MEETING

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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LINCOLN PLAZA NORTH

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9:24 A.M.

JAMES F. PETERS, CSR
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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

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

Daniel Booth, Deputy Chief Investment Officer

Peter Cashion, Managing Investment Director

Jonathan Chen, Investment Director

Sarah Corr, Managing Investment Director

APPEARANCES CONTINUED

STAFF:

Colin Crane, Investment Director

Jane Delfendahl, Investment Director

Juan Gaviria, Investment Director

Michael Krimm, Investment Director

Brian Leu, Interim Managing Investment Director

Anton Orlich, Managing Investment Director

Lauren Rosborough Watt, Investment Manager

Justin Scripps, Investment Director

Tamara Sells, Associate Investment Manager

Racel Sy, Investment Director

Edward Yrure, Investment Director

ALSO PRESENT:

Mary Bates, Meketa Investment Group

Tammy Dhanota, Service Employees International Union, Local 521

Mark Drolette

Jakob Evans, Sierra Club

Christy Fields, Meketa Investment Group

Kellie Guevara, Service Employees International Union, Local 521

Steve Hartt, Meketa Investment Group

Edward Hasbrouck

APPEARANCES CONTINUED

ALSO PRESENT:

Jennifer Hogan

Sarah Holtz, Office and Professional Employees International Union

J.J. Jelincic, Retired Public Employees Association

Susan McCarthy

Steve McCourt, Meketa Investment Group

Ruth Radetsky

Frank Ruiz

Nathan Sands, Tesla Takedown

Mark Swabey

Tom Toth, Wilshire Advisors

Mary Jo Walker

Crystal Zermeno, California Common Good

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PROCEEDINGS

CHAIR MILLER: Okay. There we go. I got it figured out. I'd like to call to order the Investment Committee meeting. And we'll start with our roll call.

BOARD CLERK ANDERSON: David Miller.

CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Mullissa Willette.

VICE CHAIR WILLETTE: Here.

BOARD CLERK ANDERSON: Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: 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. We'll move on to our first order of business is our executive report.
Stephen.
CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. At this meeting, we have one item which is for action and we have a number of information items. The action item is a follow-up to the last Committee meeting, where the Committee directed the team to look at potential changes to the way we look at our Responsible Contractor Policy, specifically to look at a couple of labor issues, so prevailing wages. And that item is, as I say, for action.
The information items, a number. First of all, we'll have our regular quarterly reports, CIO reports, looking at the trust level review. This time, we'll do something a little different. We'll also look at the big picture context for the macro and market environment. We'll then go on to talk about the asset liability management work. Again, remember this is leading into a decision in November. So that item I'll be joined by Michele Nix and Scott Terando. And then we will move on

to a number of private market annual program reviews, so private equity, private debt, real estate, and infrastructure.

Thank you.

And one other thing I also wanted to mention, I wanted to acknowledge Sterling Gunn, who's been here for approximately five years. He has announced he will be retiring. And I'd like to note my thanks and gratitude for all his efforts through time. There will be an interim head of total portfolio management and that's Brian Leu. So he is effectively interim now and we're advertising for a replacement. But Sterling will be with us for a while. But as I say, we now have Brian Leu as acting head of Total Portfolio Management.

CHAIR MILLER: Thank you. I see no questions from the Committee, so we'll move right to our action consent items. Pleasure of the Committee.

COMMITTEE MEMBER PALKKI: Move.

CHAIR MILLER: Moved by Mr. Palkki.

COMMITTEE MEMBER PACHECO: Second.

CHAIR MILLER: Seconded by Mr. Pacheco.

Any discussion?

Okay. Call for the question. Oh, just -- okay. All in favor?

(Ayes.)

CHAIR MILLER: Any nays?

Any abstentions?

Okay. It's unanimous, the ayes have it.

Moving on to our information consent items. I haven't had any requests to pull any of these items. I'm not seeing any now, so we'll move to our action agenda item. Back to you, Mr. Gilmore.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. Can I please welcome to the table Tamara Sells and Sarah Corr.

(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: And again, as a reminder -- and a reminder this is a follow-up to the Committee direction from last meeting. And I'll pass over to Sarah and Tamara.

ASSOCIATE INVESTMENT MANAGER SELLS: Good morning. Tamara Sells, Associate Investment Manager, Sustainable Investments.

Today, I will present Agenda Item 5a, market study scope for the financial impact of prevailing wages and labor peace agreements for real estate and infrastructure investments.

At the March Investment Committee meeting, the Chair directed staff to bring back information on a potential market study on these prevailing wage and labor peace agreement practices and the costs -- potential costs involved. Staff does not have a recommendation today, but is bringing forward this item for the Committee's discussion and consideration.

So I will provide a summary of the proposed scope of work for the market study and its objectives, and then I will also touch on the market study's methodology, research focus areas, data sources, and deliverables.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: The market study seeks to review the financial impact of prevailing wages and labor peace agreements on real estate and infrastructure investments and to identify the potential impacts on investments from these labor practices.

The proposed process would have the Investment Office issue a request for proposal, an RFP, for one or more third parties, consultants or academic institutions who would then carry out this work for the market study, either directly or via subcontractors. And the Investment Office would select the third party and oversee the work ensuring that the Committee would receive regular updates on the progress of the study.

The cost of the study is estimated to be one million or over. And the timeline is expected to be anywhere from 18 to 24 months.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: This sline out -- excuse me. This slide outlines the objectives for conducting the market study. So we would look to quantify the impact of prevailing wage requirements on project costs, timelines, stability, risks, predictability, and look at the overall impact of these labor practices on investment returns and our ability to make investments. We would also analyze how project characteristics, including macroeconomic conditions, influence the impact of these labor practices

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: The market study's scope of work methodology would be a mixed method approach, using both quantitative analysis as well as qualitative analysis. And so we would do -- or look at rather econometric methods to determine estimates of the impact of the project cost, schedule, and financial performance, as well as qualitative analysis through case studies and interviews through relevant market participants, including real asset managers, senior management, infrastructure, and real estate companies.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: The market study would assess mandating prevailing wages and labor peace agreements using research around cost benefit, the timeline impacts, risk management, financial and risk-adjusted investment returns, as well as the market perception of these practices.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: This market study would also use several data sources from primary and second date -- secondary data sources. And so this would include surveys, and interviews with relevant industry experts, including stakeholders and surveys of developmental -- excuse me, developers and contractors and external managers, and then also reviewing academic and literature reviews, as well as publicly available government data to help inform the analysis.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: For the market study scope of work deliverables, the Board can expect a market study report that would summarize all of the findings and all of the analysis that I have outlined in the objectives. There would be a presentation of findings to the Board, and any other potential deliverables or materials that would help inform the Board in its analysis.

As for next steps, following today's discussion, if the Board chooses to approve the scope of work for the market study, we would begin working with the Investment Services Team, as well as the Enterprise Operations and Support Services Division to get into the contracting and procurement queue.

And this concludes the presentation. I would be happy to answer any questions you have.

CHAIR MILLER: First, I have Deborah Gallegos

ACTING COMMITTEE MEMBER GALLEGOS: Thank you. Thank you for that report.

Question for staff. What is the genesis of these market studies that you're proposing. Why do we need them to be able to carry out our duty as a fiduciary?

GENERAL COUNSEL JACOBS: Good morning. Matt Jacobs, General Counsel. I think you need it, because we have to have a process that rationalizes the decision. Right now, I'm not sure that we have that kind of a record with respect to the data that has been reflected in Tamara's summary. So in a nutshell, I mean, that's -- you need -- you need a process to rationalize and justify the decision.

ACTING COMMITTEE MEMBER GALLEGOS: As fiduciaries, isn't our responsibility to keep ourselves educated on items such as these to be able to make decisions without having to spend a million dollars and 18 to 24 months to get information that we know is going to be biased, because obviously the people you interview who this will affect are probably not going to want it in the -- in their agreements.

GENERAL COUNSEL JACOBS: Well, I mean, the bias I think can be assessed as part of the assessment of the overall study. You don't have to take the study at face value. Although, I think that the independent agent who would prepare the study would do this for himself, that is potentially discount or not -- discount is probably the wrong word, but apply a caveat to whatever is being provided by the managers. But there will be significantly more data that is collected during that process from independents. I don't -- this is not a study that would just rely on those managers. So you'd get that.

As far as your fiduciary duty as Board members, absolutely, it's your duty to stay informed and to become more informed about a whole variety of issues. The question I think on the table is whether that record reflecting the bases for your potential decisions in this regard is in the record, is -- has been fully developed, so that if it's questioned later on, you've got a record of the basis for that. I don't think it's sufficient to say that because we are trustees we necessarily have the information that -- from which to make this important decision that may affect returns. But if you have the data, then let's put it on the record and have your colleagues evaluate it.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

CHAIR MILLER: Okay. Director Willette.

VICE CHAIR WILLETTE: Thank you. I just want to thank the staff for bringing this back, as quickly as they did, and for bringing this market study proposal forward. I think the financial implications of prevailing wage and labor peace agreements are significant, and we appreciate the effort to examine their impact on our real estate and infrastructure portfolios.

To move forward to defining the final scope, I want to lift up two areas for refinement that I think would make the study more effective and actionable. The first is to include skilled labor as a distinct component of the study. I think many prevailing wage mandates in California require not only higher wages, but the use of a scaled and trained workforce -- skilled and trained workforce. And we have heard testimony in the past to this Committee in previous meeting about apprenticeship programs as the foundation of that skilled labor.

And so I think if we don't study skilled labor, we're -- as a distinct cost and benefit factor, we really risk misunderstanding the true drivers of financial impact for our investments. I also think skilled labor affects cost and performance of all these projects. We anecdotally have heard that skilled labor may have higher up-front labor costs, but research could suggest that they have higher build quality, fewer delays, fewer long-term maintenance issues. And so I think capturing those dynamics in this study would also go to really help us to our fiduciary duty to assess the long-term investment on those returns -- or the long-term returns on those investments. Sorry.

And then the second refinement I'm going to ask if the Board -- the Committee agrees is to limit the study scope to California. And I think why that is important is because California's prevailing wage frame is among the most comprehensive in the country. It has clear statutory guidance, consistent enforcement, and publicly available wage determinations.

And I think the availability and consistency of California data will lead to more reliable and actionable findings. You're not going to get the same level of data in other states. I also think a significant share of the CalPERS real estate and infrastructure assets subject to prevailing wage and labor piece requirements are in California. So aligning the scope with our actual exposure ensures that finding direct applicability to our investment decisions more likely.

I also think just a nationwide or multi-state approach would expand the cost and complexity, and I think -- of the study significantly without the proportionate. So focusing on California I think ensures high quality results while keeping the study financially more feasible, and maybe limiting those projections that we're seeing in this proposal.

I think that these two refinements will study -- will strengthen the study's usefulness for us as trustees, but I'd also like Board members to be on the Committee to review the proposals and be part of the third-party selection process. So, I'm going to give that to my Board for discussion. And feel free to reply or respond, if you'd like.

Lots going on down there.

GENERAL COUNSEL JACOBS: My colleague Robert Carlin has a thought about the limitation to California. I'll let me speak -- or ask him to speak

SENIOR ATTORNEY CARLIN: Good morning, Board members. Ms. Willette, on thought that immediately occurred to me was that if we were to limit it solely to California, we might potentially limit the ability of the Board to have something that would apply nationwide. That's part of why we wanted to have it kind of open-ended, so I -- and this is just for the Committee's consideration, but a thought would be perhaps to make sure that the study ultimately does focus on California in particular, but to not limit it in that fashion, so that we don't, in some ways, get a result back that would limit the Board's ability to apply this result more broadly. Just a thought for you all to consider while you're discussing this.

VICE CHAIR WILLETTE: Absolutely. So we could do something where we have, I want to say, dual measuring, but we could have California and then California plus with other ones as results.

SENIOR ATTORNEY CARLIN: I think that's right. I mean, my thought would be to, as much as possible, with the way we've structured this is to not tie the hands of the folks who want to -- we want to give availability for a broad array of different proposals on how to attack this problem. And so we want to -- we don't want to artificially constrain the solutions that might be brought forward is my -- is part of the reason why it's drafted kind of so open-ended.

VICE CHAIR WILLETTE: Sure. I appreciate that. I just think that we're not going to find the data we need. And sending someone out to collect data that doesn't exist doesn't necessarily help us, but I'm definitely open to, you know, multi-approaches. And thank you. Those are my comments.

CHAIR MILLER: Okay. And I think we'll hear from the rest of the Board and then probably have some Board direction. So, President Taylor.

COMMITTEE MEMBER TAYLOR: Thank you. Thank you, Chair Miller.

So first of all, Tamara, thank you for the market study and the scope of work. There was one other area -- I don't disagree with Ms. Willette's overview. However, I do see that we have -- we have a lot more information in California, but I think it's important. I think what we are answering to is a request from folks to try to implement this throughout our portfolio. So I think that's important to see what happens if we go out further.

So there's two things. Number one, I just -- and you mentioned it in two different spots. I just want to -- and the report, and the market study scope of work, excellent. I see everything that I would want in here. I want to make sure our staff hasn't -- we have enough staff just to do this part, right, along with -- and then I agree that the Board should have some process in place to interview, see the RFPs, et cetera. And I don't know if we want to -- David that's up to, if you want to do a committee, or however you want to do it. But, yeah, I do agree that the Board should have -- because this is something that we are -- feel it's very important.

Finally, I want to make sure and I -- like I said, it's been mentioned in a couple of different places, that labor unions -- the laborers themselves, not just -- not just unions, but I think that the market study should include talking to the union members. I don't -- I don't think it's complete, unless you're talking to the union members and not just the head of the unions. They have more anecdotal information, I think. So I think -- I saw labor unions, but I don't know what that meant. Did that mean union members or did that mean the head of the unions? I just think we should Include -- go ahead, Tamara.

ASSOCIATE INVESTMENT MANAGER SELLS: Yeah. Thank you so much for your comments. You are correct, that would include all labor union trade associations, stakeholders, any of those that would be interested or have interest in the construction projects as well. You are correct.

COMMITTEE MEMBER TAYLOR: Yes, so this -- and I saw that you were going to do a survey, so I appreciate that. So, yeah, I think this is great, you guys. If you need more staff, you should probably bring that to the Board, so that we can help with that.

Thank you.

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

COMMITTEE MEMBER PACHECO: Yes. Thank you very much. First of all, I wanted to say thank you, Tamara, for your comments and so forth, and thank you for this overview of this market survey. I really appreciate everything you've done. I'd also like to concur with respect to Ms. Willette's comments with respect to skilled and trained apprenticeship programs. You know, it does create opportunities in California and with California residents and so forth. And it is a great opportunity. I -- for one, there's an apprenticeship program at my school, at the San Jose Evergreen Community College District, where we help train kids to go into the -- to the trades, plumbing and so forth. And it's really an awesome experience to see them. And actually, I just saw them last week graduate. So they're now going on to do their -- do great things. So it's -- apprenticeships programs really do help our economy and help California.

I would also concur with Ms. Willette regarding, and our Board, that, you know, with the California Impact Report that we have in November, I feel that's a great opportunity for us to highlight some of these opportunities. So like, for instance, after we -- after we've done our market survey and we've done all the reporting, to supplement the California Impact Report with the material that we've acquired here. And I think that would help us give us some -- it gives us some more richness to our report, and it would provide us an understanding of California focus, because, of course, that report is on just California. So I feel that's a great opportunity.

And then lastly on the -- on the labor unions part, I would really be -- I also agree with Miss -- with President Taylor that that seems very vague. We should be -- it should be spelled out that, you know, we are going to be talking to the building and trades folks, and it's very specific that we reaching out to not only the ones at the State level, but also the ones in -- at the regional level, like, for instance, the Los Angeles, Orange County Building and Trades associations, the northern California ones, the Santa Clara -- Santa Clara, San Benito ones, to name a few off the top of my head. But I feel that they should be pretty well, you know, spelled out that you're going to be reaching out these folks, because these folks have the domain expertise and understanding what is really going on in their regions and provide -- and could provide incredible data and analysis for us. So speaking with SMART and all the folks that have come to us I think are also important as well.

So those are my comments and thank you so much.

CHAIR MILLER: Okay. Next, we have Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you. Thank you, Mr. Chair and thank you Ms. Sells and your entire staff who prepared this timely scope of work.

The question is given that this is going to cost a million plus, you know, the estimated cost, is there a potential to co-fund or collaborate with other institutional investors or perhaps government agencies that may also be interested in this research?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you so much for the question. I think that's always an option, but I will say that as a part of the 18-month long refresh project, we did interview six peer funds around this space. And so, you know, we could potentially look to see if any are interested there, but we didn't have a strong showing that any were looking at these practices at this granular of a level.

ACTING COMMITTEE MEMBER RUFFINO: It doesn't hurt to ask. Thank you, Mr. Chair.

CHAIR MILLER: Okay. Next, we have Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you, Mr. Chair.

I've been asked by the school employees to protect their retirements. And they're one of the lowest paid groups that we represent. So, every dollar that our investments bring in is a benefit to their retirement.

When we're looking at some of the scope of this work, the real estate and infrastructure projects, those are not just statewide, those are international, national wide, right?

MANAGING INVESTMENT DIRECTOR CORR: Correct.

COMMITTEE MEMBER PALKKI: So for me, the more data that we can collect, whether it's the nationwide internationally, it seems to me that it would behoove us to have that data. I would encourage you to reach out to the schools. Obviously, there's a bias, because I come from education, but knowing that the research facilities at many of the universities out there have great research facilities. So hopefully, we can tap into those and collect some data from there as well.

I'm all for the Board being part of the RFP as well. And again, yeah, just the more data we can have to make a sound decision on this would be very helpful. The 18 to 24 months is that -- do you feel that's sufficient. Should it be longer. Should it be --

ASSOCIATE INVESTMENT MANAGER SELLS: That's an estimate, just based on the process, because we do have to get into the contracting and procurement queue and go through the interview, so it's a rough estimate. This is a novel project. To my knowledge, it's never been done before and so -- you know, with regular updates to the Board, we could keep you abreast of the progress, if, for some reason, that timeline needs to be extended.

COMMITTEE MEMBER PALKKI: Thank you.

CHAIR MILLER: Okay. And back to Deborah Gallegos for the Controller's office.

ACTING COMMITTEE MEMBER GALLEGOS: I would just reiterate and appreciate Ms. Willette's comment on involving the Board in these -- the developing scope of work and the process.

CHAIR MILLER: Okay. Thank you.

Anything else?

Okay. I'm going to try to kind of summarize what I think is the direction from the Committee via the Chair here. And folks on the Committee can help me out, if I've not got this all to their satisfaction. So I think the first thing I've got is that the Board, this Committee specifically as a Committee of the whole, would like to be involved in the RFP process. And we've done that before with other RFP processes. So I'll leave it to staff to bring that back as part of the process and then we'll likely have a subcommittee of the subcommittee, which is a Committee of the whole to participate in that process in that fashion. So that's one thing.

I think to add to the scope to kind of define and evaluate the skilled labor, again, that's -- I think there's -- you know, over the years, I've seen plenty of academic work on the differences in cost, safety, everything of primarily unionized shops versus not. But I think what I'd really kind of pin those definitions down, so that we can really look at what those differences and definitions imply for us for a long-term investment standpoint. So I would propose adding that to the -- to the scope.

Doing some sort of differential emphasis or taking a look both at the aggregate data, because we're an international investor, but with a real focus on California. And potentially that could be included in our broader reports on California investing by the Board I think would be very helpful, so -- and that may give us access to additional potential interviewees, partners, data sources specific to the California marketplace that could help us in terms of that.

Finally, a little bit more specificity with what we mean when we -- when we reach out to labor. You know, so I'll leave it at that, but you've heard that more specificity in terms of how we're going to include labor's voice, and who we're going to talk to, and whether that outreach will go beyond the representatives of labor to actual being able to hear from labor from members themselves, from workers.

And then finally, something -- not so much to change the scope, but just for reporting back in terms of looking at where there might be other opportunities for partnership and collaboration with other institutional investors, academic institutions, whatever it may be, who would have an interest in and would benefit from the same learnings that we may glean from this process.

Board members, anything else? Did I get that -- okay. Jose Luis.

COMMITTEE MEMBER PACHECO: I would just be -- I would just want to make sure that we include the Building Trades Council and so forth as well.

CHAIR MILLER: Yeah, sounds good. Okay. Hopefully, that's clear enough with my mumbling through that.

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIR MILLER: Okay. I think it's just Board direction. I don't think we need a motion.

COMMITTEE MEMBER TAYLOR: No, it's an action item.

CHAIR MILLER: Of, it's an action. Oh, the action. The over all item. Okay. So we'll --

COMMITTEE MEMBER PACHECO: Motion.

COMMITTEE MEMBER TAYLOR: Second.

CHAIR MILLER: We'v got a motion by Mr. Pacheco, seconded by President Taylor.

Any further discussion on the action item before us?

Okay. The motion is to approve the market study scope, the financial impact -- for financial impact to prevailing wage and labor peace agreements for real estate and infrastructure investments as prevented -- presented by staff. Also, in light of, we've got some direction for tweaking of that. Okay.

No further discussion, I'll call for the question.

All in favor?

(Ayes.)

CHAIR MILLER: Any opposed?

Any abstentions?

The ayes have it. The motion carries.

So that brings us to information agenda items, starting with information Item 6a, the quarterly Chief Investment Officer report.

(Slide presentation).

CHAIR MILLER: And thank you to staff for that wonderful item we just approved.

Okay.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. And thank you, Lauren. Now, we're going to do something a little bit different this time. I'm obviously going to report on the performance of the portfolio through to the end of March, but quite a lot has happened since the end of March, and it's quite intriguing. If you look at, you know, the start of the year and then you look at where the markets are today, you might not really appreciate that, because there's been a lot of ups and downs. You know, the equity market is very close to where it was at the beginning of the year. The fixed income market is also fairly similar.

The U.S. dollar is a lot weaker though, but I'll talk through some of those developments when we go through this -- through this section.

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COMMITTEE MEMBER MILLER: In terms of the performance. As of the end of March, the PERF had 527 billion under management. Since then, of course, markets have been stronger, so the -- that number will have risen. The fiscal year-to-date as of the end of March was 5.6 percent. So on track to, you know, meeting our discount rate and probably exceeding it at that pace. And, of course, as I mentioned, the markets have been up since that period of time. The main drivers were listed equities, income, and private equity. I would also note that the allocation the private assets has gone up by around three percentage points since we last reported.

Now, with that, I wanted to then switch to context, to talk about the global environment and some of the economic considerations, and also some of the market considerations.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Now, I've put a quick comment up here from the IMF/World Bank spring meetings. These meetings take place -- or the spring meetings takes place once every year, but the IMF/World Bank get together twice a year. Lots of people get together, lots of conferences. And it's quite a good place for capturing the zeitgeist in terms of what, you know, global economic thinkers are actually thinking.

And this particular most recent meeting have taken a summary from JP Morgan's conferences, and they're saying multi-domain regime change is not reality and rapidly disrupting global trade, security and alliances. We see it. We see it with tariff. We see it with what's happening militarily. We see it with what's happening with, you know, pressure on funding and so on.

So it's a backdrop, which we always need to be thinking about when, I guess, considering, you know, investment outlook. I've also taken quite a few slides from Michael Cembalest at JP Morgan Asset Management, so thanks to them. He gave a presentation in March, which I thought was quite good, at setting or explaining some of the backdrop, you know, to what's going on now.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And the first one I'm going to put up is one that he showed looking at U.S. industry production versus GDP and consumer spending. You can see that from around 2000 or so U.S. industrial production is basically flatlined. That coincides with, you know, China's entry to the World Trade Organization. So that's kind of on people's minds that industrial production has flatlined since then, even though U.S. GDP has continued to grow.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Another consideration here is just how relatively generous the U.S. has been in terms of its trade deals with other countries. You can see a reciprocity line here. Someone actually asked me what those green dots were. They're actually European Union countries. But essentially, the U.S. is given more favorable terms than others.

