MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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JAMES F. PETERS, CSR
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APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chair

Mullissa Willette, Vice Chair

Michael Detoy

Monica Erickson, represented by Nicole Griffith

Fiona Ma, represented by Frank Ruffino

Lisa Middleton

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

Travis Antoniono, Investment Director

Fanny Bourdais de Charbonniere, Investment Director

Danny Brown, Chief, Legislative Affairs Division

Robert Carlin, Senior Attorney

APPEARANCES CONTINUED

STAFF:

Peter Cashion, Managing Investment Director

Nelson Da Conceicao, Investment Director

Saeed Daroogheha, Investment Director

Amy Deming, Investment Director

Drew Hambly, Investment Director

Michael Krimm, Investment Director

Brian Leu, Interim Managing Investment Director

Jonathon O'Donnell, Investment Director

Lauren Rosborough Watt, Investment Manager

Miguel Silva, Associate Investment Manager

Tamara Sells, Associate Investment Manager

ALSO PRESENT:

Steven Alari

Brandon Barney, Medical Device Patent Partners

Margaret Brown, Retired Public Employees Association

Lizzie Corcoran, Service Employees International Union Local 1000

Joe Duffle, United Food and Commercial Workers

Quinn Eide, Fossil Free California

Megan Elsea, 350 Sacramento

Jakob Evans, Sierra Club

Erica Forzely, Service Employees International Union Local 1000

APPEARANCES CONTINUED

ALSO PRESENT:

Dan Fuchs, Fossil Free California

Jared Gaby-Biegel, United Food and Commercial Workers

Lauren Gellhaus, Wilshire Advisors

Tray Gray, Service Employees International Union Local 1000

Edward Hasbrouck, Divest from Tesla

Linda Hayward, Third Act

Britt Higgins, Service Employees International Union Local 1000

Dane Hutchings, California Association of Recreation and Parks District

J.J. Jelincic, Retired Public Employees Association

Sally Kallaghan, Third Act

Ali Kazemi, Wilshire Advisors

Judith Kirk

Eric Lawyer, California State Association of Counties

Brian Lee, Third Act

Laura Leonelli, Third Act

Eric Lerner, California Common Good

Katherine Markova, Climate Interactive

Susan McCarthy, Divest from Tesla

James McRitchie, Corpgov.net

David Millitzer, 350 Sacramento

Sonia Nuñez, United Food and Commercial Workers

APPEARANCES CONTINUED

ALSO PRESENT:

Lisa Oliver

Jose Oliveros, United Food and Commercial Workers

Eric Paredes, California Faculty Association

Robin Pearce, Service Employees International Union Local 1000

Johnny Pina, League of California Cities

Ruth Radetsky, Divest from Tesla

Mark Ramos, United Food and Commercial Workers

Ann Rothschild, Trinity Cathedral Environmental Group

Bobby Roy, Service Employees International Union Local 1000

Preston Rudy, Third Act

Mark Ruiz

Alexandria Sadler, CASE Climate Action Committee

Nathan Sands, Divest from Tesla

Kristian Santos

Arthur Shu

Megan Shumway, Third Act

Deborah Silvey, Fossil Free California

Jeremy Smith, California State Building and Construction Trades Council

Trinity Smyth, Fossil Free California

Mark Swabey

Mark Tavianini, Third Act

APPEARANCES CONTINUED

ALSO PRESENT:

Sara Theiss, Fossil Free California

Sheila Thorne, Fossil Free California

Mary Jo Walker, Divest from Tesla

Larry Woodson, California State Retirees

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PROCEEDINGS

CHAIR MILLER: Good morning. I'd like to call to order this meeting of the Investment Committee and we'll start with our roll call.

BOARD CLERK ANDERSON: David Miller.

CHAIR MILLER: I'm here.

BOARD CLERK ANDERSON: Mullissa Willette.

VICE CHAIR WILLETTE: Here.

BOARD CLERK ANDERSON: Malia Cohen.

Michael Detoy.

COMMITTEE MEMBER DETOY: Here.

BOARD CLERK ANDERSON: Nicole Griffith for Monica Erickson.

ACTING COMMITTEE MEMBER GRIFFITH: Here.

BOARD CLERK ANDERSON: Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Present.

BOARD CLERK ANDERSON: Lisa Middleton.

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK ANDERSON: Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki.

BOARD 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. Thank you.

First order of business today is our executive report. Stephen.

CHIEF INVESTMENT OFFICER GILMORE: Thank you very much, Chair. I'd like to start by making an introduction. We are joined by Mascha Canio. Mascha, could you stand up. Mascha has recently joined us from the 1st of October as our Managing Investment Director for Private Debt. She comes to us from PGGM in the NetherLands. So really happy to be have her with us.

Thanks, Mascha.

I also -- I also --

(Applause).

CHAIR MILLER: Welcome.

CHIEF INVESTMENT OFFICER GILMORE: And you'll be hearing from Mascha later.

I also wanted to acknowledge a couple of initiatives that we've undertaken within the Investment office. We have our -- a series of Investment Associates. Now, these Associates are people who come to work with us part time. They are sort of doing their undergraduate degrees and we have around 7 to 10 of those, typically from local universities. We also have been sponsoring a fellowship with Stanford University. And these are graduates who are with us for a 12-month period. And it's really about something that's mutually beneficial. So it's about developing a diverse talent pipeline for ourselves, early career folks. And also, it's a really excellent way of contributing to the business in terms of the initiatives that the team members can undertake.

Now, quite a few of these people are actually in the audience today. And I'm not going to name them all, because there are quite a few of them and they all have various managers and sponsors. And I'm going to ask all the people who are part of the Investment Associate Program or the Stanford Fellows and their respective hosts to stand up, just so that the Board and the audience can see them and thanks.

(Applause).

CHIEF INVESTMENT OFFICER GILMORE: Great team of people. Thank you for that.

So turning to today's agenda, we have one action item, which is the I guess second and final reading of the asset liability management review. This is where we're recommending the adoption of a total portfolio approach.

And, of course, we had the first reading back in September. We also have a number of information items. So we have our regular quarterly update on the portfolio and the economic outlook. We have the total fund portfolio management annual review. We also have the sustainable investment review. That also comes with quite a few other activities. So we have Responsible Contractor Policy. We're also looking at diversity investment, investment in California, and so on. So that will be a fairly, I guess, involved discussion. So we're looking forward to that. And Wilshire has a report on the divestment program.

And with that, I'll turn it back to you, Mr. Chair.

CHAIR MILLER: Okay. Thank you.

I'm not seeing any requests from the Board to speak on this item. And I know I've got a long list of guests who've come to speak on the public comments. And so I want to take them now for Agenda Item number 2. And because we've got so many and we've got a big agenda today, and I don't want to -- also don't want to hold people up, I'm going to ask that we do one minute and to do your best to not repeat kind of verbatim what the other commenters have said. And I'll just start calling you up by name and you'll come down here to the front. We'll have a couple microphones that we can make live. So these first two seats or so off to my left down here is where you'll be speaking from. When you start to speak, the time clock will go. You'll see it in front of you and you'll be able to track where you are in terms of time. And that will start when you introduce yourself and start speaking.

So the first few people I'll call down is Sara Theiss and Preston Rudy, followed by Lisa Oliver and Brian Lee. So come on down if you're in the house.

Welcome.

SARA THEISS: Good morning, esteemed Board members and thank you again for my wonderful retirement. I'm a CalPERS retiree and a member of FFCA. Sara Theiss. So I'm going to talk about attachment two -- whoops. It's going fast here.

Anyway. Basically I'm questioning using carbon intensity as a measurement of success. Among other things, current emission reporting is almost always incomplete, because of data on -- incomplete data on Scope 3. And economic indicators have a big impact on the number of variables that can lead to apparent changes in carbon intensity that have nothing to do with environmental performance.

Is my time up?

CHAIR MILLER: No you should be able to see it in front of you there.

SARA THEISS: No. Okay. Sorry. Okay. Anyway, like you can -- if the price of oil goes up and down and tech stops go up, that's going to change carbon intensity. I have a lot more to say, but I don't have the time to say it. Anyway, I really hope that you'll think about that. So thank you so much.

CHAIR MILLER: Thank you. And we also -- you know, if you have anything in writing you want to submit to us, be sure. And no need to thank us for your retirement. You earned it.

SARA THEISS: Thank you so much. Thanks. I will turn in my comments.

Thank you.

CHAIR MILLER: Okay.

PRESTON RUDY: Good morning. My name is Preston Rudy. I am a retiree from the California State University System. Thank you for your service. And my first comment is my interactions with the staff at CalPERS have been exemplary. I've gotten good answers from them. They're wonderful employees. I'm here to encourage you to actually represent the membership and take your responsibility as leaders to do what the State of California has said it wants to do, which is to go carbon free and fossil fuel free. There are many other retirement systems that have divested from fossil fuel. And you need to take leadership in this, because California is a leader in that issue and has been for many years. Don't let yourself be fooled by the fossil fuel industry, which has billions of dollars to mischaracterize what is going on with climate change and fossil fuels.

Thank you.

CHAIR MILLER: Thank you.

LISA OLIVER: Should I go now?

CHAIR MILLER: Yeah, go ahead.

LISA OLIVER: Okay. My name is Lisa Oliver. I'm a retired California public school science teacher and a mother of two, and a climate concerned citizen.

The fossil fuel industry has been a bad actor in our national energy environmental policy and politics. They have bought the Republican party and twice influenced the election of a "Drill, Baby Drill" President, all the while ignoring the IPCC climate warning, reduce carbon emissions by half by 2030 or suffer climate catastrophe. The U.S. is now the largest fossil fuel producer in the world and emissions continue to rise. We will overshoot the Paris Agreement of 1.5 degree Celsius in our track for 2.8 degrees of warming. Climate catastrophe is breaking out all over.

To invest in a company and industry is to send a vote of confidence in their decisions. This makes no tense considering the threat to our planet. The energy of the future will come from clean sources. So put your -- consider divestment for the sake of our children.

CHAIR MILLER: Thank you.

Next.

BRIAN LEE: Hello. My name is Brian Lee. I am a retiree with CalPERS. I have five grandchildren. I have asthma growing up in San Francisco on a street with three bus lines. So, I'm 72 years old. I've watched the deterioration of our planet, because of fossil fuels. And I believe it is an existential threat. So my request is please stop enabling them for the sake of my grandchildren and for all of us.

CHAIR MILLER: Thank you.

Our next speakers will be Eric Parades, Mark Tavianini, followed by Megan Elsea and Linda Hayward.

So come on down.

Go ahead, sir.

ERIC PARADES: Good morning. My name is Eric Parades. And I have the privilege of serving as Legislative Director with the California Faculty Association. CFA is the largest higher education union in the country representing 29,000 faculty members who work in the California State University system. CFA proudly centers anti-racism and social justice in our pursuit of an equitable education for all students in California. And we are committed to fighting forces of institutional racism and promoting anti-racism and social justice principles and practices.

CFA urges CalPERS to fully divest from fossil fuel companies by selling their current investments and refraining from making new investments in fossil fuel companies. Climate change is an issue of environmental justice disproportionately impacting indigenous communities, communities of color, and low-income communities due to historical oppression, inequity of power, and lack of access to resources for prevention and relief.

So thank you so much.

CHAIR MILLER: Thank you.

MARK TAVIANINI: Hello. My name is Mark Tavianini. I am a CalPERS member. And in my nearly 29 years with the California Air Resources Board, I endeavored to do what I could to fight air pollution and reduce the use of fossil fuels. So I'm understandably outraged at what's going on with the so-called EPA doing what they're doing to undermine my work. Now, I find I'm also incensed that many of my pension dollars are coming from investments in companies that have sought to undermine the irrefutable evidence that the burning of fossil has and does fuel climate change.

These investments have become demonstrably more and more risky, especially as renewable energy has become equally or less expensive than fossil fuels. So I ask you to consider, if investing in fossil fuels is a good way to provide responsible and efficient stewardship of the system, which is one of the guiding principles in your mission statement.

Another one of your principles is to promote wellness in retirement security for members and beneficiaries. Neither of these goals is served by continuing to support companies whose products are making us less and less secure.

Thank you.

CHAIR MILLER: Thank you.

MEGAN ELSEA: Good morning. My name is Megan Elsea. I'm a CalPERS member and a member of 350 Sacramento, a climate justice organization. My shirt says, "Your mom is too hot." So investing in fossil fuels is a bad investment. It's bad monetarily, because we are transitioning, as Mark said, to a fossil-free economy, and it's bad morally. Investing in fossil fuels is a moral -- I would say, it's akin to investing in slavery in the 19th

Century. For example, in the LA fires, this -- which were the year. This year, the LA fires cost $250 billion in damages and untold chaos to families.

Also, investing in biofuels is not a solution. Biofuels are not sustainable because of land use problems and the cost of farm equipment, and process, and transportation. Thank you.

CHAIR MILLER: Thank you.

LINDA HAYWARD: Hi. Good morning. I'm Linda Hayward, a beneficiary of a CalPERS pension of my late husband. We're here to urge you to reconsider our invest -- your investments in fossil fuels, which perpetuate all the problems you've heard about. For a moment, I'd like you to mentally take yourself out of the Committee room and Zoom out, way out to our entire history on this planet. The age of fossil fuels, which has taken up a tiny fraction of that history has brought us unprecedented prosperity and comfort. But now it threatens to permanently alter our even shorten our time here. In other words, it no longer serves us and it has to end.

The time to invest in the next phase of our history is now, that of clean, abundant, renewable energy from the sun and the wind.

Thank you.

CHAIR MILLER: Thank you.

Next speakers will be Deborah Silvey, Quinn Eide, Trinity Smyth, and Sheila Thorne.

Come on, work your way down.

DEBORAH SILVEY: Good morning. I'm Deborah Silvery, a grateful CalPERS recipient and co-founder of Fossil Free California. I first came to this body in September of 2013 to support the new sustainability initiative you were instituting. Sadly, after 12 years, we've really seen no progress, not really progress, on sustainability or on climate solutions since then.

Fossil fuels are still the major culprit in the climate crisis. And the industry is digging for even more. Unfortunately, your climate solutions plan fails again to take the major step needed to address climate solutions, excluding fossil fuels from your investments.

Thank you very much.

CHAIR MILLER: Thank you.

QUINN EIDE: Hello. My name is Quinn Eide and I'm the Executive Director at Fossil Free California. Deborah here was one of the founding members of Fossil Free California over a decade ago, as you heard. And it feels like every year that I sit here -- every year that we sit here, the urgency rises. I think one of the latest statistics that really shook me was that the fossil fuel industry spends $115 billion annually on lobbying against climate change. If you're intending to build climate solutions using your fund, I'd strongly encourage you to consider how the money the fossil fuel industry has -- is making is being used to stop those very solutions that you're fighting for.

The only way to stop the fossil fuel industry is to stop funding them, to stop backing them, and to stop giving them political license to operate. I urge you to stop investing in fossil fuels and to take them entirely out of your climate solutions portfolio.

(Applause).

CHAIR MILLER: Thank you.

TRINITY SMYTH: Good morning. My name is Trinity Smyth. I'm a CalPERS beneficiary, a current State worker, and a member and steward with SEIU Local 1000. I'm here today in my personal capacity to ask that you publicly commit to divesting our investments from fossil fuel corporations in order to improve investment performance, while also protecting the health and well-being of all CalPERS beneficiaries and Californians.

In my work, I help the State to try to protect and prevent Californians from becoming sick and unwell from climate events that are happening here and now. And I know the key to preventing the worst health outcomes for all of us is to end our reliance on fossil industries and corporations. I also know, as someone whose ability to retire in the future is tied to CalPERS investment performance. And I know that CalPERS fossil fuel investments are risky and are holding back our pension fund.

CHAIR MILLER: Thank you.

SHEILA THORNE: My name is Sheila Thorne. I'm a retired member of California Faculty Association. I want to make two points. First, the fossil fuel industry has lied about its commitments to the energy transition. New research in the journal Nature reveals that the biggest oil and gas companies contribute less than 1.5 percent to global renewable energy. Shell has abandoned its wind energy commitments totally, and Exxon, Chevron, ConocoPhillips, and Occidental have actually operating renewable assets, according to the most recent research.

Secondly, the fossil fuel industry is fundamentally anti-democratic. It spent $445 million to influence the 2024 elections. It has caused the displacement of millions of people through climate change and then supports authoritarian lawmakers and measures to keep them out of our borders. It fuels Fascism. To support democracy, to support working people, and unions, and California communities, California should divest from this corrupt industry.

CHAIR MILLER: Thank you.

Next.

(Applause).

CHAIR MILLER: Next speakers will be Laura Leonelli, Ann Rothschild, followed by Sally Kallaghan and David Militzer.

And then we'll have one phone caller after they -- oh, two phone callers. Okay.

LAURA LEONELLI: Good morning, everyone. I'll be brief because I can't really improve on all the wonderful comments that have already been made. I'm a CalPERS member. I've retired from the California Department of Public Health. And I just want to say I can use my -- you may notice that everybody here is an older person. All the young people are at work and school. And they will be bearing the brunt of whatever decisions that we make here today. And to speak for their interests, I'm being able to -- I'm able to use my time today to do that. So thank you.

CHAIR MILLER: Thank you.

ANN ROTHSCHILD: I'm Ann Rothschild. I'm a retired instructor from the community college district and I've been working with Trinity Cathedral's, Episcopal Cathedral's environmental group for many years. And I'm appalled that your Climate Action Plan includes investments in fossil fuels. You work in this elegantly, richly appointed building, which is LEED certified. You don't need this dirty industry in your portfolio.

Profits are one thing, but our health and the health of our planet are more important. I want to leave a healthy planet to my children and my grandchildren. So I appeal to you as a grandmother to please consider divesting from fossil fuels.

Thank you.

CHAIR MILLER: Thank you.

SALLY KALLAGHAN: Sally Kallaghan, PERS retiree.

As lamenters, we mourn the man-made devastation of our world. We physically embody the grief of lost habitat and life. We hope to bypass your social and corporate protections in so doing.

(Singing.) I have seen the damage that the oil has done. Gone. Gone. The damage done. (End singing.)

In the story of Heidi, a young girl goes to live with her aging grandfather. He asks her to pick strawberries in the mountains and bring them back to him. Mistakenly Heidi calculates that she will please her grandfather more by bringing him money that she can earn from selling her strawberries and so she does.

In response, Heidi's grandfather angrily instructs here to put the coin in her mouth. He has her compare the coin's metallic bitterness to the sweetness, the juice, the texture, the sweet, and the entire ripeness of a good strawberry. In a future variation of this story, your own and my future offspring will be the grandfathers. And the strawberries will be limited clean water, famine, and massive population displacement per worldwide climate and environmental disruption.

(Singing.) I've seen the damage your decisions done. Gone. Gone. Decisions done. Gone. Gone. (End singing.)

Please consider how you can make a positive future for our offspring. Thank you.

CHAIR MILLER: Thank you.

Okay. Is David Militzer here?

Oh. Either of those in front of you, sir. Yeah, any of those will do.

DAVID MILITZER: Thank you for this opportunity. I'm a former State employee. I'm a CalPERS member.

First, I would like to recognize CalPERS for embracing some of the material that was in the lobby about its role to influence and use integrity in what it does, in its investment for life, for building a secure tomorrow, and its participation in the development of Principles for Responsible Investment back in 2006. I think that's remarkable. And I got -- would like to see some evidence that that's what you're using to drive decisions about how you invest your funds.

And we're caught right now when there's a price -- there's a crisis in value and morality in this country. And we need our institutions to step forward. And if they're talking about a moral framework, to apply that male framework in its actions and not invest in dirty industries, because that's going to kill us all. And it's already doing that.

Thank you.

CHAIR MILLER: Thank you.

Okay. I now believe we have at least two callers on the phone -- three now. Okay. We'll go ahead and go to our callers.

CALPERS STAFF: Yes. Chair Miller, we have Britt Higgins with SEIU 100[SIC], here to speak with Item 2.

CHAIR MILLER: Go ahead caller.

BRITT HIGGINS: Hi. Good morning. Yes. Ny name is Britt Higgins. I'm a public health professional, a current State employee, member of SEIU 1000, and CalPERS beneficiary. I'm calling to urge the CalPERS Board to eliminate fossil fuels from the Climate Action Plan and to totally divest our pension fund from fossil fuel companies. Fossil fuel is driving the climate crisis and harming our health in communities now. In addition to bank rolling the climate crisis, CalPERS investments in fossil fuels are risky. Despite once being a primary drive of index returns and economic growth, the fossil fuel sector posted negative returns in 2023. Many other pension funds across the country and globally have recognized the risk of fossil fuel investments and have divested. Please protect the pension security of our current workers and our futures from fossil fuel risk by excluding fossil fuels from the Climate Action Fund and all CalPERS investments.

Thank you.

CHAIR MILLER: Thank you.

Can we have our next caller.

CALPERS STAFF: Yes. We have Robert[SIC] Pearce with SEIU 1000. Robert[SIC], you are now live and can give your comment.

ROBIN PEARCE: Hi. My name is Robin Pearce. I am an SEIU Local 100 member and current staff at the California Department of Public Health. And I am calling to urge the CalPERS Board to let go of those fossil fuel divest -- the fossil fuel investment funds and join the many other pension funds across our country that have already recognized the risk of fossil fuel investments and divested. In case you want some facts, globally 1,667 pension funds with assets of about $40 trillion have made commitments to divest from fossil fuels already.

These commitments have been made by the State of Maine, New York City Employees Retirement System, New York City Teachers Retirement System, New York City Board of Education, District of Columbia Board, City of Chicago Pensions, Baltimore pensions, Pittsburgh, San Diego, and the Los Angeles Retirement System, and the San Mateo County fund. It's time for California to step forward and be able to make that same commitment and really show the way that our state can lead the nation.

Thank you.

CHAIR MILLER: Thank you.

(Applause).

CHAIR MILLER: Do we have any more phone callers?

BOARD CLERK ANDERSON: One more.

CHAIR MILLER: Any more public comments?

CALPERS STAFF: Yes, one more call, Chair Miller.

CHAIR MILLER: Oh, one more call. Okay.

CALPERS STAFF: We have Erica -- yes, Erica Forzely here to speak on Item 2. Erica, you are now live and can proceed with your comments.

ERIC FORZELY: Good morning. Thanks for having me. My name is Erica Forzely. I am a State employee and CalPERS beneficiary. I urge CalPERS to take our funds out of fossil fuel companies. We know that fossil fuel companies accelerate climate change. Fossil fuel companies know that they accelerate climate change. I'm a health educator on the health and equity impacts of climate change. We can put our money where our mouth is by divesting in fossil fuels. The pension fund has over 27.9 billion invested in fossil fuel companies, more than any pension fund in the country.

The State of California is suing five fossil fuel companies for misleading the public about climate change and CalPERS invests our pensions in all five of them.

Thank you. Have a good rest of your day.

CHAIR MILLER: Thank you.

Is that it for our callers on the phone?

Okay. I have two more in-person commenters. Megan Shumway and Jeremy Smith, if you would come on down.

MEGAN SHUMWAY: Good morning. I'm Megan Shumway. I'm a PERS retired public health nurse and I also have asthma and very nearly died last year of pneumonia. I currently work with Climate Action California's energy team. And we have investigated sustainable fuels pretty extensively. It costs more to produce energy from soybeans or algae, and it also releases more pollutants and carbon into the atmosphere, than if you had mined and burned fossil fuels in the first place.

In other words, these types of so-called sustainable fuels are just basically greenwashing. I don't want them to be in my portfolio or the CalPERS portfolio. And I think that you should take very close consideration of what people are trying to sell you on and get other sources of information, other than from the fossil fuel industry, because they will greenwash you every time.

Thank you.

CHAIR MILLER: Thank you.

Next, Jeremy Smith.

JEREMY SMITH: Item 6e.

CHAIR MILLER: Oh, okay. I will bring you back for 6e.

I've got Dan Fuchs for Item 2.

DAN FUCHS: Which microphone do I use?

Am I here?

Good morning. My name is Dan Fuchs. I'm here as a member of the Board of Fossil Free California, a california resident, and an employee of the State of California. I'm off -- I'm here to comment on the CalPERS sustainable investment annual program review. I note that this agenda item is reported to quote, "Support the CalPERS strategic plan goals to strengthen the long-term sustainability of the pension fund and cultivate risk-intelligent decisions."

Unfortunately, without divestment from fossil fuels, these so-called sustainable investment program goals can do none of these things. Shareowner action and engagement are listed as two elements of this program. Not only are these elements not proven to work, they're actually proven not to work. Moreover, a target of net zero by 2050 simply too weak. With each year announced as a new record hottest year and global targets slipping farther and farther away, California needs to be much more ambitious.

Failing to take better concrete steps today, sentences our children to a future of worse wildfires, wilder swings of drought and flood, and a much more uncertain financial picture. The time for urgent action has long passed. We are now facing an emergency. People around the world look to California, the world's fourth largest economy for direction. We're letting them down, as we engage in a Sustainable Investments program that includes fossil fuel stocks. Calling it engagement doesn't change the fact that we are continuing to invest in obsolete technologies at the cost of our returns. And these very same fossil fuel companies are working to weaken American democracy. Please consider revising the Sustainable Investments program to be much stronger and more effective. The world is looking to California to lead. Let's not let them down.

CHAIR MILLER: Okay. Thank you.

(Applause).

CHAIR MILLER: We do have another callER on the phone for item 2.

CALPERS STAFF: Yes. Chair Miller. We have Lizzie Corcoran here to speak to Item 2. Lizzie, you are now live and can proceed with your comments.

LIZZIE CORCORAN: Thank you so much and thank you for allowing me to call in with public comment. My name is Lizzie Corcoran. I'm an SEIU Local 1000 union member and a current State worker for the Department of Public Health.

I'm joining the people in the room and my colleagues here today to call in and urge the Committee to divest completely from fossil fuel companies. Fossil fuels -- I would like to point out, there are five fossil fuel companies in California that the State of California is suing for misleading the public about climate change.

And as a future beneficiary of CalPERS and a current State worker, I think it's essential to notice this cognitive dissonance that we are investigating in these companies that we are also suing for the harms against Californians, and we must divest from all of these fossil fuel companies. I understand there is sustainability programs that invest in climate solutions. However, there is no possibility for a fossil fuel company to be a part of the climate solution, since they are one of the biggest drivers of climate change.

I also want to point out what my other colleagues have pointed out that fossil fuel investments are risky. We, as Californians, take pride in leading the country in climate solutions. And as part of the Department of Public Health, we work actively against climate change every day. So we need to join other pension funds across the country in divesting from fossil fuels and continue to uphold and advance that leadership.

And mostly, I think we need to think about the future, not just in terms of fiduciary responsibility for CalPERS members, but for a breathable, livable California.

And to that end, once again, thank you for taking the time to listen to me and I urge the committee to divest from fossil fuels.

CHAIR MILLER: Thank you. Does that conclude our calls?

Any more requests to speak in person?

BOARD CLERK ANDERSON: No.

CHAIR MILLER: Okay. I think that covers it for Item 2 and the public comment.

So we'll move on to Item 3, our action consent items. I do have a request to pull item 4i.

COMMITTEE MEMBER PACHECO: Information consent.

CHAIR MILLER: Information -- oh. Okay. Yeah.

Move approval

COMMITTEE MEMBER PACHECO: I'll move approval.

COMMITTEE MEMBER TAYLOR: Second.

CHAIR MILLER: Okay. Moved by Pacheco, seconded by Taylor.

COMMITTEE MEMBER PACHECO: All in favor?

(Ayes.)

CHAIR MILLER: Any opposed?

Abstentions?

Okay. The motion carries. So --

BOARD CLERK ANDERSON: You do have public commenters that have put in for this item.

CHAIR MILLER: Oh, for this one.

BOARD CLERK ANDERSON: Yes.

CHAIR MILLER: Okay. Well, we have -- yes, we have quite a long list of folks that want to speak on this particular item, Item 3, 3a. And so we will continue with public comment now for Item 3a. And I'll call you up to the front. Again, we'll stay with one minute. And we'll have Susan McCarthy, Edward Hasbrouck, followed by Ruth Radetsky, Nathan Sands, and Mary Jo Walker.

And the clock will start whenever you begin.

SUSAN McCARTHY: I'm Susan McCarthy. I live in San Francisco. I'm a CalPERS beneficiary. I'm here to ask that CalSTRS[SIC] divest from Tesla stock. This is an item that we expected to be on the agenda today, but is not, which is why we're commenting now.

I ask that CalPERS divest from Tesla because of the partisan political activities of its bizarre CEO are making the company an unusually risky investment and hurting California's environmental goals. I'd specifically like to talk about a recent working paper put out by the National Bureau of Economic Research. They looked at how Musk's polarizing and partisan actions affected Tesla sailors -- sales in U.S. from October '22 to April 2025. They found the effect caused sales of Teslas to go down between 67 and 83 percent. That's about one to one and a quarter million cars not sold. The sales of other electric cars went up, but not enough to make up for the gap.

This had three results. One, fewer Teslas were sold, two more EVs from other companies were sold, but three, the gap between the Teslas and the other EVs meant that fewer electric cars were sold, and as a result, California will not be meet its 2026 zero-emission vehicle target.

Tesla is a super risky investment and it's weird that the CEO of an EV company caused fewer EVs to be sold. I ask that CalSTRS[SIC] consider divesting Tesla stock as part of your fiduciary duty to California pension holders. And I will note that this morning Peter Thiel sold 76 percent of his Tesla stock, so maybe he think it's risky too.

Thank you.

CHAIR MILLER: Thank you.

EDWARD HASBROUCK: My name is Edward Hasbrouck. And I'm here on behalf of an additional 569 signers, many of whom also gave personal -- additional personal comments, including 150 CalPERS members on the petition to which you've already seen more than a thousand signatures presented at previous meetings, to divest from Tesla entirely now.

We are grateful to the members of the Investment Committee for directing the staff to prepare a special report on the valuation and risk of Tesla. We are disappointed that that has not yet been released, and that that action -- that item is not on the agenda of this meeting for action. We here to urge you, urge the staff to complete that report with all deliberate speed and to urge you to put this on the agenda for action at your next meeting. Time is of the essence. Tesla is an overvalued speculative meme stock, and the speculative bubble could crash at any time.

It is of the utmost importance in the exercise of your fiduciary responsibility to put this on the agenda for your next meeting, to act on it to sell Tesla now. And I have copies for the Board and staff of those petitions.

Thank you.

CHAIR MILLER: Thank you.

RUTH RADETSKY: Good morning. I am Ruth Radetsky, retired teacher from San Francisco. You honored your fiduciary duty to CalPERS members when you directed staff to prepare a company-specific assessment of Tesla at the last Board meeting. So why isn't divesting from Tesla on the agenda for this meeting. There is no better argument for taking a close look at Tesla now than that their Board just authorized a trillion dollar compensation package to an erratic part-time CEO, who promises Mars and delivers vaporware.

I'm told Tesla is on the agenda under green investments. My friend Susan just explained how at this point Elon Musk's actions have made Tesla anything but a green investment. Divesting from Tesla poses no conflict between fiduciary and duty -- between fiduciary duty and ethics. Tesla has shown itself not to be open to construct engagement never more so than at the recent shareholder meeting.

Put divestment on the agenda and sell Tesla before it's Enron moment.

Thank you.

CHAIR MILLER: Thank you.

NATHAN SANDS: Good morning. Are we ready?

CHAIR MILLER: Yes.

NATHAN SANDS: Good morning. My name is Nathan Sands. And I am also here to encourage divestment from Tesla. And I won't repeat everything that my colleagues just said. They are a hundred percent true. And I hope you take them into consideration, but I will repeat, please, we want that report to come out, and to be released publicly, and to be discussed at the next meeting. We really would appreciate that. And I am going to read one statement from my CalPERS member April Vargas from Montara.

It is in the best interest of the people of California to sell Tesla stock now before the price falls significantly. Beyond the fact that the company is owned by a sociopath, we should not be propping up a firm that is poorly run, unpopular, and beholden to a criminal administration in Washington D.C.

