICER GILMORE: Call up Peter and Tamara.

CHAIR MILLER: Peter and Tamara.

(Slide presentation).

CHAIR MILLER: Responsible Contractor Policy annual review.

ASSOCIATE INVESTMENT MANAGER SELLS: Good afternoon. Good afternoon. Tamara Sells, CalPERS staff. It is my pleasure today to present to you the Responsible Contractor Policy annual report for the 2023-24 fiscal year. I will provide a summary of the compliance results. I will touch a little bit on our communication and engagement flow, as well as the bidding and notification process, and then I will provide a snapshot of the total compliance and contracting over the last nine fiscal years.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: Thanks.

As you all are well aware, the Responsible Contractor Policy exists to ensure prudent and careful action while managing the Responsible Contractor Program. And it applies to our domestic real estate and infrastructure investments where CalPERS holds greater than 50 percent interest on contract -- or contracts equal or greater to 100,000, and it demonstrates our fiduciary principles to support and encourage fair wages and benefits.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: The Responsible Contractor Policy provides an important risk management function in the identification and mitigation of labor risks. And we have a well-established Responsible Contractor Policy, which today we've completed the third official -- or the third reading of the policy refresh following an 18-month long extensive policy review and engagement process, with the newly enhanced and improved RCP to be effective July 1, 2025.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: So, for this slide, I am happy to report 100 percent compliance by all of our responsible contractor managers for fiscal year '23-'24. All managers have certified that they, their contractors, and subcontractors have complied with the policy. And certification -- or excuse me, certified responsible contractors received over $1 billion last fiscal year.

Also, all managers reported that there were no material adverse impacts to CalPERS investment returns and no formal complaints had been filed during this reporting period.

Next slide, please.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: As a reminder, the policy continues to provide an avenue for communication and engagement with our external managers, their contractors, our labor stakeholders, as well as CalPERS staff. CalPERS's oversight of the Responsible Contractor Policy -- Program Policy includes dedicated staff that work to assess stakeholder inquiries on the implementation of the RCP, which projects are applicable to the RCP, mitigation of human capital, and reputational risks, as well as facilitating engagements between labor unions, stakeholders, and our managers and contractors.

CalPERS Investment staff communicates regularly with our stakeholders, as well as our real estate and infrastructure managers regarding implementation of the policy, and we do work to address labor issues in a timely manner.

Next slide.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: So for the fiscal year ending June 30th, 2024, our managers reported not only 100 percent compliance, but over $1 billion in certifying responsible contractor payments. These were attributed to several factors, including increased development costs for properties under construction, and making further project -- progress on conversion projects, as well as new least agreements that result in new tenant improvement allowances.

For the last nine fiscal years, contractors -- responsible contractors have received over $8 billion under the policy. Overall, the policy continues to serve us well. Application of the Responsible Contractor Policy has resulted in positive outcomes for CalPERS our labor stakeholders and our CalPERS investments.

That concludes the fiscal year 2022-24 annual update and I'm happy to address any questions that you have.

CHAIR MILLER: Okay. Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you, chair. Great. This is really very positive. Looking at that last slide, six of nine, obviously there's positive growth throughout, but there is one at the very end. What was the anomaly there, why it dropped from 70 to 66?

ASSOCIATE INVESTMENT MANAGER SELLS: I'm sorry, what -- which --

CHAIR MILLER: Market value.

ASSOCIATE INVESTMENT MANAGER SELLS: Oh, okay. Oh, the actual market value. That was likely due to the natural portfolio construction process and something that I would have Sarah come and speak to as well. Yeah, there she is.

MANAGING INVESTMENT DIRECTOR CORR: It's just largely due to the write-down of the real estate portfolio over that time period.

COMMITTEE MEMBER PALKKI: Okay. Thank you. That's all my questions.

CHAIR MILLER: Okay. President Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you. Thank you, Tamara. I kind of feel like we did this earlier, but I just want to make sure that as we are making -- you know, being clear that the employers are complying, but at the same time, it's not impacting them, that we are making sure that our stakeholders who had lots of questions about the implementation of our RCP gets taken care of. And I know we discussed a system that's going into place and stuff that -- so we should be able to track that. But I think the big takeaway today was hearing the trades talk about making sure that more union folks get hired, which I get it. I'm hearing that there was zero in some unions that got hired. I don't know how factual that it is, but just so that we're making sure that we're doing that.

Thank you. Oh, and good job.

CHAIR MILLER: Yes, excellent job.

And next is Frank Ruffino.

There we go.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr.