I would also note that this consideration and also, I guess, industrial production has been on people's minds for a long time. So if you go back to the early 2000s, there was a bipartisan bill proposed by Chuck Schumer and Lindsey Graham to actually impose the 27 and a half percent tariff on China. So it's not a new thing, so it's been around. It's been around the treads.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: The U.S. has also run a persistent trade deficit extended. Nothing much has really changed.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And the U.S. has spent -- has spent and continues to spend more on defense than its partners. But as you can see, NATO ex-U.S. is increasing its defense spending. And obviously with developments in Europe and others, I would expect those to spend -- those defense spending numbers to keep rising.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Another big consideration is fiscal. And this is really independent of the new administration. You know, both sides continue to run fairly large fiscal deficits. And you're getting to this point where you know net interest expense is rising, you know, entitlements, mandatory outlays and net interest, you know, are on track to actually exceed revenues, so there's a fiscal challenge here. And also, with the current budget, which is going through the process, you know, that will continue to mean that the deficit stays at, you know, fairly elevated levels.

Obviously, a lot of debate about just how much additional contribution that current budget adds, you know, to debt loads. But there's uncertainty around that, because we don't exactly how much we collected in terms of tariff revenue. So tariffs will be an offset to some of that deficit. But we're looking at, you know, fiscal deficits of around, let's say, six percent of GDP for the foreseeable future. And that gets challenging after a while.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Now, I'm going back to, I guess, Econ 101 or my IMF days here, and things have to add up. So if you're running a trade deficit, and the trade deficit is the main component of the current account balance, running a trade deficit has to be financed. It has to be financed from capital flows. And there has been quite a lot of discussion around, you know, capital flows forcing the trade balance wider. There's also been this acknowledgement that if you're running a trade deficit, you need those inflows, you know, to finance the deficit.

I wouldn't, you know, sort of highlight that, you know, the trade deficit drives the current account deficit or the current account -- or the capital account deficit or vice versa. Those two things have to go together. They must balance out. So if you run a large current account balance, or current account deficit, or a trade deficit, you have to have those capital flows coming in to finance it. It's as simple as that.

On the other side, I've put the current account equals savings minus investment plus government spending minus taxation. Basically, if you look at the bottom line there, this is -- this is an identity. If you look at the bottom line there, government spending minus taxation. That's the budget deficit. Essentially, if you're running a large budget deficit, you're going to have a current account deficit, unless the private sector is in recession. So unless the private sector is saving a lot, you're going to have, you know, a current account and trade deficit, if you're running big fiscal deficits. That's how the numbers work.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: I also want to pass over to two economic scenarios. Now, this is a moving target. You've seen this, I guess, some months ago and we kind of update it. And when I was looking at this chart just before, you know, this meeting, I was thinking, well, maybe that May 2025 "X" could actually move, given what's happening, but I'll pass over to Lauren to comment about -- to comment on the scenarios and to talk about some of the implications.

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you, Stephen. Hello, everyone. Lauren Rosborough Watt, CalPERS Investment Office.

So I am going to talk around the scenarios. I'm going to talk around some of the cyclical or the business cycle effects that's impacting on the movement from February through to May. Stephen has spoken about the structural, some of the long-run impacts or secular impacts that we anticipate will occur going forward, and some of the reasons for the administration's decision. My focus is more on what is the near-term or the immediate impact and what does that mean for data.

And the short of it really is that a lot of it is unknown, and I'm going to speak a lot to that. As you'll know, inauguration day, the liberation day, executive orders have the potential not only to adjust in the long run, but also have raised some questions around these unspoken rules of the global economy and its interactions. And it raises uncertainty. We spoke about uncertainty after what -- after the pandemic in 2020. And just a reminder on that, when I think around uncertainty and risk, risk is a known set of future outcomes and that it's quantifiable where are you, what's the probability your -- in that range or where you are in that range.

Uncertainty is this unknown type component. So from an economic's perspective, we are, in some ways, a new world. And so, the range of outcomes could be wider, they could be moved higher, or they could be moved lower. And to give you some examples of that after the liberation day announcements, many economists were predicting a recession later this year. The vast majority of those have pulled that expectations back. There were expectations for inflation to hit potentially four percent by the end of the year. These expectations have also been pared back to around three to three and a half percent.

Now, in part, that's because of the changing narrative, the muddying of waters in the data, because of the administration's -- the delay in the tariff implementation, the changing of some of the rates or the reduction in some of the rates. And that in itself is causing uncertainty.

So when we think about the scenarios -- actually, before I do that, I just want to link through to the comment made around bonds and also in terms of the returns that we saw in the last quarter. When there's a greater unknown, investors require additional compensation for investing or taking on that risk. And you'll recall on the trust level review, there's a chart showing the S&P 500 and U.S. ten-year treasury bond yields, and how that relationship has changed over time.

And we spoke about this in the last quarterly around how that sort of is -- in some ways, denotes that stagflation type corner where both equities are falling and bond prices are falling, so bond yields are rising. Now, of course, part of the reason for the bond response is also due to concerns around fiscal largesse, which Stephen alluded to.

But when we think about this in terms of the schematic, we know that growth is expected to continue to decline over the remainder of this year. We know we had a very weak Q1 number. There was some technical reasons for that, so we should see some rebound come Q2, but further out, so the second half of the year. There's largely expectations for growth to decline, so growth to be lower than potential. That's to be the left side of the chart.

Now, the question around tariffs, of course, is we don't know around the extent, the size, or the timing. A lot of that is still up in the air. So taking that tariff impact, which tends to have an immediate impact on prices and therefore inflation, there are some reasons to think that the inflation increase, if we have sticky inflation, may not be as high as originally anticipated.

For example, oil prices, while they've risen just recently on the most recent Israeli-Iranian conflict, still remain lower than the start of the year, and certainly lower than last year. And that tends to drag down fuel prices for the average consumer in the U.S., and therefore has a negative or a drag on inflation.

We know the housing component, which has been very sticky in the post-pandemic world, there are disinflationary pressures still there. And the last one, there are disinflationary pressures outside of the U.S. that, to some extent, is offsetting some of the internal stickier inflationary pressures here.

So overall, you can see that line. If you recall, last time, I tried to draw -- I drew a sort of sideways to upwards line. At the moment, it's looking sideways. It could still -- it's still anticipated to increase on the inflation side.

Just to point out that inflation there is -- remains above target, the Federal Reserve's target, so certainly in that more top left-hand quadrant. So what typically do these states of the world mean for a reference portfolio. If we want to move on to the next slide.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: So I want to point out here that these models are -- or these results or returns are model driven. They're based on a reference portfolio, assuming a 70/30 percent weight. Stagflationary environment, as I mentioned, is one where both bonds and equity returns are typically expected to be weak or potentially negative.

But as Stephen pointed out, you know, returns, in general, depend on what's happening in the environment, and that matters the starting point or the valuation starting point of asset price. Also, the size of the shock, and I've spoken around the original anticipated size of shock has been -- has dissipated somewhat, and also on the structural cycle, which Stephen mentioned.

So, I also wanted to point out that last quarter I spoke about a mild stagflationary environment. And these models here are not looking at a mild stagflationary environment.

Now, I'm giving you these qualifies for a reason. This slide, the information here is to show the direction and change of stagflationary environment on a reference portfolio relative to the other states of the world. And it's highly stylized. It is ex ante, so it's model driven. We have four external providers, as well as our internal analysis for this, but it's not our projection for a portfolio, given events today. And so, if there's anything to highlight out of this, is the directional impact, relative to the other states, rather than the absolute -- excuse me, absolute size.

And one of the reasons why I'm putting these qualifiers in is in the U.S. we've only had three occasions over the history that we have the data for, where the economy has been in a stagflationary environment. And a sample size of three is not very large. So again, uncertainty is a -- sort of a primary theme coming through in my comments here today. It is highly uncertain around what those results may well mean.

I did want to leave you on a positive note. And that is these states of the world are transitory, so we're never -- we're never permanently in overheating or permanently in recession. They are transitory. And there's also positives in the current market environment relative to where market pricing is or expectations. So for example, if the Fed deems it possible, it could reduce rates at a faster pace or further than what market pricing is anticipating over the next year to 18 months. The administration's Executive Orders could adjust again, and we've seen that repeatedly. And, in fact, what you'll see is the market has largely been anticipating that, which is part of why we're seeing this recovery, as Stephen mentioned.

And the last one is the bill, the one big beautiful bill that's looking to be passed through. That is unlikely to have a negative impact on the economy in the very short run. In fact, some of the corporate tax breaks should have a positive effect from 2026 going on.

So I did want to leave you on more of a positive note on the cyclical side, and also on the -- to temper perhaps some of the media rhetoric that we're seeing. What Stephen is pointing out is that we are in perhaps a regime change. The world is changing and the responses that we've seen are changing.

For now, the U.S. consumer still remains the driver of growth in the economy. The U.S. still remains the driver of global growth. Developments in AI are still benefiting largely to U.S. companies, and therefore to equities. U.S. regulation tends to be supportive for U.S. growth. U.S. equity -- asset markets are deep and liquid. And for now, at least, the U.S. dollar remains the reserve currency of the world.

And I point these out, these things, these secular change -- could well change in the future, but for now just to temper some of the media rhetoric that we're -- that we've been hearing around what's happening on the ground.

That's it for me. Thank you.

CHIEF INVESTMENT OFFICER GILMORE: Thanks very, Lauren. I wanted to talk a little bit about the markets.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And Lauren mentioned U.S. performance. If you look at this chart, you can see that the U.S. equity market has way outperformed the European and Japanese markets. Now, there's another implication of that, of course. And that means that a lot of investors, domestic and offshore, are probably overweight U.S. assets, because they've passively ridden those stronger markets.

And that has implications when the U.S. dollar weakens. So it could lead to, you know, some potential future rebalancing of portfolios away from the U.S. Some of that may have been happened, but it's fairly marginal I think. There may have also been some currency hedging. But the U.S., as I say, has been a -- you know, a stand-out performer relative to the rest of the world.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Given that, U.S. valuations, equity valuations are quite high. And you can see that in the first shot. I've borrowed this from Gerard Minack, so thank you very much Gerard for these charts. You can just see how dramatic that is. As Gerard notes that the risk of the world, or the MSCI all-country ex-U.S. has not only just broken out of this very long-term sort of lethargic range. And when valuations are reasonable high, as they are now, as you can see from the right-hand chart, the forward-looking, you know, prospective returns are lower. So we would expect, you know, forward-looking returns on U.S. equities, you know, to be somewhat lower than they are for other equities.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: The things that I probably look at the most, you know, when there's so much -- so much happening, so much noise, it's very hard to understand what's the signal, what really matters. And one of the things that I think has been so powerful in driving market outcomes over the last few decades is actually been what's happened with interest rates.

So if you think back to the time of Volcker, interest rates were very high, real interest rates are very high, and then there was this period of, you know, 40 years where interest rates came down, and that drove asset prices. So asset price rises were much stronger than they would have been if those interest rates hadn't come down.

But what we've seen since 2020 is a rise in rates. And here, I've plotted real interest rates. So this is the interest rate after inflation. And I've looked at it in forward space. So I've looked at what that real interest rate is for five years in five years time.

The reasons why I do that -- if you've got questions around that, I can go into it, but I think it's a better indicator of, you know, tendency. And you can see that rising real rates that provides a bit of a challenge for some business models. But actually from our perspective, over the longer run, it's not necessarily a bad thing, because of interest rates is higher, then, you know, longer term returns, longer term returns for us, you know, should be -- should be a bit better.

And the other thing I wanted to comment on was the U.S. Dollar. It's been very strong. So this here is a chart of the -- what's called the real effective exchange rate. So this is a chart looking at -- think of it as like a purchasing power parity or looking at the value of the dollar against all its trade partners. It strengthened substantially over a period of time. So there has been a bit of a pullback over the last, you know, few months, but it's fairly small in the context of what's happened over the -- over the longer term.

So again, you know, you could see more adjustment in the U.S. -- in the U.S. dollar through time just on valuation -- just on valuation grounds.

And with that, I'll pass it back to the Chair, if there are any questions.

CHAIR MILLER: Okay. We have President Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Chair Miller. I did expect to be first.

Stephen, great report. I'm going to go back to the very beginning. So I wanted to ask multi-domain regime change, what are we talking about?

CHIEF INVESTMENT OFFICER GILMORE: Here, I'm thinking about you've got things happening on the security side. So, the U.S. has been encouraging its partners in NATO to spend more. There are things like reviews of AUKUS. You've had -- obviously, you've got, you know, the conflict Russia-Ukraine. You've got all those things on the -- on the security side.

On the economic side, a lot of things are being thrown into uncertainty. The biggest, you know, thing of course is tariffs. So, that's a big change from the past. There are possible suggestions that there might even be, you know, taxes on capital flows. That would be, you know, quite a big change from the past. So you've got all these things, which are essentially challenges to what happened in the past. You've also got those real interest rates rising.

So these are all important when thinking about future, you know, economic outcomes and future market outcomes. So I was just trying to get a sense that there are many, many things happening at the same time. We're trying to look what actually really matters for us as investors. Geopolitics generally has become a much more important consideration. Typically, geopolitics haven't really mattered that much for markets, unless they affect supply.

So if you have a -- like an oil shop for instance, that obviously can be inflationary short term and it can be depressing for growth. So they're really just trying to get that sense that there are many, many balls up in the air. And we have to try and work out, well, what matters. Do we need to change our strategy as a result?

Of course, that's always difficult, because the market should also be anticipating this and pricing those potential changes. So it was a shorthand way of trying to say there's a lot going on.

COMMITTEE MEMBER TAYLOR: All right. So multi-domain regime change. And then it says, "Speakers argued that the world is on the precipice of a new world order, characterized by reduced global economic interdependence." So what you're saying, or the IMF is saying, is that they're foreseeing more countries doing what we're doing, which is pulling inward and forcing folks that we trade with, et cetera, to go through more hoops.

CHIEF INVESTMENT OFFICER GILMORE: Probably a bit like that. This is actually a summary from a conference that JP Morgan runs. It has hundreds of clients.

COMMITTEE MEMBER TAYLOR: Okay.

CHIEF INVESTMENT OFFICER GILMORE: So things like friendshoring, onshoring, reshoring, bring back manufacturing, those sorts of things are part of it, securing supply lines, et cetera. So yes, other countries are also looking at, you know, the security of trade arrangements.

COMMITTEE MEMBER TAYLOR: And the national security itself.

CHIEF INVESTMENT OFFICER GILMORE: And national security, yes. And you're seeing -- and you're seeing that in Europe, especially with Germany agreeing to spend more. You're seeing a change in the fiscal stance in Germany, which is, I think, quite dramatic, you know, given the history. So a lot of changes.

COMMITTEE MEMBER TAYLOR: So -- and I won't --

each and every single one of your slides has an interesting story to tell. The geopolitical story isn't really being told here, just FYI, but --

(Laughter).

COMMITTEE MEMBER TAYLOR: -- if I -- what I really want to get to is -- what is it, page eight. And I would like us as CalPERS to be more cognizant of the fact that we're using language that is politicized. Entitlement spending is very politicized in this country. Calling it a social safety net spending, fine, right? But when we're talking about mandatory outlays and net interest payments, et cetera, those are things that are being talked about being cut. And some of those things like Social Security and Medicare I believe CalPERS wholeheartedly supports. And neither one of those are entitlements. They are paid for by the American people.

So I would encourage our Investment staff to be a little more sensitive to that, because entitlement spending is a term that is being used to demonize that spending, so -- and if we lose -- in California, if we lose Medicaid spending, that will cost our health providers more and our members more money. So we've got to -- we've got to be careful about how we talk about this. I know you're just giving us a general view of the economy, but I think it's important that we think about language.

So I'm going to move on from there. I was a little confused -- hold on. It was page -- I wrote it in notes. Maybe it was here -- in the stagflation in May versus the February 2025. What is base case?

CHIEF INVESTMENT OFFICER GILMORE: Either one.

INVESTMENT MANAGER ROSBOROUGH WATT: So every quarter we look at what's happening in the economy and what we know is expected to happen. Then we look at a lot of the relationships -- the economic relationships, and we come up with a what's called a base case of where the economy is and where the economy is going.

COMMITTEE MEMBER TAYLOR: Okay.

INVESTMENT MANAGER ROSBOROUGH WATT: Now, that base case is predicated on information that we know at the time. So the base case has moved from Feb 2025 to that May 2025. So it's not an opinion around the administration's decisions or announcements. It's given the information that we have, what do we think is more likely than less likely to occur in the economy over the next 12 months.

COMMITTEE MEMBER TAYLOR: I get it, so that the boxes that we see. So then the base case was over at -- closer to overheat/boom and target/potential, right? And then now in May of 2025, we're looking -- that's what I didn't understand about this. We're more looking at stagflation is what we're more looking at.

INVESTMENT MANAGER ROSBOROUGH WATT: (Nods head).

COMMITTEE MEMBER TAYLOR: Huh. Okay. And then there's more risk in the inflation and recession scenarios. And am I to understand that because -- so where do we see -- we see the tariffs being said they're going to do them and then we seem them being pulled back. And then aren't we in a 90-day holding period right now? So here we go again. I'm just a little concerned. I really appreciate the very positive outview that we are very resilient -- the United States markets are very resilient. I think a lot of our members have lots of questions, and I hear it from my members, about what happens if we actually institute some of these pretty harsh tariffs? And if he sticks with the 30 percent -- and isn't that -- on China, isn't that on top of what he put back in 2016 that Biden already left in. So then we're adding another 30 percent. So anyway, help me out. How does that help us or hurt us?

CHIEF INVESTMENT OFFICER GILMORE: Look, I think it's probably easiest to think about what's the likely expected average tariff, because the sectoral tariffs or different tariffs on different --

COMMITTEE MEMBER TAYLOR: Sure.

CHIEF INVESTMENT OFFICER GILMORE: -- countries. Looking at different commentators, you know, people are probably anticipating an average additional tariff around 14 percent or so, order of magnitude. That would probably mean additional revenue, somewhere between three to four hundred, you know, billion. So think about that in the context of the -- of the budget deficit, but, of course, it's a moving target, so we don't really know. But I am imagine, you know, a 10 percent tariff across the board would not be that disruptive. It's obviously more disruptive if those numbers get a lot higher.

And, of course, you have to think about the inflationary effect, because you would expect there to be an up-front inflationary effect. What we've seen so far is that not much of it has really come through. So it could be the exporters compressing their margins, the importers here compressing margins. So, you know, as Lauren was saying that it's like a slow -- like a moderate version of stagflation. Some people are using the word slowflation, which is probably like an accurate description.

But we really don't know where we're going to get to in terms of, you know, the tariff level. But just bear in mind that, you though, the administration will be thinking about how to raise revenue. So also tariffs do that. They act as a tax and so that means, you know, additional revenue as well.

So like I said, you know, I'm thinking that the market is anticipating an average tariff of somewhere just above 10 percent, probably around 14 percent or so.

COMMITTEE MEMBER TAYLOR: And because we had -- if you go back to that other slide, we don't really have any tariffs on other countries, is what it looked like.

CHIEF INVESTMENT OFFICER GILMORE: It's limited, yes. So quite often, the U.S. would use that tariff approach as part of its foreign policy sort of outreach.

COMMITTEE MEMBER TAYLOR: Because we could afford it basically.

CHIEF INVESTMENT OFFICER GILMORE: We might get something else in return for it or maybe not.

COMMITTEE MEMBER TAYLOR: So I guess then, again, we have, and you talked about this just now, the tax revenue, $300 billion. So we're looking at creating a huge deficit with what they want to do with this bill. And they're taxing not the rich to do this. They're taxing the American people. And that -- and the taxes that we would get from trade or tariffs also translates into price increases for the American people.

So none of these are great. And it may -- I don't know that we're including our thoughts on consumer confidence on that, because if we're not having -- if people don't have health care, if you're getting taxed on more of your goods, we're already having inflation as it is, we might hit three or four percent inflation, and then more taxes on the goods that we buy. So are we taking into consideration in less than 90 days and then maybe another quarter of leeway that that's going to impact spending on consumers?

CHIEF INVESTMENT OFFICER GILMORE: Well, obviously when there's uncertainty, that has a very big impact on business confidence and consumer confidence, so yes, it can affect consumer behavior. But, of course, when -- you know, the possibility of tariffs is announced, as Lauren mentioned, a lot of things get brought forward. So consumption gets brought forward. So you have to try and understand that cycle as well, the timing.

But the other thing to be thinking about, of course, is, you know, as I mentioned, that, you know, fiscal deficits have been quite high and look to continue to be high regardless of administration. And this is at a time when there's reasonable growth. So if you come into a recession, you could expect that, you know, fiscal deficit to be, you know, substantially higher. So it's an issue. It's a challenge.

COMMITTEE MEMBER TAYLOR: So that becomes and issue too with this big tax bill as well.

CHIEF INVESTMENT OFFICER GILMORE: Well, in general.

COMMITTEE MEMBER TAYLOR: Yeah. Well, I mean, we're where we at now -- are at now and then we're going to add about $3 trillion, so -- and then try to take some of it away through other cuts.

CHIEF INVESTMENT OFFICER GILMORE: Yeah, like I think the CBO scored it at 2.4 trillion over 10 years, Lauren.

COMMITTEE MEMBER TAYLOR: Yeah.

CHIEF INVESTMENT OFFICER GILMORE: And we just don't know how much of that is going to be offset by, you know, tariffs. It could be the full amount. It could be less. But, of course, this is a -- this is the dynamic that's at play at the moment.

COMMITTEE MEMBER TAYLOR: Yeah. And we're seeing -- yeah. Okay. That's it for me. I'm sure I might come up with more questions as my peers ask questions. Thank you very much.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, and thank you, Mr. Gilmore, and thank you, Lauren.

I'd like to ask you a question. Back on page -- let's see, it's page 10 of 15, on the potential economic scenarios, the hypothetical scenarios. With respect to the stagflation and the changing from the base case to the -- to now the main case, I was just curious, it looks like -- it appears that the stagflation is high. There's low growth. And what about employment with respect to that? How does that relate? Because like in the 1970s when we had stagflation, we had high unem -- we had high employ -- high unemployment, but we also had the oil crisis as well, OPEC.

And since geopolitical issues tend to affect, you know, the stagflation issues, if you can kind of give us some perspective on that, Lauren, if that's possible. Thank you.

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah, happy to. And you speak directly into my comments around a mild stagflationary environment. And I liked how Stephen called it a slowfla -- slow -- I can't even say it.

CHIEF INVESTMENT OFFICER GILMORE: Slowflation.

COMMITTEE MEMBER PACHECO: Slowflation. Exactly.

INVESTMENT MANAGER ROSBOROUGH WATT: Slowflation. There we are. I think that's a fantastic way to describe it. The labor market today is in a very different situation for a couple of reasons. One, corporate profitability is exceptionally high. So there is scope for firms, if they want to, to hold on to labor that they may not have done so back in the 1970s, for example.

What we're seeing in the labor market at present is we're seeing both the demand side reduce, as corporates looking ahead are more uncertain. Sentiment is quite weak and so demand for labor or employment is slowing.

But we're also seeing a reduction in the supply of labor. And as a result, the labor market appears to be more equally balanced than what it might have been had we not had the supply of labor side, the constraint from the supply of labor, people entering the labor market.

Expectations for the unemployment rate for the rest of this year is for it to rise to about four and a half percent, now from around, what, 3.94. So very modest increase in unemployment is expected. That's good for households in meaning that they're likely to keep their income going forward, but it doesn't adjust the fact to Director Taylor's comments that consumers are likely to find things more expensive and therefore have less money in their pocket to spend or can buy less items for the income that they receive.