Do the right thing now, please.

Thank you.

CHAIR MILLER: Thank you.

CHAIR MILLER: Okay. I think we have some callers on the phone. Oh. Oh, one more. Okay.

MARY JO WALKER: Mary Jo Walker. I'm a 40-year member of CalPERS. And as such, I'm concerned about its investment in Tesla. I hope that when you do eventually get the report, it include a discussion of the effectiveness of your shareholder engagement with Tesla. Shareholder engagement with Tesla has not been effective. It should be -- should not be touted as a reason to hold Tesla stock.

When you pull back the curtain, you will see that CalPERS proxy votes, which are the core of shareholder engagement, has almost no effect on Tesla operations. I reviewed the last five years of your proxy votes with -- at the Tesla annual meetings, and there were 60 votes. And most of the time, CalPERS opposed Tesla management's recommendation. That's no surprise. So in those cases, the proxy votes were not effective.

Sometimes CalPERS agreed with Tesla's recommendation. These were administrative things, such as approval of the audit firm. And again, I would say in those cases, you know, the effectiveness was not effective. A few times, CalPERS opposed management's recommendation and CalPERS position prevailed. But in those cases, they were almost always advisory and nonbinding advisory. I found just one case in the five years where it was -- Tesla's position prevailed over -- I mean, CalPERS position prevailed over Tesla's, and it was actually a binding proposal.

Thank you.

CHAIR MILLER: Thank you. Okay. It looks like some calles. We've got at least three Callers in Item 3.

CALPERS STAFF: Yes, Chair Miller. We have Alexandria Sadler here to speak on Item 6c. Alexandria, you are now live and can proceed with your comments

CHAIR MILLER: We're not --

ALEXANDRIA SADLER: Thank you. I'm --

CHAIR MILLER: Hang on.

ALEXANDRIA SADLER: I'm submitting public comments. Okay.

CHAIR MILLER: Hang on. I think -- we're on item 3 at the moment. 3a, so --

BOARD CLERK ANDERSON: They requested -- they did request to go now.

CHAIR MILLER: Oh Okay.

BOARD CLERK ANDERSON: Yeah.

CHAIR MILLER: Okay. I'll hear it.

Thank you. Go ahead, caller. Sorry.

ALEXANDRIA SADLER: Thank you. I am submitting public comment on Agenda Item 6c on behalf of the CASE Climate Action Committee members Angel Braach, Rebecca Bon, Dan Fuchs, Hannah Goldsmith, Bryan Kimura, Michael Knapp, Faramarz Navabi, and myself Alexandria Sadler. CASE is the state union that represents attorneys, administrative law judges, and hearing officers who work for the State of California. We rely on our pension to be there for us in retirement and to be able to live safely in our communities in California now and after we retire.

Climate change jeopardizes our dreams of retirement and living safe three this California. We have a unique perspective as attorneys and advocates working for the State. No one is above California law. In 2023, the Attorney General sued Exxon, Chevron, and 11 other major fossil fuel producers for concealing and misrepresenting the danger of fossil fuels.

There's evidence from as early as the 1950s that these companies were aware of the risks that fossil fuel consumption would cause global warming. These companies have continued to mislead the public through greenwashing. That is engaging in meaningless, superficial activities to make them appear less harmful for the global environment than they really are.

CalPERS is complicit in this greenwashing by including 3.56 billion investments in major fossil fuel producers as part of the Sustainable Investments fund. We ask that CalPERS remove all investments in fossil fuels from its Sustainable Investments funds. Thank you.

CHAIR MILLER: Thank you.

Okay. Other caller for Item 3.

CALPERS STAFF: Yes, Chair Miller. We have Arthur Shu here to comment on 3a. Arthur, you are now live and can proceed with your comments.

ARTHUR SHU: Hi. Yeah. So I'm an interested member of the public. I just want to echo what other people have said about Tesla being an unacceptably risky investment. I feel that overreliance on index investing has allowed bubbles to form in the stock market. Tesla is very obviously an overinflated bubble. CalPERS opposed the oversized $56 billion compensation package for Tesla's CEO last year. And again, oppose the trillion dollar compensation package this year, which if it goes through would give Elon musk, one man, 25 percent stake in Tesla. That's an enormous amount of our money that is completely under the control and the whims of someone who's proven to be an unstable person who dives head first into divisive political conflicts and is not acting in the breast interests of his shareholders. And I just think it's a very obvious risk that needs to be looked at, you know, more specifically, more closely, which is what CalPERS has already promised to do and have not yet done.

CHAIR MILLER: Thank you.

One more caller.

CALPERS STAFF: Yes. Chair Miller. We have Judith Kirk here to speak on Item 3a. Judith, you are now live and can proceed with your comments.

JUDITH KIRK: This is Judith Kirk, K-I-R-K, from Redwood City, California. I'm a retired teacher and a member of PERS. Other people going before me have already spoken about the deception of the fossil fuel industry and the history about that. I don't need to do that. I just want to reiterate that I and all the other members of the PERS retired people I know do not want our money used to further destroy our planet.

Further, green energy is now far less expensive than fossil fuels. Fossil fuel is on it's way out. We all know that. Economists confirm it. It is ridiculous to keep pumping our money into a destructive industry. Please stop this. We've been trying to get this stopped for years. Thank you very much.

CHAIR MILLER: Thank you.

Is that the last of our callers?

BOARD CLERK ANDERSON: I believe so.

CHAIR MILLER: Any other public commenters in person in the queue?

Okay. I think that concludes public comment for Item 3. Let me see if I can figure out where we are in the agenda again now. So I guess that moves us to information consent. And we have one item, 4i, that we've pulled from that calendar. So we'll move to 4i, CalPERS for California Report.

COMMITTEE MEMBER PACHECO: Yes, the California -- the California Report. Thank you so much. First of all, thank you, Tamara, for coming up and talking about the California Impact Report. I always find this report extremely fascinating, because it really highlights the importance of what we do in California for our system.

So I wanted to bring up a couple questions that came up. Specifically on page 5 of 14 on the impact -- economic impact change from 2023-2024, and specifically around the real assets. Now, I noticed that we had -- in 2023, there was 141,000 jobs that were supported by real assets that's associated with constructions and so forth. But it went down to 122 percent -- 122,000, a 13.3 -- 13.6 percent decrease. And what is that attributed to, if you can elaborate on that? Was it something with our investments or if you can elaborate? And then of that number -- of the new number, the 122, how many of those jobs are union jobs?

ASSOCIATE INVESTMENT MANAGER SELLS: Good morning, Tamara Sells, CalPERS staff member. Thank you so much for the question, Director Pacheco.

The -- with respect to your first question, in terms of the change, the investments in real assets benefit broadly jobs created in California, and economic development, and also providing critical resources.

The estimated number of jobs went down, just based off of the general portfolio construction process. There was no, you know, attribution with respect to like a mandate or a lack of mandate. This was just a natural part of the investment process. Whereas, 17.6 billion, or 26.8 percent, of real assets investments were made here in California. So that attributed to the decrease in the 122,000 jobs.

COMMITTEE MEMBER PACHECO: I see that.

ASSOCIATE INVESTMENT MANAGER SELLS: With -- oh, I'm sorry.

COMMITTEE MEMBER PACHECO: No, you go -- you go ahead.

ASSOCIATE INVESTMENT MANAGER SELLS: Your union question. I didn't want to --

COMMITTEE MEMBER PACHECO: Yes. Thank you.

ASSOCIATE INVESTMENT MANAGER SELLS: Yes, I did want to answer that. The vendor who provides the analysis for us, Tideline Advisors, LLC, uses a software or an implant analysis that does not do attribution for union versus non-union jobs. However, consistent with the response that we provided you last year --

COMMITTEE MEMBER PACHECO: Yes.

ASSOCIATE INVESTMENT MANAGER SELLS: -- if we estimate that 16 percent of California jobs are unionized and half of which are non-unionized, then that 173,000 or so times that eight percent would roughly estimate about 13,890 or so union jobs, which is an increase of what we told you last year.

COMMITTEE MEMBER PACHECO: And that's an -- and that's an -- thank you for sharing that. That was really interesting. That's a great point.

I also wanted to ask a question about private equity in that other -- the same column. I noticed that job creation in private equity went from 18,000 to about 36 -- 38,000. Is that attributed to our change, in terms of our -- we went from buyouts, to more the venture, more the small -- you know, more of the smaller things. I just wanted your elaboration on it, because it seems that way, but I wanted your confirmation on that.

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. Excuse me. There was a shift from information technology to like consumer staples as well in other industries that drove that change. And again, there was also increased capital deployment in private equity for this last year.

So that's the reason that you're seeing the increase in change that -- such a significant increase in change.

COMMITTEE MEMBER PACHECO: And you would use -- you would use the same analysis, the eight percent, you were saying.

ASSOCIATE INVESTMENT MANAGER SELLS: Correct.

COMMITTEE MEMBER PACHECO: That, of those -- of those jobs in the private markets, they would also be unionized as well.

ASSOCIATE INVESTMENT MANAGER SELLS: That is correct.

COMMITTEE MEMBER PACHECO: All right. Very good, then. By the way other than that, I really am impressed by the power of what we've done. I saw that we went -- we have a -- for economic effect was about -- I think it was -- a hundred -- let me verify this. It was 78.7 billion in total fund investments in California. The power of the multiplier effect --

ASSOCIATE INVESTMENT MANAGER SELLS: Right.

COMMITTEE MEMBER PACHECO: -- of our entire system. So the investments have been -- have been incredible. So I really do appreciate that and then also the power of what we've done for the state of California, and for the workers of the state of California. So thank you so much.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question.

COMMITTEE MEMBER PACHECO: That's it.

CHAIR MILLER: Thank you. I don't have any requests to pull any other items from category 4, so we'll move on to 5, action item agenda, Asset Liability Management.

(Slide presentation).

CHIEF FINANCIAL OFFICER NIX: Good morning, members of the Investment Committee. Michele Nix, CalPERS team member.

Today, I'm pleased to start the presentation of the second reading of our asset liability management Public Employees' Retirement Fund recommendations.

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CHIEF FINANCIAL OFFICER NIX: We're here today to vote on -- or you're here today and we're here to present to get a vote for the Public Employees' Retirement System, or the PERF, asset liability management recommendations.

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: I want to give you a little brief -- a look back at some of our activities over the past year. We've been talking about this. I think we started last November, so it's been almost 12 months. Again, over the 12 months, I'd like to compliment the extraordinary cross-divisional collaboration and the effort during this cycle. This cycle is -- it happens every four years, as you know.

I want to say that these efforts and the proposed change to the total portfolio approach has taken a lot of work to get to this point. With our stakeholders, we've also talked at a variety of forums about this, in webinars, roundtables, briefings, association conferences, ad hoc meetings. And it includes employer leadership dialogues and the Ed Forum.

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CHIEF FINANCIAL OFFICER NIX: Today, we are recommending the adoption of the new investment governance model, a total portfolio approach, which includes the capital market assumptions underlying the expected return estimates and a new formal total fund risk that is made up of two parts, first, the 75/25 equity-to-bond reference portfolio, and the second, an active risk limit of 400 basis points for all other investments not in the reference portfolio. Lastly, we recommend keeping the discount rate at 6.8 percent.

Now, I'll pass it to Stephen Gilmore to walk you through the investment recommendations in more detail.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Thank you very much, Michele. It's always helpful to start with what's changing and what's not changing. And I think at the very high level, it's always worth recognizing that nothing changes to the Board's authority for setting the investment risk and the governance model. Nothing changes with respect to the ALM process. We have a four-year cycle with a review at the midpoint, so every two years. Nothing is changing there. The Board will continue to get the capital market assumptions and expected return analysis and will continue to get the actuarial assumptions and deliverables.

What changes under TPA is that there's more clarity with respect to the risk. And by that, I mean the Board is being asked to approve a reference portfolio. And as Michele said, that's a 75/25, and that's associated with a degree of risk. And also at the same time, the Board is explicitly defining an active risk limit that the management team has.

At the moment, it does that via policy ranges for various asset classes. What we're recommending is that they be consolidated into a single active risk limit. And as I mentioned, the Board has an opportunity to review these limits, mid-cycle review, and every four years. And, of course, if there's some even that occurs, the Board can review that at any -- at any time.

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CHIEF INVESTMENT OFFICER GILMORE: Again, it's helpful to reflect on why these recommendations are being made. The first one relates to improved governance. One of the things we've observed through time is that the risk undertaken by the management team, by the Board, has tended to change. There has been a tendency to be procyclical.

I think with the move to a reference portfolio, it becomes my clearer for the management team what risk is being taken, and the Board can easily see if there are deviations from that overall risk level. So improved internal governance is a -- is one outcome of this -- of this move.

In addition, the reference portfolio is very clear. The 75/25, it can be thought of as an alternative portfolio. If we only had a handful of people, it's the portfolio we would construct, rather than the portfolio we actually construct with a larger team. So it's a very simple -- very simple, easy-to-construct portfolio that you can compare the performance against. And that simplicity goes beyond just having a 75/25. It becomes the primary benchmark for comparing the performance of the portfolio.

Right now, we have 11 different benchmarks. And it becomes quite hard to see just how, you know, the overall portfolio has performed relative to all these different benchmarks. The adoption of a reference portfolio will make it much simpler. And that makes it easier to improve transparency, because you, the Board, and also the public can see whether the team, the management team, has done a good job of actually beating the reference portfolio. That, of course, will make the management team more accountable.

So the Board will be very clear in terms of how much discretion the management team is allowed and the management team will use that discretion with the aim of improving performance, risk-adjusted returns. And it makes, as I said, the management team more accountable for those decisions.

Again, the driving rationale for this is to invest the portfolio as a whole. So to think about it as a joined up process, to think of aligning the overall portfolio decisions with the overall objectives. And the overall objectives, of course, are to ensure that the system is sustainable, so to improve the funded ratio of the system. And I think that this combination of attributes improves the likelihood that we generate somewhat higher returns, and improve the funded ratio of the -- of the portfolio.

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CHIEF INVESTMENT OFFICER GILMORE: Of course, one of the questions that comes is what's the Board going to see in terms of reporting? The simple answer is you'll see pretty much what you see now, except that we'll also add a more detailed dashboard, which will go into the trust level reviews. You saw a preview of that earlier, but that will be refined through time, as the portfolio evolves.

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CHIEF INVESTMENT OFFICER GILMORE: Michele mentioned the recommendation of 75/25 equity bond reference portfolio. As I mentioned, it's very clear what that is. In terms of risk, it represents a slight increase from the current portfolio, which is approximately a 72/28, but it is actually consistent with the type of risk that we were taking, you know, a decade or so ago. As I said, that risk level has varied through time.

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CHIEF INVESTMENT OFFICER GILMORE: Now, one of the things we mentioned back in June was just what that reference portfolio would look like. You know, the equity components will be cap weighted, global equity. It's very similar to what we currently use and the bonds will be U.S. Treasuries, diverse maturity of U.S. Treasuries.

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CHIEF INVESTMENT OFFICER GILMORE: As always, we have the capital market assumptions. You've seen these before. These come from the end of March based on a survey of 15 institutional providers. And again, I would emphasize that it's important to think about the range. These things are not precise. So there is quite a variation in the range -- the ranges.

Having said that, we've taken the median of those ranges and come up with expected returns. And the top line shows the return on the reference portfolio, the 75/25, plus an expected return from taking active risk around that reference portfolio. In this case, the returns are based on taking 300 basis points of active risk. And the assumption we're using is that we can generate an information ratio of 20 basis points and generate an additional return of 60 basis points.

So that's that top line. You can see that with this particular matrix, as we take more risk, we also increase the equity exposure, the expected return increases slightly, but also the risk, in terms of potential tail risk, volatility also increases. So we have to think about how those two components go together, the risk and the return.

And based on that, we've recommended a 75/25. So a slightly higher expected return, slightly higher risk. And Scott will talk, to some extent, about some of the considerations, because, of course, when we're doing this, there's a lot of judgment involved. We have to think about that trade-off risk and return. We have to think about the system, what might happen in some of the poorer outcomes.

And so, you know, a lot of analysis goes into this, but the aim, of course, is to generate, you know, good risk-adjusted returns to improve the funded ratio and the sustainability of the system.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And with that I'll pass it over to Scott.

CHIEF ACTUARY TERANDO: All right. Thanks, Stephen.

So as part of the analysis the Actuarial Office did, looking at these three portfolios, we looked at employer contributions and the funded status. We looked at where, in this case, the State Miscellaneous Plan, one of the largest plans in the system, would be after 10 years.

So what we have here is we have the results kind of looking at the employer contributions and the funded status over 10 years for the three separate portfolios. And what we can see is we had 75/25 kind of I highlighted in the middle with the -- each other portfolio off to the sides. And what we see is -- I think not too surprising is as we add risk, and what Stephen has mentioned is as we add risk, the expected return is slightly higher. And you see that as the average contribution rate kind of decreases somewhat, ben the 70/30 and working it's way up to the 80/20.

But as we -- as we increase the risk, we're also increasing the volatility. I think that can be seen clearly in the large swings in the employer contributions. You can see, particularly the increase in, you know, employer contributions we picked for this example, exceeding 40 percent in any one year. It increases as the equity exposure increases. And I think also the volatility increased as well, because you can see the single -- probability of single year increases. And it increases pretty substantially between the 75/25 and the 80/20 portfolio.

Looking at the funded status, a similar type of story here, the funded status -- the median funded status increases slightly over the 10-year period. But you can see there's a larger divergence in the results, especially when you look at the probability of it being below 50 or being over a hundred percent. Those percentages are much higher for the 80/20 portfolio versus the other two.

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CHIEF ACTUARY TERANDO: We did a similar analysis for the non-pooled public agency plans. There's 420 non-pooled public agency plans. And obviously, there are funded -- a wide range of funded status and contribution levels. So what we did here is our analysis, we looked at 10-year projections. Again, we're looking at the funded status and we look at overall contributions over the next 10 years. And what we -- in this case, instead of like putting a particular number here, like it's -- like we did for the State, we're looking at kind of like ranges and overall a comparison of the medians among the three portfolios.

And what you can see here is similar results, where the funded status increases just slightly over the -- over the 10-year period, and the overall contributions decrease as the equity increases. For example, if you look at just the miscellaneous on the left-hand side of the graph here, the 70/30 compared to the 75/25. What you're see here is the funded status is slightly less. It's 96.9 versus 97.1, so they're very similar in terms of funded status. What we can see is the overall contributions. Under the 70/30 portfolio, for example, is 5.3 percent higher than 75/25. Going to the 80/20, a similar case where the funded status is slightly higher. The contributions are lower. They're around 1.2 percent lower. However, when you -- when you're looking at this, it doesn't capture the full picture, especially with the volatility on these individual plans, and we can see that on the next slide.

[SLIDE CHANGE]

CHIEF ACTUARY TERANDO: So what we have here is we have kind of a graph of the funded status over 10 years on the left -- on the vertical access, large increases in contribution rates on the lower horizontal access. And what we're doing is we have a scatter plot here for the three different portfolios and for each of the 400 plans. And what this is graphing is this is graphing the worst five percent returns that we got in our simulations. This is a way of thinking of what's the lower end, what's the tail risk that we look at that is a concern?

As you can see here, we had around 70 plans with the 70/30 portfolio and that jumped out up to over 275 plans that fell below 50 percent for the 75/25. And then that increased an additional almost a hundred plans out of the 420 plans.

So as you can see, as we increased risk, it was a substantial increase iN terms of volatility and concern with the higher equity portfolios. And we when we look at making our recommendations, we're looking at like all these factors combined. As Stephen mentioned, we look at the volatility on the investment side, but we also are looking at potential impacts on employer funded status and contribution rates as well.

[SLIDE CHANGE]

CHIEF ACTUARY TERANDO: And we'll pass it back to Stephen.

CHIEF INVESTMENT OFFICER GILMORE: Thanks very much, Scott. I mentioned the active risk limit recommendation. We're recommending a limit of 400 basis points, which again is an indicator of how much we can, being the management, can deviate from the reference portfolio. That 400 basis points is a bit less than our estimate for how much discretion we currently have under the existing SAA and the policy ranges. But we think 400 basis points is sufficient.

In practice, we expect to use an operating range of 250 to 300 basis -- 350 points, rather than using the maximum 400. And as I mentioned earlier, when we created those projections, we were using 300 basis points of active risk and assuming we would make 60 basis points of excess returns from taking that 300 basis points of active risk.

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CHIEF INVESTMENT OFFICER GILMORE: For context, this is a chart just showing the current portfolio active risk, which is approximately 230 basis points, the expected range, and the limit, but you've seen that quite a few times.

Scott.

[SLIDE CHANGE]

CHIEF ACTUARY TERANDO: All right. Thanks, Stephen. So we get to our discount rate recommendation. So based on the guidance provided in the actuarial standards of practice and with my assessment of where the system is going, and what's best for the ongoing sustainability of the program, we're recommending a 6.8 discount rate assumption. And that includes the associated active risk threshold.

Now, keeping in mind that while we do look at the discount rate of every four years through this formal ALM process, we do monitor where the discount rate is in relation to CMAs and the current investment environment, and if there was ever a concern where there was -- we felt there needed to be a change before the regular ALM process, we would bring that back to the Board.

[SLIDE CHANGE]

CHIEF ACTUARY TERANDO: This chart here, it just looks at the probability of achieving the various average discount rates compared to the investment returns. What we can see here is we have three portfolios and we're comparing it to a discount rate of 6.7 and 6.8 percent, this example. And you can see here we're slightly above 50 percent. We're -- the ranges are fairly close. You can see over the 10-year period, we're slightly over 50 percent. We're around 51 percent, 52 percent for all three portfolios. And for the 6.8 percent discount rate, that jumps up a little bit to 52 percent, 53 percent if we were to have a 6.7 percent discount rate.

Our goal obviously is to have that number greater than 50 percent. Obviously, the higher, the better. But you can see the numbers are fairly close to one another, but we are in a comfortable range in terms of the 75/25 being over 50 percent and getting our expected return.

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CHIEF ACTUARY TERANDO: And with that, I'll pass it to Amy to talk about the workstreams.

CHIEF INVESTMENT OFFICER GILMORE: Let me just say I've asked Amy to lead the total portfolio approach project. And so, Amy is overseeing a whole series of workstreams, which we, of course, need to proceed with implementation of the total portfolio approach.

So Amy, what have you been doing?

INVESTMENT DIRECTOR DEMING: Thank you, Stephen. Excuse me. It's my pleasure to present to the Board today. My name is Amy Deming. I am the head of the Investment Controls and Operational Risk team at CalPERS. And as Stephen said, I'm also the project lead for getting the organization ready to implement a total portfolio approach.

Today, I'll walk you through the eight key workstreams that form the foundation for a smooth effective transition to a total portfolio approach. The first listed on this slide, Board action, represents the ongoing discussion before the Board in the past meetings and today. We therefore acknowledge that this transition is dependent upon Board approval, but we've nevertheless have been preparing to move toward a go-live date of July 1 of next year.

We recognize this is a significant change management effort for the Investment Office and the organization, and that's why we've developed a detailed plan with eight workstreams that I will speak to now. And that's why we've also placed a strong emphasis on collaboration and communication throughout the process.

Each workstream has been carefully designed to address the key activities and work required under a TP -- a total portfolio approach framework, with the broad representation across the office to ensure that there is alignment and inclusivity along the way.

The first on the left is Board action. I've already referenced this one. This is really focused on your adoption of a reference portfolio and active risk limit. The second is the Investment Office's internal governance. This involves mapping and reviewing the roles and staff, and as well as our committees which support decision-making in a total portfolio approach environment, and importantly monitoring and reporting.

The third, the next one, is portfolio construction. This captures the development of frameworks, which support our management of liquidity -- sorry, excuse me, which captures the development of frameworks which will support the evaluation of strategies, the cost of capital, and ultimately the allocation of risk.

The fourth is treasury management, and that is focused on the set of frameworks which will support our management of liquidity and leverage in a TPA context. And this is also captured as part of our current technology project, which should enhance the efficiency and oversight.

The next slide.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: Number five, policy and controls. We will ensure that changes to our governance portfolio construction and other frameworks are reflected in updated policies, and appropriate controls. We're currently working on an update to the Total Fund Policy, and that's something that you can expect to see in March of next year for a first read. We would incorporate any feedback from the Board. And the thinking is we would be ready for a second read in June of next year.

Number six, communication and engagement is primarily focused internally across the Investment Office and the enterprise. And as I referenced earlier, this acknowledges that this is a significant change management exercise, and so that we -- you know, we've approached this with focused and varied communications across the organization.

Number seven reporting is -- as Stephen mentioned before, reporting is about ensuring that we, for management purposes and for the Board, that we're -- we continue to be transparent, comprehensive, and informative with our reporting.

And last, but not least, number eight is implementation. So this is essentially the body of work where we -- you know, with all of the various functional outputs of all the other workstreams, that we're operate -- operationally ready to go July of next year, assuming that this is adopted.

So with that said, you know, each of these eight workstreams are well underway, under Stephen's leadership and also under the guidance of our Total Portfolio Approach Steering Committee, which is comprised of several leaders within the Investment Office. And yeah, and the -- and -- yeah, so everything is well underway.

And with that, I guess we can open it up for any questions -- oh, Michele.

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: I'll go ahead and -- sorry about that. I'll go ahead and address the timeline, and then open -- have you open it up for questions at that point.

This is our ALM timeline as you see on this slide. And you've seen this before, but we are obviously in November at the Board vote point of the process. I did want to point out that whatever the outcome today, we will hold a stakeholder webinar on December 4th to discuss the employer and member impacts of the outcome of today's meeting.

Also, in the spring, you can look forward to this four-year cycle continuing with the Affiliate Funds, ALM process. So we will present that in March of 2026, as -- and as -- in addition to that, if this is approved, we will start rolling through the policy changes that reference the total portfolio approach, because right now, they reference the strategic asset allocation approach.

And with that, this concludes the presentation and our recommendation, Mr. Chair. We'd be happy to take questions at this time.

CHAIR MILLER: Okay. Thank you. Yeah, I appreciate the presentation. And there will certainly be some questions. And I do really -- I like the slide that really, to me, brings home the point that this is an evolution. This is actually additive, that we're not, you know, throwing anything out, and giving anything up, and that we'll still be able to, you know, lead the world in transparency, and the Board will still have the reporting, we'll still have the kind of relationships with staff to be able to get questions answered. And certainly if we go forward with this, we'll really want to be tracking those workstreams, and prized as we go along.

So with that, I'll call on President Taylor, if I get this little magic microphone to work. There we go.

COMMITTEE MEMBER TAYLOR: Thank you. Thank you, Chair Miller and thank you for the presentation.

I just wanted to kind of go through our path to total portfolio approach a little bit with the eight project workstreams, which I really I think this is a great way to look at this. I'm glad you guys have cut it up like this. Internal governance, I love the way you guys have moved the team into making decisions, but also have your upper level governance decisions, investment decisions, the framework to allocate, measure, monitor, and manage active risk. How does that -- I guess my question on that, how does that specifically, in the framework to allocate, how is that going to exactly work?

CHIEF INVESTMENT OFFICER GILMORE: Thank you, President Taylor. What I would say your comment about this is an evolution to what we're already doing. And I can highlight some things that we already have in place, which give us a good start. The Investment team is compensated based on the whole portfolio. It's not by asset class. That's a really important start.

Also, some of the asset classes, like private equity for instance, are benchmarked against listed equities or already. So no big change there. And we also proxy some asset classes. So if we are underweight a private asset class, we'll overweight the liquid. So think of it is as having had a decent starting point.

So when it comes to, you know, going forward, the aim is to have more of these collective discussions about the portfolio construction. And our thinking is that we would have an extensive exercise annually to think about, okay, how are we going to build the portfolio?

We've already had that discussion internally on, let's say, the private market assets, thinking we need to give those teams that certainty, that horizon, and our approach is to essentially project a three-year portfolio, based on, you know, relationships, what the teams can get away in terms of capital, the opportunity set and consistency. And we'll update that every year.

So the thinking is the internal team would come up with its best estimates or projections for the portfolio and then communicate that to the Board. But, of course, that's strategic. So we would do that -- we expect once a year. And as I say, it's the internal team meeting together in a Committee we call the Total Fund Management Committee to think about the relative attractiveness of the overall opportunities that we can invest in, consistent with the risk parameters that we've been given.

COMMITTEE MEMBER TAYLOR: Thank you. I think -- highlight for me what would -- you're saying what we're already doing. So what would be different that we would be doing?

CHIEF INVESTMENT OFFICER GILMORE: What would be different is that each year, there would be an updated projected portfolio. So right now, with the strategic asset allocation, you know, every four years, there's a new strategic asset allocation. There's a midpoint review. We would do that more frequently essentially. You'd get that update projection every year. So that would be -- that would be different. And all the teams would come together. And it's a bit like doing the SAA every year in a way.

COMMITTEE MEMBER TAYLOR: Okay. And so then the team gets together and does this and then you bring it to the Board?

CHIEF INVESTMENT OFFICER GILMORE: Yes, absolutely.

COMMITTEE MEMBER TAYLOR: Okay.

And then my last question was policy and procedure controls and underpinning the successful transition to TPA. Are those coming to the Board when those are put together?

CHIEF INVESTMENT OFFICER GILMORE: Yes, and I'll pas it through to Amy.

COMMITTEE MEMBER TAYLOR: Okay.

INVESTMENT DIRECTOR DEMING: Yes. We're working on that right now. We're revising the policy. We're even looking at the structure of the policy to make it more user friendly, more straightforward. That policy is -- we're really in the throes of it right now. And the thinking is we can bring it to you in March for a first read next year.

COMMITTEE MEMBER TAYLOR: Very good.

INVESTMENT DIRECTOR DEMING: And then ideally June for the second read and approval.

COMMITTEE MEMBER TAYLOR: All right. Thank you very much. That's it for me.

CHAIR MILLER: Okay. Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair Miller. Thank you for the presentation. I'll follow up on President Taylor's comment about the implementation, but I'll start -- well, I guess it's connected. I didn't know I was next, so let me find my notes here.

One of the things that was clear in the Board letter, and it's also mentioned in the Wilshire letter, is the -- there's going to be significant operational and cultural changes. So in the workstream, -- is that addressed in item -- in the number six box, the communication engagement? And is that where -- I mean, because it's a big cultural realignment to use somebody else's term. And so how are we doing that and will be --

will be -- will we be ready by July 1st?

CHIEF INVESTMENT OFFICER GILMORE: I'd say it is primarily Box 6, but it's actually all of the boxes. And I would characterize the total portfolio approach as really more of a mindset, where we're thinking about the whole portfolio and relying a lot on collaboration. So there are other initiatives underway to try and improve that collaboration.

For instance, we have a culture club, which Amy is one of the co-leads of, which has been working on this. So lots of elements, you know, to this process. Amy, I don't know if you want to add a couple of comments on that.

INVESTMENT DIRECTOR DEMING: Yeah. I think you're right to say that it touches all of the boxes, but I do think that you're zeroing in on number six is key. We've been doing something that's a bit -- a bit new in the Investment Office, which is an internal road show to communicate TPA to get everybody understanding everything, and bringing them along, and making sure that we're sort of co-creating what TPA is for the Investment Office with every program in the group. So I think there are a number of things going on that touch -- that touch on what you're speaking to. Thanks for the question.

COMMITTEE MEMBER RUBALCAVA: I mean -- one thing that was clear on all these documents is that that was highlighted as significant. I mean, it's key, so I want to make sure we are attentive to it.

The other thing is following the President's comment is about the implementation. Add I think it's a question I asked in September is it's -- how is investment decisions made? And I think you sort of explained a little bit about how there's that annual -- I mean, there's a three-year projection and a report on allocations and stuff. So you've elaborated a little bit, because -- and you mentioned how it impacts -- I think the example you used how it impacts private equity. So that would be of interest to me, because we may -- this Board made a decision to sort of -- made a decision to not have a lost -- another lost decade and be consistent.