Chair. And I have a quick question and then a comment on your slide on the summary of results, but first the question. Have we seen any correlation between the use of responsible contractors and improved long-term investment outcomes, such as asset performance, tenant satisfaction, or perhaps reduced turnovers? Do you have any data or anything that -- to that effect?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question. And it -- I don't have any data today, but it's certainly something the we can go back and look into for you.

ACTING COMMITTEE MEMBER RUFFINO: Okay. That would be great. Thank you.

Mr. Chair, a follow-up.

Another quick question, which I think it was answered earlier today when we were talking about this, but again I want to ask, how does CalPERS compare with other institutional investors in its approach to responsible contractor policies? Are there any areas where we are leading, which we are, I know, or where there is room for improvement?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question. I can confidently say that CalPERS is a leader in this space. To our knowledge, we were one of the first to have a Responsible Contractor Policy in place. When we did the peer benchmarking work, we benchmarked the existing policy as it stands against our peers, but then we also benchmarked what the future policy could look like as well, and really trying to make sure that those 15 areas that we reviewed that we are looking at the most progressive, responsible, workforce practices while at the same time remaining consistent with our fiduciary duty.

ACTING COMMITTEE MEMBER RUFFINO: Excellent. Thank you for that. And my final comment on the slide, I believe it was six, the fiscal year '23-'24 summary results. Beautiful slide, by the way. Good information. And to those peers, and colleagues, and folks who are not so excited about the RCP or they think, you know, that the RCP causes problems for the plan, please read the last one -- the last bullet, and I want to read it out loud, because it says, "All managers reported that the RCP Policy had no, had no adverse material impact on CalPERS investment returns." In fact, we believe the opposite.

Thank you, Mr. Chair.

CHAIR MILLER: Thank you.

Okay. I see no more questions. Thank you for the report and all the fine work of the team, and everyone. And we look forward to more excitement in the future.

Thank you.

Okay. I think that brings us to...

CHIEF OPERATING INVESTMENT OFFICER COHEN: It does, Mr. Chair. Summary of Committee direction. I have one item going back to 5a, the RCP third reading adoption. We'll return with a cost and scope regarding a market study on prevailing wage and labor peace agreements.

CHAIR MILLER: Sounds good. I think that's it.

So with that, I think, at this point, we will be moving into closed session. We'll recess --

COMMITTEE MEMBER WALKER: Public comment.

CHAIR MILLER: Oh, yeah, we've got -- yeah, there we go.

Public Comments.

Mr. Jelincic. I think we may have somebody else too. Let me look.

J.J. JELINCIC: J.J. Jelincic, beneficiary. I have two points I'd like to make.

One, you need to really understand the implications of evaluating a portfolio that contains a significant number of illiquid leveraged assets with made-up values by comparing it to a benchmark that has none of those things.

Two, the Bagley-Keene Open Meeting Act is predicated on the California Constitutional provision that the public's business should be conducted in public. I've asked the staff to give you a copy of this -- of Government Code section 11126 dealing with closed sessions, so that you're aware of what the law is. Bagley-Keene has major flaw. Attorney General Rob Bonta claims he is the chief law enforcement officer when that serves his purpose. However, when it comes to Bagley-Keene, he has said he has no duty to enforce that law. Rather, he has a duty to defend the agencies -- the State agencies when they violate it.

You've noticed that you're going into closed session. You're going to discuss asset liability management strategy governance and reporting. You're going to discuss, among other things, the switch to a total portfolio approach to manage the fund's assets. The law allows you to meet in closed session to make investment decisions. Government Code section 11126(c)(16). However, that's not what you're going to do. It has been made clear that no final decision on the total portfolio approach is clear, a decision is months away.

I would also encourage you to take a look at (a), (e), and (g), since those are sections that you consistently use in the boilerplate to justify your closed session.

And I thank you and we will see you tomorrow when I will wear my RPEA hat. Thank you.

CHAIR MILLER: Thank you for your comments. I believe we have one more commenter on the phone.

BOARD CLERK ANDERSON: No more.

CHAIR MILLER: No, not on the phone.

Okay. At this point then, we'll recess now into closed session for items 1 through 7 from the closed session agenda. We'll immediately reconvene in open session after the closed session. And yeah, we'll take a 15-minute break. Okay.

Oh, I guess, Theresa wants me to hit the hammer.

(Off record: 3:25 p.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 5:39 p.m.)

CHAIR MILLER: Okay. We've completed our closed session. We're back in open session. Unless there's an objection, this meeting is adjourned.

No, objections.

There we go.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 5:39 p.m.)

CERTIFICATE OF REPORTER

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 24th day of March, 2025.

James F. Peters

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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