The oil crisis also a very different situation today than what it was back in the 1970s. The U.S. is now a net oil exporter rather than an importer. That said, what we export is different to what we import, the type of oil. So we are somewhat still beholden to oil -- the oil that we want for our cars, for example, our autos.

However, what we call the elasticity, so the sensitivity of the U.S. consumer to changing oil prices is much lower than what it was back in the 1970s. So that means while in the very short run, if oil prices or fuel prices go up, then the U.S. consumer will still need to buy that for driving. But in the longer run, there are alternatives, electric vehicles being one, hybrid being another, and that dissipates the effect relative to the 1970s for the impact on oil prices for the U.S. consumer.

And recall, I'm referring to the U.S. consumer, because they are 70 percent of the U.S. economy, so the vast majority of it.

COMMITTEE MEMBER PACHECO: So you're saying that with respect to the oil -- like, for instance, oil prices then, they're -- in the short run, they would be high. I'm just -- if you can just give me your...

INVESTMENT MANAGER ROSBOROUGH WATT: So oil prices have recently increased --

COMMITTEE MEMBER PACHECO: Right.

INVESTMENT MANAGER ROSBOROUGH WATT: -- but they still remain below where they were at the start of this year. So they certainly have gone up, but they're not outsized relative to what the declines that we've seen since January.

The impact on the consumer, you can't really change your behavior with driving. You know, on a week-on-week basis, that's difficult to do. So the impact would be straight on the consumer's pocket, fuel prices rise, as a result of what we've seen recently. But the real oil price change that we've seen recently is very small compared to the real oil price on -- thinking about like for like in dollar terms --

COMMITTEE MEMBER PACHECO: Right.

INVESTMENT MANAGER ROSBOROUGH WATT: -- the real oil price change that occurred back in the 1970s. So there's two things, one is the price change is much smaller, at least for now, and the second one is the sensitivity of consumers to that oil price change is lower than what it was in the past.

COMMITTEE MEMBER PACHECO: In the '70s then, there was the -- we had the shock. We had that -- the OPEC shock. Relative to today's understanding, and this is my understanding, we have more of the geopolitical issues that are going on around the world, for instance, what's happening with Israel and Iran that's providing some, you know, uncertainty in the prices. And I'm just curious how you see that? Because I feel that the geopolitical aspects do have some effect on what -- on supply and then obviously on slow inflation.

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. I think mitigating, to some extent, is Saudi Arabia have been increasing their -- the amount of barrels that they have been producing or at least selling. And OPEC, of course, as you know, has a joint agreement between a number of different countries. Saudi Arabia perhaps has the largest amount of supply of oil, and therefore can influence that quite a lot. And so its behavior, which once again is difficult to predict, but it's behavior can have a large impact. For example, Saudi Arabia decided to slow down the amount of oil that it was producing and therefore selling or exporting, then that would have an outsized impact on oil prices as well, because it directly impacts on the supply of global oil.

COMMITTEE MEMBER PACHECO: Fantastic. Thank you, Lauren. And then just one last question on the -- on page 13 of 15 on the high valuation points to the low future returns. I noticed this graph, it's very interesting, how it -- how it correlates the red and the blue. And it seems to be when you're -- when they're -- when you're really at a high level, the next year you're going to -- it appeared to be, from the historical record, there's a recession. And I'm just curious that when I saw the same levels of the -- of the red part, the blue part, I just want your interpretation of what you think this means, if there's any meaning here on Exhibit number 6.

INVESTMENT MANAGER ROSBOROUGH WATT: Yes. Could you say that again, just so I can make sure to respond appropriately

COMMITTEE MEMBER PACHECO: Sure. Sure. No problem. So I noticed that in the -- in the -- with respect to the average nominal total return versus the adjusted inverted leading by 10-year curve, that, you know, they parallel -- they're paralleling together. But with respect to the drops, they tend to be -- they tend to be correlated with either the -- you know, the bubble -- the internet bubble or with the inter -- with the great -- the financial crisis, but I'm noticing here again similar uptick and then down. I mean, are we overheating? Basically, are the high valuation levels, are they overheated? And I'm just -- that's your take on that.

INVESTMENT MANAGER ROSBOROUGH WATT: I wish I knew the answer to that. Let me explain. So the end of last year, you'll recall a lot of discussions around AI and the impact that had. And the equity -- U.S. equity markets were appreciating or moving higher, in part, because it was pricing forward expectations for the impact on AI on both the U.S. economy and the global economy to today. That's how equity markets, they look forward and they price back today.

So the -- when we think about this cape or the price over earnings, the price component was moving higher --

COMMITTEE MEMBER PACHECO: I see.

INVESTMENT MANAGER ROSBOROUGH WATT: -- relative to the earnings component. So I don't want to say today is necessarily different. I don't feel that I can also predict a recession. I don't think anyone can predict a recession.

The markets today feel perhaps less -- given a number of other indicators, perhaps feel less overheated than they did do last year or -- but certainly, you can see there from that asset to the adjusted price earnings line, from evaluation metrics, it still remains high relative to history.

COMMITTEE MEMBER PACHECO: Okay. Thank you very much. And those are my comments. Thank you.

CHAIR MILLER: Thank you. Next, I have Director Walker.

COMMITTEE MEMBER WALKER: Thank you. So as I was reading this report, and it's a lot, I was -- what was crossing my mind is then how is this going to -- as we move to the total portfolio approach, right, does this -- looking at this and all the different things, does it make it -- going to that make it a lot better because of the uncertainty and everything else, and our ability to move. I'd like you to talk about that a little bit.

CHIEF INVESTMENT OFFICER GILMORE: Look, I think -- I think the first thing is to be thinking about things in this scenario framework. You know, all these things are going on, what really matters? And I've highlighted the move in interest rates as being, you know, quite important, you know, for asset class valuations and for, you know, prospective returns. So I think that's part of it.

With a total portfolio approach, you're really thinking about the portfolio on a more frequent basis, in the sense of when you have a strategic asset allocation, the danger -- potential danger is that you sit rest your allocation and then you just stick with it without adapting when relative prices change.

So we would be looking at, you know, the scenarios, thinking about what it means for the portfolio, thinking about where that -- any of our relative views have changed. So potentially, we could be a bit more dynamic than we have been, but that's still hard, in terms of trying to work out what really matters. And even with all the stuff that's been going on, you know, it's not obvious to me that any of those things, you know, dramatically change, you know, the way we think about the world. There are some things that could happen that would cause us to really revisit things.

So I'd say it's just -- it's a framework for thinking about what could happen. So when we have a particular portfolio, we can apply the scenario analysis and look at the potential outcomes. And it may be that we're actually uncomfortable with some of those outcomes, that would lead us to undertake some actions to mitigate some of those things we're not comfortable with. And that's just part of the total portfolio approach.

COMMITTEE MEMBER WALKER: Thank you.

CHIEF INVESTMENT OFFICER GILMORE: So it could mean, you know, adding diversifiers, for instance.

COMMITTEE MEMBER WALKER: Thank you.

CHAIR MILLER: Okay. I'm seeing no further questions. And, I just -- I really appreciate the presentation. I appreciate the discussion. I like the visual display of the data. It really helps me, because I'm kind of visual. Numbers can be a bit baffling and it helps me to understand it. It just strikes me that, you know, we could discuss and speculate for days about all the -- all the complexity of this. But ultimately, it comes down to, in my book, that constancy of purpose, and staying focused, that we're a long-term investor, and we're making fundamentally sound investments based on the case for our risk appetite, the kind of investments, the balancing across the portfolio, the diversification. The fundamentals is what we have to really do right, regardless of what happens with price elasticity of demand for consumers and the regressive nature of tariffs as taxes and all that stuff that we could get really wrapped around the axle about. So thanks to you all and the team, and thanks to my colleagues for the discussion.

And Yvonne's last question is I think a great segue to our next item, which is 6b, asset liability management, reference portfolio design.

CHIEF INVESTMENT OFFICER GILMORE: Thank you.

(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: I'll invite Michele and Scott.

CHAIR MILLER: You know, this might be a good time for us to take a quick break. We've been at it for quite a while. And so, what do we need, what, 10 minutes? Yeah. So we'll come back at 10:55.

(Off record: 10:45 a.m.)

(Thereupon a recess was taken.)

(On record: 10:59 a.m.)

CHAIR MILLER: Okay. Let's wander back and find our seats, everybody.

Okay. And before we start on the next item, I'm informed that we have a couple public commenters that want to speak on 6a. I had them down for the wrong item, so we'll call them up. And for our commenters, if you'll come, we have seats/microphones down on my left down on stage left. You'll have three minutes to give your comments. Your time will start and the timer will be visible to you when you introduce yourselves for the record and start. So we'll be calling on Crystal Zermeno and Jakob Evans.

And just come on down, and take a seat, and the Chair will recognize you, once you're settled in there. And is Jakob in the house as well? You can come on down as well.

CRYSTAL ZERMENO: He's -- he was grabbing a coffee.

CHAIR MILLER: Oh, okay.

CRYSTAL ZERMENO: We thought we got switched.

CHAIR MILLER: Well, you go ahead.

CRYSTAL ZERMENO: So he'll be coming shortly.

CHAIR MILLER: You have the floor, whenever you're ready to start.

CRYSTAL ZERMENO: Okay. All right. He'll join me after. Hello. I wanted to introduce myself. My name is Crystal Zermeno. I am Coordinator for California Common Good.

The labor and community groups in the California Common Good network applaud CalPERS trustees' leadership and CalPERS staff for setting the goal of investing a hundred billion dollars in climate solutions, as well as the goals the fund set to get to net zero emissions by 2050. And we appreciate the commitment from CalPERS to dialogue with stakeholders on the issue.

In March, California Common Good supported a report -- submitted a reported to CalPERS regarding the Climate Solutions Fund that outlined our analysis of information that we received from a public records request. In that report, California Common Good recommended that CalPERS adopt five core principles, which my colleague Jakob will review shortly. But we believe that these principles strengthen the intended goals that the trustees and leadership of CalPERS have set to achieve by facilitating greater transparency and more robust criteria.

I would like to make clear on the record that California Common Good's report does not call for divestment of fossil fuels from the entirety of the CalPERS portfolio, but rather calls for stricter criteria and transparency with regard to the investments that are included, specifically in the Climate Solutions Fund.

But we do remain concerned about the inclusion of the world's largest emitters in that fund, even if CalPERS is counting for their low carbon initiatives. Our concern is how this moves CalPERS towards its 2030 goals and 2050 benchmarks of net zero, particularly whether the counting of a portion of polluters' activities as solutions contribute to overall mitigation of the systemic risk of climate change for pension fund beneficiaries.

There are many other investment opportunities that can provide the Climate Solutions Fund with its desired rate of return, help address climate change, and move us towards just transition. Additionally, CalPERS has not demonstrated that the investments labeled as transition are made with criteria and accountability mechanisms that facilitate a just transition.

We also remain concerned about the more than 50 percent of the portfolio that is not publicly traded, and therefore exempt from disclosure, and is being classified as climate solutions, absent transparent and clear expectations for external managers and strong accountability measures.

I'll turn it over to Jakob to talk a little bit more about the principles, but we do really greatly appreciate CalPERS trustees and staff being open to dialogue on these issues, and look forward to moving together.

CHAIR MILLER: Thank you for your comments.

Jakob, you have the floor.

JAKOB EVANS: Thank you. Good morning, Board members. Thank you for the opportunity to comment today. My name is Jakob Evans and I'm a policy strategist with Sierra Club California.

I'm here today with interest and recommendations, like Crystal mentioned, relating to the implementation of CalPERS's Climate Action Plan. We continue to applaud the long-term commitment that CalPERS has made to addressing climate change in its move to commit a hundred billion dollars to investments in climate solutions. This sum is significantly more ambitious that commitments made by CalPERS's peers, reinforcing CalPERS's position as a global leader in sustainable finance.

Transparency and accountability in all aspects of this initiative will be key to its success and must be integrated. California Common Good recently shared a report with CalPERS relating to the Climate Solutions Fund recommending that CalPERS adopt five core principles with regard to what investments should be included as part of the fund.

Those principles are, one, adopt strong science-based definitions of climate solutions. The science is clear, in order to achieve the goals of the

Paris agreements, above all other solutions, we must reduce emissions from coal, oil, and gas, and buildout renewable energy capacity. CalPERS should adopt and disclose its framework for evaluating climate solutions in line with the best available science.

Two, exclude companies on the Carbon Underground 200 list. The world's largest polluters have no place listed among climate solutions.

Three, exclude companies that have no credible transition plan. Transition finance will play a pivotal role in reducing emissions, but poses significant risks of greenwashing, and must be approached with strong guardrails.

Four, disclose investments in all asset classes and methodology annually. As the fund evolves, CalPERS should disclose its current investment strategy, including investments across all asset classes, including public and private investments. And five, commit to ongoing engagement with CalPERS plan participants, and stakeholders to share updates continue refining best practices.

Plan participants and stakeholders should have regular opportunities to learn more about CalPERS's sustainable investment approach and to provide feedback. Climate change is already impacting Californians and the crisis requires an all-hands-on-deck approach commitment to ensuring as robust a response as possible. We appreciate the Board's staff's interest in dialogue on these points and look forward to discussing how the Climate Action Plan can become robust and transparent. Thank you.

CHAIR MILLER: Thank you for your comments.

Okay. With that, we'll move on to Item 6b, our asset liability management reference portfolio design and active risk limits discussion.

(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: Thank you. Thank you, Chair.

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CHIEF INVESTMENT OFFICER GILMORE: I just will provide some context again for what we're going to talk about today. As you -- as you all know, this is all leading up to a decision for the Board in November, where we're going to be recommending a proposed reference portfolio, active risk limits, and so on. So this is another education session, which is building up towards that date. We'll also have an education session at the July off-site. And the first reading will take place in September.

So with that context --

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CHIEF INVESTMENT OFFICER GILMORE: -- I'll move through to highlight the things we will be focusing on today. One is the reference portfolio design. We'll also be looking at return expectations and we'll do a bit of a comparison there. And we will also discuss setting active risk limits and then look a little bit -- look at adding value from taking that active risk.

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CHIEF INVESTMENT OFFICER GILMORE: So just to remind people the reference portfolio design and purpose. The aim is actually to have something that's fairly simple, that expresses, you know, the Investment Committee and Board's, you know, risk appetite. We can use that as input to setting forward return expectations, and that's -- it can be a benchmark. It's a simple benchmark to work out whether the team has done a good job relative to the alternative of just a very simple passive portfolio.

Now, the characteristics are that, you know, this should be an easily accessible, and investable, and simple portfolio. And that really means drawing on public market assets and also assets that are such illiquid for our size. We also want it to be just operationally easy to do. So that's, you know, the backdrop. We've discussed those things before, but this is really just a recap.

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CHIEF INVESTMENT OFFICER GILMORE: When we look in more detail at just what components, you know, should comprise the portfolio, we're really focusing on, you know, equities and bonds, and we've done that all the way. In terms of equities, you know, we're coming to the view, of course, that we should really be looking at a market cap weighted global equity index. It's most -- it's commonly used. It's market efficient. You know, it's large, you know, low cost. So that's really where we're focusing in terms of equities.

Bonds, we had probably more debate internally around what the benchmark should be. On the one hand -- I'm an economist. I've got to say on the one hand. On the one hand, you know, we have long duration liabilities, and you might think that we would want a bond index that was long duration. But given our size, we didn't think that was really appropriate. And we thought we really need to look at something which is, you know, more diversified across maturities.

We could also have thought about having something other than U.S. treasuries, but really this is thinking about, you know, the safe asset. For the most part, U.S. treasuries have acted as a safe asset. There, I guess, have been short periods of time when that may not have been the case. But for the most part, we viewed that as a safe asset. So we're looking at a diversified spectrum of maturities for U.S. treasuries, but we'll come back with more details as we go on. When it comes to the specific construction, you know, we'll talk about that, you know, in more detail, but not today.

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CHIEF INVESTMENT OFFICER GILMORE: Now here, I want to show return expectations. And this is something we do spend a lot of time focusing on. You know, the Investment Committee is always very interested in the capital market assumptions. Historically, we've tended to produce point estimates. We've taken a market survey and we've given on the Investment Committee, the -- an average of that survey.

But I think it's probably richer to be looking at the range of estimates that come out from those surveys and also to be looking at where the internal team forecasts, you know, returns to be, and where our consultant Wilshire forecasts that.

And we've also added another component here. We're looking at historically at, you know, 20-year forward-looking returns, but we've also added an equilibrium expectation. So you think of that as like a forever expectation of where those returns will be. What I would say is that the 20-year, you know, capital market assumptions, there's a pretty broad range of views. But I would note that when it comes to the -- you know, the median of the survey and their own views are very close, you know, across most of those, you know, asset classes, and also it out to be very similar for the different reference portfolio mixes.

I would also note that the equilibrium, you know, tends to be a bit higher on average than the 20-year forward-looking returns. That's basically telling you that people think that current asset pricing is relatively high. But as I say, I think the range approach is actually a richer way of looking at these returns, rather that getting fixated on a -- on a single number, but, of course, we need to use those numbers.

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CHIEF INVESTMENT OFFICER GILMORE: Now, I've also, you know, wanted to, you know, bring in the concept of active risk, because the Investment Committee and the Board have given management quite a lot of discretion in terms of varying the portfolio. So we can vary the invested amount in various assets classes. I've mentioned before in equities we can vary by plus or minus seven percent, private equity plus or minus five, bonds plus or minus six. And we wanted to have a simpler way of doing that. And we wanted to look at it versus a reference portfolio.

So let's say we, you know, had our reference portfolio of 70/30, which is approximately what we have now. If did that, any decision we made to invest in something outside the reference portfolio would add active risk. So it's very straightforward. It's very clean. So, you know, the Board could easily see, okay, where has the team deviated, where is it taking risk, where has it chosen to taken risk? And you could ask us why we've chosen to take that risk. We should be explaining it.

So those moves will be made to hopefully generate additional return, or to reduce risk, or a combination of both of those, but it should be clear about where we've deviated, and how much risk that adds, and you should have a good understanding for why we've made that active decision to deviate.

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CHIEF INVESTMENT OFFICER GILMORE: This page maybe we'll spend a little bit of time talking about. It shows a whole lot of numbers and it's quite a busy page, but I think quite an important page. It shows at the far right hand end, our assessment of the maximum discretion we could use based on the delegations that the Board has given us. That's that old bright red vertical line. Now, we're not going to be asking for as much discretion as you've already given us. We think we can operate comfortably inside that.

If you go to the very left-hand side of this chart, or this visual, you can see the current actual tracking error versus the SAA benchmark. That's what gets the most focus, because we can control that. That actionable tracking error versus the SAA benchmark is currently around 15 basis points. So it's tiny compared with what we could be doing.

Now, technically, the actual tracking layer or limit versus the SAA is a hundred basis points. But practically, we can't get that because there are sublimits. So, on global equities, for instance, there's a sublimit of 50 basis point, but that's relative to the equity allocation, so we can't get to the 100. If you look at the current portfolio versus the reference portfolio, you'll see that that active risk we estimate is somewhere around 230 basis points. That's quite a bit higher than what you see reported currently, because we're reporting the active risk relative to the SAA -- the SAA benchmarks. But we would expect to take a bit more risk than we're currently using in the portfolio and we've given that anticipated range.

We haven't been precise in terms of those numbers. You'll also see down at the bottom -- to the bottom horizontal blue bar, we've looked at what we expect to make by taking active risk. And we just kept it very simple here. We've looked at what we refer to as an information ratio of 0.2. So this is like an excess return from taking risk. We just use that on a linear fashion, so the more active risk we take, the higher the active return we would expect to generate.

I don't know if I wanted -- if you have any questions on this particular chart before I move on, because there's a lot of in there.

CHAIR MILLER: Yes. I've got Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Mr. Gilmore. This is very, very good actually. So I really do appreciate you how you would distribute the current actionable tracking error, which is the 15 basis point being less than the 100 of the policy band. And then how you liberated -- elaborated on the anticipated operating range under the TPA. I'm just curious, if we do go into this new -- this new operating order, what would happen -- what's going to happen to the old system? Are we -- are we still going to be looking at that or -- I mean, how are we going to look at active risk in terms of that? I'm just -- if you can elaborate, sir.

CHIEF INVESTMENT OFFICER GILMORE: Well, the aim will be to look at the actual portfolio versus the reference portfolio and to give the Investment Committee a summary measure of how much active risk that equates to. So it's going to be a much cleaner way of doing things, because right now, you know, the focus is on this actionable tracking error, which is -- which is tiny. There's far less focus on the active risk calculation for the whole portfolio. But what will happen is, you know, more of this active risk will come -- sorry, more of this measured active risk. It's not actually more actual active risk. More of the measured active risk will come from the credit exposures and from real assets.

COMMITTEE MEMBER PACHECO: Some because in the current model -- if I recall, the current model does not take into account the private markets, am I correct, sir?

CHIEF INVESTMENT OFFICER GILMORE: It does. I'm hesitating, because if you think about things like private equity, about benchmark to listed equity, so there's some active risk, but what I'll do is I will ask the author of this particular page, which I really like, to come up and speak.

COMMITTEE MEMBER PACHECO: Thank you.

CHIEF INVESTMENT OFFICER GILMORE: Michael Krimm.

INVESTMENT DIRECTOR KRIMM: Hi. Michael Krimm from the CalPERS team. So, I think the question was what changes and whether we would still have the old order, so to speak?

COMMITTEE MEMBER PACHECO: Yes.

INVESTMENT DIRECTOR KRIMM: Maybe the way to think of it is in terms of transparency, you would have everything you have under the old order, plus a lot more around it, in terms of the metric. So right now, we have this actionable tracking error metric as our, you know, unified way to measure active risk in only the public markets, and from our allocation. So it's a narrow metric. It's very precise, because it's very easy to measure that.

But what we do not have a unified metric to capture is everything else we do that is active, so -- or that is active versus a reference portfolio. We are managing that. We are governing that. There are policy constraints around that. It's -- there's a myriad constraints obviously governing all those pieces, but there's not a single number that adds them together.

And so what this is is essentially a new metric active risk that captures, you know, roughly, but quantifies the impact of all those things we're already doing versus a reference portfolio. And the actionable precise thing is one little piece of that. And, of course, we can always Zoom in on that in the future.

COMMITTEE MEMBER PACHECO: That is -- that is quite impressive then, because that's what -- you know, as we -- as you articulated very well, the old method, the method that we currently use only focuses on the public markets. And now, this new metric would focus on everything else that we haven't captured? And, yes, that would be a lot more transparency and would us much more understanding of our portfolio over time. And I think that's the goal, correct?

CHIEF INVESTMENT OFFICER GILMORE: Absolutely.

COMMITTEE MEMBER PACHECO: Very good then. Well, that's excellent then. I think that's -- those are my questions. Thank you for elaborating and thank you for providing this understanding.

CHAIR MILLER: Okay. Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you for this presentation. And I think it was -- your memo was very revealing on the chart here, where you state that on the new approach, TPA, the Board is not -- doesn't have to give you -- management more discretion, because you have it. However, we do have to pick -- I mean, there will be more reporting, I understand it, but then we'll be comparing it to the old SSA benchmark, but also a reference portfolio that we have to pick still, right?

CHIEF INVESTMENT OFFICER GILMORE: (Nods head).

COMMITTEE MEMBER RUBALCAVA: And I know you haven't got there, but you list four of them. But this -- and so I'm going to ask -- when we get to that, I'm going to ask you if they're all -- like something Scott once said, the whole thing about you give us four options. Does that mean they're all reasonable? I mean, they can -- I mean, you had two outliers before for some -- you know, so you can -- but now you have four new. So are they all reasonable? That's another question not for right now.