And so, because there's this term competition for capital or - I forgot the actual term - how is that gauged at any one point? I mean, one thing that this TPA is supposed to be, it's supposed to be more -- ability to move quicker and things like that. So I just want to -- so when I say on one hand people need to have some sort of expectation of stability for the allocation, but then there will be changes. So whether it be like some reserve set aside or how does it work? How does the implementation work? As I think it's said throughout the document that the most significant change or the most significant is how investment decisions are made. So that's what I was hoping you could elaborate a little bit on, please. Thank you.

CHIEF INVESTMENT OFFICER GILMORE: Probably the most important thing there is a better integration of the top-down thinking and the bottom-up thinking, in terms of what we're seeing on the ground. And as has been mentioned, the intention is to have a three-year projection updated every year. So each of the teams will have that assurance, that they have, you know, the capital to invest. And your right, we want to avoid another lost decade and we want to be consistent. Having those consistent flows is important.

The relative course is we don't always know when we're going to find good opportunities. Sometimes we might find more than we expect. So there has to be a degree of flexibility at the level of the investing teams.

So it's really more about a collaborative process. That three-year projection sets the expectation. Obviously, what we actually find, the market outcomes, you know, maybe different, but we've got the roadmap. And I think it's important that that's a roadmap. And as Director Rubalcava you mentioned, the aim is to also, you know, exercise some flexibility. If we see great opportunities, we should be investing more capital in those areas. But we also want that consistency across the portfolio. With a strategic asset allocation, there's always a danger that a particular asset class team just simply fills the bucket and tries to achieve its -- you know, its target without actually having referenced to what all the other opportunities might be across the portfolio. So we want to have more of those conversations across the whole team.

So I would say it's, you know, that mindset and it's more collaborative. But, of course, the teams need that degree of certainty with respect to the capital is going to be there over a longer period of time. And so there's that consistency of approach and investment.

COMMITTEE MEMBER RUBALCAVA: Thank you. And my final question is, one thing that has been stated a lot in this -- in representations is that the Board is adopting -- the we go this way, it's adopting a little bit more risk, but there's the -- was it -- but it's balanced with greater return, and that's why I appreciate that we're staying with the 6.8, which would basically -- we are sensitive to the impact on the employer and employee member contribution, so I appreciate that.

But the other thing that also comes through for that -- related to that is the liquidity. And I know there's a whole section on how we're going to manage it. And somehow I read some place that there's -- well, my question is because it's a total viewshed, it will be -- I get the sense, if you could confirm from this, a little bit easier to handle and maintain where are we on the liquidity, because we are a mature plan and we want to make sure -- and I know there's a chart that -- we want to make sure that everybody understands that we are cognizant that there's some obligations to the -- to the -- to the member, to the retiree. And that's actually better protected under this approach.

So if you could confirm my thesis on that about the liquidity being better managed under this format and that we are cognizant of what we need.

CHIEF INVESTMENT OFFICER GILMORE: I would say that the team has done a lot of work on liquidity management through time. Part of that is a response to, you know, what has happened in the past, particularly, you know, the financial crisis. So the aim is to try and understand that liquidity at whole of portfolio level. And, of course, it does become easier to manage when you're taking a total portfolio approach to liquidity. And you're right, we're focusing very much on making sure we can pay what we have to pay, pensions and other legal obligations. And we've shared information on that -- on that previously, but liquidity is a key factor for us. We do think that, given our long horizon, given the contributions coming in, given the improvement in our understanding of liquidity and the modeling, and our extra liquidity, we can take a greater exposure to private assets than we have in the past. So that's all part of the overall picture.

I would say that it's a combination of things. It's a combination of the approach and it's a combination also of our improved capability in terms of modeling, and in terms of accessing liquidity via the markets. So it's not just one thing. It's all those together.

COMMITTEE MEMBER RUBALCAVA: Thank you very much. Thank you, Mr. Miller.

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

ACTING COMMITTEE MEMBER RUFFINO: Thank you. Thank you, Mr. Chair. And first, Ms. Mascha, welcome to CalPERS, welcome to beautiful Sacramento, and welcome to the greatest state of the nation, California.

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: Thank you, team for -- Mr. Gilmore and the entire team for this long, incredible work. And it looks like today finally we are getting there after a year. I want to premise before I make my comments that our office support the action agenda item, but we would like to add, if you will, a small recommendation to the list of recommendation that you have listed.

And so as we consider adopting the total portfolio approach, which of course has been said, which represents a significant shift in how CalPERS manages and evaluates the total fund risk, and given the material shift in governance structure and the importance of ensuring TPA delivers the improved outcomes it is designed to achieve, we would like to propose that the Board adopt an additional recommendation in the final language for inclusion in our action today.

And if it's necessary, I will make a motion, Mr. Chair, at the end of my comment.

So that as part of its adoption of the total portfolio approach, the Board of Administration directs staff to conduct a formal review of the efficacy of the total portfolio approach compared to the prior strategic asset allocation governance model. This review shall occur no later than two years from the effective date of the TPA transition and will evaluate at minimum the following: performance outcomes, risk management and volatility, governance, accountability, transparency, and stakeholder's impact.

The review shall be presented publicly to the Investment Committee and include recommendation regarding whether to continue, modify, or reverse any elements of the TPA governance framework. And the staff shall include annual interim updates with the trust level review to keep the Board informed on implementation progress and risk posture under TPA.

Now, I note, and I anticipate, you say, well, we do that under the ALM. And I note your slide five that says no changes to the ALM process. And I say thank you. I say we fully appreciate that the ALM cycle itself is well established and includes regular updates. However, the review that we are proposing serves a different purpose. ALM evaluates long term assumptions and the balance between liabilities and expected returns. It does not compare governance model head to head.

The shift from our traditional strategic asset allocation to TPA is a material governance change and it deserves its own outcome based evaluation: one that looks specifically at, one, how the TPA model performs relative to the old SAA approach; two, how effective the new reference portfolio and active risk limits are; three, whether transparency and accountability actually improve under TPA; and finally, but not least, and whether risk and contribution stability remain in line with expectations.

This isn't about questioning the ALM. It's about complementing the ALM with a focused assessment on the new governance structure. The purpose is very simple, it simply gives this Board, our stakeholders, and employer partners a clear and transparent evaluation on whether the shift to TPA improves outcomes. That simple.

So it is our opinion that our targeted two-year review is good governance and consistent with our fiduciary duty.

And, Mr. Chair, I'd like to propose that that would be a --

COMMITTEE MEMBER TAYLOR: We haven't made a motion yet.

ACTING COMMITTEE MEMBER RUFFINO: Oh, never mind. Okay. I'll wait.

CHAIR MILLER: I think, yeah, you'd have to make a motion, after we have a motion on the floor and everything, so then you could try to amend that, and we could have a discussion of that. Yeah.

ACTING COMMITTEE MEMBER RUFFINO: Oh, okay. Perfect. I got it.

CHAIR MILLER: I'll rely on Mr. Carlin and team to advise us at that point.

ACTING COMMITTEE MEMBER RUFFINO: Very well.

Thank you.

CHAIR MILLER: That's it.

Okay. Next, I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank yo. Thank you, Mr. Gilmore for your presentation. Thank you, Ms. Nix and team for all your presentations. I really appreciate everything that you'd done on this. It has been -- it's been about a year -- I think a year and a half of our education of going through this process. But I think it's been a very engaging and robust process that we've had, in terms of us asking the questions and then you providing us the best answers possible to the question.

So I have a couple questions that I want to ask, and it's more basic questions. I mean, the first one is, you know, we're proposing -- the recommendation is to go from 75 to 25 percent in the reference portfolio. But currently we're at 72/28. You know, does that add more risk today, given the increased valuations of our private equities -- public equities -- excuse me, public equities? And if you could elaborate on that of the -- of that risk, because we are at a high valuation in terms of his -- right now, in terms of our public equities.

So Mr. Gilmore, or if someone on the team can elaborate on that, it would be great.

CHIEF INVESTMENT OFFICER GILMORE: Yes. It does add a little bit more risk, but I think the 75/25 should be viewed over a longer horizon. It's always very hard to time the market in terms of adding risk, taking risk away. So think of it is as looking through the cycle. The discretion that the Board will be giving -- well is giving management now and will give management under this, allows management to take risk down if it so chooses. But think of the 75/25 as the longer term risk that is being taken.

COMMITTEE MEMBER PACHECO: Are you meaning with -- when you mean longer term risk, are you meaning more like 20 years, 30 years, 40 years?

CHIEF INVESTMENT OFFICER GILMORE: All I mean through time, because one of the -- remember, one of the challenges we faced in the past is, obviously being procyclical, taking risk up at the wrong time, taking it down at the wrong time. Now, I know some people will say that things look relatively expensive now, but they can remain expensive for a very long time. Often, when things look overvalued, they stay overvalued for years. So it's actually very hard to time those big picture moves or the trades.

So think of 75/25 as the tolerance through time. And because the management team can take some active risk, it could take risk down or up within the active risk limit that has been given.

COMMITTEE MEMBER PACHECO: And talking about active risk, you know, in our -- with respect -- we haven't gotten -- we haven't come to it yet. But during the -- in the trust review for instance, we've had an increase in our active risk has been increasing over time. Is that -- is that going to allow us with this 75/25, will be able to have more active risk in the future, because we have that new -- we're voting also for a 400 basis point limit, so...

CHIEF INVESTMENT OFFICER GILMORE: Yeah. The expectation is we will take more active risks through time. And that's one of the things that I've been very aware of. The Board has encouraged us to take more active risk. And I think this framework will end up with the management team taking more active risk with the aim of generating additional excess returns.

COMMITTEE MEMBER PACHECO: Very good.

CHIEF INVESTMENT OFFICER GILMORE: So that's a reasonable expectation.

COMMITTEE MEMBER PACHECO: My second question -- and thank you, Mr. Gilmore that. My second question is regarding the shift in our delegation authority. In terms of we are -- you know, I read -- I read some of the other TPAs around the world in New Zealand, the Canadian system. And, you know, everyone has their own version, their own slight, and we're going to have our own -- basically our own flavor in North America.

And in one of those aspects of it, you know, based on what I've -- we've heard, they are going to -- we are going to no longer be able to chime in on allocating for the particular asset class, like for -- like in real assets, or in public equities, or so forth. And I -- and now we're -- and we're going to be looking at it from a total portfolio, you know, the whole -- the whole gamut. Can you just elaborate more on that, and where -- if that's something we should be concerned about, because it brings up a governance process as well.

CHIEF INVESTMENT OFFICER GILMORE: Well, you will see each quarter an updated report on the portfolio. So we will report that in terms of asset classes, in terms of the actual exposures and in terms of risk usage. And you will see annually the expected portfolio that we're building towards. So you will get that as Board members, as Investment Committee members. So you can always comment on those allocations.

But the process behind coming up with those allocations is to be thinking about what is the best portfolio that we can construct to achieve our objectives. And, of course, we're using asset classes to construct that portfolio. So you will see the same information that you currently see in terms of the report on where the portfolio is at. But you will also get an annual update on where we think we're going to be in three years' time.

COMMITTEE MEMBER PACHECO: All right. Good then.

And then the last question and it has come up a bit on -- with respect to the Wilshire letter, with respect to Mr. -- the Wilshire team had mentioned the implementation challenges and the shifting of that. Also, but more importantly, the cultural changes among the particular teams. How will you be able to encourage or develop the collaboration, or the thing -- and I know you've done good work with respect to the culture club and so forth, but in the -- as we move forward, having that -- having that -- having the resources in place to make that implementation possible. And I know the workstreams are going to be done by Amy, as we -- as we move forward in the -- in the coming year. But I just wanted to know if you all can -- one of you can elaborate on that.

CHIEF INVESTMENT OFFICER GILMORE: Yeah. I think we're all participating in the workstreams. As I said, it's really a mindset. And I do think the road shows that the teams have been conducting with all of the individual asset class teams have been very helpful. The discussions we have on whole of portfolio at our total fund committee meetings are also part of that.

We've already taken some decisions within, you know, the existing delegations to alter, you know, some of the allocation. So we're seeing that. We're seeing more innovation in terms of people and teams stepping up and doing things more innovatively. It's just part of the process. We've been using the opportunistic allocation that we have. I expect to see more of that under the Total Portfolio Approach. So it's a journey. And I think we have a lot of the enabling conditions in place, which I've talked about before. I think it's always difficult when you make these sorts of changes. I've seen it in other places.

And I think in terms of technically, we're quite well prepared. I think also in terms of mindset, we're seeing that evolution and people coming along and seeing some of the advantages, because it can be empowering for the team members as well. And it does become a collective thing, so we need to have that collaboration and transparency across the team members, but so far, so good.

COMMITTEE MEMBER PACHECO: And, Mr. Gilmore, thank you for that questions. That kind of adds up to one more thing that just -- you just brought up. In terms of this philosophy, this new TPA philosophy, we're basically -- it's basically our TPA. It's not -- it's not -- it's not New Zealand's, it's not the Canadian.

We're making our own version of it.

CHIEF INVESTMENT OFFICER GILMORE: It has to be ours. It has to work for us. It has to work for our mandate, so it's ours.

COMMITTEE MEMBER PACHECO: It has to be with respect to your culture, respect to our mandate and how it works with our -- with our stakeholders for instance.

CHIEF INVESTMENT OFFICER GILMORE: All of those things.

COMMITTEE MEMBER PACHECO: So as we move forward with this, will we -- will we be able to -- be able to get a lot of input from our stakeholders, from a variety of stakeholders to have continuous input, so that we can -- we can -- we can make this our own.

CHIEF INVESTMENT OFFICER GILMORE: Well, one of the things that goes hand in hand with this total portfolio approach is continuous improvement. And so receiving input, analyzing that, and evolving is just part of the process.

Marcie is reminding me I should talk about some of the webinars that we have. So we will have that outreach. We'll also talk to stakeholders more generally, publications, and so on. So always willing to receive that feedback and that input.

COMMITTEE MEMBER PACHECO: Oh, that -- and that's a great questions, because having the input through the -- like, for instance, the webinars, the roundtables that are with the stakeholders, it -- for instance, next month for instance -- not next month. Excuse me. In January, you'll have the Stakeholder Forum, an opportunity for stakeholders to be able to chime in and bring in their input on what's happening. Will that be -- will that be a welcome -- would that -- you'll be welcoming those kinds of inputs and those --

CHIEF INVESTMENT OFFICER GILMORE: Very much. And I think the first webinar is early December, isn't it, Michele? The 4th of December.

COMMITTEE MEMBER PACHECO: Oh, fantastic then. I think --

CHIEF INVESTMENT OFFICER GILMORE: It's not the first one. It's the third one, but it will be the first one after this meeting.

COMMITTEE MEMBER PACHECO: No. I think what you've mentioned now Mr. Gilmore and team I think you've brought a lot of concerns. You know, this is a very -- you know, it is different shift. It is a different mind shift. But I feel there are -- it has -- it has merit, but it has to have a variety of, you know, guardrails and things to be set in place. And I think, as we move forward, we take little baby steps to make it happen. So thank you very much for your help, sir.

CHIEF INVESTMENT OFFICER GILMORE: Thank you.

COMMITTEE MEMBER PACHECO: Thank you.

CHAIR MILLER: Thank you. Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you, Mr. Chairman. Stephen, I do have some questions for you, but I'd like to start actually with a couple of questions for Scott, if I could.

One of the slides that you had Scott indicated, if I'm reading it correctly, that in 10 years your expected funded status to reach 97 percent for miscellaneous employees, 95 percent for safety. Is that an improvement in terms of time over previous projections, and if it is, to what extent does TPA play a part in that improvement?

CHIEF ACTUARY TERANDO: I think it's a slight improvement. As you compare, you know, our funded status overall has increased. You know, we're right around 79, 80 percent funded status, depending on your measurement. And so basically, that's looking at, you know, an increase -- you know, our funded status improve over 10 years. You know, we've generally been around one percent. You know, you think about one percent per year increase. But as we -- it kind of -- if you think about an exponential curve, it kind of accelerates as we get closer towards a hundred percent. And that's kind of just what you're seeing here is it's -- the rate of year-over-year kind of gets quicker and quicker as, you know, we get better funded and we approach that 100 percent.

So I think that's a -- we're looking at a better view than we were a few years ago, and that's encouraging. As to TPA versus SSA in terms of where it is, that's hard to differentiate. You know, from our perspective, we're looking at, you know, what's the volatility and the expected returns of various scenarios that are given to us on the portfolios.

And, you know, we've got this large amount of data that comes to us that we analyze. And, you know, we didn't really get into the -- differentiate between old method versus new method. We just kind of worked with what we had in front of us.

COMMITTEE MEMBER MIDDLETON: I can appreciate the difficulty. Performance is a fundamental reason for making a change of this nature. And it's one of the things that, as we move forward, we certainly would want to be taking a hard look at whether or not we are achieving improved performance improvement in the time frames to ultimately get to a hundred percent.

CHIEF ACTUARY TERANDO: Yeah.

COMMITTEE MEMBER MIDDLETON: But I -- in saying that, I want to say I'm very complimentary of the pace and the rigor that has been attached to that pace as we have tried to make these changes. That's how you make sure that we're taking on risk at appropriate levels.

CHIEF ACTUARY TERANDO: (Nods head).

COMMITTEE MEMBER MIDDLETON: Stephen, thank you. I know this has been a tremendous amount of work and I am very favorable to the direction that we're going. As I understand it, one of the things from a Board standpoint this should provide to us is a much great focus of the Board in its oversight role on total performance as opposed to whether or not a particular asset allocation target has been reached or is being met, is that correct?

CHIEF INVESTMENT OFFICER GILMORE: That is correct, because each asset class will be making a contribution to the whole. And that might mean that a particular asset class is more concentrated than it would otherwise be, if it was a stand-alone portfolio. So, yes, focus on the whole.

COMMITTEE MEMBER MIDDLETON: So as we move forward, one of the things that that should provide to you and your team is greater flexibility and the ability to move more quickly, as market conditions change, as opportunities arise. And I think it's going to be incredibly important to be able to define examples of where we have been able, moving forward, to achieve a result because of that greater flexibility, that greater ability to move quickly than we would have otherwise been able to achieve.

CHIEF INVESTMENT OFFICER GILMORE: Noted. I think given the change of mindset, we're already seeing some of those things, but we can report back on that.

COMMITTEE MEMBER MIDDLETON: Great. Thank you.

Lastly, Mr. Chairman and to all, and this is going to be an issue that's, I think, much more going to surface in the Performance, Compensation, and Talent Management Committee, but our compensation models are absolutely critical to the achievement of the goals that we have here.

And I fully understand. I don't appreciate that we have the restrictions, but I understand the legal restrictions on our Chief Investment Officer and our Chief Executive Officer being able to provide direct advice to the Board on the compensation models of our team. I hate to use the word "untenable", but I believe it is. And the success of everything that we have done over the last year is dependent on our ability to find a legal solution that allows this Board to receive direct advice and have direct conversations with the two most critical performers to the effort that we are about to undertake.

Thank you.

CHAIR MILLER: Thank you. President Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you, Chair Miller. I'd like to thank my colleagues for some really prescient comments and questions. So I would like to make a motion, but before I do that, I kind of want to take care of this suggestion, motion that Frank for Fiona wants to make. And I guess part of that is a question to you, Stephen.

My thought, first of all, is that it can probably be done by direction from the Board, rather than adding to the motion, but secondly, can we even compare even in two years -- at two years or would it be better for four years to compare TPA to SSA or would we need to adopt a pretend SSA to compare it to? (Clears throat). Excuse me.

CHIEF INVESTMENT OFFICER GILMORE: Look, I think two years is a very short time horizon to be thinking about financial performance, but there are other elements like transparency and what the Board is getting, and it makes sense to check in.

COMMITTEE MEMBER TAYLOR: Okay.

CHIEF INVESTMENT OFFICER GILMORE: But this is really about long-term performance. And different organizations that are following a total portfolio approach will have different outcomes. But conceptually, if you're trying to optimize the whole portfolio, it should be superior than to optimizing asset class by asset class. It requires, you know, collaboration.

So two years I think is too short for performance, but it makes perfect sense for the investment committee to be checking in on progress to date in terms of some of the other elements.

COMMITTEE MEMBER TAYLOR: So -- and I think there's an expectation we would be doing that anyway, right?

CHIEF INVESTMENT OFFICER GILMORE: Yes.

COMMITTEE MEMBER TAYLOR: So he's -- Frank's specific push I think was performance. To compare it to what might have been the return for SSA versus TPA. And I -- and so, I think we should make it direction from the Board that could be sort of worked out, you know, what your suggestion would be, right? Like direction that we could try to do that comparison. I know you have already said that there's a, I think it was, a 1.5 percentage point difference, something like that.

CHIEF INVESTMENT OFFICER GILMORE: Yeah, that's always up for debate. I think I've referred to something that the Willis Towers Watson Thinking Ahead Institute has done --

COMMITTEE MEMBER TAYLOR: Yeah.

CHIEF INVESTMENT OFFICER GILMORE: -- where they've looked at 26 large asset owners and as they've said that those that follow a total portfolio approach have added something like 130 basis points more than those that follow a strategic asset allocation, but that -- those -- it's a very small sample set. Those numbers can be challenged, different mandates, et cetera. So I wouldn't rely on that too much. But conceptually, if you think about, as I mentioned, you're optimizing the portfolio as a whole, it should be superior to optimizing asset class by asset class. But it requires that there is sufficient collaboration across the team. And I think we've got the organization to do that.

COMMITTEE MEMBER TAYLOR: Okay. So I'm going to make a suggestion to Frank that we do this as Board direction and that we kind of give it a little soft curves, rather than such directives. I can go ahead and make the motion and then you can ask David to -- go ahead, Frank.

CHAIR MILLER: Go ahead, Frank.

ACTING COMMITTEE MEMBER RUFFINO: Mr. Chair, if I may just clarify, since you've mentioned performance. It's not necessarily about perform -- it was not about performance. It's about governance and efficacy.

COMMITTEE MEMBER TAYLOR: Unless it's --

ACTING COMMITTEE MEMBER RUFFINO: And then the second point, just quickly, I want to make sure that it's clear, so that I didn't get misunderstood, this is a one time sort of governance check that we are suggesting. I just want to clarify that.

COMMITTEE MEMBER TAYLOR: We should do that regularly, I think. Isn't that what he was talking about that we should do on the two-year check anyway.

ACTING COMMITTEE MEMBER RUFFINO: Yeah, correct. And I know that, as I said earlier, you know, we have the ALM and we have plenty of opportunities. I just want to formally make sure, because since -- given, you know, what are we doing, that we formally have a check-in -- a one-time check-in on performance.

CHAIR MILLER: Okay. I think that that's something that could be Committee direction for the two-year check-in. And frankly I think as we go along with these workstreams, we're going to want to have regular check-ins, and, you know. And so for staff to think about, you know, how can the Board be helpful, and supportive, and what additional communication should we be having with the Board this committee, which is a Committee of the whole, and whether there's something else that we could think about in terms of communication, structure, whatever that would be helpful, even some crazy idea like less than a full committee of the whole checking in with progress and reporting back to the Board. I'm not making that as a proposal. I'm just thinking out loud.

So, we're way past the time we should have taken a break.

COMMITTEE MEMBER TAYLOR: Well, hold on, I was going to make a motion.

CHAIR MILLER: Well --

COMMITTEE MEMBER TAYLOR: Oh, we're not there, is that what you're saying? Oh, I see.

CHAIR MILLER: Because I've got people that want to talk and then we've got public comments and everything to do.

COMMITTEE MEMBER TAYLOR: Okay. You got it.

CHAIR MILLER: So would this be a time we can take a 10-minute break and then we'll jump back in and you can -- we'll hear from people that want to speak, then we'll have a motion.

COMMITTEE MEMBER TAYLOR: (Nods head).

CHAIR MILLER: Okay. Ten-minute break. Be back at 11:41.

(Off record: 11:31 a.m.)

(Thereupon a recess was taken.)

(On record: 11:46 a.m.)

CHAIR MILLER: Okay. We are trying to get back in session here. All right. It looks like Frank might make it back up here before -- and not be the last one.

Okay. We are back from our break, ready to jump back in. And I think -- I think I need you to hit your button there, Theresa, to come back. You were the last one that was still speaking when -- there we go.

COMMITTEE MEMBER TAYLOR: Okay. So I think we got our questions answered. I think we sort of solved what we were trying to figure out. So I am going to make a motion to adopt the recommendation from staff. Do you want me to ready it all out, guys? Should I read it all out.

Okie dokie. Adopt the capital market assumptions that are the basis for the expected return projections, adopt a new investment governance model of total portfolio approach, and a new formal total fund risk consisting of a reference portfolio and active risk limit -- active risk limits, replacing the current investment governance model of a strategic asset allocation, adopt a reference portfolio with a 75/25 mix of equities and bonds respectively, adopt an active risk limit of 400 basis points for management's non-reference portfolio investments, no change to the current discount rate of 6.8 percent, if adopting the recommended 75/25 reference portfolio.

CHAIR MILLER: Okay. Moved by President Taylor.

COMMITTEE MEMBER PALKKI: Second.

CHAIR MILLER: Seconded by Director Palkki.

Okay. I'll open it up for discussion on the matter. I've got Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes, and thank you, Chairman Miller. I would -- I would like to also add the -- I would like to entertain the amendment that Frank -- that the Treasurer has brought up, that I think is -- I think would be important. I think direction is okay, but I think making it a part of the amendment as well onto the motion would be stronger. So, Frank, do you remember -- I didn't capture all the -- it was about governance and so forth. Can you just again elaborate on that, please.

CHAIR MILLER: We have an amendment. Do we need a second for that amendment.

We need a second.

ACTING COMMITTEE MEMBER RUFFINO: (Hand raised).

CHAIR MILLER: Okay. Frank seconds the amendment.

COMMITTEE MEMBER TAYLOR: No, I don't.

CHAIR MILLER: Let's have some discussion on the matter.

Frank, I'll need your button.

CHIEF EXECUTIVE OFFICER FROST: You should read the --

COMMITTEE MEMBER TAYLOR: Who seconded it?

CHIEF EXECUTIVE OFFICER FROST: -- amendment into the record, Chair Miller.

CHAIR MILLER: Oh, Theresa.

COMMITTEE MEMBER TAYLOR: Pardon me?

CHAIR MILLER: There's been an amendment proposed. Does the maker of the motion accept the amendment?

COMMITTEE MEMBER TAYLOR: No.

CHAIR MILLER: No. Okay.

CHIEF EXECUTIVE OFFICER FROST: Chair Miller, we -- you should have the amendment articulated into the record, first

CHAIR MILLER: Okay.

COMMITTEE MEMBER PACHECO: Yes.

COMMITTEE MEMBER MILLER: So --

COMMITTEE MEMBER PACHECO: I don't -- I didn't write it down, because Frank has it.

CHAIR MILLER: Well, I think I -- let me -- can I say what I think it was and see if that will --

COMMITTEE MEMBER PACHECO: Yeah.

CHAIR MILLER: -- do for the record?

Okay. So Mr. Pacheco is proposing an amendment that would incorporate the recommendations that the Treasurer's office put into the record already. Will that do or does -- or does Frank have to articulate them?

CHIEF EXECUTIVE OFFICER FROST: I think -- I think the Chair -- or I think Mr. Ruffino should articulate the amendment --

CHAIR MILLER: Okay.

CHIEF EXECUTIVE OFFICER FROST: -- into the record.

CHAIR MILLER: Is it on?

No. One more time. There we go. You're on, Frank.

ACTING COMMITTEE MEMBER RUFFINO: All right. Thank you. Thank you, Mr. Chair. So the amendment was simply to propose that the Board add the recommend -- recommendation for inclusion in today action item, that as a part of the adoption of TPA, no later than -- no later than two years, the Board of Administration directs staff to conduct formal review of all efficacy of the total of TPA compared to the prior -- to the prior strategic asset allocation governance model.

COMMITTEE MEMBER TAYLOR: And who was it seconded by, please?

COMMITTEE MEMBER PACHECO: I seconded.

COMMITTEE MEMBER TAYLOR: You did.

COMMITTEE MEMBER PACHECO: Yes, ma'am.

ACTING COMMITTEE MEMBER RUFFINO: No. No. You made the motion.

COMMITTEE MEMBER TAYLOR: You made the motion.

COMMITTEE MEMBER PACHECO: I made the motion, but -- yeah. Sorry. Sorry. Yeah.

ACTING COMMITTEE MEMBER RUFFINO: Second.

COMMITTEE MEMBER TAYLOR: Okay.

CHAIR MILLER: Okay. Any further discussion on this?

Okay. Oh, we've got public comments on this overall item. Do I do those after the -- this amendment? Okay. So this amends the motion, so, okay. So no further discussion, so I'll call for the questions on the --

CHIEF EXECUTIVE OFFICER FROST: I would do public comment before you take --

COMMITTEE MEMBER PACHECO: Yeah.

CHIEF EXECUTIVE OFFICER FROST: -- the vote on the motion.

CHAIR MILLER: Oh, isn't this the vote on the amendment to the motion?

CHIEF EXECUTIVE OFFICER FROST: It's still -- it's still the motion. You should take public comment.

CHAIR MILLER: Okay. Okay. So we'll go to public comments now. Okay. Okay.

Let me get my little staff here. Okay. We have public commenters in the room. I don't know if we have it on phone. I'm going to go back to our three minute for this one since we only have a few commenters on this item, and it's -- yeah. So our commenters will have three minutes on the clock for this one. And so -- okay. So I've got J.J. Jelincic, Larry Woodson, followed by James McRitchie and then Frank Ruiz.

Oh, let's see, do I have --

COMMITTEE MEMBER TAYLOR: You have one more. There is Mark Swabey.

CHAIR MILLER: Oh, I had him for 6e. Okay. And Mr. Swabey.

J.J. JELINCIC: I take it my request for four minutes was denied.

CHAIR MILLER: You know, we bumped it back up to three, because we're tying to really -- so, but -- yeah, so, we'll have to see.

LARRY WOODSON: I requested five.

COMMITTEE MEMBER PACHECO: Yes.

CHAIR MILLER: Yeah.

COMMITTEE MEMBER PACHECO: I would give them personal privilege.

CHAIR MILLER: Well, yeah -- you know, I --

J.J. JELINCIC: You've been talking about it for a year. A few extra minutes won't make a difference.

COMMITTEE MEMBER PACHECO: It won't make a difference.

CHAIR MILLER: But, we'll leave the clock at 3 and then we'll see what happens. How is that?

J.J. JELINCIC: Am I up first?

CHAIR MILLER: Yeah.

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

Government Code section 20120, "The management and control of this system is vested in the Board." 20171, "The Board has the exclusive control of the administration and investment of retirement funds." 20191, "The Board may itself make any investments authorized by law or sell any security obligation or real property in which monies of the retirement system are invested by an affirmative vote of at least seven members of the board, or by the same affirmative vote may, from time to time, adopt an investment resolution that shall contain detailed guidelines by which -- by which to designate that the securities and properties that are acceptable for purchase.

"While the resolution is in effect, the securities and real property may be purchased for investments by the officer or employee of the Board designated by it for that purpose, and sell securities that are commensurate -- consummated by the officer or Board member under the conditions prescribed. Purchases and sales of securities shall be reported to the Board on a monthly basis at its next regular meeting."

You can delegate your responsi -- your duties, but not your responsibilities or fiduciary obligations. RPEA encourages the Board not to waive even more of its authority, and if the Board and assist had at least complied with the Government Code Section 10191. The big pusher of the total portfolio approach is the Chartered Alternative Investment Analyst Association, the people whose living depends on high fees, secret agreements, secret holdings, and made-up valuations. Why would that be? Because it is a backdoor way of increasing the allocation to private assets. Why would Wall Street and the alternative investment industry want more private assets? The fees are great.

Last year, CalPERS received 3.4 billion from private equity, while paying out 1.7 billion in fees. For every dollar CalPERS received, the GP received $0.50. I noticed some kind of surprises there. I guess you didn't read 4f before you adopted it. TPA further reduces the transparency given to beneficiaries. Staff has told you, they are not using the discretion you already give them to increase returns. However, they say they will do so if they don't have to identify the asset classes they are over- and under-weighting. The will increase returns if they do not have to show what segments of those asset classes they are over- or under-weighting.