But the statement came out right now and I had it underlined, because it was your memo, that the key underreaching metric is this total return. And so, I mean, we -- I need to -- I need to understand. I had to Google it. Where is it? I'm getting my notes confused here. But back to the chart, because you brought in this -- it's the one that was in yellow. Not this one, the one before it, where I noticed that Wilshire has a lower expectations on the 20-year -- here. Thank you -- on the equilibrium, that's what it is, equilibrium.

But I thought it was very telling. I'm not sure what it means, but Wilshire was our consultant. There's s little triangle. They're constantly on the 20-year range, below the internal projection or assumption, but yet on the equilibrium, Wilshire is above the internal assumption expectation. So can you explain why looking at 20 years would give us a very different picture than -- why introducing this equilibrium would give us a very different perspective?

CHIEF INVESTMENT OFFICER GILMORE: Well, there are a couple of things there. I think there is a reasonable range of return expectations. So even over a 20-year period, what we think might be the return over 20 years today could actually prove to be quite different. So there is a range of expectations. And so when it comes to, let's say, the difference between someone's expected return over 20 years versus equilibrium, it's really primarily, probably going to be driven by thoughts on current valuations and how relatively expensive things are today. And people's views on that will vary.

So I think, you know, the main takeaway here is that, you know, both Wilshire and the internal team have prospective returns, which are well within the range that we see from others. They're not outliers. So I wouldn't -- I wouldn't read too much into those -- into those differences.

I -- you know, it would be normal for people internally also to have different expectations. And I think it can be very helpful to maybe drawback the curtain and give the Investment Committee and the Board an understanding of just how these things are derived, because there's a danger that it appears like a black box. You just see these numbers and it can be quite helpful, I think, just to go through how these things are derived. So, you know, my intention is to do that in July, as obviously we're going to be focusing on education and reporting. But one of the things we will be reporting is return expectations.

So I think, you know, it's probably quite helpful just to step aside to say, okay, these are expectations. How do we derive them? And so I plan to do that. And then you can see that each of those steps, there is a range of possibilities, right? So there's judgment involved. So this is all part of the process of just saying, look, we've got to be reasonably humble here. We're doing our best to forecast these returns, but there's a range of reasonable outcomes. And the equilibrium one, yeah, I think about it as like a very long or horizon or forever, where you're not taking into account the starting point in terms of current valuations.

So if there's big difference between the equilibrium and, you know, someone's forecast for the next 20 years, then it really comes down to their thinking about current valuations versus what a long-run reasonable valuation would be.

COMMITTEE MEMBER RUBALCAVA: So this is where your Investment Principle about long horizon being an advantage comes to play, I guess.

CHIEF INVESTMENT OFFICER GILMORE: Well, yes. Yes, could be thinking about it.

COMMITTEE MEMBER RUBALCAVA: Thank you. Looking forward to discussion on the reference portfolio mixes. Thank you.

Thank you, Mr. Chair.

CHAIR MILLER: Okay. Thank you. I have no further comments or questions from the Board, and appreciate the presentation.

CHIEF INVESTMENT OFFICER GILMORE: There's a few more.

CHAIR MILLER: Oh, there's more. Okay. Keep going.

(Laughter).

CHIEF INVESTMENT OFFICER GILMORE: I just -- it just stopped part way, because I thought that that particular graphic was --

CHAIR MILLER: Okay.

CHIEF INVESTMENT OFFICER GILMORE: There's a lot of content there.

I also wanted to show just what happened if we moved from one asset class to another, in terms of the active risk contribution. So if we added one percent to equities and fund it out of treasuries by selling treasury bonds, we're running 23 basis points of active risk. And you can just see the list there for the other potential changes, a switch from, you know, they say going into private equity, funding out of equities. It's actually a fairly small contribution to active risk. So we can do that, you know, across all the various asset classes.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: This here is quite important, because if you look at the prospective returns based on the reference portfolio, it doesn't -- those returns don't get us to our discount rate. But, of course, we're -- we would be deviating from the reference portfolio. We'd be taking active risk. We'd be making decisions around specific asset classes. We'd be taking on some illiquidity. We would expect to be generating additional risk. From that asset class selection, you know, from the complexity of the portfolio, illiquidity, we would be expecting to add something like 25 to 80 basis points depending on how much active risk we took, and also, you know, there's a potential additional add through, you know, selection of good managers, just timing those investments, et cetera.

So when you add it all up, we'd be looking at, you know, these return ranges for those reference portfolios that we've highlighted. And to Director Rubalcava's comment, we have narrowed the range of reference portfolios here. When we last presented this, we looked at a 50/50 all the way up to a 9010, but we heard the Investment Committee, you know, express a reasonable tolerance for risk. We thought, you know, the 50/50 was just too low, and we thought the 90/10 was probably too high in terms of risk terms, because we are required to be thinking about diversification amongst other things. So we've narrowed down to what we think is a more reasonable range of potential reference portfolios. And obviously, we do the first reading in September, and then November we'll be very specific about deciding on a particular reference portfolio.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Here, I wanted to highlight the potential return pick up from choosing private market assets. So again, we see the range of reference portfolio returns. And we're looking at what we could get in terms of additional value-add, same risk, absolute terms from just, you know, choosing the right -- the right asset classes. So again, you know, those portfolio returns, you know, would be above or consistent with the discount rate. That's just simply the asset class selection, before we've added any other value from choosing the right managers, et cetera.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: I wanted to also show you this. And again, thank you to Michael for coming up with this visual. One of the areas where we've done a lot of work is on liquidity management. That should be an advantage for us, you know. Given our size, there will be times when we get paid more for deploying that liquidity. We've done a little bit of that, but I would like to see us using the balance sheet a bit more actively to take advantage of those times when the reward for liquidity is high.

And what we've done here is to show that, you know, at the outer level there's zero tolerance for missing a pension payment or a contractual obligation. There's also an operating range, like a zone of comfort, which we wouldn't really want to get into. And the actual portfolio liquidity use will be somewhere inside that. We'll come back to you through time and show you metrics around how we think about those numbers, but I just wanted to, you know, show you this visual, in terms of, you know, how we think about liquidity in the context of the portfolio.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And reporting. We've talked a little bit about that. That's the question that came up on what the IC would see. But there are a range of things here. I think at the highest level, you want to know that we've done a good job relative to the simple alternative, you know, the total returns, you know, versus the reference portfolio. We'd be looking at the -- you know, the actual strategy performance in the PERF versus the reference portfolio strategy. We're looking at the proxies, the benchmarks, and we'd also look at industry standards for the various investment strategies we've used.

And in terms of reporting the risk metrics, and scenarios, and so on, there's a range of things that you would expect to see, you know, the total risk, the active risk, equity market sensitivity. And here, I'm thinking about an equity market beta for the portfolio, which is going to be the -- you know, the biggest factor, when we're looking at the factor attribution, the portfolio, looking at liquidity, operations, and the sustainable investment, especially given, you know, how we're tracking towards our 2030 objectives, looking at counterparty risk as well.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And here, I've put some more numbers. In case anyone is wondering, these things don't add up, because there's a covariance relationship between the various asset classes, but it gives you an idea of where the risk would be coming from in a reference portfolio context. And you can see much of it comes from income -- level fixed income will be benchmarked against treasuries rather than against those more defined subasset class benchmarks. Obviously, you know, private equity is a big user of active risk, and real estate as well.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And again, I'll just leave you with that timeline. Thank you, Chair. That was the last slide.

CHAIR MILLER: Okay. I've got Director Ortega.

COMMITTEE MEMBER ORTEGA: Thank you. Thank you, Mr. Gilmore. I have a question about if the reference portfolio is set below the discount rate and you make up the difference through the active risk, as I think I understood the presentation here, and then there's this slide about the reporting and measuring back against what the expectations are there, what is the step that you take if the active risk is not making up that difference? Because it seems to me that there's a potential then that you're -- if you do that over a long term, and it's not making up the difference, you're potentially underfunding the liabilities.

CHIEF INVESTMENT OFFICER GILMORE: Well, in the end, we're beholden to what the market is offering, in terms of prospective return. Fortunately, I don't think that's an issue for us at the moment, because when we look at reasonable return expectations and what we can get through active risk, we feel, you know, reasonably confident right now that the prospective returns are sufficient to clear the discount rate. If it didn't clear the discount rate, that's a different set of discussions.

COMMITTEE MEMBER ORTEGA: Yes. And I get that. And it's not that much different than a traditional ALM process.

CHIEF INVESTMENT OFFICER GILMORE: Absolutely.

COMMITTEE MEMBER ORTEGA: But what I'm asking, I guess, is what's different here is you're reporting back on active risks that are choices made by the staff versus --

CHIEF INVESTMENT OFFICER GILMORE: Absolutely.

COMMITTEE MEMBER ORTEGA: So what happens when that doesn't match up is what I'm asking.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Let's have --

CHIEF EXECUTIVE OFFICER FROST: Scott.

CHIEF OPERATING INVESTMENT OFFICER COHEN:

-- Scott chime in, since this is his domain, in terms of advising the Board on an appropriate discount rate.

CHIEF ACTUARY TERANDO: Yeah. So I think there's a number of different considerations to consider. Like I say, your concern -- you have the reference portfolio, you have the active risk, and that comes underneath the discount rate. You know, choices, you know, you're -- the Board would have several choices. One, straight out, just drop the discount rate. Another one would be stay with a particular reference portfolio and add additional active risk to get up to the discount rate. And then the third option would be some combination of change your reference portfolio and adjust your active risk to get to the discount rate.

So there are, you know, several choices and options that the Board is going to have available stemming from changing the discount rate, changing active risk, and changing the reference portfolio.

COMMITTEE MEMBER ORTEGA: I think I'm asking a slightly different question. So I understand the Board would have those choices. Those are the same choices that exist under an ALM. If the --

CHIEF ACTUARY TERANDO: Correct.

COMMITTEE MEMBER ORTEGA: -- market is not meeting the assumptions that were expected, we would have to reassess that at a point in time.

What seems to me to be different here is the active risk is something that we're asking the staff to make choices about versus the ALM, where the Board is taking an action and saying here is where all the buckets are. So, the market is going to give what it's going to give. I get that. But at some point, the Board would need to hear that the active risk is not achieving the outcome. And it feels to me that's a slightly different kind of triggering of a new process under this total portfolio approach than what we have with an ALM process. So I'm asking that question, what's going to trigger us having that conversation that maybe this -- the portfolio -- the reference portfolio is incorrect, the active risk is not going to make up the difference? What do we do then and what's going to trigger that discussion under the TPA versus an ALM process.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Yeah, our vision is to continue to have the ALM process every four years with the two-year check-in. So I think you'll have a better sense of as we go along that there may be an issue based on the clearer reporting that we've talked about, but you'll still have the two-year, four-year check-in that you have today.

COMMITTEE MEMBER ORTEGA: Okay. So TPA or ALM you still have that same kind of checking in, how are we doing as a -- against what our assumptions were?

CHIEF OPERATING INVESTMENT OFFICER COHEN:

Correct.

COMMITTEE MEMBER ORTEGA: Okay.

CHIEF INVESTMENT OFFICER GILMORE: I think the most important thing there would be you want to make sure that the reference portfolio still reflects the risk appetite that --

COMMITTEE MEMBER ORTEGA: Right.

CHIEF INVESTMENT OFFICER GILMORE: -- that the Board has. So that needs to be done on a regular cycle. For instance, you know, other organizations might do that every five years. It could be every four years. I know others that would have, you know, looked at it more frequently, so that will still happen.

I would like to think that you will have the data to be monitoring this on a more active ongoing basis as well. So in some senses, it's probably going to be more immediate. What I would say though is like all of these decisions, if the reasonable forward-looking returns aren't there, the challenges, if we end up taking more risk, when the reward for risk is low, we end up being procyclical, so we need to think about the risk of that as well.

But I think the key thing is there will be regular reviews, and, you know, the full review every four years, interim every two years. You'll have better data, more information on a more frequent basis than that. So, you know, you can -- you can act or form -- form a view.

I would say also that you can change the active risk, that, you know, is, you know, given to -- given to the -- you know, to the team. So at some point -- you know, obviously, November, we will ask you for an active risk limit. You will be able to judge how much active risk we're talking at any point in time. And you may think that we're not taking enough or you may think we're -- obviously not taking too much, because we'll be capped on that, but you can question us as to why we're taking particular levels of active risk. That's going to be much more transparent.

CHAIR MILLER: Okay. Thank you. I have no more requests to speak and I appreciate the presentation. I also -- one of the ways I kind of look at this is that that aspect of more information, more transparency, more accountability for both staff, and management, and us as fiduciaries, because all these forms and categories of risk existed in the existing model, but we were really not really articulating our risk appetite in a -- in a very specific, kind of, well articulated way to staff. And it was hard, I think especially for stakeholders, to have a real sense of where we were with that.

I mean, it was pretty easy to see how we would, you know, put this in this bucket, and this in this bucket, and this -- and then have these expectations, but we weren't really having that fulsome discussion of what are the risks and what is our risk appetite on behalf of, you know, the system and our members out there. And I think this will give us a much better understanding as we go. It will make it more clear where we sit versus that. And I think it should ultimately I'm hoping be much more transparent, clear, and understandable to our stakeholders as well, because that risk discussion is really where we got a lot of our feedback from our members is, you know, they're worried about, you know, whether we're really making sure that those benefits will be there for them and that we're not going anywhere near that outer limit. And I think this gives us a way to manage that more effectively. So, I'm encouraged.

Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you.

CHAIR MILLER: So if I talked for a few minutes, somebody would jump in.

COMMITTEE MEMBER PACHECO: Thank you, Chairman Miller. Mr. Gilmore, about -- back to the prudent approach to liquidity planning. I like that chart you had that's on page 12 of 17. Can you just elaborate, I mean, how we would -- how would we address that? Because, you know, many of -- right now, I think if I read -- if I recall the trust report, we had about 36 percent that are in the private markets. You know, since private market material asset classes are inherently illiquid, how would we be able to plan more accordingly with respect to liquidity, because obviously, we have to pay our benefits and so forth. So if you can -- and how this framework will work into that.

CHIEF INVESTMENT OFFICER GILMORE: Yes. I think privates are currently around 34.5 percent but rising. And the Board has had that presentation by Jonathan O'Donnell on liquidity, which we'll make a regular feature. But what I'll do is I'll again pass over to Michael Krimm who came up with this visual that I -- that I like, and I'll let him answer this question.

COMMITTEE MEMBER PACHECO: Fantastic.

INVESTMENT DIRECTOR KRIMM: So when we -- you know, one caveat I want to say. When it comes to liquidity of maybe anything in the world of investment risk, liquidity is the most, you know, amorphous and multi-faceted concept. So we always have to be careful that if one person is using the word "liquidity", that the person hearing it is interpreting as some very different aspect of risk.

The way I would think about this -- and it really is just a concept right now, is thinking about liquidity in the sense of a longer term evolution of the asset allocation of the plan. And I think what we want to avoid is running into a situation where we literally are so full of private assets or other illiquid types of investments that we get in one of these awkward situations, like, you know, some of the endowments, and the -- or right now where we have to sell something that we don't want to, so we want to make sure that we are managing in a way that when we look ahead, when we project the portfolio and the different paths it would take, we are well within the comfort zone.

And so the concept here is that, you know, you have an outer ring of risk that you absolutely do not want to cross, right, but well within that is a comfort zone. And so you want to make sure that whatever portfolio you're planning, whatever strategies you're implementing, whatever your active strategy is, you will never be going into that dotted line area.

COMMITTEE MEMBER PACHECO: So the margin of safety is that comfort zone you're mentioning, is that -- is that your understanding, sir?

INVESTMENT DIRECTOR KRIMM: That's how I would think of it.

COMMITTEE MEMBER PACHECO: And again, it's still a concept in --

INVESTMENT DIRECTOR KRIMM: It's a concept. You could imagine quantifying this obviously, but it is purely a concept right now.

COMMITTEE MEMBER PACHECO: Oh, I see. And how would that relate with respect -- and again, conceptually, how would it relate back to how we look at the -- at our new total portfolio approach, in terms of like, you know -- because we're going to be simplifying our benchmarks and we're going to be kind of -- instead of having individual asset classes, we're going to be much more consolidating them all. I'm just curious how this will play into that?

INVESTMENT DIRECTOR KRIMM: I would think of this as a parallel perspective that complements the active risk perspective.

COMMITTEE MEMBER PACHECO: I see.

INVESTMENT DIRECTOR KRIMM: Active risk is about market exposure. It's about potential to have a drawdown, to lose money or to make money relative to the reference portfolio. Liquidity is a parallel concept and really a parallel constraint that we need to think about in everything we do.

COMMITTEE MEMBER PACHECO: Very good then. Thank you very much. I think that's -- that pretty much sums up what I wanted to understand. Thank you, sir.

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

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. One thing -- I wasn't going to ask any more, because I think I run in circles, but you said something I think that I feel I have to sort of add to the conversation about how this new approach both clearly lay out a risk appetite, and clearly, you know, we're going to have active risk, and we'll have total portfolio risk. But the other part of it, I think -- I want the Board to understand or maybe me. I'm the one that's -- maybe I want to make sure I understand it, is that the way we at risk is by active selection. And that depends a lot on management skill.

And when the question was asked by Trustee Ortega about what can we adjust, I think that should be part of the discussion too is do we have the resources to do this kind of active risk, and -- here it is, management skill cannot can add value. So active risk is -- was going to add value or take -- or not add value. So it's -- yeah, the discretion is there on the -- on the -- on the basis, the risk, but I just want to make -- I mean, that's something I think we should also identify, Chair, is that -- Mr. Chair, is that that's the other part of this new approach on the transparency. So I want to not let that point go unspoken.

So I don't know if you wanted to comment. It was my -- I feel I needed to say that, because we were focusing so much on transparency and the risk appetite, but what about the other side, which is we're depending a lot on delivering that extra active risk.

CHIEF INVESTMENT OFFICER GILMORE: Well, there a whole lot of things that go into that. Some of it relies on the advantage -- advantages we have as an institution, you know, as CalPERS. Our size allows us to negotiate better terms and conditions, so maybe lower fees. It gives us access to some of the better managers. You can see what we've done on the private equity side. We've talked about that before. And Anton will present on, you know, the program later. But we have increased the share of co-investment. And that comes no fee, no carry, so the net returns are better.

That happens because of the alignment we have with our managers, the importance that we have in their -- in their assessment so we can be the most important or one of the most important limited partners, so we can get better access. So that gives us an advantage. That helps in terms of return generation. I mentioned the liquidity advantages. There are times when we can lean into markets and do things actively when, you know, the reward for risk is higher, the reward for deploying liquidity is higher, so we can actually get additional returns.

So, there's also the selection of managers. So we have a team that's, you know, good at choosing, you know, good managers. So all of those things add up. And, of course, we expect our managers to be able to add that value.

So, there's a combination of things. I think we have the right set of enabling conditions in terms of the advantages we have and within the team as well to -- you know, to generate value-add from active risk taking.

COMMITTEE MEMBER RUBALCAVA: Thank you very much. That definitely gives me a lot more comfort. And you're right, I remember -- well, we'll get to that, but the change we're doing in private equity. So I appreciate that. Thank you very much. Thank you. Thank you, Mr. Chair, because you sort of raised my point -- my -- the issues and the question. Thank you.

CHAIR MILLER: Thank you.

Next, I have Controller Cohen.

COMMITTEE MEMBER COHEN: Okay. Good. Thank you. Good after -- good morning, everyone. I'm just curious to know. I want to go back to what Director Ortega was saying earlier. How often would we want to change the active risk limits?

CHIEF INVESTMENT OFFICER GILMORE: I would think not very often.

COMMITTEE MEMBER COHEN: Um-hmm.

CHIEF INVESTMENT OFFICER GILMORE: But as Michael saying, we will need to review -- formally review those things at regular intervals, so four -- every four years, an interim review every two years. That doesn't stop you from doing it more frequently, but at least you've got those -- those markers.

COMMITTEE MEMBER COHEN: Talk to me about those markers or talk to me about the trigger. What or how would -- what are we looking for? What would a trigger look like that would trigger a reevaluation?

CHIEF INVESTMENT OFFICER GILMORE: I think realistically, you would want to have a sufficiently long horizon to form a view, as to whether the active risk was being deployed well, so the short-term, you know, it's kind of challenging. But you will get regular reporting on what we've achieved from the deployment of active risk.

I can't give you an actual number as to how often you will do it, but you should, I think, you know, be sure that you will have these formal regular reviews with the option to review anytime you want. And hopefully, you will have the reporting the former view, as to whether, you know, the active risk was being deployed appropriately, with the caveat that short time horizons can sometimes be misleading, but sometimes --

COMMITTEE MEMBER COHEN: So when we are approach a trigger point, you as the CE -- CIO would come back to us or is it more of a special convening, like we need to meet to talk about this immediately?

CHIEF INVESTMENT OFFICER GILMORE: Hopefully, it isn't the latter. I would expect that, just as Michael talked about, liquidity. It could be the case that we're running into, let's say, a place where we are not comfortable in deploying more active risk in illiquids, because we're concerned about, you know, the liquidity of the portfolio, so it could be constraint. So it could be that we have difficulty deploying all the active risk, if there's a liquidity constraint, or it could be that we think actually there are amazing opportunities in the market and we want to go beyond the active risk limit, and we would have to have that conversation with you in both of those instances.

So I imagine that it would probably be most of the time us coming to you, but hopefully you've got the transparency with the reporting to initiate things when you want to as well.

CHAIR MILLER: Okay. Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you. Great presentation. I, without repeating what everybody else said, totally agree. But I did want to point out the -- sort of a thank you for the footnotes in the appendix. And I hope that this is a ongoing practice that continues, because those footnotes were very helpful in trying to understand the different slides, so thank you for that.

CHAIR MILLER: Okay. Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: I hate -- I don't know, maybe something in the tea.

(Laughter).

COMMITTEE MEMBER RUBALCAVA: But it's something -- I have to say some -- I mean, it's not my -- I don't know, it's not me usually speaking. But on the footnotes, I particularly liked how there was a footnote for last decade in the other presentation, the private equity, it had the dates when the Board addressed it. I thought that was, wow, somebody keeps track of that. But I do like that term, so I don't know why I had to say that. Footnotes I like. Thank you.

CHAIR MILLER: Very good. Okay. I'm not seeing anymore requests to speak and this has been very helpful again for -- certainly for my understanding and I think for others, and our ability to articulate this to stakeholders as well, so thank you for that. And I think with that, that wraps up 6b.

So we'll move on to 6c, our private equity annual program review and we will have some public commenters for this item as well.

(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: So welcome Anton, Colin, and Daniel.

MANAGING INVESTMENT DIRECTOR ORLICH: Good morning. Anton Orlich, CalPERS Investment Office.

Chairman Miller, Vice Chairman Willette, and members of the IC. Thank you for your time today, for the agenda item 2025 private equity annual program review.

On behalf of the 38-person CalPERS Private Equity team, I'm excited to share with you the success of their hard work. In November 2022, the middle of the 2022-23 fiscal year, we overhauled the private equity strategy to realize the vision of our CEO Marcie Frost that private equity could deliver higher returns at greater scale for our pensioners.

Up to that point, CalPERS private equity had outperformed public equity in most periods, but it had done so at a more modest proportion of our portfolio than that of select domestic and global peers. Also, CalPERS private equity outperformed public equity, despite underperforming relative to the private equity opportunity set and versus most peers.

The CEO's vision and expectation for the Investment Office was clear, private equity needed to do better and needed to do so at a scale that would move the needle for the entire CalPERS portfolio. This 2025 PE annual program review is a milestone. We now have two full years of performance with opportunity set and peer benchmarking to assess our current strategy's progress serving those who serve California.

The revamped PE strategy aimed to improve returns with a more resilient portfolio. To achieve these goals, we enhanced diversity by vintage year, strategy segment, fund size, and general partner. We improved investment selection and we pursued more cost effective implementation. There are three main takeaways for you today.

First, the data in the Board material shows the PE strategy launched in November 2022 has taken CalPERS PE from underperforming to outperforming both the PE opportunity set and peers.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Second, with CalPERS PE now outperforming the PE universe and peers, returns relative to public equity should be even better over the long term.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Third, the CEO's and your courageous decision to increase the CalPERS private equity allocation has been critical to providing scale to make the success of PE overhaul more meaningful for the total CalPERS portfolio.

On slide 3, you can see that we are $92 billion of net asset value, approximately 17 and a half percent of the total portfolio. The CalPERS PE portfolio is managed in accord with the Investment Beliefs, a selection of which are provided in the third section of the slide.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Slide four shows commitment levels by fiscal year. Consistency is a key theme of the current strategy. Staff saw it as crucial that CalPERS not succumb to cyclical dynamics prompted by the interest rate dislocation that disrupted private markets. During the correction in private markets, the PE program successfully avoided the mistake made coming out of the global financial crisis by maintaining consistent commitment levels in the 2023, '24, and '25 vintage years, and preventing the challenged 2021 vintage year from becoming a disproportionate amount of the PE portfolio. Staff expects the fiscal year '24-'25 period to finish in line with the stated target of $15.5 billion.

Moving to slide five.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Another key part of the current strategy is building a resilient portfolio by diversifying into growth and venture. Buyout commitments went from 91 percent in fiscal year '20 to '21 to 58 percent in fiscal year '23-'24. Within buyout, middle market has gone from 27 percent of commitments in fiscal year '21-'22 to 57 percent in fiscal year '23-'24. Staff believes these moves are contributing to outperformance.

For example, the venture program launched in 2022 is the strongest performing strategy segment with a 14.7 percent one-year time-weighted return. Staff is focused on manager selection, and we are moving to the segments of the private equity space with higher return dispersion that allow us to leverage our manager selection skills.

Moving to slide six.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: As intended, the PE portfolio remains U.S. centric. The PE team will be introducing more international exposure only on an opportunistic basis.

Please move to slide seven.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: A common feature of traditional private equity investing for limited partners is the delay between the investment decision and the actual investment. A major advantage of the current strategy is that it reduces the lag between CalPERS investment decisions and the actual investments. The use of customized investment accounts are a key part of this dynamic. They provide structural alpha that CalPERS has been producing.

Over 60 percent of the commitments over the last 12 months are to customized investment accounts, and they already constitute more than 40 percent of private equity's net asset value. The corollary to this strategy of gaining more control over the investment process is faster deployment of alpha. It is important to underscore that while many peers have negative cash flows, because they have lower distributions than they have modeled, CalPERS has negative cash flows since it is intentional in growing its PE portfolio. Put another way, the CalPERS PE cash profile is evidence of its proactive strategy using customized investments accounts, which are the single best performing structural segment of the portfolio.

Slide eight provides in one place --

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: -- the multi-dimensional nature of the current PE strategy. It provides details on how we are diversifying the portfolio, including investment in diverse and emerging managers that achieve alpha, and pursuing structural alpha. An important tool for obtaining structural alpha has been secondaries. CalPERS has been a net buyer on the secondary market providing liquidity to limited partners who need it for various reasons, such as allocation to the asset class beyond what their governance allows or unanticipated immediate cash needs.

CalPERS has been buying from traditional limited partner investors, such as large pensions and university endowments.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Slide nine compares PE returns to the PE universe and the public equity markets with an illiquidity premium. The five-year comparisons bring together the transformation that is occurring in the PE portfolio, and that we will cover over the next few slides.

On the five-year basis, CalPERS PE is underperforming the PE universe and outperforming the public equity benchmark, which includes an illiquidity premium by a greater margin. It is significant that CalPERS outperformed public equity, while underperforming the PE universe or opportunity set. The takeaway is that if CalPERS can outperform the PE universe, then we are in a strong position to outperform the public equity markets.

Moving to slide 10.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: This slide compares two snapshots of the portfolio's returns, as of September 30, 2022 and as of December 31, 2024. The significance of these two snapshots is that the current strategy began in November 2022, and we're seeing the impact of that strategy. During the two full years of performance data we now have, CalPERS PE has gone from underperforming the Universe over the one, three, and five periods to outperforming meaningfully on the one and three year, and erasing a 430 basis point deficit for the five year on an IRR basis.

Moving to slide 11.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: This slide attempts to benchmark us versus peers and it relies on publicly reported time-weighted returns from the institutions listed. As you can see, the 12-31-22 versus 12-31-24 provides the contrast that is pretty dramatic. We've moved from 17th out of 30 on the one-year return to first out of 30, and from 30 out of 30 to second out of 30 versus the 30 largest U.S. publicly reporting plans.

What's notable here is scale. CalPERS is 1.7 times the second largest private equity investor in the United States and approximately 15 times larger than the 30th.

Moving to slide 13.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Oh, slide 12.

Sorry, slide 13.

Okay. Colin is going to speak to the co-investment savings. Thank you.

INVESTMENT DIRECTOR CRANE: Hello. Colin Crane, Investment Director in the PE group. I'm going to spend the next minute or two to go over why co-investing is such a powerful strategy for us.

It, in short, allows us to boost returns, because it dramatically reduces fees paid to external managers.

As we will all know co-investing is when we are directly investing into an opportunity alongside our trusted partners, but these are typically done with no management fees and no carry.

On the slide is a simplified example to illustrate the scale of these savings. If we invest $1 billion through a standard private equity fund, even at modest terms and economic arrangements, the fees and profit sharing could cost around $400 million over the life of that fund.

But instead, investing that same $1 billion directly as a co-investment, these fees will largely disappear. In this simplified illustration, about one-third of the savings come from avoided management fees, and approximately two-thirds from avoided carried interest.

I will note that this example is intentionally simplified to convey the scale, and is not a replica of particular fund mechanics. So to bring this example back to CalPERS. At our current annual pace of roughly 15 and a half billion dollars deployed per year in private equity with a target of that 40 percent in co-investments, this can continue that calculation to roughly two and a half billion dollars of fee and management fee savings from the life of those investments in one year of capital deployment.

And extending that to a longer term payoff over the course of a decade, this can equate to nearly $25 billion dollars of management fee savings and carried savings, all of which are accretive to our net returns to our beneficiaries. So co-investing is a powerful tool for us largely to avoid costs and expenses.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you, Colin. Along with secondaries, co-investments are in deed an important part of our structural alpha.

Now, if we can move to slide 12.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: The performance comparisons that we've provided up to now show the change in the portfolio as a result of the strategy. But what this slide attempts to do differently is show the difference between the current strategy's investments and the prior strategies.

Before we were seeing the impact of the portfolio from the strategy, but here we see the impact of the dollars in the ground themselves. And as you can observe on a multiple basis on an annualized comparison, the current strategy is delivering 1.25x gross versus the prior strategy of 1.1x.

Moving to slide 14.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Here, we discuss major governance and sustainability initiatives in the portfolio. On Labor Principles, we've completed getting a hundred percent of our active managers to sign onto the principles, and then regularly including discussion of those principles in our monitoring.

On diversity, we have shifted to smaller funds, and this has been part of our ability to get more diverse manager representation in the portfolio, to enhance our alpha. In fiscal year '23-'24, we committed over $6 billion to diverse managers in the non-intermediate portfolio. That is the portfolio that we are investing directly. That's not including TPG NEXT and Grosvenor Elevate.

In terms of diligence, we're working with sustainable investments to include the diligence questionnaire items and interpreting those results and then folding that back into our manager selection decision. And further, we are working to expand EDCI, which CalPERS co-founded. Even as we have been growing the number of managers in the portfolio and moving to smaller managers, which when we engage with them from the beginning are not members of EDCI, we've been able to improve a proportion of our manager's participating in

EDCI by virtue of our dialogue and getting those managers to sign up.

On climate, again, we're working with Sustainable Investments to find opportunities for this very important investment thematic. We funded about $1.4 billion of PE co-investments supporting climate solutions, since the launch of the strategy in November 2022.

Moving to slide 15.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Per California legislation, we report our investment amount in both diverse and emerging managers, and, as you can see here, for fiscal years '22 and '23, we have strong numbers with increasing momentum. On approximately $16 billion in fiscal year '23-'24, over six billion dollars were with diverse managers, and approximately two billion with emerging managers.

Slide 16, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: CalPERS helped found the EDCI, ESG Data divergence -- Convergence Initiatives. EDCI is now the leading warehouse for information on all ESG issues. When we co-founded it, it was one of many and it is now becoming industry standard. You can see that we have worked quite hard and produced results in getting our managers to sign up with EDCI. And we're a trailblazer in making sure that we have the metrics to assess progress on ESG.

With that, we'll take your questions. Thank you

CHAIR MILLER: Okay. First off is President Taylor.

COMMITTEE MEMBER TAYLOR: (Coughing). Excuse me.

Anton, thank you for this report. I read it.

MANAGING INVESTMENT DIRECTOR ORLICH: Looking for you over there.

COMMITTEE MEMBER TAYLOR: Huh?

MANAGING INVESTMENT DIRECTOR ORLICH: I was looking for you over there.

COMMITTEE MEMBER TAYLOR: Oh, no, because he's sitting over there.

(Laughter).

CHAIR MILLER: We're tricky that way.

COMMITTEE MEMBER TAYLOR: Yeah. We switch seats. And, you know, when I was reading it initially, I wrote in big red letters on the iPad, "Wow", because we went from -- what was it? Hold on. Let me get back there -- 17th to 1st, and three year ranked 30th to 2nd, ranked 7th and 12th to 1st and 1st. So I'm very proud of the work you have done since you have been here and want to thank you very much for all the hard work you guys have done.

And it -- you know what, it's really nice, because then we can kind of look at our folks across the river and be like ha-ha.

(Laughter).

COMMITTEE MEMBER TAYLOR: But I just -- I did have a --

CHAIR MILLER: Our friends and colleagues.

COMMITTEE MEMBER TAYLOR: Huh?

CHAIR MILLER: Our friends and colleagues.

COMMITTEE MEMBER TAYLOR: Our sister fund, yes.

I did have a couple of other points I wanted to say is that I really appreciate the work on the co-investments, because I know that enables us to better integrate all of our ESG work that we're doing for the Labor Principles for diversity, climate, and our -- and our governance diligence. So I do appreciate that work as well.

But I just wanted to con -- mainly congratulate all of you guys for all the hard work you do, and I'm very impressed, so keep up the good work.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

CHAIR MILLER: Okay. Next, Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you. Yeah, I, too, want to share my thanks for this great report and great numbers. However, moving into the future, and maybe this is a joint question with you as well as Meketa, do the -- sort of looking into future, do the issues that are happening nationwide, whether it's politics or within the state of California, does this create challenges to creating value-add in the coming years?

MANAGING INVESTMENT DIRECTOR ORLICH: The general point I would make in response to that is when there are dislocations, active management provides an opportunity to get better returns on capital, as managers position for those dislocations. Assuming that we are finding the right partners, then, yes, there's more opportunity for active management.

The contrast for private equity, at its most extreme, is passively managed public equity. And that index that generic exposure to the equity markets would lead to situations where the winners and the losers cancel one another out. The hope is with private equity, and strong manager selection, we have partners who can identify the best opportunities for capital. And you have essentially benefit from the dispersions that are created by the challenges.

COMMITTEE MEMBER PALKKI: Thank you.

CHAIR MILLER: Okay. Director Willette.

VICE CHAIR WILLETTE: Thank you. Thank you, Chair. Thank you to staff for your diligence in managing our private equity. And my comments go to the private debt portfolios.

I do want to acknowledge the complexity and scale of this asset class and the responsibility we carry as fiduciaries. I have a lot of concerns and questions to cover today. And if it's okay I'd like to go through them all first and then I'm going to leave it to staff. Yeah, I know. I'm just saying it will cover both asset classes. I'm going to leave it to staff to decide which ones to address here and which ones are just food for thought. I am encouraged, if I heard it correctly that a hundred percent of our partners have signed the Labor Principles attestation, but I -- is that correct?

MANAGING INVESTMENT DIRECTOR ORLICH: Our active partnerships.

VICE CHAIR WILLETTE: Active partnerships. Okay. But I don't -- I don't want our Labor principles to be like a hallmark card that just get passed, get signed, everybody signs them, and then they get thrown in the bin or a drawer, if they're lucky, never to see the light of day. And I'm wondering has our implementation and engagement strategy been updated or changed after 18 months of having this attestation and what are we doing to effectuate outcomes that protect our investments and the retirement security of our members and beneficiaries? So that's the Labor Principles.

And then I do have some questions -- specific questions. And before I get into those also thought, I want to highlight one of the broader principles that wasn't included in the beginning on what Pension Beliefs that this touches on, but I do think Pension Belief number 11, which affirms our leadership role in advocating for retirement security is as also very important in this work. And I hope my concerns reflect our duty to ensure rigorous due diligence, conflict mitigation and our ongoing responsibility in every asset class and every investment relationship that we have, especially if there are relationships with high profile individuals and firms that carry maybe unique risks.

So with that, my first concern is on reputational risk, headline risk, and we have to be proactively managing that. I think, as a Board, we know -- we hear about these issues, we read the headlines, and it's not theoretical. We have people who come to us and speak about their work in our investments. So these risks do have material impacts on our trust, on stakeholder engagement, on long-term value. And I want to make sure that we are scrutinizing associations with high profile individuals or firms, particularly those with a history of aggressive or opaque financial engineering to avoid headline risk and reputational damage. I think as a public pension fund, expect the highest standard of ethical and professional conduct in our investment partnerships.

I'm also wondering about escalating commitments, the process and the governance around our commitments. I think any increases in commitments, especially in co-investments or parallel funds should follow a clearly defined and transparent escalation process, not to be driven just by momentum or, you know, we like each other. And I would want to know like what would lead us to, for example, commit a 10 times X after an initial commitment of X? And then what are our partners doing to return capital to CalPERS, as a limited partner investor from more mature investment funds and improved distributions to pay it in capital performance metrics? I think we want to also, as a Board, understand, and our stakeholders as well want to understand, what was missed? Were there alternative managers evaluated? Was performance benchmarked, not just across our benchmarks, but across various bench marks?

And then I'm also concerned, another general area of concern, are key man classes on leadership risk and accountability of funds and firms.

I think key man provisions exist for a reason to protect us as limited partners from undue exposure to changes in leadership, strategy, and alignment. And we have to ask are current -- are our clauses sufficient to trigger pause or review, if principals shift roles, if they exit or are entangled in other conflicts or have side hustles? And then what governance rights does CalPERS retain in the event of key personnel changes, and are those rights strong enough to act quickly for us to protect our pension promise to our beneficiaries and our active members?

I'm also worried about the conflict of interest mitigation. So I think I want to make sure our agreements have clear enforceable guardrails that are in place to manage potential conflicts of interest, particularly in firms where principals have close ties to companies that we invest in. And we should not just expect disclosure on checking a box or self-certification, but meaningful conflict mitigation frameworks, recusal procedures, fire walls and independent oversight mechanisms.

And then finally just on our due diligence, but not just due diligence in the beginning of the investment, but at all phases of our relationships with our partners, I think our due diligence has to go also beyond performance numbers. It has to interrogate governance structures. It has to look at legal exposure, cultural risks, alignment with our values, including those Pension Beliefs that are laid out in Pension Belief number 11. And I think any fund managed by individuals with high profile connections should undergo enhanced reputational and compliance review. So do we sufficiently investigate all public domain and background issues? Were there independent verifications beyond self-certification manager materials?

And then again, I touched on this, but ongoing monitoring and public accountability. I think our private -- our private asset allocation commitments are long term and our oversight can't just stop at the commitment phase. And we have to ask how are these funds being monitored? What triggers are in place for review and is there a cadence for reporting to the Board or this Investment Committee?

And I'm raising these concerns, not because I want to question the necessity of private equity or private debt, or I think it's something that's gone wrong. I just want to ensure that every partnership we have in the investment in private equity exists solely for the interest of our participants and our beneficiaries for the exclusive purpose of providing benefits to those participants and their beneficiaries.

Thank you.

CHAIR MILLER: Okay. Thank you.

Is there anything you wanted to reply to now or we'll --

MANAGING INVESTMENT DIRECTOR ORLICH: I can start to cover some of them now. And there are some that speak to strategy, so I would want to be reserved my comments about that. And I'll start -- I counted four issues there. And I'll just check in with Colin to make sure that I covered all aspects of your question insofar as I can discuss strategy.

We work very, very hard on the issues that you've have identified. And actually they take up most of staff's time. We, even with our current strategy, do quite a bit of investment in blind pools. And so we coordinate with SI, for example, on Labor Principles. And that five step engagement process, which is conducted by SI, does have a feedback loop into our decision-making for fund investments and co-investments. And I can tell you that it has had an impact, if we have a finding in the stakeholder engagement process on our decision-making. It is a mosaic decision. There are many factors that we consider, including the output of a given stakeholder engagement process.

Key person. Limited partnership agreements are extremely complex and bespoke. At a high level, I can tell you there's a lot of negotiation that goes into that provision. And how that provision looks does have a great amount of variation from manager to manager.

CalPERS is one of many limited partners in our fund Investments. And so, what you get in the result of the negotiation is a combination of our views, those limited partner views, and what the manager is willing to provide. Also, there's an incredible amount of variation on the dependence of different general partners on individuals. And so you do get very different outcomes in what the key person provisions end up looking like.

In terms of conflicts, by and large CalPERS serves on the limited partner advisory committees for all of its fund relationships. And those, in general, are the point at which conflicts are reviewed and arbitrated. And we have an outstanding set of investment managers serving on those LPACs.

Also, we are involved in managers that I would describe as, to a large extent, very institutionalized, so it is not just us on those LPACs policing conflicts, but other sophisticated limited partners that are evaluating the issues and assessing how to handle them.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And I'll just add, while Anton is conferring. Daniel Booth, Deputy CIO at CalPERS.

We are in the process of rolling out a first screen memo, which will be consistent across all the private asset classes. And this does enhance the coverage of conflicts and reputational risk. So that is something that we're doing today, but we're going to give even more attention to in the future. Thank you.

MANAGING INVESTMENT DIRECTOR ORLICH: Another issue that you mentioned is distributions. And we do consider that as part of the mosaic of performance assessment. We're involved with vintage years that really are only beginning to experience, you know, what should be the harvesting cycle. And while the program is long term, it only had approximately two and a half billion dollars in commitments per annum between 2009 and 2018. And it's the tail end of that decade long window where we would have expected to start to see distributions.

Now, since we're underexposed, the distribution does desert, as it's been determined, does impact us less, but we do have exposure in the 2020-21 vintages, which are in the earliest stages of harvesting and are not keeping up with historical norms. And that does relate to the secondaries discussion that we've had, where we are net buyers, but we are also opportunistic sellers in the secondary market, and are trying to get ahead of what we see as an on averaged challenged set of vintages by selling them. It is ultimately a manager-specific consideration, but it's fair to say that a lot of the selling that has occurred has been in that 2019 to 2021 period.

And that's part of this process of comprehensively evaluating our manager's performance, and that includes everything from IRR, to multiple, to DPI -- DVPI, DPI and we come to a decision.

What's so strong about the secondary tool is that it allows us to leverage the insights that we have on our managers above and beyond the commitments that we make in this year. And in the course of considering these blind pool investments, staff has another way to execute on its insights through secondaries.

VICE CHAIR WILLETTE: Thank you.

MANAGING INVESTMENT DIRECTOR ORLICH: There's more obviously to your question but I think it's better handled when we can get into some strategy.

VICE CHAIR WILLETTE: Thank you. Look forward to that.

CHAIR MILLER: Thank you.

Next, we have Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. And thank you Anton for your comments and thank you for your situation. So I want to piggyback on Trustee Willette's comments. And I wanted to first of all congratulate you on the diversity shifting the focus to smaller funds in the buyouts, expending growth, and adding venture to increase diversity in the opportunity set, which is in your -- in your direct private equity portfolio. You said now we are now at six billion, is that correct, sir?

MANAGING INVESTMENT DIRECTOR ORLICH: In the last fiscal year, we had six billion -- over six billion of new commitments to diverse managers.

COMMITTEE MEMBER PACHECO: And when you say direct, what does that mean exactly?

MANAGING INVESTMENT DIRECTOR ORLICH: Another term that I could use is non-intermediated. What we're trying to say is these are managers where we are directly investing in the fund as opposed to going through another firm, which then makes and investment in a manager.

So, think about TPG NEXT and GCM Elevate, those are the intermediaries, where we have partnered with them and they are negotiating the LPA in making the fund investment. That's in contrast to what's reported in AB 890 on the slide that you say, where we're actually finding opportunities where we can scale sooner with managers that are diverse and emerging.

COMMITTEE MEMBER PACHECO: I see now. And actually that says into what I wanted to say, because it -- you know, I was able -- I attended the Catalyst Summit. And I learned a lot -- I actually learned a lot about our program, about our direct portfolio program versus our mosaic platform. And I -- and I learned -- I learned a lot about what we did, I mean -- and I wanted to make a comment, because I also feel the same way with Trustee Willette on certain things of importance that should be addressed. So let me -- and I want to read it to you.

So in January 2023, CalPERS launched the Mosaic platform, an ambitious $1 billion commitment designed to identify and support the next generation of investor entrepreneurs in the private markets. This initiative represented our long-standing belief that entrepreneurship, innovation, and diversity in investment managements are not only morally imperative, but essentially long-term outperformance.

Now, our understanding to execute this vision, CalPERS allocated, from my understanding, 500 million each to two trusted partners, TPG and GMC[SIC] Grosvenor. You know, we tasked them with sourcing and partnering with early stage investment managers not yet, not yet scaled for direct CalPERS capital. These managers, through their respective Elevate and NEXT funds, were charged with opening doors to promising diverse firms, and emerging firms.

But CalPERS has spent -- you know, CalPERS has spent more than three decades investing in newly established teams and fostering entrepreneurial talents across local markets. At the time -- our CEO, at the time that -- when she established this, emphasized this mission clearly. "CalPERS is committed to giving access and opportunity to new innovative talents in the investment industry to seed the next generation of diverse talent managers and foster different ways of seeing and solving problems."

However, and this is what I've learned from all this, over the past year, we've seen results from the Mosaic platform that raises fundamental concerns, in my -- in my opinion. While both TPG and GMC[SIC] Grosvenor reportedly reviewed over 600 applications each, TPG's NEXT Fund ultimately partnered with eight investor entrepreneurs with less than one percent acceptance rate.

This outcome stands in stark contrast to our performance goals, which studies have -- including those by the National Association of Investment Companies have consistently showed that diverse and emerging managers frequently outperform industry benchmarks. Yet, the results of the Mosaic didn't -- first phase did not reflect that potential.

So I must ask why? Why did only eight firms advance through the next phase pipeline out of 600? What evaluation criteria were applied? Were those criteria aligned with our goals? And who were the other applicants and what do we know about their background strategies and experience? Were they ultimately -- were we unintentionally screening out the very talent we sought to cultivate?

These are not simply academic questions, but rather essential to our fiduciary responsibility and commitment to transparency. And if we fail to understand the selection process and its results, we repeat the same iteration of any future iteration of Mosaic. So it is my understanding that many of the applicants firms completed the sustainable investment emerging and diverse manager questionnaire. While the Sustainable Investment's team currently uses the voluntary post-investment disclosure to determine AB 89[SIC] compliance for reporting to the Legislature, that approach only gives us insight after selection, not during the most critical decision-making phase.

So this is why I am -- and I usually don't usually do this, but I feel this is really important. I rarely do this. I formally request that the staff, via Committee direction, prepare a detailed aggregated,

aggregated report for the Board that includes broad based demographic and geographic data on all the Mosaic applicants, a breakdown by the firm sizes, investment strategy, sector -- specter -- sector specification, and years of experience, the number and percentage of applicants who received a secondary round evaluation, confirmation of how many completed the emerging and diverse manager questionnaire, and a summary, if possible, of the selection methodology used by each advisor.