Staff has said the portfolio will be slightly more risky. Returns should increase one to one and a half percent. They have also said the discount rate, which under GASB is the expected long-term return, should not be increased. We, as retirees, like the lower discount rate. It brings higher contributions. But if we were employers or PEPRA members, we would not like it. This is not about increasing accountability. It's about more power to operate in the shadows. It is not about acting as prudent experts exercising a duty of care. It's about finding the next job and to keep Wall Street happy. It's the new shiny object. That is not your job, neither is it the purpose of the funds. We encourage you to reject this proposal.

Thank you.

CHAIR MILLER: Thank you.

Next, Larry.

LARRY WOODSON: Good morning. Am I on?

Yeah.

CHAIR MILLER: Yes.

LARRY WOODSON: Larry Woodson, California State

Retirees. My major concern with the proposed TPA is that it allows the staff to alter the asset class target percentages up to 75/25 split, which theoretically would allow staff to double, triple, and even more the current 17 percent target for private equity, which is already too high given the great harm PE is doing to our health care system and general economy.

I submitted a report to all Board members and appropriate exec staff last week on -- by email on the dangers of private equity. I've submitted hard copies to you this morning with an addendum and ask that it be included in the public record. In it, I cite, and previously recommended, that you read the book *Bad Company: Private Equity and the Death of the American Dream* by Megan Greenwell. I don't know if any of you have read it, but if you have, I hope you agree that the subtitle is no exaggeration.

My report documents an explosion of PE acquisitions of health care in the last 15 years doing great harm while making profits for themselves and limited partners, to some extent. And at least 386 hospitals are now owned by PE comprising 30 percent of all for-profit hospitals in the U.S.

The most egregious and extensive harm to health care to date involves the acquisition of a health care system in Massachusetts with six hospitals by PE firm Cerberus, who renamed it Steward Health and expanded to 10 states acquiring 31 more hospitals. Over 10 years, Cerberus implemented it's destructive MO resulting in the closure of six hospitals and the remaining 31 are now in bankruptcy. Hundreds have lost their jobs, including SEIU employees. I was able to document that CalPERS invested nearly $480 million in the very Cerberus fund that played a part in the demise of 37 hospitals in 10 states.

The second section of the report documents the lack of transparency, validity, and validity of PE -- PE valuation, self-reporting by the GP with no third-party audits and almost no SEC oversight, creates a climb for great GP overvaluation. I consulted with an internationally recognized critic of PE who's written extensively about its dangers and how the IRR, internal raise of return, is a misrepresentation of the true rate of return.

Lastly, we are happy to have Mr. Gilmore as our new CIO. His track record and credentials are impressive. In New Zealand, the public pension fund did well under his five-year leadership averaging 8.64 percent return for his five-year tenure in difficult times, compared to CalPERS seven percent for the same time period. And the New Zealand fund did that in spite of having only three percent of their portfolio allocated to PE during that time.

We believe CalPERS could do the same without any investment. And I'll just add, a pretty knowledgeable investor by the name of Warren Buffett hates PE. He calls their IRR calculations dishonest, explaining how they game them. He criticizes their use of high debt and speaks of the negative impacts on their acquired businesses.

Thank you for the consideration of my comments and the report.

CHAIR MILLER: Thank you. Next speaker.

JIM McRITCHIE: Hi. I'm Jim McRitchie. Long term -- it is on, right? Yeah. Don't press this anymore -- long-term CalPERS member and advocate for responsible governance, reiterating, you know, objections to TPA. It sounds efficient, but in practice it means staff could shift billions between public and private funds, including into opaque or leveraged private equity and credit funds. I've got three major concerns.

First, it makes CalPERS more dependent on models and assumptions that are hard to verify, especially for private assets that aren't priced daily. Second, it reduces transparency with a single total fund benchmark. Rather than 11 asset class benchmarks, the Board and public will have less insight into where performance comes from or nonperformance. Third, it increases the chance that illiquid or high fee assets grow beyond prudent levels before warning lights go off.

Before adopting TPA, CalPERS should finish and test at least three unfinished workstreams, governance, portfolio construction, and treasury and liquidity. Those define who decides what, how risk is measured, and how we meet cash needs in a downturn.

Adopting TPA is like approving takeoff before installing the flight instruments. We also need to recognize a potential conflict of interest with the consultant. Wilshire Advisors, CalPERS's main investment consultant, is owned by two private equity firms. That doesn't mean their conflicted in every recommendation, but it does warrant an independent review before relying on their advice for this fundamental change.

Finally, CalPERS isn't just an investor, we're also one of the nation's largest health insurers and a stakeholder in the real economy. Some private equity strategies: raising prices, cutting staff, loading up companies with debt. Many of them also have long-term consulting contracts, so even when they're sold back into the market, they still owe that.

I want to make sure that CalPERS sets up guidelines -- or guardrails. I know you have guardrails with regard to labor practices, but I'm not familiar with guardrails on all these other things.

You know, what we don't want to do is drive up health care and undermine the economy, even while we're making profits in private equity. In short, TPA may help manage risk, but only if it's underpinned by strong governance, transparency, and independence. Let's finish the control systems, verify consultant independence, and align TPA with CalPERS's mission to earn returns and sustain the economy our members depend on.

Thank you.

CHAIR MILLER: Thank you.

Next, we have Mr. Swabey and Ruiz, come on down. And will we have any phone callers on this item?

BOARD CLERK ANDERSON: We will.

CHAIR MILLER: Okay. We will.

Whenever you're ready, sir.

MARK SWABEY: Okay. Thank you for allowing me to speak to you today. I am Mark Swabey, a CalPERS retiree. And I also want to acknowledge Ann's comments earlier. She was the environmental person from Trinity Cathedral. I have recently been a guest singer at the Cathedral, and I was glad to have her in the audience.

And also want to remark that I -- if I cannot breathe, I cannot sing -- well from Item 2.

So I'm going to return now to Item 5a. CalPERS executives -- I have three issues. CalPERS executives have failed to report totals in dollar amounts for private equity investments. They've failed to group them by customized investment accounts, co-investment contracts, and standard private equity contracts with their general partners through the CalPERS Board for fiscal year '24-'25.

CalPERS executives also failed to report changes in financial position and dollar amounts, including sales, new investments, profits, losses, return of principal or no net changes in all private equity accounts, again neither grouped by customized investment accounts, co-investment contracts, nor the standard private equity contracts, not to the CalPERS Board nor to the 2.3 CalPERS members in any open CalPERS meeting.

CalPERS executives have also failed to provide totals in dollars amounts on CalPERS cash contributions to general partners and administrators, along with the cash distributions from the general partners and administrators back to CalPERS, so that again the CalPERS Board and 2.3 million CalPERS members may easily read them, find the differences between cash contributions to general partners, and the cash distributions from them.

In conclusion, considering that these three are material failures, I respectfully ask the CalPERS Board to vote no on three CalPERS executive's recommendations. I ask them to vote no today on the adoption of assets liability management, ALM. I ask them to vote no on adoption of the total portfolio approach, the TPA, because we need -- they aren't reporting. And number three, I want them to vote no on an allocation of approximately 90 billion dollars to private investments and contracts for fiscal year 2025.

Thank you.

CHAIR MILLER: Thank you.

Next speaker.

You're on, sir.

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

So who will go to jail first? Yes, who will go to jail first? In Alice in Wonderland, the caterpillar, Absolem, asks Alice this question, "Who are you?" To which Alice says, "I don't know. I don't know." Is this the problem with the CalPERS Board as well. Who are the CalPERS Board members? Are they a Board that fulfills its fiduciary duties of making money for the PERF and protects the pension fund for its 2.3 million plus beneficiaries and survivors or are they a Board that hands over their decision-making authority to CalPERS executives?

The answer will decide who goes to jail first, the CalPERS Board members who abrogate their duty and hand over their power to CalPERS executives or the CalPERS executives who underreport the financial facts from the Board. A Board that does not know the difference between honest factual reports and marketing lather that underreport the numbers or don't report the actual numbers and accepts presentations spouting marketing blather, as if they were billions, definitely does not know who they are.

Is the CalPERS Board a group of decision-makers who do not understand the marketing percentages and inflated valuations yet votes for something that is as upside down, inside out, substandard deviation world of private equity nightmare as Alice's Wonderland dream is a nightmare. The CalPERS executives in the annual comprehensive report for fiscal year '24-'25 private equity performance review, a copy has been submitted to the Board over 400 contracts. And this is the last page which you have in your hand. No totals. No totals. Would you -- how many Board members have credit cards or bank statements where totals are not provided? Would you do business with a credit card company or bank that does not tell you what total are, does not tell you how much you are in the red or in the black. Think about it.

Well, this is the second year that CalPERS executives failed to provide totals for private equity list of contracts. Why? Is the CalPERS Board going to allow that? Where are the totals for the co-investments and the customized investment accounts, CIA, broken out from this long alphabetical list 4 -- over 400 contracts? What are the CalPERS executives underreporting? Also, we are still carrying contracts from 2008 that are not making money, but losing money for CalPERS. Why?

A CalPERS Board that in court says we didn't know what we were voting for, or votes for CalPERS executives who did know and used marketing percentage presentations to sell projected percentages as if there were billions to get TPA, ALM and billions more into a private equity approved.

CalPERS Board members -- the only thing I want to say, yeah, if you don't understand TPA, ALM, or why billions are going into a high-risk, low-return investment, you must, as a Board, vote no. Please vote no on TPA, ALM, and billions more. Thank you for your attention.

CHAIR MILLER: Thank you.

Okay. I don't think we have any other in-person commenters on this item, but we have a couple on the phone. Okay. Let's go to our phone callers.

CALPERS STAFF: Yes, Chair Miller. We have Margaret Brown with RPEA to speak to Item 5a. Margaret, you are now live and can proceed with your comments.

MARGARET BROWN: Thank you. The proposed TPA has a 75/25, or 80/20, stocks and bonds asset mix. This is extremely risky and should not be done. Also, the proposed TPA concentrates a significant amount of authority in the hands of one person, the CIO. Yet, ultimate responsibility for investment outcomes still rests with this Board. If Mr. Gilmore's macro level investment decisions result in substantial losses, who is accountable?

RPEA is asking today is the Board truly comfortable surrending -- surrendering this much oversight? There is also a direct connection between investment losses and the ability of employers to meet their CalPERS obligations. When employers cannot afford to make the required payments, the consequences fall on retirees and employees in the form of pension cuts. Many, many CalPERS retirees are not aware that pensions depend on their agency's ability to pay. Only State employees are protected.

CalPERS does not guarantee full pension payments when an employer defaults. When an employer fails to pay, pensions are reduced. We have seen this happen with the City of Loyalton. They defaulted and that resulted in pensions being cut 60 percent. The East San Gabriel Valley Human Services Consortium, or L.A. Works, over 200 retirees experienced pension cuts of about 63 percent.

The Trinity Works Water District failed to pay termination fees or contributions, and that led to reductions up to 70 percent.

And then the Niland Secure -- Sanitary District, there was very few, but they faced severe cuts, up to a hundred percent, effectively eliminating promised pensions. These are not hypotheticals. They are real examples of what can happen when oversight fails or employers cannot meet their obligations.

As you consider the TPA, I urge the Board to weigh carefully the risks of concentrating investment authority and to remain vigilant about the protections of the CalPERS members whose livelihood depends on your decisions.

Thank you.

CHAIR MILLER: Thank you.

Do we have another caller?

CALPERS STAFF: Yes. Next, we have Steven Alari to speak on Item 5a. Steven, you are now live and can proceed with your comments.

STEVEN ALARI: Thank you. Mr. Chair and members of the Board, my name is Steven Alari. I'm a CalPERS retiree and I'm calling to recommend support of the Fiona Ma proposal as stated by Frank Ruffino. A two-year review of the governance and efficacy of TPA I think is reasonable, and I would encourage the Board to adopt this proposal.

Thank you very much.

CHAIR MILLER: Thank you. Any further calls?

One more.

Okay. No more on the phone. We have one more person to speak in person. It looks like Brandon Arney[SIC].

Brandon, come on down for this item.

BRANDON BARNEY: Thank you. Good morning. My name is Brandon Barney. I'm addressing Agenda Item 5a, asset liability management recommendations and the proposed shift to a total portfolio approach, which is intended to enshrine the belief that the portfolio is best managed as a whole.

I've been studying how CalPERS's largest, most sophisticated peer funds are handling risk and technology integration. The Norwegian government pension fund in its 2024 annual report states it has launched a new internal strategy for how AI can improve risk management and has raised skill levels with an investment academy and annual course on coding and AI. They are clearly investing heavily in their people to manage new complex risks. This investment in human capital is critical, because as we adopt AI agents to inform training in risk decisions, we face profound hidden dangers.

I'm referring to the recent data hacking paper from Nassim Taleb and his firm Universa. The paper demonstrates how AI models can be dangerously mislead by statistical noise creating a false sense of security that completely misses the true fat tail risk. This creates a situation where history may rhyme. We all recall the Minsky moment of 20 -- 2008 to 2009, where the ultimate failure is one of human process and discipline, where hedged were unwound right before they were needed most.

My question is therefore about our human process and this major governance shift. The move to TPA delegates greater authority to staff and requires eight internal workstreams, including new processes for governance and policy controls. Since TPA shifts away from asset calls targets, it places a premium on the judgment of our investment officers.

To Chief Investment Officer Gilmore and the Committee, given that your peer the Norwegian Fund is actively training its staff on AI risks and that experts are warning of AI's new blind spots, what is CalPERS strategy for managing the new risks inheriting in adopting sophisticated investment technology, specifically what training, upskilling, and simulation programs are in place for our investment officers to ensure that they effectively challenge these new AI tools and avoid the data hacking traps within the total portfolio approach framework.

CHAIR MILLER: Thank you. I think that concludes the public comments on this item.

Okay. So we're back to the motions. We've got a motion on the table and we've got an amendment to the motion, so I think we have to handle the amendment first, so think further discussion on the amendment?

Okay. So I will call for the question on the amendment.

Oh, we do. We have discussion. I'll call on Director Willette.

VICE CHAIR WILLETTE: Thank you. Thank you so much, Chair Miller. Regarding the amendment, I appreciate the spirit that the amendment was made in. I'm still a little uncertain what the amendment is and that makes me really uncomfortable registering a vote on the amendment. I think that regardless, if this passes or not the amendment, continuous review, assessment, improvement are foundational to our role on the Board, and that we will be continuing to do that. It's my understanding that we will be, you know, continuing quarterly reviews at a public level of our fund of the governance structures in place, of all of the policies that are in place. And I think there's going to be additional reviews. And so I'm not -- I'm not comfortable with the amendment at this time, but I looking forward to if there is other discussion.

CHAIR MILLER: Okay. Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Yes. So I would -- I would -- I strongly believe in the amendment, either the amendment or the direction. However, for clarification, if Frank could you read -- could you reread the amendment again and, you know, in clare -- in totality, so perhaps it's more -- it's clearer, if you can do that, is that possible?

Sorry.

CHAIR MILLER: Okay.

COMMITTEE MEMBER PACHECO: That would be great. Thank you.

CHAIR MILLER: Hit your, button, Frank, and I'll put you on to read.

COMMITTEE MEMBER PACHECO: Because I think it was clear, but I want to make sure the whole Board is sure. Thank you.

ACTING COMMITTEE MEMBER RUFFINO: So the part of its adoption of TPA, the Board directs staff to conduct a formal review of the efficacy of TPA no later than two years. That's, in a sense, that's the spirit of the amendment. And it was suggested by the President to do as a Board direction, in which that could be accomplished as a Board direction as well.

However, usually at a Board direction, it tends to -- it can fade out. There's no guarantee that it will be -- that it will happen, so to speak. So put it -- the amendment ensures. As I said, this is a one time review. This is not an ongoing. It's just a one-time review for the reasons that I already explained earlier.

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

COMMITTEE MEMBER PALKKI: Thank you. So I kept on turning my mic on and off, because I thought somebody was going to actually get to my question. So I don't disagree, Frank. I actually like the idea. However, in terms of process -- when a motion is made and an amendment does not the maker of the motion --

COMMITTEE MEMBER TAYLOR: That's a friendly amendment.

COMMITTEE MEMBER PALKKI: -- have to approve the amendment?

SENIOR ATTORNEY CARLIN: Robert Carlin from the CalPERS Legal Office. So if it's a friendly amendment, it requires both the original maker and seconder to consent. But if it's just a straight-up amendment, then it just needs to have another second in order for it to then be on the floor or subject for discussion and then action by the Board.

COMMITTEE MEMBER PALKKI: Thank you.

CHAIR MILLER: Okay. Next, Director Detoy.

COMMITTEE MEMBER DETOY: Thank you. I'd like to hear from staff on this motion. What would be different than, you know, what we'd already do in our annual lookbacks. As he said, you're going to be constructing a portfolio, essentially an SAA, of what, you know, the year forward looks like. We already have the benchmark portfolio of the 75/25 if this goes through. So with the substitute or the friendly -- or the substitute motion that's on the table, what would be different truly compared to SAA lookback for the last two years on a TPA success or -- we'll go success. There's going to be no failures.

CHIEF INVESTMENT OFFICER GILMORE: It's actually quite a hard question for me to answer. I think that when Director Ruffino made the comment, he was talking about transparency. So I think the Board would probably want to know that we're transparent in terms of reporting, but that's the same with the strategic asset allocation anyway. So I'm not sure just what the difference is. And when the question of efficacy comes up, as I mentioned before, it's a very -- two years is a very short time period to be thinking about performance. So I'm not quite sure exactly what the amendment is getting at. But of course, it makes perfect sense for the Investment Committee to be checking in on the governance and the process through time. Of course, that's what you do as a governance body.

COMMITTEE MEMBER DETOY: And then is -- again, I'm kind of confused where we are, because I feel like a lot of this data in the -- would be present more so probably in closed session versus in open session report for the Board members. So I just wanted take your -- you know, get your two cents on it all or if there's a workstream that we haven't seen yet, some dashboard that we haven't seen yet that would kind of quell some of the concerns.

CHIEF INVESTMENT OFFICER GILMORE: What you will get, of course, in closed session, because it's strategic is our projections on where the portfolio is going. And the proposal is we update that every year and you will get quarterly reports on where we actually are. So that will come through. And, of course, the proposal also is that we develop a more comprehensive dashboard associated with the total portfolio approach. And we have done some work on that. We did some work on that in July, but we need to refine that work and we'll come back with recommendations on that as part of the process.

I think also, as Amy mentioned earlier, we're also looking at this as an opportunity to maybe refine some of the policies, because I think they've grown through time. And some of those policies are quite lengthy and we think we can make them more consistent cross asset classes to make it whole of portfolio, but we need to come back to you on that as well.

COMMITTEE MEMBER DETOY: Thank you.

CHAIR MILLER: Director Middleton.

COMMITTEE MEMBER MIDDLETON: Thank you. Question I think for Mr. Carlin, but I'd like to understand exactly what is the difference between a amendment and receiving -- staff receiving direction through Board direction.

SENIOR ATTORNEY CARLIN: I would mostly -- from my perspective, Ms. Middleton, I would say it's more form over substance. I think staff is going to understand the request from the Board either way. So an amendment is just the Board taking formal action as opposed to simply having it be direction from the Chair of the Committee, for example. But I think, in effect, staff will be obligated to comply with the Board's direction in either scenario.

COMMITTEE MEMBER MIDDLETON: All right. One question I'd have as follow-up, if we do it as Board direction, does it become easier to modify that direction over time as needed?

SENIOR ATTORNEY CARLIN: I don't think it becomes any easier in either scenario. It really comes down to the specificity by which you either make a motion or give direction. But I think either is equally effective.

COMMITTEE MEMBER MIDDLETON: Thank you.

CHAIR MILLER: Yeah. I'll just make a quick comment on it. In that regard, to me whether it's Committee direction or a motion, if it's not happening, it's on us to make sure that it happens. And so -- yeah, so, that's my comment.

I don't see any other requests to speak. So, at this point, I will call for the question on the amendment to the commotion. All in favor -- or do we have to do a roll call?

No. Okay. All in favor?

Any ayes?

(Ayes).

CHAIR MILLER: Okay. I've got -- okay. We've got -- okay.

Opposed?

(Noes).

CHAIR MILLER: Okay. It sounds like the nays have it, but that's -- I think I'm going to ask for a roll call, because I can't be certain that my acoustic evaluation is flawless.

BOARD CLERK ANDERSON: Mullissa Willette?

VICE CHAIR WILLETTE: No.

BOARD CLERK ANDERSON: Michael Detoy?

COMMITTEE MEMBER DETOY: No.

BOARD CLERK ANDERSON: Nicole Griffith?

ACTING COMMITTEE MEMBER GRIFFITH: Yes.

BOARD CLERK ANDERSON: Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: Yes.

BOARD CLERK ANDERSON: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: No.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: No.

BOARD CLERK ANDERSON: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: No.
BOARD CLERK ANDERSON: Yvonne Walker?
COMMITTEE MEMBER WALKER: No.
CHAIR MILLER: What's the
BOARD CLERK ANDERSON: That's six noses and four nays.
CHAIR MILLER: Six noes and four nays.
Hmm, that's confusing to me.
BOARD CLERK ANDERSON: Four yeses, sorry.
(Laughter).
CHAIR MILLER: Okay. Looks like I don't have to break any ties, so my day is made, so -- yeah, so the motion for the amendment fails.
So we're back to the original motion. Is there any other further discussion on the original motion?
Yes I've got Mr. Ruffino.
ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. And as I said earlier, I would like to again offer a friendly amendment that we do this review -- we don't need to repeat it, but as a Board direction.
CHAIR MILLER: I don't think we need to put it in the motion. Can I just make that direction and staff will work with, in particular --
CHIEF EXECUTIVE OFFICER FROST: Yeah.
CHAIR MILLER: -- Mr. Ruffino to make sure

that --

CHIEF EXECUTIVE OFFICER FROST: Correct.

CHAIR MILLER: -- we have a clear understanding.

CHIEF EXECUTIVE OFFICER FROST: Yeah, you can give it as Committee direction to the team --

CHAIR MILLER: Yeah, I will.

CHIEF EXECUTIVE OFFICER FROST: -- and then take the original motion?

CHAIR MILLER: Yeah. Thus it's done.

Okay. So, now we'll go back to the motion. Any further discussion on the motion? I'll call for the question. All in favor?

(Ayes.)

CHAIR MILLER: Any nays?

Any abstentions?

There. How easy was that?

Okay. So, at this point, I think it's time for lunch. And so what do we want to do 45 minutes? What's the pleasure of the -- Yeah, 45 minutes. So we'll be back from lunch at 1:15 to continue the Investment Committee. Bang the -- we're in recess till then.

(Off record: 12:29 p.m.)

(Thereupon a lunch break was taken.)

AFTERNOON SESSION

(On record: 1:19 p.m.)

CHAIR MILLER: We back to your agenda item and we're on to our information agenda items, so here we go with the quarterly Chief Investment Officer Report.

(Slide presentation).

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

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: I'll keep this fairly brief, cause I want to pass over to Lauren to talk about what's been happening economically. The numbers you see here, the 4.7 percent fiscal year-to-date return represent just the three months from the end of June. Strong return based on the performance of the listed equity market, although that's very short term. I'd much rather focus on the 10-year return, 8.2 percent, so well above the discount rate obviously improves the funded ratio. And as at the end of September, the assets under management in the PERF were 585 billion, but of course, we also have the affiliate funds at around 38 billion. So well under -- well over 620 billion managed by the team.

The fiscal year-to-date number you see in terms of value added is negative for that short period. Again, it's really a function of the strong performance of the equities. However, the one year to date value-add is positive around 56 basis points at the portfolio level.

And as you can see from here, the allocation to actively managed around 64 percent, the allocation to privates, 32, but has been gradually increasing through time. And with that, I'll pass through to Lauren to tell you what's been happening in the world.

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you, Stephen. Good afternoon, Board members, Chair, and President. Lauren Rosborough Watt from the Investment Office.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: So I'm here today to talk to you around the drivers behind the Q3 2025 portfolio returns and to discuss where we are today, if there's been any material differences. As Stephen mentioned, the third quarter was another positive run for the portfolio, driven by returns to public and private equities with private debt printing double digit returns over a one-year duration. And the chart that you see up here are market related returns, not our portfolio returns. So just a clarification over the differences.

So just to recap some of the macro drivers, because they are broadly unchanged from when I spoke to you last in June, and that is you'll recall there was a market surprise, a negative surprise, with the Liberation Day announcements of tariffs on April 2nd. But subsequent to that, the macroeconomic impact has been relatively muted for a number of different reasons. There have been some temporary a suspensions. There has been negotiation to lower tariff rates. There's been some sector and goods concessions, some bilateral concessions. There's been preemptive purchases by businesses and consumers. So we saw a bump up in Q1 GDP. And some businesses have chosen not to pass on the full impact of the tariff immediately going through.

We've also heard anecdotally that there's been some administration -- sorry, some changes in the administration or designation of some imports into the U.S. that make them eligible for a lower tariff rate. In addition, in the third quarter, US AI and technology related public stocks continues their substantive CapEx spending. There are variable figures. One that we have is spend -- spending year-to-date on CapEx for the Mag Seven for Q3 was 458 billion U.S. Dollars. Now, if we annualize that, that's around two percent of nominal GDP If we think of it in real terms, so we take the price effect out, for the first half of this year, CapEx -- sorry, AI related or AI an tech related CapEx spending is estimated to contribute between 0.6 and 1.3 percentage points to GDP.

Now, to put that into context, the average quarter-on-quarter seasonally adjusted annualized rate for GDP for the first half of the year was 1.6 percent. Much of this spending has been supported by earnings. So free cash flow coming from some of the major players. Indeed, earnings growth, according to FactSet the Mag Seven earnings growth increased 14.9 percent year on year to Q3. Now, that's over double that was seen in the S&P 493 over the same period.

Further, supporting assets returns was the Federal Reserve short-dated interest rates declined. Now, when I spoke to you last, there was an anticipation of rate cuts. We've seen that FOMC have reduced rates 25 basis points in September and another subsequent in October. Short dated interest rates are now 1.5 percent below their peak at then end of 2024.

This has supported public credit returns and also fixed income returns more broadly, as both short-dated rates and long-dated interest rates have fallen. Recall for bonds, prices rise when yield goes down.

Last quarter, I spoke about a softening labor market. So just a brief update on that the government shutdown has meant we don't have official labor statistics. There will be the September release coming out at the of this month. And unfortunately, the October release is possibly not going to be released at all due to a lack of data availability, but un -- nonofficial or unofficial data suggested continuation of the softening of the labor market. And recall, I spoke about labor supply also shrinking, and as a result, economists anticipate the unemployment rate to remain relatively low. It's currently 4.3. Expectations or forecasts for the end of 2026 around 4.6 percent.

So given the softening of the labor market, we're still seeing relatively low unemployment rate. And that bodes well for total nominal income, like private -- sorry, private consumption nominal income.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: So what does this mean, in terms of our scenarios. Thank you, Michael. Appreciate that.

For 2025, the government shutdown does mean a Q4 DGP number is expected to be quite weak, anywhere between 0.8 to 1.1 percent down. Sorry. Let me clarify, lower than what was originally expected. So still a positive number for Q4, but much weaker. But this is only temporary. Market expectations for December 2025, which we're nearly there, are where you see that arrow or the point of that area. SO moving back towards GDP close to potential, slightly below, and inflation slightly above target, up two percent.

If we think about market expectations now for 2026, the vast majority of expectations are for growth to be around potential, so around 1.8 to 2 percent, and for continued disinflation, although very slowly. So by the end of 2026, inflation expectations are -- expectations for inflation are around two and a half percent.

This looks relatively benign. And typically, as you know, transitions are really so un eventful. Now, while I can't predict the future, I wish I could, any market response to the surprise depends on what the surprise is, how large the surprise is, and what the starting point is. And so I guess, in some ways, just to think around where we are today, for capital market asset values, broadly speaking, are rich, as Director Pacheco mentioned earlier.

So I'm just not predicting, of course, but I am saying that it looks like this good news of continued earnings growth and a continuation of reduction in the federal fund's rate has largely been priced in. Now, what does that mean? That typically means negative news may well have a larger negative impact than positive news may well have a positive impact.

That said, we ware talking about the very short term. We're talking about today and looking in the very short term. What I would say is, as a fund, we do tend to look longer term. And some of those drivers of U.S. growth, so strong consumer, relative low leverage in households and corporates, and this AI and tech led -- excuse me -- boom, which is secular in nature, all of those things bode very well for U.S. growth, and therefore asset returns are over the medium to long term.

Thank you. That's it from me. I'll pass back to Stephen.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Chair, I'll just hand back to you for questions.

CHAIR MILLER: Okay. We have questions.

Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you very much for your presentation again, and I really do enjoy this particular portion of the discussion. With respect to the market -- overall market, you mentioned that good news or bad news may interfere in terms of how about with respect to geopolitical issues in terms of how, you know, for instance -- I mean, for instance our President mentioned he was thinking about bringing back nuclear testing, you know, nuclear bomb testing, you know. How does that play out, because that's -- that has some geopolitical ramifications around the world and how does that play into the economics?

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. Thank you for your question. Appreciate that. One thing that I think we've found this year, in fact since 2022, clearly the Russian invasion of Ukraine was a relatively large market event. Once again, although there were some tail events, in particular in terms of energy costs for countries such as Europe. But by and large, the market has taken these in its stride.

So I think my response would be, if the geopolitical event had a global effect, then I would expect a much larger impact for markets than if it was an isolated or country specific.

COMMITTEE MEMBER PACHECO: Thank you for that question. In terms about energy costs and so forth, you know, I've been reading in the news this -- as you mentioned in your discussion, this boom with the AI and with respect to data centers and so forth, and the huge consumption of energy that's being -- and the demand of that. How does that play into this scenario that, you know, from our economic scenario and your idea -- understanding of that?

INVESTMENT MANAGER ROSBOROUGH WATT: I, in some ways, want to pass that through Peter Cashion, if I may in some way, shape, or form. But my broad -- my broad comments are there are a lot of expectations for access demand for electrical consumption going forward. That said, there's a lot of forecasts. And some of these numbers are quite big in terms of the production of data centers and therefore the consumption of electricity. Now, these are assumptions going forward. They're certainly positive.

COMMITTEE MEMBER PACHECO: Um-hmm.

INVESTMENT MANAGER ROSBOROUGH WATT: What we have read is that a lot of these -- and I say a lot of. I don't have statistics on this, but that there's a desire to move to renewables in order to speed up the process of that electric consumption.

COMMITTEE MEMBER PACHECO: And then one last question. You mentioned that the inflationary right now is at 2.5 -- you think at 2.5 percent. And I -- and I'm -- if I recall having it at about two percent or less is that's the ideal optimal thing -- optimal inflation target with respect to the Federal Reserve Bank. When do you think we could get to that point or --

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah, so current inflation is two inflation measures that we have in the U.S. There's the PCE and the CPI. Both are above 2.5 right now.

COMMITTEE MEMBER PACHECO: Okay.

INVESTMENT MANAGER ROSBOROUGH WATT: Economists are anticipating it to see disinflation towards that 2.5 percent at the end of 2026. You're absolutely right, target is two percent. The -- we would need some negative surprises in order to see growth fall -- sorry, inflation falling. Some of those factors could well be oil prices for example. That tends to be a bit of a swing factor.

The major driver of CPI inflation is housing costs, which we are seeing declining, but still remain relatively elevated. And they are anticipated to continue -- price-wise continue to fall over 2026.

So you wouldn't need a relative large negative shock in order -- recession, for example, in order for those revisions to be lower for inflation.

COMMITTEE MEMBER PACHECO: And with respect to the housing, would you consider that -- is that more of the supply side or is that -- or is that supply or demand issue on the -- on the housing.

INVESTMENT MANAGER ROSBOROUGH WATT: I think it's a latent supply side type issue. And also, we saw prices rising very rapidly in terms of housing costs --

COMMITTEE MEMBER PACHECO: Um-hmm.

INVESTMENT MANAGER ROSBOROUGH WATT: -- in the-post pandemic world. And that just simply takes time to work through the system.

COMMITTEE MEMBER PACHECO: I would imagine so.

Thank you so much for your comments. I really do appreciate it.

INVESTMENT MANAGER ROSBOROUGH WATT: My pleasure.

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

COMMITTEE MEMBER TAYLOR: Hi, Lauren. Thank you for your presentation. I think I wanted to highlight the part where you talk -- were talking about the labor markets. And the shutdown gave us no data.

But the labor supply has been reduced. So a lot of that falls on the immigration issues going on right now, which is people not going to work either because they have -- you know, they're too scared to leave their homes or for whatever other reason, which is what is keeping our unemployment rate down, right? So it's not -- it isn't just immigration. There's also the loss of jobs completely from like 350,000 federal workers, but this all trickles down.

So I expect to see a problem, I mean, in grocery stores and a lot of places where our folks work, right, or our food supplies, because of, you know, not -- they're not being able to go out and to the farms and pick. So what's the result of that in terms of the whole market as an overall market? Because what we're seeing in places like a Los Angeles right now, there's a huge loss in revenue. And that could translate over quite a bit of the United States. If Los Angeles isn't giving money to the Feds and Chicago isn't giving money to the Feds, I mean, here -- this is going to translate into a problem. So where do you see that having an impact?

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. Thank you for your question. It's very pertinent question, in fact. Obtaining data on nonlegal labor force is actually very difficult to do. There was a study that estimated that for the nonlegal side, the sexual impact was actually expected to be positive for those people who were still working in the market. In other words, real wages for those areas, because there's less supply. I know I'm -- hang on, lit me finish.

(Laughter).

INVESTMENT MANAGER ROSBOROUGH WATT: -- would go up. However, there's a recent Fed Minnesota paper that came out that said, in fact, that we're not seeing that happen this year, so to -- exactly to your point.

On the legal side, what we -- what we can see in the data or what -- until ceased, we have had a reduction of foreign-born workers in the U.S. market, around 1.4 million less foreign-workers are participating in the labor market. To put that into text, there's around 160 or 170 million people in terms of employed. So it is relatively small, but it is notable.

I estimate around half of those are lowered due to immigration and half of that is due to a softening of the labor market more broadly.

The other thing I would point out is that female participation rate in the labor market declined quite markedly, in particular over the last few months. There's a number posited reasons hypotheses for that. Male participation rate hasn't fallen. Some of them is that females are choosing to opt out of the labor market, in particular those with young children as the return to office is starting to accelerate with this weakened labor market.

I agree the effects net-net are somewhat mixed and you get this distributional impact. So those, to your point, potentially at the lower end of the income distribution may have much larger impact. In terms of an aggregate impact on the economy, that tends to have a smaller aggregate impact on the economy. And so we may not -- may well not see it in the aggregate numbers, broadly speaking compared to high income.

COMMITTEE MEMBER TAYLOR: So, yeah. And I think where we see it also is in higher percentage immigrant communities, correct? So Los Angeles --

INVESTMENT MANAGER ROSBOROUGH WATT: Absolutely.

COMMITTEE MEMBER TAYLOR: -- has a huge population of immigrants. Chicago does too. So when we see these folks not going to work, whether or not they have been deported, it's because of fear, then the stores that they work at, the houses that they may work at and, of course, the farms in California are not making money, right?

INVESTMENT MANAGER ROSBOROUGH WATT: And you're absolutely right. So that's the distributional impact. And you get this sectoral impact, and also what you're highlighting is a community impact across the economy, absolutely.

I think you're right.

COMMITTEE MEMBER TAYLOR: Okay. Thank you.

CHAIR MILLER: Okay. I'm not seeing any further questions. And really appreciate the report and the thoughtful questions and answers. And I guess I don't see any public comment on this information agenda item, so back to you Stephen.

CHIEF INVESTMENT OFFICER GILMORE: I'd like to invite people from the Total Fund team up. So Brian, Saeed, Michael, Jonathon.

CHAIR MILLER: Okay. Item 6b.

(Slide presentation).

INTERIM MANAGING INVESTMENT DIRECTOR LEU: All right. Good afternoon. Brian Leu, Interim Managing Investment Director of the Total Fund Portfolio Management program. I'm pleased today to be joined by three Investment Directors who help lead the program, Saeed Daroogheha, Michael Krimm, and Jonathon O'Donnell.

So we're excited to walk you through our annual program review today on behalf of the entire dedicated 37 percent TFPM team.

[SLIDE CHANGE]

INTERIM MANAGING INVESTMENT DIRECTOR LEU: I will begin giving a brief overview of the role of our program and our key functional responsibilities. Then I'll hand it over to Saeed and Michael to touch on how we're supporting our transition to total portfolio approach, and specifically our approach to portfolio construction. After that, Jonathon who leads our investment treasury group will walk through the funding environment and review our approach to liquidity risk management.

We recognize that liquidity risk is an important consideration as we help support the total portfolio investment process and we specifically wanted to touch on that a bit more with you today.

[SLIDE CHANGE]

INTERIM MANAGING INVESTMENT DIRECTOR LEU: All right. So TFPM plays an important role in supporting the asset liability management process, which, of course, was just covered earlier today. And we also serve an ongoing role in supporting total fund allocation decision-making and helping support the allocation planning cycle that Stephen referenced earlier today. In addition to this more strategic support role, we also serve an important implementation role, basically managing our total fund exposure to a stable risk target, which also includes managing total fund liquidity risk.

We also have a role in continuing to explore and develop new strategies that may help further diversify the total portfolio and improve resilience. These are often multi-asset class investment strategies. So these key metrics are -- here are meant just to give you a sense of the scale of this total fund implementation activity. So 73 billion flows into and out of the fund and across rebalancing activity, as we manage the allocation across assets classes, all while keeping close to our target risk profile and maintaining stable financing for our desired exposures.

[SLIDE CHANGE]

INTERIM MANAGING INVESTMENT DIRECTOR LEU: So this next slide is simply a slightly different view of these key responsibilities for more of a functional perspective. So you can see here the responsibilities across portfolio construction, strategy development, and implementation. So Saeed, Michael, and Jonathon are going to walk you through this in a little bit more depth in the following slides.

But quickly before I turn it over to them, I just want to quickly connect the dots here between speakers. On this top bullet you see our economics research here is led by Lauren Rosborough Watt, who you just heard from, shared with you a market update along with Stephen. So we really appreciate all her contributions to the TFPM team and this process.

And with that, I'll hand it over to you, Saeed.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DAROOGHEHA: Is it working? Oh. Good afternoon, Board members. Saeed Daroogheha, Investment Director with the Total Fund.

Out of the eight workstreams that Amy walked you through you earlier, the total fund is responsible and heavily involved in the portfolio construction number three, and treasury management, number four. Our goal in the next few minutes is simple, to give you a clear sense of how we are approaching portfolio construction.

Next slide.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DAROOGHEHA: When you zoom out, portfolio construction has three pillars. I'll speak briefly about the first, investment strategy analysis, which serves as the building block for the next pillar, risk budgeting.

The investment strategy analysis is about understanding the forward looking risk and return profile of each strategy in the portfolio, and very importantly how each strategy does in a good state of the world and in a bad state of the world. This kind of analysis is not new to CalPERS. We have always analyzed these strategies.

What is different now is how we are doing it. The total fund begins by collaborating with asset classes to develop a shared understanding of each strategy. From there, we bring our finding to the Portfolio Integration Committee, where colleagues from across the Investment Office challenge our assumptions, highlight blind spots, and sharpen our conclusion. Once we incorporate that feedback, we take the work to Management Committee for further perspective and to ensure alignment with our fiduciary responsibilities and the mandate set by this Board.

At the heart of this process, there is a simple truth, no one is smarter than all of us. This collective wisdom around each strategy becomes the foundation for the next pillar, risk budgeting.

Michael, I'll hand it over to you.

INVESTMENT DIRECTOR KRIMM: Thank you, Saeed.

So this next section allocation and risk budgeting, I would -- I would really describe as the task of putting the pieces of the portfolio together. And you know the comment I wanted to make on this in regards to the work of the Total Fund team here is that this is really more of an adaptation of existing techniques than a complete reinvention. We're really adapting our processes to a TPA as part of this work.

And a really important part of that adaptation is ensuring that the process we design is understood and accepted throughout the organization. So just as Saeed emphasized this, I really want to emphasize the collaboration here. Portfolio construction under TPA is a shared responsibility across the entire investment team. And we see our role on TFPM as shaping and facilitating that shared responsibility.

Briefly just would comment on the last piece the sort of scenarios and research in general. There's a ongoing work, particularly to be able to model the portfolio, not just in quantified risk ways, but in scenario ways. And you've seen some of that from Lauren here. And we're continuing to invest in that capability. We're also investing in the ability to model the portfolio's forward liquidity across various scenarios, which is particularly pertinent as we invest in less liquid assets.

Thank you.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: All right. I think it's on. Thanks, Michael. So my name is Jonathon O'Donnell. I represent the Investment Treasury group within Total Fund Portfolio Management. I'm excited to see this conversation moving from earlier today about talking about liquidity and how it is a super important issue for CalPERS as a whole. And that's what my team focuses on. We focus on the day-to-day liquidity management for the portfolio, of which financing management is -- for the PERF, is part of that.

Only after we ensure that our liquidity house is in very good order, then we can look to see what type of opportunities there are that we can take advantage of from our balance sheet, of which we think there's quite a few. It is important to note, and this is a very important piece that I wanted to make sure we convey, that we operate under a principle that liquidity is heartbeat issue that requires the most prudent management that we can -- that we have. You should see this as a reoccurring theme over the next few slides.

So talking about the -- where we are in the markets. We're actually in a really interesting time from the funding markets and markets generally speaking, because the Fed is really kind of in a tricky spot kind of balancing the growth and inflation trade-off, at the same time winding down the quantitative tightening that their balance sheet -- that they've been doing in their balance sheet for the last year plus.

Both of these things are important, because they do affect the amount of liquidity that's inherent in the financial system. So there are variables that we need to consider when we're looking at liquidity and funding from the portfolio.

So from the thematic perspective, these trends that we just talked about the Fed, open a lot of pockets of opportunity that I think the team is really well positioned to take advantage of, given the work that we've done over the last five years plus in solidifying how we manage our balance sheet.

The key to successfully navigating these markets, is to continue diversifying and expanding our funding sources, all while keeping that continuous improvement mindset, so we keep getting sharper and sharper on the risk management aspect of what we do.

So next slide.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: Concentric circles. Yep.

Okay. So this slide was presented to the Committee back in June, I believe, by one of my Colleagues. I'm going to try and tie this slide with the next one to contextualize how we approach liquidity risk management. The main objective here for me is to instill a degree of confidence with you that we take liquidity risk management very seriously and that we have it very well managed.

So starting from the outside and working in, we always begin our liquidity risk management conversations with an explicit statement of zero tolerance for missing pension payments, most important. We developed really good, excellent I would say, views of our known cash flows in the portfolio, and we have really solid models around the unknown cash flows that can hit our portfolio from time to time. And then what we do is we layer on risk management buffers on top of those cash flows to doubly ensure that we can meet our obligations over time.

So now I'm going to jump around a little bit and go to the middle, the blue circle, the projected portfolio. So the strategic structure of the portfolio dictates how much available capacity we have to operate with. That projected portfolio structure balances the maximum amount of liquid -- illiquid assets say in private markets or active strategies et cetera with the amount of liquid assets from public market strategies that we can use for financing. So it is that balance and it will expand and contract over time.

As the projected portfolio, the middle blue cycle, becomes more or less liquid, our liquidity operating range, shown in the middle circle in the available capacity, will expand or shrink depending on that posture. So it will tell us how much cash or how much liquidity we can use to support portfolio operations over time.

But it's also important to note that that margin of safety around the outside is constant. We don't compromise that, depending on the structure of the portfolio.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR O'DONNELL: All right. So here we can map our liquidity management processes from the prior slide, moving from the left-hand side of this slide to the right in a similar way that we moved from the outside of those concentric circles to the inside. So the left part of the slide, the liquidity risk reserve, represents how staff manages the various liquidity risks that are inherent in the portfolio, obviously the baseline starting with pension payments and capital calls, margin support, et cetera. And then we add some degree of safety buffers on top of each of those risks that we do know.

In the middle of the slide, the liquidity -- the readily accessible liquidity rectangle represents how much liquidity we have on hand to cover those risks on the left and also importantly to take advantage of other opportunities that may come up in the markets.

So I wanted to note that back at the July off-site -- I believe it was at the July off-site, we proposed a liquidity reporting metric on the dashboard that Stephen mentioned to you guys earlier, that shows the amount of liquidity that we have above and beyond the risk reserves, so the left-hand side of the slide -- the amount of liquidity we have above those, and that we're calling the surplus available liquidity metric that should be -- will be available to you guys over time.

So then the right-hand side of the slide corresponds to that center circle of the concentric circles from the prior slide. And it representatives the portion of the portfolio that we can liquefy as needed to support activities on the left. The amount of liquid portfolio assets that we can rely on are a function of that balance between the liquid and illiquid assets in the strategic portfolio.

So that's all I have to talk about right now.

[SLIDE CHANGE]

INTERIM MANAGING INVESTMENT DIRECTOR LEU: Okay. Great. Thanks, Jonathon.

So looking back at the past year, as the team described, we've made a lot of progress in applying TPA concepts to the CalPERS investment model and developing the frameworks to support this investment approach. As Jonathon described, we have taken many steps to advance the investment treasury function, which serves to really reinforce increased confidence around our ability to manage liquidity risk effectively.

While we also did make progress on building out automated analytics and dashboards, this is an area where we still have a lot more that we want to do, which leads us to the next slide.

[SLIDE CHANGE]

INTERIM MANAGING INVESTMENT DIRECTOR LEU: As we look ahead, we will continue to be very involved in supporting the Data and Technology Modernization Initiative. Especially as we move towards TPA, we believe data and tech will be really a key enabler to helping all of us better manage multi-dimensional risk, our balance sheet, liquidity, and trade-offs across the total portfolio.

While much of our focus -- upcoming focus is going to be on TPA portfolio construction and all the related workstreams, we also plan to continue to diversify our liquidity platform, looking at other diversifying funding channels, including private markets.

[SLIDE CHANGE]

INTERIM MANAGING INVESTMENT DIRECTOR LEU: And then just finally to wrap up, I want to briefly highlight that while we're still relatively early in our transition to TPA, TFPM has been Meeting regularly with the Sustainable Investments team on thinking through approaches to integrating our sustainability strategic objectives into the TPA framework. So I know Peter and the SI team will be covering their annual program review next year, so I'll keep it real brief and just end there saying that there's been really good early collaboration between the two teams.

And with that, I'll open it up to questions.

CHAIR MILLER: Okay. Excellent. Very encouraging reports from everybody. Thank you.

And we'll start with Director Pacheco.

COMMITTEE MEMBER PACHECO: This -- well, thank you. Thank you very much and thank you, gentlemen, for your -- for your presentation. Again, I do -- I do appreciate this and I do like what you guys are doing with respect to treasury and in liquidity. My first question is actually the -- on the initiatives, on the key initiatives looking ahead. You mentioned that you want to continue to build out the macroeconomic scenario and analytics. How do you see that playing out with respect to the Data Technology Modernization initiatives and are there going to be additional dashboards or are there going to be -- are you going to incorporate machine learning or Ai into that -- into that mix, if you can elaborate a little further?

INTERIM MANAGING INVESTMENT DIRECTOR LEU: Yeah. Appreciate the question. For this one, maybe I'll turn it over to Michael to maybe say a few words.

INVESTMENT DIRECTOR KRIMM: All right. Thanks. Yeah, so this actually touches a lot of our areas of focus. So I'm thinking AI, the data initiative and scenario modeling. You know, at first glance, they -- these are things that we're kind of all looking at independently actually. There -- I think there will be integration points at the future. But maybe to start with on the scenarios, there's a lot of opportunity to build that into our portfolio construction process. And some of the analytics there are going to be so much of the kinds of things you were looking at with strategic asset allocation and the ALM decision just at a more granular level.

Now, that is an area that is very open for AI kinds type of work. There are techniques that we're working with one of our vendors on looking at using AI to improve the optimization process for portfolio construction, for example. At the same time, it's still very exploratory and there's some element. I'm still kind of trying to figure out, you know, how AI is going to best use -- going to be used right at this point.

On the data and technology initiative, this is a huge impact for all of our team. It touches almost everything that we do. It particularly touches the parts of the team that Jonathon is responsible for. It is, you know, everyday we -- it is about what's in the portfolio and what could be in the portfolio, so it's a huge area of focus for our us.

Thank you.

COMMITTEE MEMBER PACHECO: Thank you for that question.

My next question is back on page 8 of 16, the liquidity risk management and the outer limit, the operating risk range and then the portfolio projection. And that margin of safety, and I think -- I believe one of you gentlemen put together this. It's actually a very nice illustration of liquidity risk management. How have -- have we started exploring what we're going to include -- what we're going to include in the margin of safety? Just an understanding of that, if you can explain it, because we do have the availability, the capacity of liquidity to help us with, you know, investments and so forth. But I'm just wondering what is that -- what's the triggers with respect to the margin of safety.

INVESTMENT DIRECTOR O'DONNELL: Absolutely. And give credit where credit is due, I did not create this slide. I believe it was you, Michael, or somebody on your team, so thank you very much.

So yeah, the margin of safety obviously is the most important component. And really, if you look at the next slide, where we talk about the liquidity risk management -- or liquidity risk reserves rather, all of those things on the left of this, those five buckets, are what comprise the safe -- the margin of safety. The margin of safety will change depending on the risk that's inherent with -- the market risk that's coming up or, you know, what our strategy looks like and who needs funding internally for private markets or for leveraged strategies, et cetera. So those buffers will shift over time and they tend to grow as the markets become more risky.

COMMITTEE MEMBER PACHECO: And they -- so they're -- it's going to be dynamic then.

INVESTMENT DIRECTOR O'DONNELL: Yes.

COMMITTEE MEMBER PACHECO: It's not -- it's not -- they're not fixed or anything like that?

INVESTMENT DIRECTOR O'DONNELL: Correct.

COMMITTEE MEMBER PACHECO: And the will be part of the Investment policy moving forward or -- I mean --

INVESTMENT DIRECTOR O'DONNELL: So we have a number of models that we use to manage liquidity. And the entire framework that we have is governed by our PRP. What is it? The policy related procedure. So there is some work that we need to do from an enterprise perspective in terms of the policy revisions to synch up what we do versus what say FINO does for example, and what we report to you over time. Ideally, yes, the components of the liquidity risk reserve and the way that we actually manage liquidity will be part of the policy going forward.

COMMITTEE MEMBER PACHECO: Very good then. And I -- that's what I figured. Since we just now passed the framework for the total portfolio approach, I would imagine we'll be -- we'll be visiting this from a -- at a policy level.

Very good then. That's all my questions. Thank you.

CHAIR MILLER: Okay. I don't see any other requests to ask questions or comment from us. And I don't think we have any public commenters on this information item. And thank you for the report and I also appreciated the -- oh, we do have a question. Oh, Kevin. Light it up. It's not showing up. Oh, I don't --

COMMITTEE MEMBER TAYLOR: I don't know where that comes from.

CHAIR MILLER: I don't know. Okay. Well, no, I'll -- but I did appreciate the clarity and I liked the slides. I was able to keep track of everything and, yeah, it went very well. So thank you.

INTERIM MANAGING INVESTMENT DIRECTOR LEU: Chair Miller, at this time maybe it would be appropriate to ask Wilshire to come and share comments about their opinion letter?

CHAIR MILLER: That would be perfect.

Welcome.

ALI KAZEMI: Good afternoon. Ali Kazemi with Wilshire Advisors. Just some brief comments to add context around our letter, which hopefully you've had a chance to review. As you've heard and, you know, reflected in our letter, TFPM remains a cornerstone of, you know, the asset liability management and total fund allocation strategy. They walked through some of the achievements. So I'll highlight just a few. Executing over $73 billion in portfolio allocation adjustments, managing over $45 billion in financing operation. All of that really ensuring a stable risk profile and supporting both strategic and active exposures.

In terms of the overall team, as noted, they currently operate with close to 40 full-time employees with several open positions, most notably, he MID role remains vacant. However, despite that, the interim leadership has maintained what we view as strong stability and performance. The team's quality and external partnerships continue to be strong and contribute to the overall structure efficiently.

Our overall team score remains strong with the future improvement expected when leadership continues to be defined and roles are further clarified. In terms of the support for the TPA, obviously congratulations to the Board and staff on that moving forward today. TFPM has played a pivotal role in advancing that initiative contributing to Board education, reference portfolio development, and cost of capital modeling to name a few. These efforts are central to CalPERS long-term asset liability management and investment decision-making and so more to come there obviously going forward.

In terms of some of the functions that have been mentioned already, and our scoring, from a portfolio implementation standpoint, we improved that scoring to third decile, with notable enhancements in the liquidity management and funding channel diversification space that Jonathon touched on already. From a portfolio construction standpoint, we maintain a second decile, which is essentially a letter grade of A for that team, with significant progress, and research, scenario analysis, and the allocation framework development.

From a strategy development standpoint, we've seen less emphasis this year in that space due to a lot of the work being done to support TPA. But with that approval going forward, we expect there will be continued evolution there, in terms of developing cross-portfolio strategies and continued education in that space for leadership.

Overall, our rating for TFPM is consistent from last year in the fourth decile. Again, that is above average in our model, so just to note that. Michael used the word "adaptation" when it comes to TPA. We echo that sentiment in terms of the continued adaptation TFPM in a TPA world will be something that we're going to be looking forward to going forward, as well as the recruitment of the new MID are really the areas that we think are going to enhance further progress and contributions from the program.

So those are our comments. Happy to address any questions.

CHAIR MILLER: Not seeing any questions. Thank you for the comments.

Okay. That brings us to 6c, Sustainable Investment program review.

(Slide presentation).

CHAIR MILLER: Oh, I see Peter there.

MANAGING INVESTMENT DIRECTOR CASHION: Good afternoon. Peter Cashion, Sustainable Investments. We're very excited today to present the SI annual program review. It's been an incredibly eventful year, as you know, with some definite positives and some negatives as well. We want to distill these down for you, share our insights, and most importantly present how SI is supporting the Investment Office to reduce risks and increase returns.

I'd like to underscore that everything we present today is the work and achievement as INVO as a whole. None of this would have been achievable by SI alone. Very much -- it is very much a joint work product between the asset classes, Sustainable Investments in the Investment Office. One word has made this possible and that's "collaboration". I want to thank Stephen for promoting and prioritizing this culture of collaboration, which will be only further strengthened under TPA.

Before I begin the presentation, I want to give a sincere thank you to the Board for your guidance, strategic direction, and resources. You've entrusted us to build out the sustainable investment business at CalPERS. We are not going to take this lightly and we will deliver.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: So we're actually presenting five items today, as you've probably seen. So let's share some of the highlights and tie into the four "P"s that we follow in the Investment Office. First, 60 billion in climate commitments up from 60 -- up from 50 billion the year prior, 7.3 billion in diverse managers, 2.2 in emerging managers. A big shout-out to the Private Equity team and Anton Orlich for those -- for those numbers.

In terms of emission intensity, it's down 11 percent and also declining in absolute terms. It's been another super active year on the human capital management front, with the Responsible Contractor Policy refresh and market study, and further implementation of the Labor Principles. There, a big shout-out to GFI and Arnie Phillips. The SI team has grown significantly from 8 to 18 people. We have two hires remaining, so that will bring us to 20.

On the ESG front, there's been a general deepening of the integration across public and private markets. On the public side, this has been led by Tania Labastida Garcia and on the private side by Dan Ahmed. We've had extensive stakeholder engagements as usual with Tamara Sells and Sharnvir Dhillon leading that work. We continue our leading -- industry leading regulatory advisor work in the CalPERS Climate Strategy Report that -- which was led by Travis Antoniono.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: So given everything that's happening on the SI front, we probably have a series of questions. And we wanted to address those right up front in rapid fire format, and then we'll get into the details with my colleagues as we go.

So let's hit each one of these Post-it Notes. Are we on track for 100 billion investments in climate solution? Yes. We've invested 10 billion this past fiscal year and 13 billion over two. This is a combination of appreciation and new investments. We have five years to go, so we are on track. I will caveat that it's not a straight line in investing. This year, we may see less volume because of market changes, but we are on track.

How is SI integrating with the asset classes? We're integrating wells -- well. It has required changes and we've had some starts and stops at the beginning, but it's positively evolving, and its -- we're really heading in the right direction.

How is ESG integration involved -- evolving internally? Also, well. On the private side, we've established a screening for all new investments and we assess the ESG standards of all new funds. On the public side, they have already well developed ESG screening, and we're further implementing the Labor Principles to continue to grow that ESG component.

Next question. Are we on track for net zero 2050? Essentially, the answer is yes. Our emissions profile is on track to reduce emissions intensity by 50 percent by 2030, which was our objective. Out to 2050, it's hard to say and will depend on the global emissions of -- the emissions of the global economy. So that's still somewhat to be determined, but we are on track as of now.

So what's happening in human capital management?

As I inferred, there's a lot happening. We're presenting today the Responsible Contractor Policy annual compliance results, both for this year and over the past decade. And we're happy to report again full compliance for this year. We have the RCP market study update, where we're developing the Request for Proposal. We have the Responsible Contractor bidding opportunities website and lastly further development of the Labor Principles work.

SI team build-out. As I mentioned, we've gone from 8 to 18 to add two, which will take us to 20.

What's really notable is that this has occurred during a time when the opposite has been happening in the market. And I think that's -- that really says a lot about CalPERS commitment and conviction to sustainability.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: Okay. So that's a lot. It was a bit abbreviated and we had one other question related to what's happening in the climate market, so let's devote a whole slide to that, because there's actually a lot happening as you might -- may have guessed.

So to answer this, let's start with a roadmap. And I'll reference three key points. So the first is climate as mega trend. Second, we'll be in the -- we'll be -- what's happening in the global economy in terms of climate and transition, and third, in the U.S. There, it's more nuanced with some negative policy developments, but positive economics. So let's address each one of those three.

So climate as a mega trend. Why is this? Well, climate touches all parts of the economy. And if climate was its own sector, it would be the fifth largest sector in the economy. This transition is going to play out over years and even decades to come. Climate solutions can be faster, cheaper, and more efficient, and simply make economic sense. In fact, it's a really -- there's a really interesting interplay between AI and climate. As we know, artificial intelligence, deglobalization are the other key mega themes -- mega themes. And this is playing out very closely between AI and climate. So AI will both be a driver of electricity consumption and renewable energy will be the key provider of that incremental energy need.

A second is the application of AI, and this is towards driving energy efficiency. I think this is a really exciting time to be investing in AI. This first stage that we've seen have been the NVIDIAs, the Palantirs, the Mag Seven have benefited in terms valuation growth with AI. The second stage will be companies utilizing and leveraging the AI to become more efficient and reduce emissions. It's key that we not miss that and we target and identify those companies that will benefit and those that will -- that will not.

Lastly, I want to touch on the climate change and the whole climate risk aspect, because climate change is worsening. We know that, so adaptation investment will be key.

Let's pivot to the second topic, which is what's happening globally. So globally, in terms of climate transition, it's all steams a -- it's all steams -- full steam ahead. The -- the rest of the world is frankly quite mystified by the U.S. approach and the climate denialism. To quote Pat Moynihan, "You're entitled to your own opinions, but you're not entitled to your own facts." And let me share some facts.

2.2 trillion, that's the size of the climate transition market up from 900 million in 2019 and up 10 percent over last year. Next year, renewable energy will surpass all other forms of electricity generation. Japan has launched the Green Transformation Fund at $1 trillion, three times the size of the IRA. Over 80 percent of new capacity in the U.S. is coming from renewable energy. In the ratio of investment between renewable energy and fossil fuel is 2 to 1, so double the investment going into renewables. EV sales also set a record.

And more broadly beyond climate investing, if we look -- if we look at compan -- the company level, sustainability is still a key priority. A survey done by Deloitte and Touche last year, showed that 88 percent of companies used sustainability as a value creation opportunity and 83 percent of these companies increased their sustainability investments over the year. So really, what we've seen is a gentle -- general sentiment shift from idealism to pragmatism. So what do I mean by that?

There's been this move away from lofty decarbonization targets without a plan and a move toward concrete actions that increase efficiency and generate higher returns. This has always been our approach at CalPERS to focus on returns, be pragmatic, so it's validating to see the market move with our approach.

Let me touch on China. You can't understand climate transition without understanding China. And frankly, we don't understand it well enough. It's becoming an electrostate superpower. This is very intentional, very strategic, and they've been at it for 20 years. They dominate over 85 percent of the biggest climate supply chains, including rare earths, wind turbines, solar panels.

U.S. So we know there's a lot happening in the

U.S. The story here is more nuanced. There's two opposing forces. There's policy changes, which is leading to a partial headwind versus economics and necessity.

So policy changes. There's clearly some negatives that have been happening, particularly on the climate front. These are real and we don't downplay them. Let me walk you through some of these key developments. The first is the IRA policy rollback, the dismantling of the Department of Energy Loan Program, the challenges to the EPA's Clean Air Act. Within the IRA, there's definitely some clear losers, offshore wind, EVs, building electrification, and to a degree solar with the cutbacks in tax credits. There's been permitting changes and renewable energy projects have been targeted. At the judiciary level, the state attorneys generals have targeted asset managers for the inclusion of ESG. There's been a general unraveling of the climate partnerships, the net zero alliances, and departures from organizations like Climate Action 100. Tariffs have negatively impacted cost structure, particularly with imports from China.

So these are big challenges leading to change -- these are big challenges for climate, because it increased cost structure, regulatory hurdles, had there's fewer incentives.

But to paraphrase Mark Twain, the reports of the death of climate transition are greatly exaggerated, and let me share why. If we look beyond the headlines, we can see what's happening in the here and now, and what will transpire going forward. So let's start with performance on the equity market side.

The S&P Global Clean Energy Index rose over 50 percent this year versus less than 20 percent for the MSCI World Index. Within segments of the equity market, including energy efficiency, nuclear, and battery storage, that also similarly exhibited outperformance. And one of the reasons for this is simple economics. The demand for electricity is increasing dramatically and renewable energy is the cheapest and the fastest to market. This increase in demand is coming from AI and data centers, manufacturing, electric vehicles and heat pumps. And at the same time, we have the supply that's been cut back and partly -- in part because of the IRA changes.

So guess what happens when demand goes up and supply goes down, prices also go up. Now, this is a negative for consumers, but it's actually a positive for providers and developers. In some markets, we've seen retail ener -- electricity prices up 50 percent. As we heard from Bayo Ogunlesi from GIP this summer, there's a greater than 400 gigawatt shortfall in electricity generation between now and 2030. About 110 gigawatts can be made up from traditional fossil fuel. That balance of 300 needs to come from other sources, and renewable will be the key.

The other winners in the recent changes to legislation have been the grid, in terms of promoting grid investment, nuclear, geothermal, and carbon capture. So we believe that market forces will eventually overcome misguided policy. So what are the implications for us here at CalPERS?

So first on the market side, there's still plenty to invest in the U.S., but the mix will change somewhat, less wind particularly offshore, less EV infrastructure, but still plenty of solar, battery storage, more nuclear, and potentially geothermal. Several of our infrapartners think this the most exciting time in their career to be investing in energy infrastructure, and we would agree with them. We will also do more outside of the U.S. including emerging markets and the supply chains and picks and shovels of the transition will remain to be key.