You know, we have consistently prioritized transparency and data-driven decisions at CalPERS, particularly regarding diversity, equity, and inclusion. And I very want to congratulate and compliment Trustee Willette on this -- on her championing of this.

This request aligns directly with that tradition. And in the past, we have surveyed all our external managers at our DEI and human capital practices. And we must now apply the same level of rigors to our own internal initiatives. If we are ever -- and this is my opinion. If we are ever to pursuing another Mosaic platform 2.0, we must learn everything we can from Platform 1.0. And this means acknowledging where our efforts fell short, identifying any missed opportunities, and building a stronger and more inclusive process going forward.

And I would say that -- I want to point this out. Our ultimate objective remains the same, to maximize long-term returns for beneficiary, while expanding access and equity across the investment landscape.

Thank you.

So if you -- it's a lot there, but I just wanted to -- but that's kind of the gist of what I wanted to know what your thoughts. And I think Peter is right there.

MANAGING INVESTMENT DIRECTOR CASHION: Thank you, Director Pacheco. Peter Cashion, head of Sustainable Investments.

So first, let me comment on the importance of emerging and diverse managers, as a strategic priority. As you know, it's one of the -- a core part of the strategy, and one of the 11 KPIs that we'll be reporting on in November. We do have a 2030 target of 10 billion invested in emerging and diverse manager. And, in fact, owing to the work of the private equity team, as Anton mentioned, that number has already reached six billion in, I believe, it was last fiscal year.

We come at emerging managers through two ways, in terms of investing. The non-intermediated and intermediated, call it fund of funds. As Anton mentioned, non-intermediated can bring about significant volume and also have the full universe of funds that can go through our standard process. We also have the intermediated, which is the fund of funds, the Mosaic, so we -- both can be pursued, looked at, but they are different. Fund of funds do also have a higher fee structure, in that you have an intermediary in between you, who will also take their portion of fees.

We -- as it relates to the specific Mosaic program and your comment about 600 viewed versus 8.

COMMITTEE MEMBER PACHECO: Yes.

MANAGING INVESTMENT DIRECTOR CASHION: So first, we really encourage, and push, and promote any of our partners to be very rigorous in their review and to start with as wide a pool as possible, and take that down to a smaller number. I know that the outcome of that is maybe, you know, not an enormous count.

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR CASHION: But that also depends on the size of the allocation that we've provided to the Mosaic partners and versus the number of funds that they can actually finance.

So they have 500 each. And given that they are taking seeding stakes in these managers, meaning they're taking typically a part of the GP, the general partner company, the amounts needed to justify for them to have that position is typically larger, so greater than 50 million and in the range of 75 to 100. So just by pure arithmic -- arithmetic, you know, you get to not an enormous number of managers.

Regarding the AB 890 and the questionnaire. So, yes, as you point out, we do formally report the emerging diverse managers to the Legislature through the AB 890. We have the Lenox Park survey that Mike Silva and his team are actively working on currently. And we do collect those results and it is after the commitment, because we also want to be making our investment decisions on everything that's, you know, permissible, and -- although we do factor in cognitive diversity and the benefits that come from it, you know, it's always the fund performance itself and the expected return that we are focused on.

Anton, any further -- thing further to add, and if I didn't address any of your points, Mr. Pacheco?

COMMITTEE MEMBER PACHECO: No.

CHIEF OPERATING INVESTMENT OFFICER COHEN: And let me just add one thing and then I'll see if the rest of the table wants to add anything else. We do have a session cued up for our July off-site on emerging managers. Our two partners that we've been talking about GCM and TPG will be there to be able to speak to the way the approached their mandate. And so I think we'll have an opportunity to have a full conversation on this topic in just one month's time.

COMMITTEE MEMBER PACHECO: With respect to the six -- so we'll be able to be talking about the applications, the applicants, the 600 plus?

CHIEF OPERATING INVESTMENT OFFICER COHEN: Yes. Certainly I think your comments will have been heard by our partners and they'll be prepared to speak to their process.

COMMITTEE MEMBER PACHECO: Excellent. And I think that would be -- that will be a good first step in terms of how we could approach this.

Thank you.

CHAIR MILLER: Thanks. Next, I have Frank Ruffino for Fiona Ma.

Oh. Hang on. Let me touch -- there we go.

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

And before I ask a question, I -- Mr. Orlich and team, I want to convey a message from the State Treasurer. And she's commend CalPERS efforts over the last couple of years to enhance our return, you know, through the building of more sustainable portfolio. And I'm not going to go over the areas. But as you, during your presentation, on page 14 -- I think it was slide 14, you acknowledge the progress in Labor Principles, in diversity, in diligence, in climate.

So this is a great report. This is very -- the Treasurer shares your enthusiasm and she welcomes this kind of reports, any time, any day. So congrats and kudos to the team.

Now quickly, the question back in the same subject matter. As CalPERS evaluates its private equity funds of funds structure and considers streamlining its manager roster, how is staff ensuring that emerging and diverse managers continue to have meaningful opportunities within the evolving platform?

MANAGING INVESTMENT DIRECTOR ORLICH: When it comes to the CalPERS private equity portfolio, we are hardly ever using fund of funds. We're making direct investments in funds or in portfolio companies in the form of co-investments.

To describe the process at a high level, you've got the direct portfolio run by the private equity team and then the GCM Elevate and TPG NEXT strategies that are managed by SI. So Peter can speak to the TPG and GCM relationships. And I'll speak to the direct portfolio.

At a high level, the goal has been to broaden the filter of the opportunities that we evaluate, so that we can be confident that we're assessing the full spectrum of talent that's available for us to generate returns. The team does its best across the metrics that Vice Chairman Willette alluded to to find the best opportunities. And it is challenging work, because for the most part we're investing in blind pools, so we don't know what the investments are.

And even when we develop a customized investment account relationship, the deal flow that comes is contingent on what that manager can provide for CalPERS. We select the best managers we can from this broader universe that we have been pursuing. And that is coming from firms that we can generally characterize as smaller, so not just large buyout, but going into the middle market, not just in general, but going into growth and venture.

And then there's a process independent by SI that sends out surveys to these managers. And they are providing demographic information on a voluntary basis. And when they do provide demographics, that indicate that they're diverse firms, that's what's reported in the AB 890 legislation. So, again, we are investing in managers, because they represent the very best opportunities and then we're getting validation from this retrospective review of the diversity that we've introduced into the portfolio.

MANAGING INVESTMENT DIRECTOR CASHION: I'll just add a comment on the intermediated funds. So in addition to Mosaic, we have historically worked also with Grosvenor on two other -- in fact, three other diverse and emerging manager funds. It's domestic emerging manager. And those three have been fully deployed an under active management. And then historically we also have fund of funds in real assets, real estate in particular.

So we're -- we're very actively -- within SI, our role is to work with the Mosaic partners, both on Screening, of new funds managers, particularly at the part of that 600. Some of those are referred from CalPERS into the Mosaic managers and we work very closely with them. But ultimately, of course, the investment decisions are all made by them. Those funds are benchmarked to private equity benchmarks like everything else. So, hence they use very high rigorous standards in the ultimate selection.

ACTING COMMITTEE MEMBER RUFFINO: Before I ask, I have a follow-up question. Before I ask that, I neglected to mention and I think it's worth saying also that the Treasurer congratulates both CalPERS and CalSTRS in co-hosting the second edition of the Catalyst Conference California emerging and diverse investment manager forum, which brought together right here, right in our own backyard in Sacramento, institutional investors and other global allocators to engage with diverse entrepreneurs and entrepreneurial general partners to forge a new path in leadership and growth. So kudos to the team to both pension and to our sister fund for putting that together.

Quickly, will there be a dedicated channel or allocation for identifying and scaling high performing emerging managers?

MANAGING INVESTMENT DIRECTOR ORLICH: In two fronts. So for the direct portfolio, we're constantly sourcing for new managers. Obviously, the bar is quite high there, because our portfolio is largely filled out. There are opportunities to, you know, find pockets that are diversifying or that we don't have exposure to. So new managers would only get through the door based on that portfolio construction consideration.

So most of the work, especially given the progress that we've had in bringing in diverse managers in the portfolio over the last couple of fiscal years is identifying the ones that are succeeding as we would across any manager in our portfolio set and then putting more capital behind the ones that are succeeding.

CHIEF INVESTMENT OFFICER GILMORE: I would also say, given our size, we would want to be able to scale those managers. So that will be a consideration for investing in the first place.

ACTING COMMITTEE MEMBER RUFFINO: Great. Thank you for your answers and thank you, Mr. Chair.

CHAIR MILLER: Okay. Thank you. Next, we have Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you, Mr. Chair. I just have a really quick clarification question. There was an ask for staff to do something. And I want to make -- in the spirit of not getting into the weeds, I want to make sure that whatever the ask was, that if we're going to move forward with doing that, that it doesn't create a conflict of interest for us, where now we have to recuse a possible vote or something.

CHAIR MILLER: I think the questions that Director Pacheco asked and what he was asking for I think largely will be covered in June.

CHIEF EXECUTIVE OFFICER FROST: July.

CHAIR MILLER: And if, at that time, we're not satisfied, we could always provide direction for more specific work to come back to us. Is that all right with you?

COMMITTEE MEMBER PACHECO: Yes.

CHAIR MILLER: Okay. Yeah.

CHIEF EXECUTIVE OFFICER FROST: That will be in July and then we would --

CHAIR MILLER: Of July.

CHIEF EXECUTIVE OFFICER FROST: Yeah -- have to engage in some conversations with TPG on their underwriting and whether that's public information or not, and even available to -- okay. All right.

COMMITTEE MEMBER PALKKI: Yeah. Thank you.

CHAIR MILLER: Okay. Controller Cohen.

COMMITTEE MEMBER COHEN: Hi. A couple questions. First, I was wondering -- I want to make sure I heard correctly that our Emerging Manager Program is outperforming? Does that sound right? Did I hear that correctly in the presentation? I'm looking at you, Anton. Peter is looking like is she talking to me? No, Peter. I'm not. Not you. You, Anton.

(Laughter).

MANAGING INVESTMENT DIRECTOR ORLICH: So again, I'm going to speak specifically to the investments we're making in the non-intermediated private equity portfolio. If you look at the managers in the top 10, even in the top five, a couple of them are diverse managers.

COMMITTEE MEMBER COHEN: Okay.

MANAGING INVESTMENT DIRECTOR ORLICH: And one is a diverse and emerging manager.

COMMITTEE MEMBER COHEN: And so one entity outperformed?

MANAGING INVESTMENT DIRECTOR ORLICH: I would say if you look at the group, on average, it's --

COMMITTEE MEMBER COHEN: Okay. I'd love -- I'd love to look at the group on average. Is there a way for me to get this information easily?

MANAGING INVESTMENT DIRECTOR ORLICH: So we provide on our website the returns by vehicle, and also there is a description in the AB 890 report about which firms are diverse and cross-referencing the two would provide which -- you know, what the breakdown is. But on average, and it's -- we can go through manager by manager in certain circumstances, the diverse and emerging manager set is doing strongly. It has absolutely been an alpha engine.

COMMITTEE MEMBER COHEN: All right. I'm glad to hear that. I'd like you to do me a favor. I have limited time and don't have time to scroll through the entire website to do this. So maybe you or a member of your staff could help just drill down and print out a couple of the pages for me, so that my staff and I can go through and review.

MANAGING INVESTMENT DIRECTOR ORLICH: Of course.

COMMITTEE MEMBER COHEN: That's probably easier than just kind of indiscriminately like scrolling looking.

I am specifically looking at unique asset classes in our emerging managers. So I will -- they will pop out to me, all right?

Another question for you is we've spoken in the past about moving away from buyout and towards middle market, and growth in more diversified strategies. I just wanted to know if this is true for our Emerging Manager Program as well?

MANAGING INVESTMENT DIRECTOR ORLICH: So, two parts to that. The first is the movement away from buyout toward venture and growth. And then separately, within buyout, doing more middle market at the expense of large buyout. In both respects, the diverse and emerging managers are part of that portfolio follow shift. So the diverse and emerging managers are much more likely to be in the venture growth segment and from the middle market buyout segment. And the large buyout shops are much less likely to get categorized as diverse.

COMMITTEE MEMBER COHEN: All right. Thank you. So the answer is yes.

MANAGING INVESTMENT DIRECTOR ORLICH: (Nods. Head)

COMMITTEE MEMBER COHEN: Thank you, Marcie. No further questions.

CHAIR MILLER: Okay. Thank you. And I think the Committee would benefit from that information as well. So if you could share that with us.

I'm not seeing any more requests to speak from the Board. We're close to two hours, but I want to power through, because we have a few public commenters on this. And so, I'd like to call down -- call down two at a time. At this time, I'll call down Sarah Holtz and J.J. Jelincic. And if you'd just come down, we'll have the seats on my left. You'll have three minutes. The clock will start when you identify yourself and begin your presentation.

And we'll follow those two with Mark Swabey and Frank Ruiz after Mr. Jelincic finishes.

Okay. You have the floor.

SARAH HOLTZ: Good afternoon. My name is Sarah Holtz. I'm an organizer with the Office and Professional Employees International Union.

We are supporting American Sign Language video interpreters to organize across the United States and Puerto Rico, whose work is compensated through the FCC administered TRS fund. This year, I've had the opportunity to talk to video interpreters throughout the state of California about their experiences working for the two biggest video relay companies in the U.S., Sorenson Communications and ZP Better Together.

These workers assert that company policies contribute to poor health outcomes and a high turnover in the industry. Almost every interpreter I've spoken with experiences some form of pain, whether in their wrists, arms, neck, or back. The Private Equity Stakeholder Project released a report this mont that examines these health and safety risks. Interpreters work grueling shifts while in physical pain without sufficient breaks that are normal in other types of interpreting.

When interpreters are working with high levels of physical and mental stress and experienced interpreters leave the industry in high numbers, the quality of service for the deaf community suffers. The two major video interpretation providers have not adequately addressed working conditions, even as the FCC has significantly increased the amount that companies are paid for providing such an important service.

So far, Sorenson's private equity owners, Ariel and Blackstone, and ZP Better Together's owner, Teleperformance, have refused to meet with these interpreters about working conditions and collective bargaining rights. ZP Better Together has a long history of aggressive union busting tactics, including shutting down call centers in other states. In California, ZP has closed down all their call centers, which has had significant impacts on service delivery for deaf Californians and the interpreters that provide this service.

CalPERS has $4.8 billion in Blackstone investments and additionally holds $11 million in Teleperformance shares. We are confident of our union and the need to improve our service quality for the users that rely on these services. And we need your help to be able to organize without these companies retaliating.

I urge the Investment Committee to engage with Blackstone and Teleperformance, urging them to take action on their investment and to commit to being neutral as employees seek to organize.

Thank you.

CHAIR MILLER: Thank you for your comments.

Mr. Jelincic, you have the floor.

J.J. JELINCIC: J.J. Jelincic, RPEA.

This report is a review of what you have done through your agents. It's also a report that helps the beneficiaries understand what you are doing with our money. I do identify certain weaknesses in the report that I would like to draw your attention to.

On page 4 of 16, it's -- you've got the commitments through the first quarter of '25. But if you read the footnote, it says based on December 31, '24, so that is -- there's an inconsistency there.

You've also netted the buys and sells in the secondaries. If -- that treats them as though they are equivalent. If there is a -- if they are -- if you're simply moving pockets, it doesn't make any difference. If you are changing the risk or the return, then they should be pointed out separately.

Slide five completely ignores the secondary.

On seven, you talk about the fact that the secondaries impact the NAV and the returns, but then you don't say anything about them.

Page eight says the secretaries[SIC] were useful -- were used, but says nothing about how much. Was it a billion, 20 billion, 50 billion, 100 billion? It would be useful to know.

And on page 10, you talk about how the secondaries helped drive both the construction of the portfolio and the returns. And yet, you really don't talk about them. One of the dirty little secrets in private equity, and everybody acknowledges, the values are not real. They're what the GP says they are. When you actually trade a secondary, you establish a market value, which is different than the fair market defined by the beneficiary.

But one of the quirks is that I can buy it at the market value and then immediately mark it up to the GP's fair value, and I've got a huge return. To put it in real estate, where people are somewhat familiar, if I have a house listed for a million dollars and sell it for 900, then the real price is 900. But under the rules of GP, I can say I just bought a million dollar house and I can book an 11 percent profit for the day, and that clearly impacts your returns. I think you really need to dig more into what's going on with the secondaries.

And Ms. Mullissa Willette raised the issue of conflicts of interest. And I would encourage you to read an LPA. Many -- in many cases, you've agreed to waive conflicts of interest. And in many cases, the LPA agreement actually indemnifies the general manager for even illegal behavior.

I thank you for your time.

CHAIR MILLER: Thank you for your comments.

Our next two commenters were Ruiz, let's see, and Swabey. Okay. Come on down.

Okay. Welcome again and begin whenever you please.

MARK SWABEY: Good morning. My name is Mark Swabey and my greetings to the Investment Committee members, the CalPERS executive and staff, and members present and guests. Thank you for allowing me to comment on private equity program review, agenda item 6c.

What I want to see are a few more reports at the

September meeting on the PEP, because that asset class reports 90 days behind other asset classes. And these are the kind of reports I want to see. I want to see a report showing the differences between private equity standard contract costs and revenues grouped by vintage year for the last 10 vintage years, 2015 to 2025 fiscal year-end, less any sales of contracts, but I would like to have any contracts that were sold listed in such a report, along with the revenue from the sales.

I want to see a report showing costs and revenues for co-investment contracts, our share of them anyway, by vintage year, back to the first vintage year of initiation for these particular contacts, because it's -- what's going on here is that revenues from these contracts are what's important, not percent of value increase. As our prior commenter said, you can create value out of whole cloth.

I want to see a report that shows costs and revenues for the CIA accounts by vintage year back to when they were initiated, because I want to see scale. I want to see how much money is in there. We allocated $89 billion last year to a program that, according to a 2024 CalPERS AIV report, already had 76 billion in revenue. And I want to see -- and possibly other relevant -- I want to see these reports and possibly other relevant reports that also show the difference between costs and revenues, because we need to see that relevant information. The CalPERS Board needs to see it. They're going to vote on another allo -- allotment to the -- to the program.

One last thing I'd like to say that by 2025-2026 if you stay at 17 percent, that's 260 billion of the PERF, which would be approximately 50 percent of the PERF would be in private equity. Thank you.

CHAIR MILLER: Thank you for your comments.

Mr. Ruiz, you have the floor.

FRANK RUIZ: Thank you for allowing me, Frank Ruiz, a CalPERS retiree an opportunity to address the CalPERS Board, guests, and CalPERS staff regarding item 6c.

Welcome back to the upside down, inside out, circular, substandard deviation world of private equity nightmare, nightmare investing. As in Alice in Wonderland, Alice enters into the white rabbit's house. Alice eats a treat inside the house and grows to a gigantic size. Her size traps Alice, so she is caged inside the house unable to escape.

Likewise, CalPERS has invested so many billions in private equity, that it is imprisoned, imprisoned. The outside investments appear to be returning profits, but the inside investment continues to not meet its promised,

promised 13 to 17 percent return.

In April, 15th, 2025 meeting, we were informed that CalPERS was going to play to its strength of diversification, to weather through the current and near future economic volatility. But based on the June 30th, '23-'24 CalPERS alternative investment vehicle report and the May 8, 2025 facts at a glance -- yeah, '23-'24, we see a concentration of the private asset -- private equity asset class.

If the reported 145 billion plus private equity is added to the 79 plus billion invested in '24-'25 private equity, CalPERS will have 224.9 plus billion in the fund. This 224.9 billion will represent 44 plus percent of the entire, of the entire PERF. That sum, in one asset class, is not diversification. It is concentration, concentration, concentration.

Why does CalPERS continue to invest in a high risk, long-term, illiquid, underperforming asset class? Mark and I have suggested investing in private equity stock that pays annual dividends that exceed current private equity returns. There is no, no minimum, minimum five-year wait for returns, as there would be in the current investments. Why are we waiting to get no returns at all? Zero, zero, zero for five years. That makes no sense.

So the CalPERS private equity Cheshire cat cloaked in $145 billion notes appears and vanishes. The cat reappears with a 79 plus billion dollar tail, and then just as quickly vanishes, not even leaving a grin from the elated contractors. How sad.

Thank you for addressing the -- let me address the Board.

CHAIR MILLER: Thank you for your comments.

And I think, at that point, we will recess for lunch and we'll be back at 1:45. Okay. Thank you, all. See you again soon.

(Off record: 1:06 p.m.)

(Thereupon a lunch break was taken.)

AFTERNOON SESSION

(On record: 1:46 p.m.)

CHAIR MILLER: If you'll take your seat we'll get started again. We're back from our lunch recess and we'll jump back in. And I think we're on 6d. Yeah. Private debt annual program review.

(Slide presentation).

CHAIR MILLER: Yeah. It might be a second or two till everybody is settled back in. Now, I've been told I didn't give people long enough for lunch, so.

All right, the gang is all here.

CHIEF INVESTMENT OFFICER GILMORE: So thank you very much. I'll pass over to Anton and the team to discuss private debt.

CHAIR MILLER: Okay. Sounds good.

MANAGING INVESTMENT DIRECTOR ORLICH: You need to put on the job description the ability to eat fast to be a CalPERS Investment team member.

CHAIR MILLER: Yeah. I've been told that. Everyone is giving me a hard time. I only gave them 35 minutes, you know.

MANAGING INVESTMENT DIRECTOR ORLICH: It's okay. We got it done.

CHAIR MILLER: We'll remedy that in future meetings. It's a plus delta moment.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

The vision underlying the 2025 private debt annual program review --

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: -- is an echo of that for private equity. The CEO gave the Investment Office the challenge to build a private debt portfolio that would provide additional returns for the pensioners. Formally launched as an asset class in July 2022, private debt is another data point that active management, through the private markets, has been enhancing returns with increasing scale to pay pensions.

Based on its early success, the Board voted in March 2024 to strengthen the CalPERS portfolio by increasing the target for private debt from five to eight percent. To meet that goal, we -- with continued outperformance, the 12-personprivate debt team is on track to deliver over $18 billion in commitments this fiscal year. During almost a year as Interim Managing Investment Director for Private Debt, my focus has been on scaling the asset class in a cost effective manner and to find synergies between private debt and private equity.

Along those lines, we have found opportunities to add managers that diversify the strategy set of the portfolio and to increase co-investing.

Moving to slide three.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: This slide describes the role of private debt to add alpha from illiquidity, and the structural advantages of private debt, and to provide current yield while doing so. The private debt NAV has grown to over $19 billion with a super majority in direct lending.

Moving to slide four.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Fiscal year 2024-25 will be a record breaking year for private debt commitments, which are expected to finish at over $18 billion. As with private equity, staff has been achieving this with cost-effective customized investment accounts, which are now a super majority of net asset value and about two-thirds of the portfolio.

On a commitment basis over the last 12 months, customized investment accounts constitute 75 percent of commitments. Private debt commitments and NAV, represented by the dark blue and orange line on the left side of the exhibit have been consistently growing with acceleration in the current fiscal year.

Now, I'll pass it to my colleague Jonathan Chen who will speak to slide 5.

[SLIDE CHANGE]

INVESTMENT DIRECTOR CHEN: Jonathan Chen, Investment staff. So as the private debt portfolio continues to ramp and we increase our commitments, our portfolio is also going to continue to diversify into other strategies. So direct lending still remains the core of our portfolio represented by 75 percent of total commitments to date. However, that is down from 82 percent from the prior fiscal year, as we've really begun diversifying into real estate financing, specialty lending, and mortgages, given the increasing opportunities that have opened up in that area.

Additionally, the portfolio, while predominantly North American, also continues to maintain geographical exposure in Europe, where we see a slight premium in returns.