Next, on the adaptation side, this will grow, because climate change and the negative effects are going to accelerate. Currently, about five percent of our climate portfolio is adaptation and we anticipate that this will grow. What about timing? I think our timing, in terms of implementing this plan is good. We miss the idealism phase of the early 2020s, where you came up with a lofty decarbonization plan without a real -- a target without a plan. And now we're still in the early stages of deploying and investing under a climate solution plan. So we have lots of runway to adjust and adapt as we go.

Let me address the focus question. So if you're investing in a dynamic and evolving sector like AI or climate transition, it's key to have a plan and skill. And we have that in sustainable investments. We have a dedicated team, strategy, and cross-asset collaboration, which is key. If you don't have that focus, then you simply become a passive investor and take what you're given, rather than seeking out the best investments in a proactive manner. We don't want to become a climate tourist or newspaper investor as our Juan Gaviria would say.

Lastly, when you're recognized as a leader, other leaders want to develop long-term genuine partnerships with you, think TPG and Octopus Energy. So that's where we are in terms of a synopsis in climate transition.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: I'd now like to share where we are in terms of our progress and implementation. I think we're in stage two, the implementation of the strategy with the team in place.

For the first 12 to 18 months, we were in stage one, where we developed that strategy, worked across to refine it, and started the recruitment process. I think in the next 12 to 18 months, we'll reach stage three, become fully operational, and fully integrated across the portfolio.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: So this is slightly complicated slide, but it's a real pleasure to walk you through it. First, maybe I'll give a little side story. When I moved here some two and a half years ago, I came out by myself, didn't really know anyone. So I joined a running club, and, in fact, I joined two, which was even worse, because then you have to run twice as far. And inevitably on these runs, someone would say to me what do you do at CalPERS? And I'd be out of breath trying to keep up, but I'd mumble, bumble something about investing in renewable energy or labor human capital. And I was never really satisfied with that response. So I thought and said to myself, well, what do we really do?

And I think in essence our role in Sustainable Investments is to translate a challenge statement into value-add for the portfolio. And this is really a six-stage process. And if we look at -- if we take labor principles, labor practices, for example. So we come up with a challenge statement. It could be labor. It could be emerging managers. It could be investing in climate. We take that away as the SI team in stage two and we work amongst ourselves. In the case of labor, we reached out to the international labor organization, the AIC, pulled all the different sources together, and in stage three, which is, for me, the most and important, is we get together with that asset classes, with legal, other departments to say, okay, what is the best way to do this?

And this, to me is really where the important work happens. It's a really rigorous discussion, debate, disagreement, but the outcome -- this creative tension generates a really improved product and solution. We then take it to stage four, where we validate it. We share it with the Board, with stakeholders internally to see if we're on track. And in the case of Labor Principles, also an important party were the asset managers themselves, who needed to sign on to these things. We then execute it and with the ultimate target to add value to the portfolio.

And, you know, in the case of Labor Principles, now over 150 managers have signed on. And I think this was all possible because of this dynamic, cohesive system that was -- that we've created.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: Just to emphasize on the collaboration aspect and how SI is within

INVO, works across with both public and private, and we wanted to share this just to show some of the scope of what we do. As I inferenced before, we use this model for emerging managers, for labor, for climate, and advocacy. So it's really a collaborative model and I think it works, because we're all keen to find the best outcome and solution.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: So you're familiar with this slide. We've presented it two years ago, I guess, probably this week. And that is really our key five objectives behind all of our sustainable investment work.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: From this, we've developed KPIs to track each of those five, and we have 11 KPIs. We're pleased to report that we're either or track or have met each of the KPIs once again this year.

So now we'll get to the more interesting part of the presentation, where we jump into the details and you'll hear from all my colleagues.

Thank you.

[SLIDE CHANGE]

INVESTMENT DIRECTOR BOURDAIS de CHARBONNIERE:

Thanks. So Fanny Bourdais, Investment Director with Sustainable Investments. So with respect to the KPI mentioned by Peter, the first one, generating outperformance. So the team has continued to originate and underwrite climate solution investments alongside the asset classes with the expectation to outperform their respective benchmark. So since November 2023, we have committed seven billion to climate dedicated funds, and I -- and also located to a -- to a custom public equity index.

So tracking and measuring performance remains a work-in-progress, especially as it relates to the private markets. But I'll let Nelson and Mike cover performance of the climate index and the Emerging Manager Program.

INVESTMENT DIRECTOR DA CONCEICAO: Thank you, Fanny. Good afternoon. Nelson Da Conceicao, Sustainable Investments. Indeed, one of the first investments under our Climate Action Plan was the Climate Transition Index, or CTI, a climate aware investment strategy in public equities designed as an alternative to our traditional cap-weight equity index, with the dual objective of Matching return its return -- its returns, while achieving significant improvements in key climate indicators.

I am pleased to report, that is CTI, has met its objectives in its first year, tallying a total return of

16.2 percent for the fiscal year, closely mirroring the return of all-custom cap weight index, while delivering a 50 percent reduction in carbon intensity. We'll talk about that metric. And a similar increase in green revenues, i.e. revenues generated through climate solution activities.

We were also pleased in this first test here with the resilience of the strategy's relative performance with the cap weight index, in a year that was marked by significant policy headwinds impacting climate investments.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: Thank you, Nelson. Miguel Silva, Sustainable Investments.

It's nice to see all of you. I'm here to provide you with an update on the performance of the Emerging Managers strategies in the intermediated portfolio in private equity.

The table on this slide shows net asset value, net return, and access return for our private equity, emerging manager, intermediated, or fund of funds portfolio, and compares these metrics to the private equity asset class return versus Private Equity Policy Benchmark.

You'll note that historical performance of our intermediated private equity emerging has been mixed. As our Capital link portfolios, constructed nearly 20 years ago have underperformed while our domestic emerging funds, I, II, and II have outperformed the Private Equity Policy benchmark and the asset class itself in the three-, five- and ten-year terms net of fees.

The older Capital Link portfolio is moving from harvesting to a wind down phase of the fund life cycle. As I noted in a presentation earlier this year, the poor performance behind Capital Link I and II was that these were poorly constructed portfolio led by a first-time fund of fund manager, who deployed the capital too quickly over a short two-year period.

We applied these and other lessons learned from that experience into the construction of our domestic emerging manager portfolio. These DEM funds were established in 2012, 2014, and 2019, and are managed by GCM Grosvenor. Outside of some recent co-investment activity, these funds have been out of capital for two years. DEM's performance is largely driven by strong performance from funds II and III, which are midway and entering their harvesting phase of the J-curve.

The portfolio construction characteristics included a high percentage of co-investments in DEM III. And as I shared with you in July, DEM III's Performance aligns with external research that indicates that emerging managers can outperform. It's still too early to draw conclusions on GCM Elevate or TPG Next. Keep in mind, this is seeding and staking platform, where our partners are identifying largely those emerging managers in the earliest stage of their firm life cycle.

As such, nearly all are in fund raising stage. When they call capital for portfolio company investments is when tracking of performance starts.

[SLIDE CHANGE]

INVESTMENT DIRECTOR BOURDAIS de CHARBONNIERE:

So with respect to increasing portfolio resilience, it is a key objective and we now have a team of dedicated professionals who have been working on better integrating ESG, and the due diligence, and asset management processes. So on the private side, Dan Ahmed led the development of an ESG integration roadmap, which is now being successfully implemented.

The team further started a comprehensive review of existing partner's ESG programs. On the public side, Nelson's team has focus on building on a more resilient portfolio through several -- through several initiatives, and the team, first of all, developed a labor principle scoring framework which Nelson will cover.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DA CONCEICAO: Thanks again, Fanny. So in the next two slides, I'm going to highlight two areas of risk where the SI's ESG integration activities carried out with asset classes are expected to improve portfolio resilience. The first area focuses on labor related issues and the second on climate risks.

So on the labor principles on this slide, last November -- let me just repeat what Peter mentioned. Last November SI was really pleased to announce that all or a majority of our managers in private and public markets had attested to their alignment with our Labor Principles.

This year, I'm happy to share that as part of our broader ESG integration initiative in public markets SI has developed a quantitative labor scoring framework designed to systematically integrate labor principles throughout the investment cycle from the pre-investment phase when evaluating potential new investments to the post-investment phase when monitoring existing holdings.

This framework is currently being tested with our U.S. Corporate credit team and was developed with corporate governance, Drew's team. At A high level, this framework consisted in mapping our labor principles to measurable indicators, 60 of them -- 60 plus of them across the five underlying pillars of our Labor Principles, collective bargaining, forced labor, child labor, discrimination, and health and safety.

The indicator is measured at each company level, are then processed, signed, weighted towards updating -- towards are score that we plan to update on a weekly basis. The most extreme values of this course, or the tail, will signal cases of higher likelihood of weak alignment with our Labor Principles and will be further reviewed.

Importantly, the scoring framework is not intended to create a blacklist of non-investable companies. Instead, it provides additional insights to help our investment professionals to conduct a more comprehensive risk return trade-off analysis of investments and to monitor labor risk in the portfolio.

Finally, we expect this initiative to enhance portfolio resilience, not only through the integration of those scores into our portfolio management process, but also by informing our corporate engagement prioritization. We believe that close collaboration between SI, the asset classes, and corporate engagement will serve as a powerful driver of portfolio resilience.

Moving to the next slide --

[SLIDE CHANGE]

INVESTMENT DIRECTOR DA CONCEICAO: -- and climate risk. So I'd like to first reiterate here that it is our belief -- and we heard the very numerous and public comments. I'd like to first reiterate that it is our believe that climate change presents a long-term systemic risk to the fund, and that therefore strengthening portal resilience along that dimension is a core fiduciary of ours.

Our approach to building climate resilience is supported by three pillars, risk management, stewardship, and investment. Regarding risk management, conducting a detailed risk profile assessment to identify the risk drivers and quantify the potential impact of these risks is a crucial step.

There is no unique metric or framework to do that. We use several of those. One of the frameworks, and I focus on the -- on the center component of this slide. One of the frameworks that we use is MSCI's Climate Value at Risk, Climate VaR. This framework provides and assessment of the potential financial impact of both transition and physical climate risks on the portfolio under different scenarios.

Focusing on the public markets portfolio here, the Climate VaR framework is telling us that under a three degree warming scenario, more and more likely -- hopefully not, but more and more likely, the portfolio in aggregate will be exposed to an estimated cumulative loss of about

5.4 percent, or $15 billion in today's portfolio value terms. The Climate VaR analysis also tells us that in both the three degree and two degree scenarios that we highlighted here physical climate risks, whose main drivers happen to be extreme heat, coastal flooding, low river flow, is the largest and stickiest contributor to the expected losses.

While this is an insight that we are seeking to further integrate in our portfolio risk management, it is worth noting that also that mitigating physical climate risk is in a globally diversified equity portfolio is challenging. Firstly, information about company's physical locations of operations is still pretty poor or weak. Secondly, complex global supply chains create interdependencies across the portfolio holdings, which makes physical risk in its relation or hedging very challenging. It's not all about location.

In contrast, in real assets, real estate, infrastructure where physical impacts are often more immediate and localized, managing physical risk is far more tractable and actionable. Today, new investments in real assets include climate physical risk assessments. In real estate, our portfolio undergoes a periodic physical risk assessment using a custom version of the Climate VaR, whose results are shared and discussed with our managers.

Shifting to the left side of the -- of the slide. To assess the element of our portfolio with global warming scenarios, whose impact is analyzed with the Climate VaR, we use another framework, they Implied Temperature Rise, or ITR, which is a forward-looking metric based on corporate commitments to decarbonize.

The latest read of this metric indicates an alignment of our public markets portfolio in aggregate with a path of 2.7 degree warming above preindustrial times. This bottom-up corporate-based assessment of our global portfolio is consistent with the latest forecast on the UN Environment Program that just released its new report, is putting the world on the 2.8 degrees warming path with a 90 percent probability range of 2.2 to 3.9 degrees Celsius.

While 83 percent of our portfolio's companies have made some form of climate commitments, only 38 percent of them have commitments that are aligned with a trajectory of warming below two degrees. It is our belief that this gap can be greatly reduced through corporate engagement, our other channel, including the work by our colleagues in global equities, led by Drew, to bring companies into dialogue, pressing for science-based credible transition plans, and strategies.

Lat, but not least, we believe that the most effective way to build climate resilience in the portfolio is to invest in the transition itself. Rather than simply reducing portfolio emissions through portfolio engineering, divesting, we favor the intentional allocation of capital to climate solutions in areas -- in areas that include renewable energy, grid modernization, energy efficiency, sustainable transportation.

These investments serve a dual purpose, financial resilience, and real world impact. Financial resilience, because these investments are expected to appreciate in value, as the transition in physical risks intensifies. Real world impact because these investments as a whole directly contribute to global decarbonization and adaptation, reducing system climate risk in our portfolio over time. Those are the reasons why we -- why investing in climate solutions is the foundation of our net zero strategy or Climate Action Plan.

[SLIDE CHANGE]

INVESTMENT DIRECTOR BOURDAIS de CHARBONNIERE: So as mentioned earlier, our climate solutions -- our climate solution exposure is 59.7 billion today, up from 50 billion last year. So this is primarily driven by public equity and real assets, which combined represent nearly 85 percent of the total. So mitigate assets, which includes among our energy efficient buildings or renewables, represent 86 percent of the total.

[SLIDE CHANGE]

INVESTMENT DIRECTOR BOURDAIS de CHARBONNIERE: And with that, I'll pass to Travis to cover the climate report.

INVESTMENT DIRECTOR DA CONCEICAO: I'll go back to slide 18. We missed a slide, but back to the pathway to net zero and made to -- you may us zoom on the climate solutions. What I want you to mention is that as we look at our Climate Action Plan, we really follow progress towards that along three dimension, and this slide are those three dimensions.

I'm pleased and -- I'm cautiously pleased, I would say, to share that three metrics are moving in the right direction.

The two metrics on the side relate to our portfolio carbon footprint, emissions intensity, expressed in terms of CO2 equivalent and goes down 11 percent year over year. Finance emissions, which are emissions that are attributable to our investments that we own are also down, although at a more muted rate of 6.6 percent. Finally, I -- and you mentioned, you gave the scoop, I am pleased to share that our investment climate solutions were value at $59.7 billion as of June 30th.

[SLIDE CHANGE]

INVESTMENT DIRECTOR ANTONIONO: Thank you, Nelson. Travis Antoniono, Sustainable Investments.

Everything that you've heard throughout what Fanny and Nelson has both mentioned, a lot of it is covered within our SB 964 report. Now, this is an attachment to this agenda item and it's in response to Senate Bill -- California Senate Bill 964. We provide this report every three years, and it largely speaks to the climate related financial risks and disclosures for CalPERS, and specifically CalPERS investments.

In previous years, the report followed the Task Force on Climate-related Financial Disclosures, or what's known as a TCFD framework. This framework has been absorbed into the International Sustainability Standards Board, also known as the ISSB standards. And it still follows the same four pillar type of framework that was conceptualized throughout the TCFD framework.

Now, these includes specifically the four bullets on the left-hand side of the slide, climate-related governance, strategy, risk management, and metrics and targets.

[SLIDE CHANGE]

INVESTMENT DIRECTOR ANTONIONO: The report dives into CalPERS approach on climate and highlights our engagement, advocacy, and integration investment. All of these activities are supported by partnerships. This includes both our external managers as well as many other organizations in which we partner with.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: I'm pleased to provide you with an update on our efforts to promote greater inclusion and representation in the financial industry. The Investment Office does this in a variety of ways, including investing with emerging and diverse managers, through our Partnership Insights Survey that seeks to better understand the human capital management practices of our managers, as well as engage with public corporate boards on diverse ownership.

CalPERS overall investments with emerging and diverse managers continues to remain strong year over year. In the last fiscal year, CalPERS made allocations to 17 emerging managers for a total of 2.2 billion, all in private equity, nine of which represented new manager relationships and five of those came from the TPG Next and GCM portfolios. In that same time frame, CalPERS made allocations to 36 diverse managers for a total of 7.3 billion, 12 of those represented newly reported firms and the same five from TPG Next GCM Elevate. From January 2, 2022 through June 30, 2025. CalPERS has committed 6.2 billion to 26 emerging managers and nearly 21 billion to

51 diverse managers. The overwhelming majority of these investments made directly by the private equity asset class.

I'd also like to provide you with a brief update on TPG Next and GCM Elevate. Each of our partners has made several investments so far and continues to build upon a healthy pipeline. TPG Next has committed to five emerging and diverse managers, including Caro Investors and Demopolis Equity, who have presented to the Board in previous meetings, as well as Ardabelle Capital, Cohere Capital, and Vanara Capital.

Ardabelle is a women-owned private equity firm operating in the middle market and is focused accelerating the transition to a sustainable resilient economy.

Cohere Capital is a diverse private equity firm focused on investing in leading tech-enabled lower middle market companies.

And Vanara Capital is diverse private equity firm focused on providing Flexible capital solutions for growth stage technology companies.

The TPG Next team expects to be fully deployed toward the end of next calendar year.

GCM Elevate has committed to three emerging and diverse managers, including Excolere Equity Partners and Invidia Capital Management, who again you have previously met, as well as a very recent commitment to the Tayeh Capital Group. Tayeh Capital is a diverse owned private equity firm that is relationship based and operationally focused on partnering with family-owned founders operating in the middle market. GCM has deployed approximately 20 percent and committed approximately 38 percent of their capital. And TPG has deployed approximately five percent and committed 64 percent of their capital. The Elevate team expects to make at least two commitments in 2026 and is also expecting to be fully deployed by the end of the calendar year.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: The CalPERS Partnership Insights Survey of our external managers is designed to gather organizational diversity and human capital management data from our external manager. It allows us to better understand their workforce characteristics as well as measure our progress over time as it compares to peers in this space. Importantly, the survey also helps us understand how our external managers approach diversity, equity and inclusion, as well as human capital management practices, sourcing, and retention. This is our fourth year in a row surveying our external managers and we were surprised to see upward trends in a variety of data points. We distributed the survey across

198 public and private asset class managers. The response rate this year was 93 percent, a two percent improvement over last year, and 13 percent higher than industry average.

Across the 166 managers that provided detailed demographic information, notable data points include of the approximate 85,000 employee workforce, which was a nine percent decrease, slightly over 40 percent are women, a half percentage point decrease over last year and 29 percent are people of color, a decrease of six percent.

CalPERS portfolio continues to perform above the median in terms of women and people of color, across ownership, leadership, and workforce in the Lenox Park universe. However, a representation gap still exists for both women and people of color in equity ownership compared to leadership positions across organizations.

Finally, 48 of the 158 privately held managers, who provided information, were diverse-owned managers. This represents 30 percent of the respondents of the total portfolio originally receiving the survey.

[SLIDE CHANGE]

INVESTMENT DIRECTOR ANTONIONO: Thanks, Mike.

On this slide, team members across the organization conduct hundreds of engagements each year. So often we hear about different engagements, such as those that are conducted by our public equity stewardship team, but, you know, these type of engagements are conducted across a variety of different venues. You know, so these engagements are what's not only in the public equity type of management -- managers and also companies, but also with stakeholders, policymakers, and those portfolio companies both across our private and public markets.

More than 50 stakeholder engagements were conducted over the year with more than half of them on Labor Principles and more than 10 of them on climate related issues. As communicated by our global public equity team during their annual program review, a few months ago, more than 400 public company engagements were conducted, and this represented more than 50 percent of the total assets under management of global -- of our global public equity assets.

The CalPERS team has also conducted a number of policy related engagements with federal and State regulators and policymakers. This includes meetings with Securities Exchange Commission, the Federal Trade Commission, Department of Energy, and California Air Resource Board. The team also submitted multiple comment letters, including one comment letter to the Department of Labor's Occupational Safety and Health Administration, also known as OSHA. This was related to a heat injury and illness prevention in outdoor and indoor work settings. Additionally, there was an amicus brief that was provided supporting the Federal Trade Commission, FTC, related to a proposed rule banning noncompetes, which is already conducted in practice in California. So this was essentially the federal government following what a standard California has already done. Additional details on our advocacy and regulatory related efforts is located in the appendix.

[SLIDE CHANGE]

INVESTMENT DIRECTOR ANTONIONO: As we move to slide 24, and there is a lot here to this slide, and it's a familiar slide hopefully, because you've seen in the last year. We kind of refer to it as CalPERS show of force slide for a lot of our sustainability activities, and specifically activities related to a lot of the committees, assessments, and additional activities that we participate in and serve on.

It's important to mention that these committees, activities, and assessments are conducted by individuals across the organization, across the entire CalPERS organization, not just investments, and also includes all of investments, asset classes, and program areas. This is definitely a group effort. This was mentioned by Peter earlier on in his comments, that a lot of sustainable activities that you are seeing today are not just Sustainable Investments team, but largely the Investment team and broadly.

[SLIDE CHANGE]

INVESTMENT DIRECTOR ANTONIONO: And then in order to more effectively communicate CalPERS approach and views on specific subjects to our members, partners, and stakeholders, we have spent time on developing a number of sustainability fact sheets. These includes fact sheets on CalPERS Labor Principles, emerging managers, California Report, Responsible Contractor Program Policy, and a solutions. We are in late stage developments of these fact sheets and expect them to be available on CalPERS website by the early new year. We will make sure that you receive links or copies to these once they are published.

Thank you.

MANAGING INVESTMENT DIRECTOR CASHION: So that concludes our presentation and we welcome any questions.

CHAIR MILLER: Okay. First off, I have Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you, Mr. Chair. Not so much of a question, I just really want to thank you all for the work that you're all doing. I was just at one of our community colleges within California and they --

it's been over 10 years now and they took on the initiative early on of putting in a solar farm. And now they're in the process of remodeling that solar farm, because back then the solar panels were these giant huge things that moved with the sun. And now, they're finding products out there that are minimal in size, but produce more output. So I am thankful that you guys are looking at technology in a time-appropriate manner, because who knows what five years will bring us, what ten years will bring us. And I look forward to those reports in the near future. But again, thank you all so much for the work that you guys are doing in this field, so...

CHAIR MILLER: Okay. Director Willette.

VICE CHAIR WILLETTE: Thank you so much for the presentation. I'm really -- I'm inspired by the work that's been done so far. I really like seeing it all laid out here in an annual review. I do think though when we're looking, talking about the climate solution -- the $60 billion climate solution with the goal of $100 billion, our beneficiaries do want to know and deserve to understand what -- how the assets are determined that go into that portfolio and what criteria is being applied, what's the decision tree that's kind of, you know, being worked to make sure that we know what is in that fund. And then that decision tree should be made public. I think it -- that's really just good governance. It's how we ensure consistency and accountability and trust with our beneficiaries and our stakeholders.

So I think that that would be really great. And I think this is a really strong foundation for future, you know, climate strategy principles, et cetera, as we review under the total portfolio approach. I also similarly think -- let me find the slide, the -- would be interested in understanding the Labor Principles scoring framework, and if that's been made available to our stakeholders. And if not, we should consider maybe, you know, a webinar or stakeholder engagement to make sure that everyone understands what's going into the Labor Principles scoring framework. Thank you.

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

COMMITTEE MEMBER TAYLOR: Thank you, Chair Miller. I was also going to ask about the Labor Principles scoring, because I don't know exactly what that means.

And we had asked for kind of an accountability mechanism, and I don't know if that's inclusive of that or if that's separate from.

MANAGING INVESTMENT DIRECTOR CASHION: We'll be discussing that later today.

COMMITTEE MEMBER TAYLOR: Okay. And then I just -- I wanted to -- you guys always do such a great job. You guys are improving every year. I want to appreciate your office, Peter. It does a great job. Congratulations to all of you guys. I just -- I'm really impressed with the job you guys continue to do in our current environment, which makes it even tougher. So I applaud you all. The only thing that I will say, and I don't remember who said it, but I note that we do engage in corporate engagement. And we have some corporate engagement updates. I think -- I think in current environment and even a little before that, we're having a lot of trouble with corporate engagement.

So I think maybe in a closed session we can go through some of the new rules and possible laws that are coming around and interpretations of lots of things, whether that's the Delaware stuff or Texas stuff. But corporate engagement in general in this country is being fought. So I think we -- I agree that it works sometimes and we see it on -- in other markets, but not necessarily in our public equities. So I just -- I wanted to -- is there any other way we can work that with our own public markets, because I know, we've had -- we've had several proxy voting things that have -- you know, we feel good about, but, you know, they're not going anywhere. And it seems less and less likely as our rights are being trimmed down.

So any ideas, any thoughts on that, Peter?

MANAGING INVESTMENT DIRECTOR CASHION: So, yeah, maybe if Drew Hambly also wants to comment. As you know, we do over 400 engagements a year. There is a lot of -- more activity on the regulatory front, as it relates to particularly the two main proxy voting bodies. So we're monitoring that closely between our work with K&L Gates, with other Washington D.C. organizations, but, you, know maybe I'll pass to Drew for the details.

COMMITTEE MEMBER TAYLOR: You're on.

INVESTMENT DIRECTOR HAMBLY: Yep. Thank you, Peter. Hi. Drew Hambly, Investment staff.

So you're absolutely right, I mean, the attacks continue. This morning, the SEC has basically said we're going to allow no action on most shareholder proposals filed. What I'll remind everybody is the reason corporate engagement really got off the ground, the reason proxy voting -- now CalPERS has been doing it for a long time, but not everybody was doing, was it came out of the Great Financial Crisis and people realized, hey wait a second. What are our managers doing? What are our pension funds doing? Are you talking to companies? Are you voting in an efficient manner and what things are you taking into consideration?

So as certain segment chips away at these things that we've fought hard for, I think people going to -- it's taken a while, but they're going to realize, wait a second, all our rights are gone and that's not going to fly. And we've seen that before. And so we're going to continue the program that we're doing. We continue to talk to other managers. We continue to talk with other asset owners. I think the asset owner community is still standing up for the most part. The managers, you know, need to be reminded that if they continue to do this, they're going to hear from their clients. So far they've been quieter, because I think the market has been good.

When that market turns, and it always does at least for a bit, they'll be reminded of their duties. So we're going to keep plugging away, but yes, we are in challenging times.

COMMITTEE MEMBER TAYLOR: So, Drew, with that, does that mean -- I mean, I get what you're saying that during -- I think I remember Anne Simpson telling me that we had no proxy voting pretty much back before the financial crisis, so --

INVESTMENT DIRECTOR HAMBLY: Yeah, it was pretty thin. Matter of fact one of my jobs I got hired for back in 2008 was to help build out a proxy voting platform at

State Street, you know, coming out of the financial crisis.

COMMITTEE MEMBER TAYLOR: Wow. State Street of all places. Okay. So I appreciate that. I understand where you're coming from. I just -- is there -- I don't know if we're doing any strategic thinking with K&L Gates or anything like that to see what we can do and sort of work our way around some of this.

INVESTMENT DIRECTOR HAMBLY: Yeah. So a couple things we've done. So I've been in touch with the Legal Office, and, you know, there's some things that are being considered there. We continue to work with CII, which has done a herculean effort to speak out against these things on a number of these fronts. So we continue to work with them. Matter of fact, we were very instrumental in helping them put together the report on why proxy advisors are crucial to how we exercise our fiduciary duty. And Marcie has spoken on that at least twice this year.

So we'll continue to do things like that, but we're going to need the U.S. asset owners to, you know, participate in some of that. And if there's a bit of a downturn, I think their clients are going to remind them why they're there to look out for their interests.

COMMITTEE MEMBER TAYLOR: Fair enough. People at CII, as you mentioned, that heard all of this, that I would hope that more asset owners would participate. I appreciate it. Thank you.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you very much, Chairman Miller, and thank you for your presentation. I've got a couple of questions, but I want to start with the first page, page six of 30, the one on the climate market environment, where you mentioned that climate is a mega trend. And you mentioned that, with respect to the global climate market, the climate transition is accelerating from India, to China, and to the EU, but specifically to China.

You know, what are your thoughts on -- first of all, your thoughts on the national security implications of that? Because there are national security issues, how that would affect, you know, from a geopolitical aspect, and have you -- have you taken into consideration in your -- in our -- in our SI 2030 plan?

MANAGING INVESTMENT DIRECTOR CASHION: So as I mentioned, China is key to the climate transition. They dominate several -- actually many of the supply chains. And this is very intentional and strategic. And there have been reports of energy infrastructure that has software in it, that is -- was not supposed to be in there.

COMMITTEE MEMBER PACHECO: Um-hmm.

MANAGING INVESTMENT DIRECTOR CASHION: So that is an ener -- that is a concern from a security standpoint. And I can only assume that there's going to be greater scrutiny and checking on any additional incremental things that should not be there.

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR CASHION: The second element is rare earths. So as we know, again about 20 years ago, China identified this as an area to focus on. In significant parts of the rest of the world, it was not a focus. And so whether it's your smartphone, solar panels, or military and defense, there's a lot of rare earths that go into those products. So I think that has caused a reaction and other markets are filling that gap and developing more rare earths production.

COMMITTEE MEMBER PACHECO: And I -- if I remember -- recall when we first started this whole thing, and I remember the categories you had mentioned, there was one of the rare earths was lithium -- the lithium area. And that -- is that -- would you consider that one of the major --

MANAGING INVESTMENT DIRECTOR CASHION: Sure, yes.

COMMITTEE MEMBER PACHECO: In terms of trying to figure out where -- who's going to have dominance over that, whether it's China or the EU.

MANAGING INVESTMENT DIRECTOR CASHION: Yeah. Fortunately, lithium is pretty -- more widely available, but it does still take a mining operation. It's typically closer to the surface, so less invasive, nickel, magnesium --

COMMITTEE MEMBER PACHECO: Cobalt. Cobalt. Even cobalt.

MANAGING INVESTMENT DIRECTOR CASHION: Cobalt, yes.

COMMITTEE MEMBER PACHECO: So those are the other elements that I was talking about. Okay. Excellent then.

In terms of the other item was the policy distractions and policy winners, especially around the investment, the IRA --

MANAGING INVESTMENT DIRECTOR CASHION: Um-hmm.

COMMITTEE MEMBER PACHECO: -- the IRA Act. You mentioned that the -- definitely the policy distractors are offshore wind, and EU, and the tariffs, but you mentioned the policy tariff -- the policy winners were nuclear and grew improvement in carbon capture and geothermal. Would you consider like for instance the fossil fuel industry as well, because since that, it's -- we're -- since they're not -- they're not emphasizing more on the IRA on those areas. They're going back to more of the traditional process. I'm just -- because I -- you know, in terms -- in terms of like refineries, the oil refineries and so forth, I know there's been some changes in terms of re-upping the refineries around the country. So I just wanted your thoughts on that.

MANAGING INVESTMENT DIRECTOR CASHION: So one of the beneficiaries of the IRA changes is carbon capture. And I think that was supported by the oil and gas industry. So, you know, carbon capture can be good, especially if it's methane related, which has such high intensity. So that's reflective, I think, of -- you know, that's a material change.

The secondary I would mention is the Department of Energy loan program. That is being partially repurposed to support gas in particular, whereas previously, under the past administration, that was towards promoting climate solution investment.

COMMITTEE MEMBER PACHECO: Excellent.

The next question is more for Mr. Silva would be respecting to -- on page 14 on generating output in emerging managers. You mentioned Mr. Silva regarding -- first of all, thank you for your presentation on this. This is really very top of the mind. In terms of the G -- the Grosvenor, Elevate and TPG Next, you mentioned that it's too early to tell in terms of conclusion, is that because we're too -- we're too -- we're closer to the J-curve, at the beginning of the J-curve, or are we -- where are we in terms of that?

ASSOCIATE INVESTMENT MANAGER SILVA: No. The reason is is most of these managers are still early stage in the founding of their firms. So because it's a seeding and staking platform, GCM is identifying these managers at the earliest of their firm life cycle, so the managers have yet to call for capital, most of them.

COMMITTEE MEMBER PACHECO: So right now, it's just pretty much dry powder then, in terms of what --

ASSOCIATE INVESTMENT MANAGER SILVA: Except for a small investment that's noted there right now for 44 million.

COMMITTEE MEMBER PACHECO: Right now. And when do you in your -- in your humble opinion, do you believe you will see some conclusion or some performance?