[SLIDE CHANGE]

INVESTMENT MANAGER SY: Racel Sy, Investment staff.

Moving on to slide six, the chart on the left shows that the private debt portfolio has been distributing income and principal repayments. And since inception, private debt has received approximately four billion in principal and income distributions. One of the positive characteristics of private debt is the consistent distribution of income every year. And the chart on the right is an example of what a senior direct lending strategy yields in terms of current income per year, which ranges from 10 to 15 percent.

INVESTMENT DIRECTOR SCRIPPS: Justin Scripps, Investment staff. Can we go to the next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR SCRIPPS: So uncertainty in financial markets from the potential impact of American trade policy on global economic growth and inflation has created a situation where markets have priced an expectation for interest rates to remain higher for longer. The higher interest rates are a tailwind for income in private debt, but it also puts additional stress on borrowers to service those debt obligations. So expectations for loan defaults are increasing.

Public markets have recovered impressively since the stress seen in April. And because of that recovery, both public and private markets are competing aggressively for new loan origination supply in corporate lending.

Additionally, a subdued environment for mergers and acquisitions is constraining new supply. So you'll have increased competition for less supply, driving spreads tighter and marginally decreasing the attractiveness of corporate lending.

As a result, the private debt team will focus its efforts in the coming fiscal year on building out geographical and strategy diversification in areas with attractive relative value, including specialty finance, real estate debt, and asset based finance.

We will continue sourcing high quality managers and seeking attractive economics in co-invest opportunities, in strategies that emphasize current income.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Private debt is meaningfully outperforming its benchmark since the first private debt investments in 2020, and over the last year. In the exhibit here, you see the outperformance with and without the illiquidity premium. Since inception, the portfolio has added 219 basis points of excess return, even after including an illiquidity premium, and 343 basis points on the one-year period.

In an asset class measured by basis points, it's delivering percentage point outperformance. Also, our portfolio has mitigants against rising writes, because a super majority of the portfolio is a floating rate.

Moving to slide nine.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Private debt is growing the team and it has gone from 8 to 12 members, and is in the process of hiring a permanent MID.

Another initiative of enhancing the underwriting process is important, as we work to expand the strategy segment diversification of the portfolio beyond direct lending. Specifically corporate direct lending, a super majority of the portfolio, is now getting supplemented by things like special situations and specialty finance.

Next slide.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: As with private equity, improvements in ESG are critical in making sure that we have a sustained, sustainable, resilient portfolio. And the private debt team has been working with sustainable investments to achieve that.

A couple of highlights I would point out are the addition of the first climate specific mandate, making the portfolio have -- contribute to the hundred billion dollar goal on climate thematic. Also, private debt is incorporating ESG topics into its due diligence questionnaire.

With that, I'll open it up to questions.

CHAIR MILLER: Okay. First, we have President Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Anton. I appreciate the presentation and I had a couple of questions. The report was really good. And I don't remember your name, I'm sorry, but you went over the market environment. And so, for a little while it was looking a little sketchy for us to continue -- or for servicing the debts, right? And you're saying that we're back on track. Am I understanding that correctly because of where we're at right now in the markets?

INVESTMENT DIRECTOR SCRIPPS: The comment I was addressing was with regard to interest rates remaining higher will continue to exert pressure on borrowers that are having to service that debt.

So you have two forces working in opposite directions. One, it -- you know, higher income for us in our private debt exposure, but at the same time, an increased probability of stress in the portfolio increase defaults. So, clearly actively monitoring exposures, but have a very high quality exposure in the corporate direct lending market and very low default rate currently.

COMMITTEE MEMBER TAYLOR: Okay. And so the risks are relatively managed at this point. Okay.

And then I wanted to go into the integration of our ESG. And I appreciate the fact that we're doing our first ever dedicated climate related fund. So, yay. And that is deployed in private debt. Can we -- can I not --

can we not discuss that here? Do we have to wait till closed session, anybody?

MANAGING INVESTMENT DIRECTOR ORLICH: As long as we're not getting into strategy, happy to discuss it.

COMMITTEE MEMBER TAYLOR: I just wanted to know what is -- how does that work in a -- in a private debt fund?

MANAGING INVESTMENT DIRECTOR ORLICH: So we'll address that. I just want to make the point that we're incorporating ESG principals, including on climate, in the entire portfolio. And that was why I had that two-part comment, that we have this climate-specific mandate, but then we're also including climate considerations in our general blind pool investments.

COMMITTEE MEMBER TAYLOR: I have a question on that too, so don't worry about that.

MANAGING INVESTMENT DIRECTOR ORLICH: So we'll get to that. And then I'll pass it on to Jon to discuss the climate-specific mandate.

COMMITTEE MEMBER TAYLOR: Thank you.

INVESTMENT DIRECTOR CHEN: Thank you. So with regards to the climate mandate, there is usually a -- like a multi-year period over which that commitment is deployed. So if we think about this as a three-year investment period, the expectation would be roughly one-third of a commitment would get deployed in each specific year.

COMMITTEE MEMBER TAYLOR: Oh, okay, in whatever this debt is that is -- financing I assume some sort of climate project?

INVESTMENT DIRECTOR CHEN: That's correct.

COMMITTEE MEMBER TAYLOR: Okay. Okay. That's what I was a little confused about. Thank you very much.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And maybe if I could just add. So like tax equity or financing renewable projects, so those are the sorts of things that particular fund is financing. And just to add, so the 10 percent returns since inception and the 13 percent returns on the one year basis. So that is really strong on a risk-adjusted basis, because the bulk of the portfolio is in direct lending. So this is the zero to 50 percent LTV lending to private equity companies. And private equity is taking the 50 to 100. So we're getting equity-like returns, but on the debt high risk. So it's been a really strong environment.

COMMITTEE MEMBER TAYLOR: Excellent. I appreciate that. I heard that that's what would happen when we did this finally. And then lastly, Anton, if you wanted to go ahead and go over the how you implement the rest of the ESG strategies and how you're working with the

Sustainable Investment team to do that, I'd like to hear that.

MANAGING INVESTMENT DIRECTOR ORLICH: So I'll let -- so if Peter wants to chime in on this. But we essentially are organizing a portfolio with investment professionals in SI who can speak both to the public and private side, and obtaining essentially through what was before consulting relationships, now in-house capacities to understand these topics at the diligent -- at the fund investment decision and then apply it in that decision framework in the asset class. So it is very much a collaborative engagement between the asset classes grouped into public and private, and SI.

MANAGING INVESTMENT DIRECTOR CASHION: Yes. Anton described it very well. So, in -- early in the new year, we hired an ESG specialist for public markets and for private, so the private market ESG specialist has been working with the private asset classes over these last five, six months to come up with the implementation process for ESG and formalizing it. It was already, of course, being done for the past years, but now we're bringing some more, I guess, depth and formality to it. So basically what that involves is being -- assisting each of the investment teams across all investments, so those can be co-investments or fund investments, and that covers both fund -- or climate and non-climate funds, and assessing the ESG capability of the manager, or in the case a co-invest, the underlying company alongside the manager.

So making sure that they -- first assessing what are the material risks and which companies or funds are more exposed to these risks. For example, software would be typically very low. Whereas, a greenfield infrastructure may be very high and prioritizing the level of work based on these risk factors, engaging with the asset managers to ensure that they have the proper policies and procedures in place. And then once an investment is committed and it's invested, monitoring the portfolio performance from an ESG perspective, obtaining the ESG reports and engaging with the asset managers as needed.

So, yeah, I think it's so far been a really positive process, working with private debt in particular. So, yeah -- and we can -- we'll be sharing more at the -- at the off-site.

COMMITTEE MEMBER TAYLOR: Okay. And also, I think there's a question I want to ask that might be in closed, so I'll wait on that. So thank you very much.

CHAIR MILLER: Okay. Thank you.

Next, we have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you, Chairman. Thank you, Chair Miller. Thank you for your comments on private -- on private debt. Just a question back to the high interest rates and taking into consideration, I think, mostly on the direct lending part. How did we handle -- how did we handle the projected defaults, because, you know, we're at such a high -- there's a -- there's this stress of that. I'm just curious if we had enough -- if we had reserves or how does that work? And I -- because I know in the banking industry, usually they put -- they have reserves set aside, but I'm just curious how we -- what's our mechanism on our side?

MANAGING INVESTMENT DIRECTOR ORLICH: Yeah. I'll give a first answer and then I'll invite the Investment Directors to provide additional color.

One of the considerations is what we can do in the private markets to add value to the public markets. And there are protections that we have in private debt that we don't have on the public side. Covenants allow us to have an earlier intervention, if there are circumstances that are arising from recessionary environment or, you know, problems with the portfolio companies.

Another consideration is that active management.

The team is spending a preponderance of its time, just like in private equity, on manager selection. And so there are very high underwriting standards. We are underwriting the manager, partly on the basis of its ability to underwrite the portfolio companies to deal with the debt burns, even in stress environments.

INVESTMENT DIRECTOR CHEN: And so Anton covered a lot of it. And then the other thing I will add is that this is where manager selection is very important, because in periods of high -- potentially higher default, you will see greater dispersion in terms of performance among managers. And so this is where the underwriting of any specific manager and their strategy is extraordinarily vital.

COMMITTEE MEMBER PACHECO: So -- and you would consider that more important than the debt covenants that you were -- you were talking about, or is that -- or are they in combination?

INVESTMENT DIRECTOR CHEN: It is in combination, because you want to make sure you select the right manager and the right strategy for the right company, and then the covenants are additive to that.

COMMITTEE MEMBER PACHECO: I see, so --

MANAGING INVESTMENT DIRECTOR ORLICH: But they are -- they are intertwined. So the idea of which covenant to focus on --

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR ORLICH: -- how headroom to have on that covenant, the ability to negotiate that term is a derivative of the manager selection decision.

COMMITTEE MEMBER PACHECO: I see now. So it is -- it is in combination. They're in tandem basically.

MANAGING INVESTMENT DIRECTOR ORLICH: (Nods head).

COMMITTEE MEMBER PACHECO: That's excellent then. I did not know that. And that's a -- that's a really interesting approach in terms of how we're looking at -- and this is focused on the direct lending part of it mostly, am I correct, sir?

MANAGING INVESTMENT DIRECTOR ORLICH: That's right.

COMMITTEE MEMBER PACHECO: Okay. All right. Thank you. Thank you very much. Those are my comments. Thank you. Appreciate it.

CHAIR MILLER: Okay. I'm not seeing anymore requests to speak from the Board and thank you very much. It's very helpful, and again, very encouraging, because this was a path that, you know, we kind of took a leap of faith to go down and just fabulous work by the team and everybody involved.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: Thank you. And thank you from me to Anton for the --

CHAIR MILLER: Okay.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: -- leadership and to the team for stepping up in Jean's -- post Jean's departure.

CHAIR MILLER: Yeah. And I believe we have a public commenter on this item that we'll bring down at this time, Mr. J.J. Jelincic.

J.J. JELINCIC: J.J. Jelincic, beneficiary.

Recognizing that what I have to say really makes no difference, I'm going to keep it short. I do want to point out that on page 6 of 10, there's a chart of the direct lending. I will point out that that is one specific plan and staff did not even claim that it was tech -- it was typical. Don't know.

It's interesting that it is an Ares levered senior debt found. You might question how much of the Ares debt fund lended to Ares GPs -- or public equity funds and/or companies invested by those funds.

And one of the questions that you have to answer for yourselves is, you know, what's the risk in lending money to companies who can't borrow from a bank or can't borrow in the public equity? How do you risk adjust those returns?

Thank you.

CHAIR MILLER: Thank you.

Okay. Next, we have real assets annual program review. And I think after we've finished these items, I'll see if Meketa wants to come down and speak on any or all of them.

CHIEF INVESTMENT OFFICER GILMORE: Thanks. We'll pass over to Sarah.

MANAGING INVESTMENT DIRECTOR CORR: Sarah Corr, CalPERS Investment Office. I'm here joined with Jane, Ed, one Juan from the Real Assets team. The reason that we can be comfortably sitting here before you is because the confidence we have and the team we've left behind to do the real work today.

Upon reflection -- (coughing). Excuse me. -- of fiscal year '24-'25, it was a year of challenge by economic uncertainty and high interest rates. These factors have contributed to the eroding fundamentals in certain segments and increased cost of capital, which put downward pressure on values. That being said, we are starting to see signs of recovery, and given CalPERS liquidity, believe we are well positioned to take advantage of the current market conditions where investors are on the sidelines.

We are very mindful of the underlying risks and are fully engaged with our managers in retaining strong fundamentals to preserve portfolio and asset value. The annual review before you highlights our program overview, portfolio positioning, accomplishments, and ongoing initiatives.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The role of real assets specifically providing predictable cash yield drives us to focus on core assets that offer resiliency through cycles. We are currently in a part of the cycle where our core focus and conservative capital structures has offered some protection in an environment filled with downside risks. The real estate portfolio emphasizes well located assets with defensive characteristics and -- that provide consistent cash yield.

The portfolio is fairly concentrated with only 20 partners, 10 of which are considered strategic. Consistent with the strategic plan, the team continues to focus on deploying capital at scale, while maintaining high underwriting standards. The Board-approved Investment Beliefs influence our approach to investing.

The core -- in the core portfolio, we commit capital to partners in effective -- cost-effective accounts with long-term hold mandates. In the non-port -- non-core portfolio, we only take additional risk where we think we'll be rewarded.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Staff is historically focused almost entirely on core investments, which has been the benefit during the past few years, which have Seen dramatic write-downs across the real estate market. The core portfolio that is largely stabilized, staff is now looking to move up the risk curve and have started selectively making commitments to non-core managers and co-investment accounts to enhance returns.

Given current market conditions, we are looking for opportunities where CalPERS can solutions to investors with liquidity or balance sheet concerns. While we have been -- haven't been -- seen widespread distress in the real estate market, we are positioning ourselves to be take -- take advantage of this.

As financing costs remain elevated, staff continues to remain disciplined, and use leverage, and is exploring the most cost effective approach to financing the portfolio. I will now turn it over to Ed to cover market conditions and performance.

INVESTMENT DIRECTOR YRURE: Thank you, Sarah.

(Clearing throat). Excuse me. Good afternoon, Board members. Ed Yrure, Investment staff.

[SLIDE CHANGE]

INVESTMENT DIRECTOR YRURE: I will take a few minutes to walk through the market environment, deployment themes, and real estate portfolio performance against our policy benchmark as we navigate a complex real estate environment. Moving to slide five, and in terms of current market environment, transaction volumes remain low, down approximately 50 percent from its peak in 2021, reflecting continued caution among market participants. Financing conditions remain tight, with refinancing risk elevated and borrowing costs higher than historical norms.

The Feds increase in interest rates has elevated the cost of capital, which negatively impacts real estate valuations. However, signs are emerging that real estate markets may have reached an inflection point. Further, liquidity remains scarce in some real estate sectors, adding to the complexity of deployment. Geopolitical factors, as well as uncertainty surrounding tariff policy, are also contributing to market volatility. But with disruption comes opportunity.

We're seeing valuations stabilize and real estate assets reprice. And this repricing is generating more attractive yields. This is driving renewed investor interest. Investors are adjusting to higher rate interest environment and many are encouraged by stabilizing property fundamentals and renewed growth in net operating income, which helps to offset higher capital costs.

Distressed and misaligned capital structures are also surfacing, creating targeted opportunities for well capitalized investors like CalPERS who can act decisively and with long-term conviction.

If we can move to the next slide.

[SLIDE CHANGE]

INVESTMENT DIRECTOR YRURE: In terms of performance, real estate has been challenged by major dislocation events, such as the GFC, the pandemic, and the tightening of interest policy over near and longer term periods. Portfolio results have generally underperformed expectations. That said, if we take a closer look at performance on the next slide --

[SLIDE CHANGE]

INVESTMENT DIRECTOR YRURE: -- on slide seven, the core portfolio, which makes up nearly 90 percent of the real estate portfolio has performed well on a relative basis, matching or exceeding the policy benchmark over the one-, three-, five-, and ten-year periods. As our focus is on long-term results, the core portfolio outperformed it's benchmark by 170 basis points over that 10-year term, and continues to demonstrate resilience during market disruptions with occupancy rates maintaining 90 plus percent and income yielding four percent on average.

On the other hand, the non-core real estate portfolio continues to be a drag on performance. The non-core exposure is predominantly non-strategic, long-dated, legacy assets that are targeted for disposition.

At this point, I'll turn it over to Jane to cover the next few slides. Thank you.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DELFENDAHL: Thank you, Ed. I'm Jane Delfendahl, Investment Director in Real Assets. I will be discussing slides eight and nine.

On slide eight, we're looking at portfolio exposures within real estate in terms of geography and property type. Of the total portfolio gross asset value after 77 billion, 93 percent of the portfolio is located within the U.S., 47 percent of the total is located within the western U.S., and 32 percent of the portfolio is located in California.

The pie chart on the right shows that we are well diversified among property sectors. The chart at the bottom of the slide depicts how closely the real estate portfolio has been aligned with the policy benchmark.

Historically, the CalPERS real estate portfolio has been generally matching the benchmark weight in multi-family and industrial, overweight in retail, and underweight the policy benchmark in office.

Since the COVID era, however, the significant underperformance of the office sector resulted in a sharp decline in its benchmark weighting, from approximately 35 percent to 19 percent, which effectively neutralized our initial underweight. At the same time, industrial's policy benchmark weight rose from 19 percent to 35 percent, driven by strong COVID era performance. Also, notable is CalPERS portfolio underweight to the policy benchmarks other category, which includes hotel, land, entertainment, parking and senior housing. Historically, our portfolio focus has been on the four main property types, but non-traditional sectors are now becoming more of an investment focus.

Moving to slide nine.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DELFENDAHL: I'll highlight business updates and key initiatives over the past year. First, as Ed highlighted on slide seven, the core real estate portfolio outperformed the policy benchmark over the one-, five-, and ten-year periods, while matching the performance of the benchmark over the three-year period.

This is important to highlight as it reflects the resilience of the core portfolio during periods marked by rapid changes in interest rates, resulting sharp capital market adjustments, and deteriorating fundamentals. Performance continues to be challenged largely by macroeconomic headwinds and a continued higher rate environment.

Still the outlook is encouraging. Property fundamentals are finding equilibrium and we're beginning to see signs of valuations rebounding across sectors. We're also continuing to deepen our manager pool with strategic partners as we formed new relationships with global fund managers. We are focused on positioning the portfolio to capitalize on current dislocations, while continually improving the quality and resilience of the current portfolio in a disciplined and risk-aware manner, which will help drive future performance.

And now, I will turn it over to Sarah.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Looking forward, we'll continue to focus on best-in-class managers, as we seek to prudently add on more non-core manager's to the real estate portfolio. We will do this in a cost efficient way and focus on co-investments. Staff continues to look to sell down non-strategic assets.

And a key initiative for the Real Assets team for the upcoming year would be focused on the replacement of AREIS as part of the data and tech strategy initiative.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: We will continue to work with our separate accounts on energy optimization initiative within real estate. There's a strong collaboration with SI to create a governance framework and due diligence on ESG integration plan for monitoring the portfolio.

We continue to evaluate emerging tools to better assess physical and transition risks associated with climate change across the portfolio. We just last week walked through the MSCI climate value-at-risk review on the real estate portfolio and we're pleased with the results. With that, I'll pause before we go to infrastructure to see if there are any questions on real estate.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And maybe, Chair, if I -- Daniel Booth, just -- Deputy CIO. If I can just add a comment, if that's okay?

CHAIR MILLER: Yes. You have the floor.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: So I think the team are quite modest. So I'd just like to emphasize that I think the quality of the performance, which you don't really see in this -- these numbers, but when you make the adjustments, it actually looks a lot better. So the marginal outperformance in one year has been achieved with a more conservative valuation methodology, so which are marked at higher cap rates and lower values versus the index despite our buildings having higher occupancy, longer leases, and better quality building. So that hides some of the quality in the portfolio.

We also don't mark to market out debt. So as the interest rates go up, our assets get marked down, but the debt doesn't get marked up, like it does in the index. So that means that we got more future cash flow, but again, you don't see those in the performance numbers. So the marginal outperformance has been achieved, despite having a more conservative valuation methodology on the buildings, and not marking to market the debt.

So I think when you make those adjustments you see the quality of the performance is better. And it puts the existing portfolio in a good position on a go-forward basis. And as the team said, we can also play offensive in the market weakness, because we don't have a lot of legacy issues to work out like a lot of other people do. So we've got a well-positioned existing portfolio, where you'll see the appreciation in the cash flow over the coming years, and the ability to add non-core investments on top of that to take advantage of the market opportunity.

Thank you.

CHAIR MILLER: All right. I'm not seeing any further questions at this point, so -- yeah, so we'll move on to infrastructure. And again, it just strikes me that our continued attention to fundamentals to being in this for the long haul for the right reasons and strong teamwork and leadership puts us in a good position is very encouraging. So on to infrastructure.

(Slide presentation).

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The infrastructure portfolio fulfills the role of providing inflation protection within real assets. The infrastructure portfolio is comprised of essential assets with predictable revenue models, which provide downside protection. Consistent with the strategic plan, the team continues to focus on deploying capital at scale, while maintaining high underwriting standards. This has resulted in the growth of the portfolio from approximately $6 billion in 2020 to approximately $20 billion today.

The Board-approved Investment Belief influence our approach to investing. We commit capital to partners in a cost effective way by making large co-investments alongside our strategic partners.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Now, that there's an established core portfolio, staff has begun to add some non-core strategies in, remain cognizant of cost and, deploy capital through co-investment structures where -- when we can. Our partnership with SI remains strong and we continue to collaborate with the SI team on energy transition and renewable assets.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Financing costs remain elevated and valuations in some high-demand sectors are high. The impact on tariffs and other geopolitical events are creating many uncertainties within the market. Fund raising has become more difficult. With limited partners liquidity -- limited limited partner liquidity, it can now take up to 36 months to raise a fund, which would have taken 12 months two years ago. This lack of liquidity and market uncertainty could create opportunities for well capitalized LPs such CalPERS. There are tailwinds in certain sectors, such as digital infrastructure and energy transition that should generate solid invest returns going forward.

Juan will cover performance and initiatives.

[SLIDE CHANGE]

INVESTMENT DIRECTOR GAVIRIA: Thank you, Sarah. Good afternoon. Juan Gaviria, Investment Director.

The infrastructure portfolio is approximately two-thirds core and one-third non-core. Consistent with the Real Assets strategic plan, staff expects to further decrease the core exposure of the portfolio aiming to capitalize on more attractively priced non-core investments.

The portfolio has performed well relative to its benchmark across all time periods. However, the impact of COVID on the portfolio can still be seen in the five-year performance figure, where certain transport assets were affected disproportionately. The portfolio is relatively young with a notable acceleration in growth during the last five years, as Sarah said, from six billion in 2019 to approximately 20 billion in 2025. As a result, the full impact on performance is not fully observable.

Moving on to page seven.

[SLIDE CHANGE]

INVESTMENT DIRECTOR GAVIRIA: The portfolio remains concentrated between the United States and international developed markets. Since the actionable opportunity set is historically larger outside of the United States, it is possible that the international developed exposure grows over time. Further, certain sectors are more easily accessible outside of the United States. With respect to sector exposures, the portfolio is well diversified with a slight tilt towards transportation and digital assets, such as data centers, and cell phone towers. Staff has intentionally targeted exposure to areas that are benefiting from structural tailwinds, such as data infrastructure, renewable power generation, and electric utilities.

Moving on to page eight.

[SLIDE CHANGE]

INVESTMENT DIRECTOR GAVIRIA: The portfolio continued to achieve scale and diversification throughout the year. Scaling partnerships with a strategically chosen group of investment managers has been instrumental in allowing CalPERS to access the global marketplace, build a large and growing portfolio, and achieve the goals of the infrastructure program.