ASSOCIATE INVESTMENT MANAGER SILVA: We'll see some performance at the -- at next year's update. But again, it will be in the J-curve at that point.

COMMITTEE MEMBER PACHECO: At the J-curve at that point. Excellent then.

And then the final question, and it's at very end, you mentioned the representation of the emerging and diverse managers with respect to Lenox.

ASSOCIATE INVESTMENT MANAGER SILVA: The Lenox Park.

COMMITTEE MEMBER PACHECO: The Lenox survey. And you mentioned that we were only at, is it, 93 percent response?

ASSOCIATE INVESTMENT MANAGER SILVA: Yes, that's a two percent increase from last year and 13 percent increase across the Lenox Park universe.

COMMITTEE MEMBER PACHECO: How would you feel -- I mean, what are your ways of -- to motivate more of the managers to finish it, to get like a hundred percent of that survey. I mean, ideally it would be wonderful, but I mean, is there -- is there some way to incentivize them and make them like happy about doing this?

ASSOCIATE INVESTMENT MANAGER SILVA: We're pretty aggressive -- you know, I shouldn't say aggressive, but we like to reach out to the managers and engage with them as much as possible. We're pleased with the 93 percent, but we're certainly going to shoot for a higher percentage next years as well.

COMMITTEE MEMBER PACHECO: Fantastic then.

And then the last question I have is on page 24 of -- on the additional committees and activities. It is the Labor Focus Market Study, in terms of that. And where are we in the -- where are we in the status on that? Any updates on that?

INVESTMENT DIRECTOR ANTONIONO: Yeah. Tamara sells is going to be providing an update on that during her RCP item, if that's okay.

COMMITTEE MEMBER PACHECO: Then I will -- I will defer -- I will defer to Tamara at that point in time then.

Thank you so much.

INVESTMENT DIRECTOR ANTONIONO: Great. Thank you.

COMMITTEE MEMBER PACHECO: Other than that, thank you so much for your comments. I hope I answered them all there. Thank you.

CHAIR MILLER: Thank you. And I'm Pittsburgh. I just tell people I'm not aggressive.

(Laughter).

CHAIR MILLER: I'm just enthusiastically proactive, you know

ASSOCIATE INVESTMENT MANAGER SILVA: That would be a better term.

CHAIR MILLER: There we go.

On to Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. And everyone, thank you for a really, really good presentation. I'm not left with questions for you, but there are a couple of comments, if I may.

One, all of this has to come back to performance, and that we are actually adding value. So I think it is critical, as we move forward, that we are able to demonstrate that these investments in comparison to benchmarks of our competitors, in comparison to benchmarks of other assets, that we're producing the result for our members, that they expect us to be able to do.

So second, and this is a much broader question, we heard again this morning from a variety of individuals. With deep respect to each one of them, a fundamental belief that some how or another by divesting, they are achieving an actual policy change and a result. And as we have surveyed the research over the course of many decades, that's not the story that is being told to this Board. And I think it's appropriate for us to seek out again some academic level research, people who could come and talk to the specific question of what is achieved by simply walking away from an investment, as opposed to what is achieved by engagement.

Thank you.

CHAIR MILLER: Okay. I don't see any more requests to speak. I won't just repeat all the superlatives, but very encouraging. I think we remain a leader. And there is real value that sometimes I think not very tangible or not very recognized beyond what's obvious. And, for example, when we lead, and we lead based on our values, and we take on fights. And some of these fights we know. You know, we don't always vote our proxy with the expectation that we're going to win and that there suddenly will be this, you know, stampede to our point of view. But we stand up for our values. We stand up for the sustainability of our fund and our future. We're a long-term investor. And there are these intangible other values, some of them which I mean we could document perhaps.

For example, I'll do a simple example that comes to mind for me is earned media. The amount of earned media that CalPERS gets, both in the popular press and the financial and community publications, when we take a stand on something visible and significant, you could not buy that kind of earned media, if you were to pay for those column inches of attention. And I won't list all the publications, but that has real value and it's very tangible. And nobody is getting that beyond the first few minutes of the news cycle, when they abandon the fight and pull their investments out and go somewhere else.

So that's my little soap box speech for the day.

Thank you. Thanks to the whole team.

MANAGING INVESTMENT DIRECTOR CASHION: So moving on to public comments.

We have a lot of commenters on this item, so I think we'll take a our break. We're almost right at the two hour mark. We'll take a 10 minute break.

COMMITTEE MEMBER WALKER: Can we do 15.

CHAIR MILLER: Can we do 15? Yes, we can do 15. We'll do a 15-minute break and then we'll come back and we'll start with our public commenters. And because we have so many, we're going to go back to the one minute comment time frame for these -- for this item.

(Off record: 3:09 p.m.)

(Thereupon a recess was taken.)

(On record: 3:23 p.m.)

CHAIR MILLER: Okay. I think just about everybody is back, so we'll go ahead and get -- jump right back in before we do public comments and we'll hear from our consultants.

LAUREN GELLHAUS: Good afternoon. Lauren Gellhaus, Wilshire Advisors.

In association with the annual SI program review, Wilshire provided an opinion letter. And a full overview of Wilshire's comments can be fund in that document. However, we did want to highlight a few of the key takeaways today.

First, as evidenced by the many voices that you just heard, the breadth of the SI team is a strength of the program and the depth continues to grow. As was noted in the presentation, the team has more than doubled since 2023, currently sitting at 18. With leadership's role -- with leadership roles fully staffed and nearly all positions filled, the team can now more effectively execute on all that falls under its remit, which is sizable.

Given the significant strides made in recent years, the program is positioned to advance from the strategic development to full implementation of the SI strategy and its associated goals. Overall, Wilshire views the SI program as a leader among North American peers. Looking ahead, we would emphasize the importance of maintaining effective collaboration across INVO for continued success.

Thank you.

CHAIR MILLER: Thank you. Any questions from the Board? Seeing none. Okay. We will move on to public comment on Item 6c. And you'll each have a minute. I'll call down folks a few at a time. We've got quite a few of you. Again, I'll ask try to refrain from repeating the same points that your predecessors have and welcome you all.

So we'll start with Jakob Evans, Mark Ramos, followed by Megan Shumway, Eric Lerner.

So come on down and the time will start when you begin to speak.

ERIC LERNER: I'm going to Jakob Evans spot and he'll switch with me.

CHAIR MILLER: Okay. Sure. Just identify yourself and start when you're ready.

ERIC LERNER: Good afternoon. My name is Eric Lerner. I'm today on behalf of California Common Good.

As you know, our coalition is not calling for CalPERS to divest from fossil fuels. We are in alignment with the goals of CalPERS Climate Action Plan, but we do have serious concerns about CalPERS categorizing fossil fuel companies as part of its Climate Solutions Investment Strategy. We understand CalPERS has responded to this concern by saying a green asset is a green asset, regardless of corporate ownership, and our climate solution investments in fossil fuels are very small.

But our constituents, it's not that simple. Fossil fuel companies are driving the climate impacts that are already harming their communities enrichment. Childhood asthma rates are among the highest in the state. Children are sent to the ER for asthma at roughly three times the California average. In Los Angeles, many of our members live near active or abandoned oil wells. They are scared for their children's health.

For these community members, the idea that fossil fuel companies can be considered a climate solution is not just confusing, it is insulting, and contradicts their lived experience. Across the state, SEIU members are all grappling with the economic threat climate change poses to city and county budgets. The risks are real and they are immediate.

California Common Good looks forward to continuing to work with the staff and trustees at CalPERS. As I mentioned, we are fully aligned with the goals of the Climate Action Plan. Our ask is simple, make practical adjustments to what is counted as a climate a solution, which should include exclusions of fossil fumes.

CHAIR MILLER: Thank you.

Next speaker.

JAKOB EVANS: Good afternoon, Board members. I'm Jakob Evans with Sierra Club, California. In September, we shared Sierra Club's Principles for Climate Investment, which highlight how CalPERS can cement its climate leadership by implementing strong definitions of climate solutions. These principles are increasingly relevant as CalPERS reports progress towards filling its hundred billion commitment to climate solutions.

Without ironclad climate solution definitions, investments in fossil fuel corporations and the other solutions have no place in the list of climate solutions, calls into question the integrity of the Climate Action Plan.

Based on public disclosed information, it appears that CalPERS doesn't have guardrails or negative screens for mitigation and adaptation investments. In other words, CalPERS does not have standards for how it defines climate solutions. This is how major polluters end up in the Climate Action Plan. Implementing strong climate solution definitions reflect the nuance of technologies like carbon capture is essential. For example, carbon capture applied to hard-to-decarbonize industries, like cement production, has a key role in low -- in a low carbon economy. And is not comparable to carbon capture applied to polluting oil and gas industry.

Without clear criteria, CalPERS has no way of showing that this is taken into account when counting investments for the Climate Action Plan. CalPERS has responded to stakeholder concerns about fossil fuels in the Climate Action Plan by emphasizing that the investments are small and that quote, "Green assets are green assets."

To that I ask how does measuring the green revenues of the world's largest polluters contributed to reduced climate risk. These investments do not represent additionality and they don't drive decarbonization. They don't protect beneficiaries at saving us from the systemic risks of climate change.

Our members are eager to see CalPERS push the ball further on this. And I'd like to pass along a letter signed by or Sierra Club members asking for the fund to implement climate investment principles. Thirty-five percent of its members are CalPERS beneficiaries.

Thank you.

CHAIR MILLER: Thank you. Next speaker.

MARK RAMOS: Good afternoon, Board members. My name is Mark Ramos and I am President of UFCW Local 1428 and President of UFCW Western States Council, which represents over 130,000 workers in the State of California.

First off, I want to thank you for adopting Labor Principles for your investments, but it's also important that Labor Principles have an enforcement mechanism. Apollo Global Management has agreed to the standards that you have in place, but yet they continue to ignore these standards when it comes to Cardenas markets. UFCW is calling on the Board to adopt, implement, and enforce the accountability standards for investment managers. Workers at Cardenas markets continue to be subjected to Apollo's escalation of anti-worker and anti-union rhetoric and actions in the workplace.

Your Principles, while admirable, will fall short of your goals and your intentions, if you do not have an enforcement mechanism in place. Apollo will continue to come to you asking for union members' money from their pension funds here at CalPERS, and then turn a blind eye and deny the workers at Cardenas the right to organize in their own workplace. We ask that you make any -- we ask that you do not make any new or follow-on investments with Apollo until they either -- until they enter into an agreement with the UFCW to adhere to the workers' will, which is to form a union.

Principles without -- principles without action are just words on paper. So when you say you support labor standards, let's make sure you support it with more than just words.

Thank you.

CHAIR MILLER: Thank you. Okay.

Is Megan Shumway here?

Then Joe Duffle, Jared Gaby-Biegel, and Sonia Nuñez.

JOE DUFFLE: Good afternoon. Thank you for the opportunity to speak. My name is Joe Duffle. I'm President of the United Food and Commercial Workers Union, Local 1167 bases in Southern California. We have members in LA County, San Bernardino County, Riverside County, and Imperial County. Also, former President of the Inland Empire Labor Council representing over 850,000 union households. And I currently sit as Vice President to the California Federation of Labor.

Members of the Investment Committee, I'm speaking today to thank you for adding the labor principles to your private equity investment and urge you to institute stronger enforcement mechanism in that important Investment Policy. Our experience at Heritage Grocers is a prime example of why you need enforcement provisions to mitigate labor risk to your investments. Heritage grocers is owned by Apollo Fund, which has -- which we have over 550 million of CalPERS money invested. Heritage owns Cardenas Markets across the state and beyond. And Cardenas workers have bravely spoken to all of you about their experiences over a long period of time about intimidation, retaliation, and standing up for their rights and their choice to join and form a union.

They have broad examples of violations of your Labor Principles on sexual harassment, workplace safety issues, and anti-union intimidation. Their record also poses risk to your investment from litigation over alleged wage and hour claims and sexual harassment cases, which we are our investigating as we speak, and it could create lots of liabilities to the fund.

Despite your engagement with Apollo, and our repeated efforts to reach an agreement to mitigate these risks, in recent weeks, Cardenas Market has flooded their stores with anti-union propaganda, have had closed caption meetings with members' working staff, intimidated, launched an anti-union website. And I don't believe this is anywhere in your principles.

And so what we are asking for your support. You went that one step and you created those principles. And I need to commend each and every one of you and your staff, incredible body of work. But without policing of that, and without the fear that you're going to drop the hammer if there's a bad actor, these workers will not have the opportunity to that they need to freely organize.

CHAIR MILLER: Thank you.

JOE DUFFLE: Thank you.

JARED GABY-BIEGEL: Thank you. My name is Jared Gaby-Biegel with UFCW. I'm here to update you on escalating violations of CalPERS Labor Principles at Heritage Grocers a grocery chain, as you've heard already owned by Apollo Fund IX, which CalPERS has invested $550 million in.

Back in March a worker at Tony's in Chicago told this Board that during a union election the company ran an aggressive anti-union campaign that included fear mongering about workers' immigration status. Last month, as Joe just mentioned, Cardenas Markets launched an almost identical campaign using the same anti-union consulting firm to flood its workers here in California as well as Arizona and Nevada with anti-union postings, texts, a website, and captive audience department meetings.

Further, we have new examples of litigation risks stemming from Cardenas alleged labor practices. The company faces three new outstanding lawsuits in Santa Clara, Los Angeles, and Riverside Counties all alleging violations of similar provision of Cal -- similar provisions of California Labor Code to cases settled without admitting wrongdoing. The company denies The allegation in all three cases, but the cases are ongoing.

We have also told you about the risk of sexual harassment at Cardenas and the company's retaliation against workers who reported it. Two years after Valeria Alvarez told you her story, Cardenas has eight outstanding lawsuits alleging sexual harassment and retaliation for reporting it. Of those eight sexual harassment related cases, five are filed in 2025 alone. Apollo is violating CalPERS Labor Principles at Heritage, including the rights of Freedom of Association and a safe and healthy working environment.

The fact that these risks have only increased since CalPERS learned of them is why we urge you to adopt stronger enforcement mechanisms to protect the fund from poor management like that at Heritage. We also urge you to tell Apollo that you will not be allocating to its new $25 billion fund, as long as the risks to your Heritage Investment remain.

Thank you.

CHAIR MILLER: Thank you.

Push the button. There you go. You're good.

THE INTERPRETER: I'm going to translate for Sonia Nuñez.

SONIA NUÑEZ(through interpreter): I worked at Cardenas Market Riverside for six years. Everything change the moment management saw me talked to the union -- to the union workers. We were just having a normal conversation, but within minutes management and loss prevention were watching me from a distance and the harassment began. My hours got cut, my schedule changed, my regular days off also changed. And so I started struggling at work, because of being harassed at work. They also began calling me the troublemaker. For a long -- for a long time, people were afraid to even talk to me, because they didn't want to be targeted too, because I would talk to the union.

They even made a list of workers who support the union and I know my name is on that list. I was excluded from store updates, inventorying, and anything important, and management filed false written reports accusing me of harassing -- of harassing co-workers. Something completely untrue. HR tried to help, but nothing changed. I never got my hours back or my regular days off, but I'm not staying quiet. We're fighting for a union, because we want respect, fair schedules, hours guaranteed, and vacations, and just basic dignity. We're all human beings, not machines. And that's why I'm staying strong no matter how much they try to silence me. I'm sharing my story with you, because I know you care and the companies you invest in uphold your Investment Principles.

Thank you.

CHAIR MILLER: Thank you.

Okay. It looks like next I've Jose Oliveros, Kristian Santos, and Brandon Barney.

There you go. Nope.

There you go. Now, don't touch it.

THE INTERPRETER Hello, everyone. My name is Mariana

JOSE OLIVEROS(through interpreter): My name is Jose Oliveros and I work at Cardenas in San Jacinto for two years until July 2025. And while my story is hard for me to tell, I tell it so that you know what kind of company you are invested in. On May 1st, my HR Director called me into a meeting and proposed me to have kids with her, so they can have my color eyes. When I reported this harassment, I was told that she did not work at the company anymore, but I know it was not true. Over a year ago, the air conditioner stopped working at my store in San Jacinto and I work in the kitchen over a hundred degrees heat. That A/C was never fixed while I was working there. Because all of these challenges, I work at this site to help our organize my co-workers in early July. We have to cancel a union meeting because many workers have their schedules changed at the last minute, likely because managers found out.

Later that week, managers accused me and another pro-union worker of stealing drinks, even though they allow us to take drinks with lunch in the past. The two weeks later, I was fired over that incident. I advocate for myself and my fellow workers by filling a complaint in CalOSHA over the heat and speaking publicity to another investor meeting. I ask you to take my story and those of Cardenas workers seriously and uphold your labor principles. Cardenas is good -- is not a good place to work and not a good company to invest. Thank you.

CHAIR MILLER: Thank you.

KRISTIAN SANTOS(through interpreter): My name is Kristian Santos. I work at Cardenas in Lake Elsinore, approximately 10 years. During the time I was there, I witnessed how Cardenas treats employees. They deny us the 10-minute breaks required by the law. They pay us minimum wage, even though many of us have worked there for years and workloads are excessive. They also do not give us permission to see relaters, even during emergencies. In my case, even after working at Cardenas for a decade, I asked for a leave for three days to attend my sister's wedding in Mexico. They denied it for no reason. So to attend my sister's wedding, I was forced to quit.

The lack of respect at Cardenas is why my workers and I were helping a organize union, but the company made us attend several anti-union meetings, and says that the union is no good, that the only -- that they only want our money, and that they are not going to help us. Many of my co-workers are intimidated by management anti-union tactics, by can fight back.

To make Cardenas a healthy workplace and a good investment for you, I urge you to uphold your Labor Principles. Thank you.

CHAIR MILLER: Thank you.

Next, I have Brandon Barney. And then I think we have some phone commenters as well.

BRANDON BARNEY: Good afternoon. My name is Brandon Barney awe. I lead a majority women-owned firm focused on structure arbitrage. I'm here today as the local fiduciary - I live across the street - to discuss how we can secure superior net returns for the beneficiaries.

The ultimate proof of wisdom is clear. The total wealth concentration of Buffett -- this is Warren Buffett and his wife Susan underpinned the Buffett partnership's early compounded gain of 1,600 percent from 1957 to 1968. Their overall gain from 1964 to 2024 and the Buffett and the Berkshire Hathaway way vehicle was 5,502,284 percent versus 39,054 percent for the S&P 500. This is from Berkshire Hathaway's 2024 annual report. This superior outcome stems from a profound emotional intelligence and the understanding of the tyranny of incentives.

I will quote from Warren Buffett's 1960 letter to his partners. "The division of profits between the limited partner and the general part with the first six percent per year to partners based upon beginning capital at market and any excess divided one-fourth to the general partners and three-fourths to all partners proportional to their capital. Any deficiencies in earnings below the six percent would be carried forward against future earnings, but would not be carried back. The unreason -- the reasonable man adapts himself to the world. The unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man."

With respect to sustainable investments, I invested with my partners in offshore seaweed farming off California funded by the government, the ARPA-E mariner program. We lost a lot of money when the current administration came into office and canceled all the offshore wind leases. So I can't really speak to sustainable investment. I've lost more money than I've made. We were in cryptocurrencies in 2001. We were in deep (inaudible) in 2012. I should have never got involved in sustainable investments. I cost my family, my family office money. So I can't speak to that, but what I can say is that the lesson that we learned was that the grants and the -- and the incentives that we were operating under caused us to be diluted to basic human nature. And we did a deep dive. We did a lot of investment, counseled meetings. We realized if we implemented the Buffett Partnership's you incentives, as I just read to you and you could read in the Buffett partnership's letters, we would get better results if we did. Indeed, we have since we implemented that program.

Thank you.

CHAIR MILLER: Thank you.

Okay. Phone callers. I think we have several.

BOARD CLERK ANDERSON: Five.

CHAIR MILLER: Okay. Five or more.

CALPERS STAFF: Yes. Chair Miller, we have Irene Green here from SEIU Local 1000 to comment on Item 6c. Irene, you are now live and can proceed with your comments.

IRENE GREEN: Hello. My name is Irene Green, as she stated. I work for the State of California. Been an employee for 18 year. And I'm also an active member of SEIU Local 1000.

I want to sincerely say my gratitude to each of you as a Board member, especially shout-out to Theresa Taylor and Yvonne Walker my sisters from the local and to all the staff at CalPERS who work diligently to ensure that our retirement is secure.

I want to specifically ask CalPERS today to look at the issue of risk and opportunity through the lens of how asset managers and companies you are invested in are responding to the current dynamics around immigration in California, and why we think that it is relevant to your fiduciary duty and investment approach. It is our firm belief that this issue is relevant to the Committee's work, because you are responsible for the long-term health of this plan across generations. And the data indicates that the federal government's current approach to immigration policy and enforcement is having a seriously negative impact on the economy at the State.

Many other plan sponsor jurisdictions who participate in this plan within the state in these markets inside and outside of the state of CalPERS investments. So there are several data points that we can reference here, but I'm going to not submit these today. I'm going to submit them in writing, but I really want to be clear from our viewpoint as plan participants any private industry partners you're invested in who may be making short-term profits via partnering on these enforcement actions are absolutely misaligned with the fiduciary responsibility of the fund and with CalPERS investments beliefs. Any short-term profits earned at the destruction of the long-term health of our economy and the ability of our children to learn and gain the skills necessary for the long-term prosperity of the state is clearly not in our fiduciary interest.

Thank you again for your attention to this matter -- to this matter and for all that you do on our behalf.

CHAIR MILLER: Thank you.

Next caller.

CALPERS STAFF: Next we have Terry Gray with SEIU Local 1000 to comment on Item 6c. Terry, you are now live and can proceed with your comments.

TERRY GRAY: Thank you, members of the CalPERS Investment Committee. My name is Terry Gray and I have worked for the State of California for 13 plus years at the PUC in the Legal department. I am also an active member of SEIU Local 1000.

My colleagues and I want to share some views with you today regarding the challenges CalPERS Board and staff face today in these turbulent times. My co-workers and I are firmly counting on you to implement a robust and fully integrated sustainability approach to our investment implications consistent with CalPERS Investment Beliefs. We very much appreciate the Board and staff keeping the ship steered in that direction in spite of the great deal of noise outside these walls claiming that systemic risk issues are not relevant to the work of institutions like CalPERS, when, in reality, nothing could be farther from the truth.

It is our firm belief that issues like how health is distributed, how people are treated in their communities or in their workplaces, who has access to health care and food and who does not, whether the democratic, constitutional, and human rights of all and the rule of law are respected or not, whether we understand that the future health of our community -- of our society depends on the healthy respect for the mutual world we all live in, and finally, whether a people have a safe place to call home or not.

All are relevant matrix to whether CalPERS can successfully invest hundreds of billions of dollars of deferred participant wages in a manner that effectively remains faithful to your fiduciary responsibility to plan participants as a plan that must invest these assets for the interest of people now retired and receiving benefits and for those just starting their public service who may not collect benefits for decades to come. Of course, those system -- the systematic risk issues and now you -- and how you navigate them at the core of finding a strong healthy investment approach as fiduciaries.

So today, I just want to encourage you to continue your robust journey in incorporating of these issues into your work.

Thank you.

CHAIR MILLER: Thank you. Next caller.

CALPERS STAFF: Next, we have Bobby Roy with SEIU Local 1000 to speak to Item 6c. Bobby, you are now live and can proceed with your comments.

BOBBY ROY: Thank you. I am Bobby Roy an active member of SEIU Local 1000 and have worked for the State of California since 2006.

I'm here to complement the comments of my two colleagues earlier with additional asks. One, ensure that all of your investment partners, asset managers, and consultants and companies are aligned with the sustainable investment approach this Committee developed with the support of your staff and that is consistent with CalPERS Investment Beliefs. We can't build a strong house on a weak foundation and without trusted partners. We need our partners with whom you contract to be committed to our retirement security and our community's economic and ecological well-being. If they are not, they are not our partners and we need to replace them.

Two, on the issue of immigration, begin a process of due diligence review within all of your asset classes to, one, understand how the immigration enforcement actions may be negatively impacting plan members and their families, plan sponsors, and their tax base and community members who carry out the work that make this state go and this plan prosper; two, develop with urgency a review of whether and how any of your contractors, partners, consultants, and private or public companies are engaged in business operations in coordination with immigration enforcement that are facilitating these destructive outcomes to our communities, our neighbors, our families, our state, our employers, and our pension plans; and three, as is your fiduciary responsibility, begin consideration of a process of how you'll address any misalignment of interests between the business operations of any of these partners or investment products and companies with the interest of plan participants.

Alignment with CalPERS Investment Beliefs is critical. We are counting on you. Thank you for your attention and your work on our behalf.

CHAIR MILLER: Thank you. Next caller.

CALPERS STAFF: We have Katherine Markova from Climate Interactive to speak to Item 6c. Katherine, you are now live and can proceed with your comments.

KATHERINE MARKOVA: Thank you very much for the opportunity to make a comment today. My name is Katherine Markova. I'm with the climate modeling nonprofit Climate Interactive. I've had the pleasure of meeting some of you before and it's good to see you again.

I'm really encouraged by the progress made today with the SI program. I was also pleased to see that there were no references in the earlier presentation to CalPERS investing in direct air capture, carbon capture and storage, or nuclear fusion. If I'm not mistaken, all of these were, at some point, under consideration, at least carbon capture and storage seems to -- continues to be.

Our climate model inroads clearly shows that these are not effective climate solutions, in addition to being risky investments from the financial perspective, as is bioenergy, which a number of commenters mentioned this morning. It is really reassuring to see increased amounts of investment in renewable energy, energy efficiency, and battery storage, solutions that are proven, fully commercialized, and that not only reduce emissions, but also have labor, air quality, and energy and portability co-benefits.

To echo Board Member Willette's comment, I would welcome CalPERS adopting a set of science-based principles as to which climate solutions qualify for inclusion in the SI program. Best principles need to look at the global picture, because what might seem sensible at an asset level, may not be a viable solution on a planetary scale, and fossil fuel CCS is one such example, because of incentives it creates to continue the production of fossil fuels.

So thank you for all the great work you've done to date and thank you for time to listen to me.

CHAIR MILLER: Okay. Thank you. Do we have another caller at this point?

BOARD CLERK ANDERSON: (Shakes head).

CHAIR MILLER: Okay. That does it for public comment on 6c, so we move on to 6d, diversity in the management of investments.

(Slide presentation).

CHAIR MILLER: Welcome Peter back up.

ASSOCIATE INVESTMENT MANAGER SILVA: Miguel Silva, Sustainable Investments.

AB 890 requires CalPERS staff to submit an annual report on the participation of emerging and/or diverse managers within CalPERS investment portfolio.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: The Legislature is primarily interested in updating -- being updated on new allocations to firms that meet our definition of emerging and/or diverse manager that have occurred within the last fiscal year.

AB 890 is intended to ensure transparency and promote the inclusion of women- and minority-owned managers in the asset management industry. This presentation identifies the notable items included in the report that will be delivered to the Legislature, as well as the accompanying report as an attachment.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: The year four report is based on contracts entered on or after July 1, 2024 and up through June 30, 2025, and must include the name of the manager, emerging or diverse manager, receiving an allocation, the year first engaged, the amount managed and in what asset class, as well as the total amount allocated by asset class during the fiscal year and the total assets under management of each asset class.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: Our emerging manager definition is based on the overall firm's assets under management, length of track record, and the specific fund size when applicable. The minimum qualification thresholds vary across asset classes for reasons related to the nature of respective assets classes in the public and private realm. Our diverse manager definition is based on the total percentage of firm ownership and/or fund economics, and a firm must meet a minimum of 25 percent ownership based on gender, race, ethnicity, or sexual orientation with managers who identify as LGBTQ+.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: As outlined in the year four annual report, CalPERS private equity allocated to 17 managers directly for a total allocation of approximately $2.2 billion between July 1, 2024 through

June 30, 2025. During that same time period, CalPERS private equity, private debt, and real assets allocated to 36 managers that met the definition of diverse for an allocation of approximately 7.3 billion.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: This slide outlines our allocations to emerging managers, diverse managers, and all external managers, as well as our total AUM across asset classes with external investments during this period.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SILVA: Our next steps are to work with the Office of Public Affairs on producing a publication copy of the report and present it in a manner that meets CalPERS external reporting standards. The report is due to the Legislature by March 1, 2026 and we will work with the Legislative Affairs Division to ensure it's properly delivered on time.

Happy to answer any questions you may have.

CHAIR MILLER: Okay. I'm not -- oh, yes, there we go. Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you, Mr. Silva, for your report. As every year at this time, I on always find this to be the most interesting of a lot of the other ones, and especially this one, the AB 890.

First of all, I want to thank you for -- to incorporating my suggestions from last year and having a timeline, showing the timeline. And I really, really appreciate page 9 of 13, showing those graphs and so forth, and the aggregate, and as well as the appendix outlining the names and so forth. I -- and just knowing, just seeing the vintages and so forth. I wanted to -- now, I'm just curious about reporting process, communication, to the legislature, how does that happen? I know every year I've always asked, does there -- does it -- what is it -- when you give -- when take it over to the legislators, what do they do with it, right? Are they going to have a committee meeting this time or -- I'm just trying to see what's the next step.

ASSOCIATE INVESTMENT MANAGER SILVA: That's a great question. That's probably better answered by Danny Brown and our Legislative Affairs Division, yeah. So, right now, our next steps --

COMMITTEE MEMBER TAYLOR: Oh, there he is. He's slowly coming.

COMMITTEE MEMBER PACHECO: He's coming down.

CHAIR MILLER: Yeah, he's -- he thought he could hide back there.

COMMITTEE MEMBER PACHECO: The price -- the price is right, you know?

(Laughter).

COMMITTEE MEMBER PACHECO: I always -- I always thought that was cool when you could go down, the price is right. So Danny will provide this -- his wisdom.

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Danny Brown, CalPERS staff. So, you know, there is a process laid out by the Legislature as how the reports are delivered. So the reports are delivered to the Senate Secretary and the Rules Committee Chair, and then they are responsible for distributing them to all of the members of the Legislature.

With that said, we do make sure that copies are delivered to all the Committee members over the PERS, as well as the author of the bill, and it's really up to the Legislature as to whether or not they want to have a hearing on it. We make sure that they have information and follow up with -- follow up with them, if they have any questions.

COMMITTEE MEMBER PACHECO: Fantastic then. And just another suggestion as well. And I love your suggestions on information, is that -- and I love this graph. I think this graph is great. You know, I think showing -- I mean, like just showing maybe a trend maybe next time, just because it seems to be accelerating, it seems to be going up in terms of these boxes. But I thought those were pretty cool. And maybe next year, that will with be -- that will be the last year, I believe. So that's another question. Next year is the fifth year and it sunsets, correct? So what happens at that point?

LEGISLATIVE AFFAIRS DIVISION CHIEF BROWN: Well, yes, I mean, what would happen there is the report would no longer be mandated. It doesn't necessarily mean CalPERS would not continue to do it. It just wouldn't be mandated for us to -- by the Legislature.

COMMITTEE MEMBER PACHECO: And in your humble opinion, do you feel this report is -- has provided some utility for us after these four years?

Mr. Silva. Anyone.

ASSOCIATE INVESTMENT MANAGER SILVA: I think it provides utility as it allows us to better understand the allocations being made to both in each of the asset classes, as well as the relation to the external -- externally managed NAV and what was allocated.

COMMITTEE MEMBER PACHECO: Fantastic then. Well, I hope a future -- the future Board will consider that in the -- in the next time they go through it in fifth year next year. Thank you so much.

CHIEF EXECUTIVE OFFICER FROST: And, Mr. Pacheco, remember, we provide this data to the Board on an annual basis. So the team already prepares this level.

COMMITTEE MEMBER PACHECO: But the fifth year will be the last year that was --

CHIEF EXECUTIVE OFFICER FROST: The last year that the Legislature requires it to be sent to them, but this Board will always have access to this information.

COMMITTEE MEMBER PACHECO: But it -- in this -- in this reporting format or not?