As an example, the co-investment program, while relatively new, delivered a significant amount of attractive fee-free opportunities, similar in size to the fee paying commitments we made to commingled funds. Finally, there has been close collaboration with the Sustainable Investments team, jointly evaluating new and attractive investments that meet the climate solutions definition.

I'll now turn it over to Sarah to cover the remaining part of this presentation.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The team remains busy, but motivated. There are plenty of co-investment opportunities to review and managers to diligence. The team is undertaking a review of the middle market and will likely add some exposure to that segment in the coming years. I would be remiss if I didn't also mention that the Infrastructure team will be working on the data and technology implementation as well.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: And finally, similar to my comments on real estate, they're a strong collaboration with SI to create governance framework and due diligence in an ESG integration plan for monitoring the portfolio.

And with that, I'd be happy to take any questions on infrastructure.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And if I could just add a comment, Chair, please.

So the infrastructure portfolio has outperformed the real estate benchmark by a considerable amount. So it's been accretive to the portfolio to have infrastructure in the portfolio, but we also track the infrastructure portfolio versus the infrastructure universe internally. And there, we see marginal outperformance, but that's on a 90 percent historic core occasion, so we're taking less risk into the index -- (clears throat). Sorry -- and outperformed. And we also, as Juan mentioned, had the impact of more transport exposure, so more impact from COVID. So I think, again, looking at the quality of the performance, when you take into account the lower risk profile and the higher exposure to transport, the fact that we've outperformed the infrastructure index on a prior basis shows that we got good quality returns.

And as we add more non-core risk into that portfolio, I think that sets it up for future success, especially in a cost efficient implementation with cheap SMAs and co-investment strategies.

Thank you.

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

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you, Sarah, for your comments on both real estate and infrastructure.

So back on page 9 of 10, the key initiatives. You said aligned with total fund objectives to grow the SI exposure consistent with the SI 2030 plan. How does that relate to an a just -- a just in transition framework.

MANAGING INVESTMENT DIRECTOR CORR: So a lot of the work that we're doing that would be SI investments is around transition assets. We committed to roughly $1.5 billion of co-investments in the renewable space in the past year. So there's definitely a focus on transition within the portfolio.

COMMITTEE MEMBER PACHECO: And just in a broad based transition like in the -- in wind or I'm just curious what -- in what areas?

MANAGING INVESTMENT DIRECTOR CORR: So, for the renewables, it's solar and on and offshore wind.

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

CHAIR MILLER: Okay. Thank you. And again, thank you to all of you and to the team who's back there working hard as we speak, I'm sure. It's very appreciated and it's a very important part of our portfolio, and appreciate the report.

Thank you.

At this point, I'd like to see if Meketa would like to join us and offer any thoughts on our private equity, private debt, or real estate presentations and perform. Yeah, and I apologize for being remiss on not bringing you up for each of the individual items, but -- there will be another plus delta item for my next performance.

STEVE McCOURT: I think doing it all at once saves our knees from getting up and -

CHAIR MILLER: Sure.

STEVE McCOURT: -- Down four separate times.

CHAIR MILLER: Yep.

STEVE McCOURT: But I appreciate the opportunity. And we'll be brief. Steve McCourt with Meketa Investment Group joined by Steve Hartt, Christy Fields, and Mary Bates who lead our work on private equity, and real estate, and private credit respectively.

We won't go through the full program reviews that we provided in your material. We're, of course, happy to answer questions. We were here three months ago presenting our trust level reviews in each of the four asset classes. There have been no significant changes to the way the asset classes are operating in the last -- in the last three months.

The program reviews presented to you by your Investment staff we believe represented transparent and comprehensive self-evaluations of each of the programs. We would echo many, if not all, the comments that staff made in presenting those to you. And it's echoing some of

Chair Miller's comments from our perspective. Each of these asset classes within their own teams are executing at a -- at a high level and managing portfolios that are consistent with the policies and expectations that the Committee has set up for them.

So with that, I'll conclude and we're happy to answer any questions that the Committee might have about any of our reports on the four asset classes.

CHAIR MILLER: I am not seeing -- oh, there we go. Director Palkki.

COMMITTEE MEMBER PALKKI: So the -- without sort of going -- repeating, because I think Anton answered it very well. But as far as the opportunities, when you guys were talking about challenges in the reports and stuff, are you seeing that because of the geopolitics that out there or is it mainly just because of import/exports, or, what are you guys seeing?

STEVE McCOURT: Are you focused on private equity in particular or across the --

COMMITTEE MEMBER PALKKI: Or across the -- like private equity, real estate, infrastructure.

STEVE McCOURT: Yeah. Maybe I'll start with just a kind of a global comment and then pass it off to my team for any comments that they might have.

The private market asset classes, to the state obvious, operate in the same economy that your public securities and companies, you know, publicly operate in as well. And so all the factors that will impact stock markets and bond markets, at some level impact all of your private market assets as well.

And we've been through a bit of a roller coaster ride so far this year in the economy. Probably the most significant meaningful summary I can provide briefly on all of it is the difference between what experts call hard data and soft data in the economy. It's as wide as it's ever been. Hard data is actual revenues, earnings, sales that's measured in the economy. And the hard data in most areas looks fairly strong. Soft data, that economists collect, relates more towards sentiment, how are people feeling about the economy? Soft data is about as weak as we've seen in decades.

So, the markets are getting mixed signals from different data points depending whether it's hard data or soft data. And depending on the week that you're looking at the markets and judging things, you could come to very different conclusions.

But as has been stated a few times here today so far, knock on wood, the economies have -- the economy has been fairly resilient to the actual policy changes this year and the potential ones down the road. And we'll see what the rest of the year has in store for us.

But I'll open up the mic for anyone to talk specifically about dynamics within private equity, or real estate, or private credit.

STEVE HARTT: Steve Hartt, Meketa. I guess on the private equity side, taking the glass half full approach, and noting that private equity is an ultimate opportunistic and active investor. So to the extent that changes in the economy, or politics, or things create opportunities, then there is a pool of capital that CalPERS has provided to a whole range of investors, where they can potentially take advantage of these opportunities, and -- so there could be some real attractive opportunities that could come over the next couple years, depending on how things develop over time.

CHRISTY FIELDS: The only thing I'd add specific to real estate, as they say real estate houses the economy. And so everyone is kind a keeping an eye, to Steve's earlier point, about, you know, kind of economic outlook for the rest of the year and for the coming years. But that said, the quality of your portfolio leaves you in a really resilient and probably less vulnerable to volatility in that space, but certainly real estate is sensitive to macroeconomic conditions, so keeping an eye on that.

MARY BATES: Mary Bates from Meketa. What I would just add, as it relates to -- as it relates to private debt, the majority of your program, as has been noted, is in direct lending and the majority of that is used to finance sponsor-backed transactions to -- so does -- to finance private equity like transactions.

The majority of that, effectively all of that, is floating, right? So really what you should be looking at and why you're monitoring -- what your staff is monitoring is the level of rates as well as spreads. So we have seen modest spread compression. But more notably you're looking to diversify your program into asset-based lending and other strategies that are away from corporate based collateral, so that integration of greater collateral diversification will likely, you know, be even beneficial on a go-forward basis.

CHAIR MILLER: Okay. I see no other questions from the Board. I appreciate you being here to answer our questions, and I especially appreciate all the work before the meetings to brief us and get our questions answered and everything. So thanks and appreciate it.

Okay. That brings us to summary of committee direction. After which, we'll have public comments.

CHIEF OPERATING INVESTMENT OFFICER COHEN:

Thanks, Mr. Chair. I think on RCP scope your summary of the Committees will -- made it into the motion and so you'll be involved going forward. We talked about the July off-site bringing in the emerging managers, so we'll be able to answer many of the questions there. The one piece that I did record is providing the Board some additional information on performance of our emerging manager program, and we'll pull that together for you.

CHAIR MILLER: Great. Thank you. Anybody -- anything that we didn't catch?

CHAIR MILLER: Nothing. Sounds good.

Okay. At this point, we have a number of public commenters. And I'll ask you to come down. I'll call two at a time, but you'll come down to the front. You'll have three minutes. We'll start with Ruth Radetsky and Nathan Sands, followed by Mark Drolette and Jennifer Hogan.

And if you'd just come down, take a seat, the microphones will be on for your. Your three minutes will start when you begin speaking, and identify yourself for us, and you'll have the floor.

And thanks for your patience. I know it's been a long, long day for you.

RUTH RADETSKY: Longer for you than us. Good afternoon. My name is Ruth Radetsky, speaking on behalf of Kellidee Little, a CalPERS member from Carmichael, who can't be with us today.

"I urge you to diverse from Tesla. Tesla is governed by a board of directors who has thus far refused to perform their fiduciary duties by removing the CEO whose actions have wrecked the relationship between the folks most likely to purchase their vehicle and the company. As a result of the CEO's actions, the stock price plummeted 50 percent between January and the end of March. Prospects for recovery continue to dim with the failure of the cyber truck and its other model lines sales have plunged. The outlook is for further declines.

"With more and more companies entering the EV market, with more advanced features and lower prices, there does not seem to be a way for Tesla to recover its market share. This makes retention of Tesla in the CalPERS portfolio unwise.

"CalPERS goals are to invest in a relatively safe and stable investment to ensure long-term returns for your pensioners. Tesla stock is no longer either of those things. And with no visible path back to market dominance, it is prudent to divest from Tesla and redirect the money to safer and more stable investments.

"To not divest from Tesla seems to be a dangerous abandonment of your fiduciary duties. To continue to hold your position in Tesla is puzzling and counterintuitive to this member. Thank you."

Speaking for myself, I started looking at Tesla in my pension because I was outraged by Elon Musk's actions. As I looked into pension investment practices, I learned that you are bound by fiduciary duties, not moral duties. So I started looking for financial arguments to divest. The more I looked, the more scared I came for all the reasons Kellidee so eloquently gave. I understand you tend to follow indices, but surely your fiduciary duties do not require you to follow indices off a cliff into the abyss. Please direct CalPERS staff to conduct an immediate assessment of Tesla's valuation and risks.

Thank you.

CHAIR MILLER: Thank you for comments.

Next speaker.

NATHAN SANDS: Good afternoon. My name is Nathan Sands. I'm here with Tesla Takedown. We have been protesting Tesla for a couple months now. And I believe that Musk -- Elon Musk not only was a threat to our democracy, but is a continuing threat to our democracy, and that Tesla is the main source of his wealth, and that is why we are so concerned about investment in Tesla.

I'd like to start by reading a statement from Joseph DeAngelis, a CalPERS member from Upland.

"I have divested my personal brokerage accounts from Tesla stock. It's been difficult, given that they are in almost every major index fund, but I've made it work. Given how limited my options are and total invested are, I'm positive it would be comparatively easy for CalPERS to divest from Tesla. Remember, Tesla has chosen to maintain as their CEO someone who has explicitly defended Adolf Hitler and the Nazi party. There is a moral imperative to divest.

"If this is not done, I expect to remove my retirement earnings from CalPERS. It's a negative financial impact for me, but tough times require tough choices. I refuse to be invested in a company headed by a man who encourages the mistreatment of people, who fired government employees willy-nilly, and who has shown compassion in support for far right nationalist parties in the United States and abroad. Thank you."

Speaking for myself, I will go on though, that I have noticed that CalPERS has divested in the past from companies involved the Darfur genocide, terrorism funding, coal, tobacco, and firearms. And I assume some of these were profitable industries, but the moral choice was made to divest. And I -- we are asking the same.

But at the same time, when you look at Tesla, I believe Tesla is a house of cards. The stock is on a bubble and it's built on Elon Musk's overpromising and outright lies. I believe it will crash at some point and

I hope that you sell the stock while it's still high and do a good thing for the public employees.

A few points I'd like to bring up to support this. 2024 Tesla had its first drop in car sales ever. And the first three months of 2025 had the biggest drop in sales ever. They also have a lack of new models, which is also hurting sales. Their fully self-driving feature is not really working and it is -- it does not have LiDAR. Waymo and other companies have LiDAR, which has been proven to be safer. The robotaxis they are launching are also not really fully self-driving. They're behind schedule, and they put out false statements about how profitable that will be. I don't think it will be as profitable as they say.

They also are getting beat by China on battery technology. And they're promising hundreds of millions of robots in our homes pretty soon, which I sure hope is false, and I wouldn't want one.

And I think all of this shows that Elon Musk has had erratic behavior. And there are false promises coming from Tesla, so I'd like you to please divest.

Thank you.

CHAIR MILLER: Thanks for your comment.

Next, commenters, Mark Drolette and Jennifer Hogan.

Welcome. You have the floor.

MARK DROLETTE: Good afternoon. My name is Mark Drolette. I'm a CalPERS retiree. I'm here to urge CalPERS to fully divest from Tesla. It's stock is extremely overpriced and destined for a precipitous fall. Tesla's last earnings report was dreadful. The brand is toxic. Polls show that Elon Musk's popularity hovers rightly somewhere round Ebola's. And I would assert that there is zero indication that Tesla is a brand -- as a brand will somehow rise from the ashes once it inevitably does crash. Thus, it makes good economic sense for CalPERS to sell and to sell now.

On a personal note, with the exception of this past weekend, I, along with others, typically dozens, sometimes scores, on two or three occasions hundreds, have protested every weekend since March at the Sacramento Tesla showroom. Without fail while we're out there for two hours straight, we receive a multitude of supportive honks, fist pumps, cheers, and thumbs up -- thumbs ups from passing motorists and passengers.

Tellingly -- (clears throat). Excuse me -- and forebodingly for the brand, some of those come from Tesla drivers. It's clear that they too know the score.

So as I'm standing out there on the sidewalk with my sign in the rain, or the wind, or the heat, condemning

Musk and the incalculable damage he and his DOGE gang have done to our government, our government, and abroad, I find it particularly galling to know that his company's stock partially funds my retirement.

Again, please divest fully from Tesla now. Thank you.

CHAIR MILLER: Thank you.

You have the floor.

JENNIFER HOGAN: My name is Jennifer Hogan and I want to thank you for the opportunity to speak. This is teeny tiny print, so I'm going to try real hard to read this.

Tesla has been an extremely volatile stock, which has proven to be overvalued compared to the value of its product, especially considering its reduced market share and lack of innovation in recent years. While the Tesla brand was at the forefront of the electric vehicle market, and initially the citizens of California embraced it, it now represents all that is wrong with the current administration and its stance on climate change and the destructive actions towards the environment.

Tesla's owner has betrayed its customer base who contributed to the wealth of its owner and who has responded by using that wealth to the detriment of California and its citizens.

Elon Musk has also shown himself to be an unreliable and erratic actor, which has been placed -- which has placed both his company and the country at risk. He has recently exhibited extreme antisocial and destructive behavior, his drug use, his threats not to retrieve American astronauts from a space station as a form of public retribution, his misuse of political power to gain access to sensitive data on private citizens, and am -- all amply demonstrate his unfitness to run a company.

The actions of Tesla's owner over the last year has tanked the Tesla brand worldwide impacting the stock value, at the same time, other U.S. electric vehicles have been eating into Tesla's market share. Additionally, China has made a break-through -- has made break-through advances in charging capabilities, and driving range for their electric vehicles, which has further decreased their popularity internationally.

His brand is vastly -- is fast becoming the Edsel of electric cars and a toxic political stock. As such, it seems irresponsible for our pension to support Elon Musk's behavior and gamble on his success. For both practical economic and ethical reasons, we should no longer invest in Tesla. And I thank you.

CHAIR MILLER: Thank you.

Next, we have Edward Hasbrouck, Susan McCarthy, please come down.

Welcome, and you have the floor, sir.

EDWARD HASBROUCK: My name is Edward Hasbrouck. And I took time away from my pie work to come here from San Francisco and sit through your meeting for the last five years, in order to present this petition on behalf of 588 initial signers, including 140 CalPERS members.

To summarize, we are urging you to divest from Tesla stock immediately, because of your fiduciary responsibility. As of March 31st, CalPERS held more than a billion dollars in Tesla. Continuing to hold this stock is an avoidable risk to our retirement security. Your fiduciary duty is to members, beneficiaries, and the taxpayers who will bear the burden of any shortfall. Tesla's financial instability, erratic leadership, and political volatility make continued investment increasingly risky. Immediate and decisive action is needed to protect our pension assets.

As stewards of public retirement funds, you also carry a moral responsibility to uphold the values of public service and democracy, the mission of the public institutions CalPERS members serve. Divesting from Tesla is both a financial imperative and a principled stand for the future we're working so hard to build.

We join the growing number of CalPERS members and California taxpayers calling on you to immediately divest from Tesla and cease any future investment in Tesla. Our pensions and your integrity as fiduciaries are on the line. Please act now to protect our future.

I have copies here for each member of the Board of the petition, the list of initial signers from throughout the state, and hundreds of individual comments from people who aren't able to be here in person. I hope you will take them into consideration in your decision-making this afternoon.

Thank you.

CHAIR MILLER: Thank you.

If you would hand those to staff.

Over on my right. Stage right.

Okay. Ma'am, you have the floor.

SUSAN McCARTHY: Pardon me. I'm Susan McCarthy. I am also from San Francisco. I am here also on behalf of my husband and daughter whose pension funds you are handling. Thank you.

I ask that CalPERS divest from Tesla for both moral and fiscal reasons. When this investment was originally made by CalPERS, I probably would have supported it, an electric car company based in California. Yay. Thank you.

A lot has changed since then, not just moving to Texas. Mostly, CEO, Elon Musk through his work at DOGE has harmed Californians with massive arbitrary firings, with reckless grant cancellations. And we shouldn't support this entity that is harming, the citizens of California.

Fiscally, Tesla is quite risky. The CEO famously is erratic, whimsical, untrustworthy, and rash. And I do not believe that we can gamble, that we should fiscally gamble that the company will maintain its values.

Thank you.

CHAIR MILLER: Thank you for your comments.

Okay. We have two more commenters that I'm aware of, Tammy Dhanota and Kellie Guevara. If you would come down. And I believe we'll also have a public caller after this.

Welcome and you have the floor. Start whenever you like.

TAMMY DHANOTA: Thank you. Good afternoon. My name is Tammy Dhanota. I'm a member of Service Employees International Union Local 521. And I've worked at Santa Clara Valley Transportation Authority in San Jose California for 30 years and I am a CalPERS plan participant.

I want to thank you, the CalPERS Board and staff, for all the work you do as fiduciaries to ensure that myself and all participants in the plan will receive our benefits after we retire from public service. I'm here today to raise an issue that has come to my attention, and to the attention of many of my colleagues in workplaces where CalPERS plan participants carry out the public service.

I've had the opportunity to see information from several news sources, indicating that Antonio Gracias, the CEO and Chief Investment Officer of Valor Equity Partners has played a high profile, publicly outspoken role in the Department of Government Efficiency, DOGE, under the leadership of Elon Musk, in specific ways that, according to reports, may weaken the Social Security Administration, weaken protections of the private personal data of millions of people, contribute to false public narratives about the role immigrants play in the Social Security system, our election system, and in our economy.

Additional research indicates that CalPERS has invested significant funds with Valor Investment vehicles that are under Gracias responsibility. I'm assuming that CalPERS staff and Board members -- or as CalPERS staff and Board members, you're unaware of this information at this time. So my colleagues and I wanted to share this with you, so that you can engage in a process of due diligence to assess the risk that Gracias's work at DOGE presents to the retirement security of CalPERS plan participants like myself.

If these reports are accurate, we are concerned that Gracias is not committing his full time and attention to running Valor. If he is neglecting his duties at Valor while moonlighting at DOGE, Gracias's behavior would be -- would appear to be in serious misalignment with the fiduciary duty to act in the long-term investment interest of plan participants.

Thank you for your ongoing work as fiduciaries to help ensure that we all can enjoy a dignified retirement one day. I'm going to turn the microphone over to my colleague Kellie who will share additional information.

CHAIR MILLER: Thank you for your comments.

You have the floor Kellie.

KELLIE GUEVERA: Good afternoon. My name is Kellie Guevara. I'm a member of Service Employee International Local 521. I've worked at the Santa Clara County Office of Education for over 14 years and I am a decades long CalPERS plan participant. I want to thank the CalPERS Board and staff for all the work you do on behalf of our retirement security.

Here are some potential concerns my colleagues and I have after reading the news reports about Antonio

Gracias's participation in the DOGE work in learning that CalPERS may have investments under Mr. Gracias's responsibility. Many CalPERS plan participants are counting on Social Security as a key factor in their retirement security in addition to their CalPERS benefit. Many of our family members and members of our community also, of course, depend on Social Security. If Mr. Gracias is a leader on a project that some experts have indicated may seriously harm the Social Security system, this obviously is a concern.

CalPERS plan members count on security of their data as a key component of their retirement security. It's troubling to know that if reports are correct, the leading figure of a CalPERS investment partner may be deeply engaged in a project that might undermine standards for the security of people's data.

Thirdly, immigrants are central to the national and California economy. The health of which is central to the health of CalPERS over the long term. Hence, if reports of Mr. Gracias public comments calling into question the value of immigrants in our society are accurate, this is troubling and may be counter to the interests of plan participants.

Finally, and more broadly, if the reports in the news media are confirmed as accurate regarding Mr.

Gracias's role at DOGE, it may lead us to question Mr. Gracias's judgment in general. This leads us to ask another question. Is this person -- is this a person we can trust to invest our deferred wages in a manner consistent with the fiduciary duty and the interests of plan participants?

Thank you for listening to the concerns of myself and my colleagues. We appreciate all the work you do to protect our retirement security. We have some hard copies of articles here referencing issues we've laid out and we'd like to share.

CHAIR MILLER: Okay. Thank you. If you would provide them to staff.

KELLIE GUEVARA: Thank you.

CHAIR MILLER: Thank you for your comments. I don't believe we have any other commenters in the room, but I believe we do have a caller on the phone, so let's bring them on.

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We have Mary Jo Walker on the line for Item 6d, public comment.

Go ahead.

MARY JO WALKER: Hello. My name is Mary Jo Walker. I am a CalPERS retiree, a former city finance director, and retired at the County of Santa Cruz Auditor, Controller, Treasurer, Tax Collector a number of years ago.

It's unconscionable that CalPERS would continue to own Tesla after -- Tesla stock after it became apparent that its CEO, Elon Musk, held such vitriolic disdain for career public servants and for the cruel systematic attacks of the Social Security system, which provides a secure retirement for -- after a long working life.

CalPERS with 2.3 million members should not have anything to do with a company whose CEO is so disrespectful of public service. It's a slap in the face to your CalPERS members to prop up someone who is so scornful of who we are and what we do, like running the country and defending democracy. And it's a bad investment. It's wildly overpriced. It's CEO is unstable. And it's name brand is irreparably damaged.

CalPERS purchased most of these stocks years ago. Undoubtedly, it would make a profit if it sold it now. The tide is turning on this stock. A number of pension funds in this country and other countries have divested or are considering divestment.

You know, we look to our elected officials to do more to protect us during these difficult times. Most of you are elected up there, so please exercise leadership and do your part.

Thank you.

CHAIR MILLER: Thank you for your comments. Does that conclude our public comments?

BOARD CLERK ANDERSON: (Nods head).

CHAIR MILLER: Okay. That concludes our public comments. So at this point, we will recess into closed session for items one to seven from the closed session agenda, and then we'll reconvene in open session after the closed session. And we'll take a break before we start our closed session. So we'll take a 15-minute break, then start our closed session. So -- and then we'll come back to open session.

Thank you all and thank you again for your patience waiting to comment.

(Off record: 3:01 p.m.)

(Thereupon the meeting recessed
into closed session.)

(Thereupon the meeting reconvened
open session.)

(On record: 5:18 p.m.)

CHAIR MILLER: Okay. We are back in open session.

And hearing no objection, we will adjourn this meeting.

We're adjourned.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 5:18 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 20th day of June, 2025.

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