CHIEF EXECUTIVE OFFICER FROST: All of this data is pulled, so if this is what the Board would like to see in this reporting format, we can certainly do this, but this slide was just in the sustainable investments slide also -- or agenda item.

COMMITTEE MEMBER PACHECO: Yes. And I -- and I saw. That's what I was -- I was so --

CHIEF EXECUTIVE OFFICER FROST: So they prepare this data for you.

COMMITTEE MEMBER PACHECO: I was very impressed when it was -- because I saw both -- I saw it in both sections -- both reports and I taught it was very impressive that put it in the SI as well as here. But no, thank you, Ms. Frost, for providing that information. I think it would be useful. I think it would a useful thing to continue this moving forward and in some sort of reporting format, because I think it has utility, not just for the -- for the -- for the system, but I think for the public as well to know where we are, so thank you. That's all my questions.

CHAIR MILLER: Okay. I'm not seeing any further questions, and so I will thank you for the report, and appreciate it, and good to see it. Thank you.

We have a public commenter on this item, so I will call down. And now that we've only got a few public commenters on each item, we'll go back to our three minutes. And we have for 6d, Brandon Barney. Are you still here, Brandon?

There you go.

BRANDON BARNEY: I appreciate the time. I don't want to bore you. I have one Thanksgiving to address this subject in general of the CalPERS Investment Committee, as it came up in the agenda for me. And so that's why I wanted to make these comments when I realized you were having this meeting. So again, I'm Brandon Barney. I'm commenting on this diversity point.

I think that there's some -- there's an emphasis on diversity in terms of who the people are from, but I think there could be a related emphasis and diversity in terms of how they are incentivized. I think I mentioned this earlier, but if everyone who comes to the door is 2 and 20 no matter what, I think that that may not get the results that you're looking for. You may want to look to the Buffett Partnerships, the Berkshire model. For example, I saw that in the report attached to this that the Asian-American Association of Investment Professionals is one of the groups that brought this diversity measure, the original bill.

Interestingly enough, the leading private equity fund in China that I'm invested in is Himalaya Capital. We selected it, because if you go to their website he says, hey, I went to a lecture at Columbia Business School. I saw Warren Buffett. I decided to do it the way that everyone does it, because, you know, I don't know why I forgot. Then later I met Charlie Munger. We copied exactly what they did and we're off to the races with the biggest private fund manager value investing in China.

So I just wanted to point out that there are different types of diversity. There's diversity in incentives and compensation arrangements. And you can just go back through history and say, hey, why don't you guys -- this new group of diverse managers, why don't you copy some of these diverse incentive structures that have achieved these extraordinary returns.

So that was my comment. And I think that, you know, if the Investment Committee signals its long-term wisdom by instructing staff to structurally reward diverse managers who commit to these highly aligned fee structures, thus ensuring CalPERS closes the sourcing gap, and secures the lowest cost, highest alpha talent pool possible, it would be in the interest of all stakeholders.

Thank you.

CHAIR MILLER: Thank you.

Okay. That brings us to the next item, Item 6e, the Responsible Contractor Policy annual review.

(Slide presentation).

ASSOCIATE INVESTMENT MANAGER SELLS: Good afternoon. Tamara Sells, CalPERS staff member. It is my pleasure to present the Responsible Contractor annual report for the fiscal year 2024-25. I will provide a brief overview of the Responsible Contractor Policy and its history. I will provide a summary of the compliance result -- results, excuse me. I will provide a snapshot of the total compliance in contracting over the past decade, and we'll talk a little bit about some enhancements we are working on with respect to our competitive bidding process. And last, I will provide an update on our labor focused market study.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: CalPERS continues to have a deep interest in the condition of workers that are employed on CalPERS-owned assets. The Responsible Contractor Policy exists to ensure prudent and careful action while managing the Responsible Contractor Program. It is also demonstrating our fiduciary principles to support and encourage fair wages and benefits, for workers employed by our contractors and subcontractors, for building construction and property related services. The Responsible Contractor Program further contributes to competitive returns on our domestic real estate and infrastructure investments, where CalPERS holds a greater than 50 percent interest on contracts equal or greater to 100,000.

The Policy promotes hiring responsible contractors, maintaining a competitive bidding process, and creates a framework for responsible contracting based on local market conditions.

The Responsible Contract Policy also seeks to secure the condition of workers without adverse effect on our investment returns, access to investment opportunities, or significant costs.

And lastly, the Responsible Contractor Policy provides an important risk management function to identify and mitigate labor risks across our domestic real estate and infrastructure portfolios.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: CalPERS has a well established responsible contracting policy, which to the best of our knowledge was the first such policy amongst public pension plans. This past March, we completed our third official policy refresh following a 18-month long extensive policy review and engagement process. The revised policy provides greater clarity on how we define a responsible contractor. It incorporates the CalPERS Labor Principles within the core requirements of the policy. It aims to enhance communication between managers, labor organizations, unions and trade associations, as well as staff. It also -- the -- excuse me, the revised policy also reinforces our expectation for healthy and safe working conditions, while performing services with respect to RCP investments. And it also addresses potential gaps in reporting by our external managers. The newly enhanced and improved Responsible Contractor Policy went into effect July 1, 2025.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: We are happy to report 100 percent compliance by all of our responsible contracting managers for fiscal year 2024-25. All managers have certified that they, their contractors, and subcontractors have complied with the policy and certified responsible contractors have also received over 400 -- excuse me $746 million last fiscal year.

The RCP managers have reported that the policy had no adverse material impact on CalPERS real estate and infrastructure investment returns and no formal complaints were filed during this period.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: For the fiscal year ending June 30th 2025, managers reported a total of 746 million paid to responsible contractors. The decline from last fiscal year in the total amount paid to responsible certifying contractors was attributed to a number of factors, including the completion of several non-recurring projects as well as the realization of some assets. Over the last decade, certified responsible contractors have received over eight billion in opportunities for building and construction services projects on CalPERS owned domestic real estate and infrastructure assets.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: The Responsible Contractor Policy provides an avenue for communication and engagement between our external managers, their contractors our labor union and trade association stakeholders, as well as CalPERS staff. CalPERS's oversight of the Responsible Contractor Policy includes dedicated staff that work to assess the stakeholder inquiries regarding implementation of the

Responsible Contractor Policy, which projects are applicable to the Responsible Contractor Policy, and mitigating human capital management and reputational risks, as well as facilitating engagements between labor unions, stakeholders, and our managers.

CalPERS Investment staff communicate regularly with our labor stakeholders, as well as our managers regarding implementation of the policy and we work to address labor issues in a timely manner and in accordance with and consistent with the five step Stakeholder Engagement Process.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: So we've been working on a number of enhancements to the Responsible Contractor Program since the revised policy was rolled out. As highlighted in the SI annual program review, there is an RCP fact sheet, one pager, which I believe was requested last year as well that we'll be rolling out. We're also doing some technical policy cleanup, just some simple formatting and -- formatting consistencies that needed to be made based off of the cumulative changes from the revised policy. So these are just technical edits, which we are working with Meketa on as well.

And then also, as part of our ongoing efforts to promote fair and equal access to bidding opportunities, we are pleased to announce the upcoming launch of the new responsible contractor bidding opportunities website. Developed in collaboration with our investment teams and our IT teams, this platform was designed to strengthen communication and engagement between our external managers and stakeholders, including contractors, labor union, and trade associations. This website will provide a centralized and streamlined hub for CalPERS managers to post bidding opportunities and where stakeholders can stay informed of bidding opportunities for CalPERS real estate and infrastructure, construction, and building services projects.

After the official launch, we will invite interested stakeholders to register for updates on current and future bidding opportunities. And to encourage the use of the new website, we will also offer a series of educational sessions for our stakeholders to guide them through the registration process and to help teach them how to navigate the platform.

And the last update that I'd like to provide is on our labor focused market study. At the June Investment Committee, staff sought the Board's approval to competitively bid the market study scope of work. The Investment staff -- excuse me, the Board gave staff direction to review and address several areas before moving forward. Staff were asked to do additional work in establishing a subcommittee, expanding the scope of work to include reference of skilled labor, to revise the scope of work to include a focus on California, to add more specificity around project outreach for labor groups, and to seek collaboration and co-partnership opportunities with other peers or funds.

Since then, CalPERS staff have been diligently working to incorporate the Board's direction. The subcommittee formation is underway and that will include representation across the enterprise, as well as two seats for Board members. The scope of work has been updated and revise to include reference to defining and evaluating a skilled and trained workforce, as well as adding a focus on California. The scope of work was also revised and updated to add clarity around project outreach with union, labor, and trade association stakeholders at all levels. And lastly, we made outreach and engaged with seven peer institutional investors to offer the partnership opportunity on this study, but we were not able to secure any interest there.

So CalPERS staff are working on the RFP procurement and contract planning and preparation, in partnership with OSSD. We anticipate the RFP to be released in March with an award sometime in September, but we do view this RFP as being priority with OSSD. So it will be expedited to the extent that we can.

We will continue to keep the Board informed of our progress. And overall, the responsible -- excuse me, Responsible Contractor Policy has continued to serve us well.

And that concludes the updates for the 2024-25 annual Responsible Contractor update. And I am happy to address any questions you might have.

CHAIR MILLER: Thank you for that very encouraging update. Yes. We have a number of questions, starting with President Taylor.

COMMITTEE MEMBER TAYLOR: Tamara, thank you so much. I'm very happy with your report on this. I think I had just one thing I -- the question I had basically was you have $746 million paid to certifying responsible contractors. All managers certified that the contractors, the subcontractors complied with RCP policy to the best of their knowledge, right?

ASSOCIATE INVESTMENT MANAGER SELLS: Um-hmm.

COMMITTEE MEMBER TAYLOR: And I remember -- and I don't know if we did something with this, there are -- or there have been identified people that have broken these rules and are just bad contractors and subcontractors, and they have continued to be used. And I thought we had something in the works to list those folks or we did list those folks. Do you remember?

ASSOCIATE INVESTMENT MANAGER SELLS: No. I'm sorry.

COMMITTEE MEMBER TAYLOR: Me either. Maybe I was talking to one of the laborers or something. So how do we -- do we wait for somebody to tell us that, oh, hey, this person you have is a bad actor?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question. We do typically engage with our stakeholders very regularly where they provide us with lists of recommended qualified contractors. So I think we take the other approach where we're trying to prop up those that are responsible and get those lists to the RCP managers, so that way they can be incorporated within their overall distributions for bidding opportunities going forward.

COMMITTEE MEMBER TAYLOR: Okay. I just -- I don't know if that might Be something we consider, if they start coming to -- you know. I think -- I think it was the unions coming to us saying that these people were really bad actors and they are still getting your contracts.

ASSOCIATE INVESTMENT MANAGER SELLS: Okay.

COMMITTEE MEMBER TAYLOR: So I don't know if we have a way to report that or not?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you very much. First of all, thank you, Tamara, for your -- for your comments. I really do appreciate what you have done. So I have two -- several questions.

My first one is on page 6 of 10. You mention on your communication and engagement process, the process is, "Staff continues to address labor issues as they occur, in accordance with the RCP Policy." And, you know, some of these concerns fall outside the RCP scope. And you mentioned the five steps of the engagement process. Now, of -- you know, of -- you know, since we started this and this implementation, and I think it's been a couple years, right, we've had this process?

ASSOCIATE INVESTMENT MANAGER SELLS: Yes.

COMMITTEE MEMBER PACHECO: Has there any -- has there been any resolution on some of them? I mean, have they gone through the whole process. Has some of the have -- have they -- has -- have we -- have we got any case studies about it?

ASSOCIATE INVESTMENT MANAGER SELLS: Can I ask, are you talking specifically to responsible contractor issues separately?

COMMITTEE MEMBER PACHECO: Yes. Yes.

ASSOCIATE INVESTMENT MANAGER SELLS: So I could follow up --

COMMITTEE MEMBER PACHECO: Sure.

ASSOCIATE INVESTMENT MANAGER SELLS: -- with specific case study examples, but I will say that we've had a number of concerns that were raised regarding implementation of the policy. And as you've put it, we -- it always starts with whether or not the assets are actually covered under RCP. From there, we determine how we can engage and how we can properly effectuate change in terms of how the prac -- best practices are implemented with respect to the, you know -- so we will engage with other RCP managers, particularly those that are long-standing RCP managers --

COMMITTEE MEMBER PACHECO: Okay.

ASSOCIATE INVESTMENT MANAGER SELLS: -- if there is an issue with respect to like best practices that come up. And then we will talk to them as to how they've implemented application of a responsible contracting issue over time. And we do try to partner some of those newer managers with the longer standing managers, so we can have a better understanding of best practices and how it's applied through other RCP managers that have been doing it for a little longer.

COMMITTEE MEMBER PACHECO: I see then. Thank you very much for that question. And the next one is on the labor focused market study. So you mentioned that, you know, staff -- we gave -- the Board gave direction in June on a variety of other areas, prevailing wages and I believe the project labor agreements and so forth, and focused on in California. And now, you're in the process of beginning the RFP process. And that will come out I guess in March, right?

ASSOCIATE INVESTMENT MANAGER SELLS: That is what we anticipate.

COMMITTEE MEMBER PACHECO: And then you'll have -- you'll be -- at that point, you'll be selecting vendors at that point or vendors will be coming in or how will they -- how is the process of that?

ASSOCIATE INVESTMENT MANAGER SELLS: We are planning to have the RCP released in March with a potential award some time by the summer.

COMMITTEE MEMBER PACHECO: By the summer.

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. So once we find the vendor that we'd like to select and award the contract, then we go into the contracting process and get the contract in place.

COMMITTEE MEMBER PACHECO: So will that be in --

will that be in September as you were mentioning. Is that summertime or right at the --

ASSOCIATE INVESTMENT MANAGER SELLS: You know what, I'm -- yeah, it depends on, you know, when in the summer that the consultant is selected.

COMMITTEE MEMBER PACHECO: So I bring this up, because I was the one that brought up the question back in June, that I had mentioned that there was a bill that was being -- that was work -- going through the process, AB 1439, by Assemblyman Garcia. It was going to be a two-year bill. And it was my impression, and please, please, please correct me if I'm wrong, that the study -- that the market -- the labor focused market study would be completed, so at -- so before the bill expires, which would be two years from that date. And I'm just wondering if that is something that -- are we trying to shoot for that or is it going to be -- I mean, where do you feel that it might -- it -- from what I can see now, it's going to take a while, another year for this whole thing to come together. And by then, I think the bill will expire. So I'm just trying to understand your -- where we are or is there anyway we can accelerate this process?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you so much for the question. I think we've been careful not to lock ourselves too much into the timeline because we have to work through the contracting queue with OSSD.

COMMITTEE MEMBER PACHECO: I see.

ASSOCIATE INVESTMENT MANAGER SELLS: So I don't want to overpromise on the dates. And I would need to go back and look at the exact dates of the bill just to understand how it aligns with our proposed timeline that we presented back in March before I can answer that.

COMMITTEE MEMBER PACHECO: Sure. Absolutely. I know -- and you can follow up, you know.

ASSOCIATE INVESTMENT MANAGER SELLS: Will do.

COMMITTEE MEMBER PACHECO: That would be -- that would be wonderful.

ASSOCIATE INVESTMENT MANAGER SELLS: We'll do.

COMMITTEE MEMBER PACHECO: But I feel that it is really imperative that the market study is generated so that we -- so that the -- so that all stakeholders have -- can make an -- can make a very well-informed decision on a very important topic item. So thank you so much.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you.

CHAIR MILLER: Okay. Next, we have Mr. Ruffino for Treasurer Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. And first of all, thank you for the update on this policy and for all the work. I know it's been a long -- a long -- you know, long ride, so to speak. I have a quick question about data transparency. You've touched lightly. And I'm curious if there is a plan maybe to provide more details on the workforce data reported under the RCP to help us -- you know, to help the Board sort of assess whether the policies are achieving its intended labor outcomes.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you so much for the question. You know, last June, the Board made it clear that they would like the findings of this market study to somewhat inform some of the work we're doing on RCP, as well as CalPERS for California. So I do think that we will try to incorporate those findings to the extent that we can in some of that work as well going forward.

We should also -- with the rollout of the new responsible contracting bidding opportunities, we should be able to have some enhanced reporting from that as well going forward with a little more detail around the bid -- number of bids posted by fiscal year and so forth.

ACTING COMMITTEE MEMBER RUFFINO: Great. That's good to hear. And also, I also applaud you. I believe one of your slide, you know, we have almost a hundred percent compliance, which that's great. The only other thing that we need to sort of explore or figure out is now the enforcement part, you know, and how can the RCP be enforced, you know, across our private market partners? And I know that we are looking into that or we trying to figure out what the best approach. So anything that we can do in that arena I think will be helpful.

Thank you. Thank you, Mr. Chair.

CHAIR MILLER: Okay. Next, Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you. Great presentation. As you know, I'm a huge fan of making sure our website is easily accessible to our members. Going to that bidding opportunities website, is this already up and running, is it still in the works, and have we improved on the user-end accessibility from previous?

ASSOCIATE INVESTMENT MANAGER SELLS: So thank you so much for the question. It is not live. It is not launched yet. We are nearing the end of it. We're doing final touches right now on this website. As you know, we do have separate bidding opportunities website for CalPERS enterprise opportunities. So we are working to make sure that there's a clear distinction between responsible contractor bidding opportunities, as well as those for the broader enterprise. This is not live yet. We're preparing and we're hoping, if not by end of calendar year, beginning of the new year that this will be live and ready to go. And we'll send out an announcement to the stakeholders as well that it's accessible and live with a link, and then offer those training opportunities that we talked about, those educational opportunities for stakeholders.

COMMITTEE MEMBER PALKKI: Thank you.

ASSOCIATE INVESTMENT MANAGER SELLS: Yeah.

CHAIR MILLER: Very good news. Very good progress. Appreciate the work for the whole team and we do have a public commenter on Item 6e. I'll call down Jeremy Smith, if you'd come down. And you can see the time here and you'll now have the floor.

JEREMY SMITH: Thank you for a minute to let me get my comments up before you start the time. I appreciate that.

CHAIR MILLER: Sure. Sure.

JEREMY SMITH: I have to put my glasses on nowadays.

CHAIR MILLER: No worries. No hurry.

JEREMY SMITH: Jeremy Smith here on behalf of the State Building and Construction Trades Council of California. We represent over 450,000 unionized construction workers, many of whom might want to or might already work on some responsible contractor CalPERS funded projects in California.

Thank you to Mr. -- that you, Mr. Chair, Ms. Sells, staff, Board for all your hard work today and talking about how to responsibly invest. Our union brothers and sisters defined contribute -- or defined salary under your -- under your purview. We appreciate that.

It is in the spirit of that responsibility that I'm here today to talk about the policy. The recently approved RCP we feel still falls short. It is based on bitter self certification. I think Ms. Taylor, maybe Mr. Ruffino, Mr. Pacheco leaned in to this idea, not directly like I just did, but you're asking people who want to build things funded by CalPERS to tell you whether or not they are good contractors. There's no follow-up that I can see in the policy. So we're trusting the people that we're going to pay with union members contributions to treat construction workers correctly on the job.

I can tell you that I have a job, my boss, Chris Hannan, has a job as the President of the State Building, all the people who work at CalOSHA, all the people who work at the Division of Labor Standards and Enforcement, all the people who work at DIR have jobs, because employers in this state are not treating workers correctly, and that includes construction employers.

The form in appendix 1 asks the right questions. It asks bidders do you provide access to health care? Do you provide access to retirement programs, opportunities for apprentices, have you ever been debarred, are you aware of pending complaints about your firm, do you have any criminal wrongdoing? All great questions. However, as I mentioned, and it's worth repeating, at the end of the form, it asks the very people vying for a contract with CalPERS, who just checked a series of simple yes or no boxes, if they believe whether they themselves, one, meet all the responsible contractor requirements, two, meet none of them, or three, meat certain of them.

For us, this is woefully inadequate at best. It is why we are here today again asking for three things: a requirement on CalPERS funded projects in California to pay the California prevailing wage to construction workers; two, to use California-based skilled and trained workers, as defined at Public Contract Code section 2600; and/or three, a requirement on CalPERS funded California projects to utilize a project labor agreement as defined in Public Contract Code section 2500.

I very easily could have missed an email or outreach from staff here. As I -- as I conclude, I'll say this about the different stakeholder processes that Ms. Sells spoke about. If I did miss something, I apologize. We at the Building Trades Council, at least me, do not recall outreach to weigh in not only on the new website, but on the stakeholder process moving forward into next year, as the RFP for the study goes out.

With that comments, I'll conclude and I thank you for your patience in giving me a few extra seconds. Appreciate that.

CHAIR MILLER: Thank you. Appreciate it. Okay. I think that does it for that item. Do we have any callers?

BOARD CLERK ANDERSON: No.

CHAIR MILLER: No. No one on the phone. So that moves us to 6f, CalPERS divestments. Welcome back up to Wilshire.

LAUREN GELLHAUS: Thank you. And good afternoon, Board members. Lauren Gellhaus Wilshire Advisors. Each year, Wilshire completes divestment analysis, the details of which are included in today's report for Agenda Item 6f. To provide more context for that report, I will quickly walk through why we conduct this analysis, how we complete it, and briefly touch on the results.

First, the why. Within policy, there are two divestment items addressed. First is the active divestments come back to the Board for reaffirmation at least every five years. The last reaffirmation was completed in March of 2021. In speaking with staff, we understand that the steps for the next reaffirmation will begin next year, in accordance with this five-year cadence.

The second divestment item addressed in policy is that in between those reaffirmations an annual update is provided. This update is a forensic analysis of the financial impact of CalPERS active divestments, of which there are currently four. The report for this agenda item summarizes the analysis for this annual divestment update.

Next is the how. To begin the analysis, we collaborate with staff to receive data from CalPERS investment vendors. For each active divestment, we have it indexed without the divested securities removed and another with the divested securities removed. Said another way, there is data pre-divestment and post-divestment.

We then do comparisons of a simulated portfolio. Next, we run that through a process to estimate the financial impact of the difference between the two return streams. This shows us how the portfolio would have performed, either negatively or positively, had the divestments not taken place.

The accumulated impact through time are the numbers that you see in your report today. Quickly on the results, they show that since the last reaffirmation, which again was done in March of 2021, that one out of the four divestments had positive impact on the market value of the portfolio and the other had negative impacts.

Further details about the analysis can be found within the divestment report. That concludes my repaired -- prepared remarks. However, I'm happy to any questions from the Board. Thank you.

CHAIR MILLER: Okay. Thank you for your review. My first question is from Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you for the report and thank you. You mentioned that every -- it's every five years we do this report. So in terms of the opportunity cost, if we had -- if we had stayed -- if we had had firearms in our portfolio, it would have increased slightly, correct?

LAUREN GELLHAUS: Yes.

COMMITTEE MEMBER PACHECO: Is that my understanding of the process and how that works?

LAUREN GELLHAUS: That is what the report shows, yes. That is correct.

COMMITTEE MEMBER PACHECO: And the other ones would be a decrease in our -- in the -- in our -- in our opportune -- the opportunity cost.

LAUREN GELLHAUS: Over the last 17 quarters, the analysis has taken place over, yes, that is correct.

COMMITTEE MEMBER PACHECO: And the -- and when you were doing the analysis, it was -- was is a very conservative analysis of how you did the -- how you modeled it and so forth? I'm just trying to understand the modeling process.

LAUREN GELLHAUS: Within the process itself, we take the different return streams, and so it's very black and white in terms of either the -- of just, if it's pre -- if it's divested or not and then we compare those to see the impact over time.

COMMITTEE MEMBER PACHECO: Okay. Very good then. Thank you. That's all of my questions. Thank you, sir.

LAUREN GELLHAUS: Thank you for the question.

CHAIR MILLER: Okay. I'm not seeing any further questions from the Board. We do have a public commenter on this. You're welcome to stay through that or thank you for your review and -- great.

Okay. I will call up our public commenter, Eric Lawyer to comment on Item 6f. And so we have anyone on the phone for this item?

BOARD CLERK ANDERSON: Yes. Okay. We do.

ERIC LAWYER: Good afternoon, I am Eric Lawyer, speaking on behalf of the California State Association of Counties and specifically the 37 counties that are CalPERS members. Counties are the front -- the front-line service providers for the social safety net delivering care and support to those most in need, for indigent care, for critical homeless services, foster care, public safety, and the breadth of services that our community -- that our communities rely on.

These are difficult times for county budgets. We're facing multi-year State budget deficits in the tens of billions, and face unprecedented federal uncertainty. We don't yet know the full scale of the impacts from HR 1, but we know they will be massive, through direct cuts to federal grants, new unfunded administrative requirements, and by creating a vacuum and critical services that must be filled by counties.

Just last week, HUD announced a policy change, expected to force hundreds of thousands people onto the streets, and cause counties to lose hundreds of millions in permanent supportive housing. Counties and other local government agencies are once again being asked to do more with less.

I'm highlighting all of this to underscore just how critical it is to make investment decisions based on sound fiduciary principles. Every dollar that is lost through divestment decisions must be accounted for by public employees and by public agencies. That has direct impacts to the financial health of our employees and limits the resources counties and other local agencies can use to uphold the social safety net.

At a time of severe fiscal uncertainty, we believe it is more critical than ever to reject future divestments and ensure that all investment decisions are rooted in sound fiduciary principles.

Thank you.

CHAIR MILLER: Thank you. Next commenter on 6f is Dane Hutchings.

DANE HUTCHINGS: Good after noon, Chair and members. Dane Hutchings here on behalf of the California Association of Recreation and Park Districts. We represent 68 independent districts with more than 10,000 active employees, thousands of retirees, and millions of Californians who rely on the parks, open spaces, and community programs for everyday life.

Our member's job is community well-being. And the most important job of this body is your fiduciary duty. Neither can succeed without a stable high-performing pension system. Our members support efforts that maintain fiscal solvency and decrease local costs. Unfortunately, divestment does the opposite. We don't need to speculate. According to your own CalPERS consultant, CalPERS existing divestments have already cost the fund 14.2 billion dollars, or a 2.6 percent allocation of the PERF. Active divestments alone account for over 5.7 billion in losses, which will only compound over time.

To put it plainly, if any local agency I represent absorbed that lever of loss and justified it as values decisions investing, our constituents would immediately question whether we were meeting our obligation as responsible stewards.

Simply put, public agencies, including CalPERS, cannot afford to treat financial performance as symbolic. And her is the uncomfortable truth. While it may feel good, divestment is a luxury political statement paid for by agencies and the employees who don't get a say.

For small and mid-sized agencies like ours, these losses mean higher employment and employee contribution agencies, reduced fiscal flexibility, fewer resources for parks, wildfire prevention, youth programming and the community services that Californians rely on.

The Wilshire report also makes clear that divestment is not symbolic. It is operationally expensive, requiring annual consulting oversight, ongoing financial analyses, and recurring five year air affirmation cycle. All of it puts time and attention away from what matters most, maximizing returns and minimizing employer and employee costs.

This isn't fiduciary prudent stewardship. It's a distraction, and it's an expensive one. Simply put the job of this Board is not to send signals, political or otherwise, but rather to send pension checks to those who desperately rely on it.

And you can't do that, if you continue to handcuff your Investment Office with constraints that shrink the opportunity set. So on behalf of our members, we respectfully urge the Board to reject any renewed efforts to expand divestment. Let's protect the fund and protect the pension promise.

Thank you.

CHAIR MILLER: Thank you.

I think that concludes Item 6f, so we move to 6g, Summary of Committee direction.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Thank you, Mr. Chair. Just one item from Committee direction. That goes back to 6a, where no later than two years after the implementation of total portfolio approach we'll come back with a formal governance review.

CHAIR MILLER: Great. Sounds good.

Okay. That brings us to 6h, public comment. And I've got a couple public commenters here in person. Let's have Jim McRitchie come down and I believe we have a couple on the phone as well.

Okay.

JIM McRITCHIE: I had good morning here, but it's a little late for that.

(Laughter).

CHAIR MILLER: Wishful thinking.

JIM McRITCHIE: Yeah. CalPERS currently has about 15 billion invested in Vanguard's ticker VOO, V-O-O. It's a great product for liquidity, but a poor vehicle for expressing CalPERS's proxy voting values. At last year's Tesla annual meeting, Vanguard and CalPERS basically voted in opposition. CalPERS backed management pay and director elections, CalPERS didn't mostly.

So when we invest with Vanguard, our votes are diluted, effectively speaking in Vanguard's voice, not ours. I think there's a -- I did look at alternative investments or alternative funds, they're more expensive than Vanguard, but there are a couple choice -- a few choices here. One is to hire someone like Tumelo or Iconik, and they will work with Vanguard to let you vote how you normally vote, and that costs a fraction of what it would cost to move your funds to another provider.

But the another thing is that CalPERS -- or that Vanguard runs an investor choice program. And it's got one trillion in assets now, but it will soon have three trillion in assets that are voted in a way that you get to choose. Now, if you own vanguard normally, you would be able to have them vote via by using Glass Lewis's, using that option. That would be much more closer to how you vote.

However, I did talk to Drew Hambly, and he said maybe since you don't own directly through Vanguard, you might not qualify, but you should look into whether or not you can do that.

Another thing, and I think this is -- would be the most exciting option, would be to explore with Vanguard the idea of CalPERS becoming one of those choice options, because the choice options that are available right now, the one that is chosen the most is Glass Lewis, and that's the closest event to what CalPERS has, but CalPERS is much better than Glass Lewis. And I did include a fiduciary kind of brief. I don't think it would be violating your fiduciary responsibilities, and you'd pick up -- you'd have a lot of people copying how CalPERS votes.

Thank you.

CHAIR MILLER: Thank you.

Okay. On to our commenters on the phone

CALPERS STAFF: Yes, Chair Miller. We have Johnny Pina here with League of California Cities to comment on 6h. Johnny, you are now live and can proceed with your comments.

JOHNNY PINA: Good afternoon, everybody. My name is Johnny Pina. I'm speaking on behalf of the League of

California Cities. I just want to say thank you to the presenters on Item -- or the presenter on Item 6f, and apologies for not being there in person. Again, I'm with the League of California Cities, representing cities across California that rely on CalPERS to provide stable secure retirement and benefits to our employees.

I'd like to provide comment on again Item 6f and reiterate our long-standing perspective on divestment. The League of California Cities supports CalPERS priority to its members, as stated in the State Constitution Article 16, Section 17, quote, "A retirement body's duty is to its participants and their beneficiaries shall take precedence over any other type of duty."

Cal Cities also has a long-standing policy stating that any divestment policy must be well vetted and much include the opportunity to identify alternative revenue sources consistent with the intended impact of divestment and importantly CalPERS fiduciary responsibilities, as previously outlined.

We also do support CalPERS's use of proxy access and shareholder engagement to drive responsible long-term change within companies, rather than divesting and losing influence entirely. Divestment could reduce diversification, limit returns, and, of course, as previously stated by my colleagues at the other local government organizations that spoke today, increase costs for local agencies, ultimately affecting budgets and public services.

By focusing on responsible investment strategies and long term-sustainability, CalPERS can fulfill its commitments to its member while promoting positive change from within as previously stated.

In summary, the League of California Cities urges CalPERS to maintain its focus on responsible long-term investment strategies that protect fund sustainability, retirees, and local government budgets. We support approaches that balance both short- and long-term ability to meet financial commitments.

And with that, thank you so much.

CHAIR MILLER: Thank you. Next caller.

BOARD CLERK ANDERSON: No.

CHAIR MILLER: Oh, no, that's it. Okay. That concludes that. And so, at this point we'll recess now into closed session for Items 1 to 7 from the closed session agenda. We'll immediately reconvene in open session after the closed session.

SENIOR ATTORNEY CARLIN: Chair Miller?

CHAIR MILLER: Hmm?

SENIOR ATTORNEY CARLIN: Apologies to interrupt. CalHR has a statement they need to read --

CHAIR MILLER: Oh.

SENIOR ATTORNEY CARLIN: -- before we go into closed.

CHAIR MILLER: Okay. Oh, I didn't notice. Sorry.

SENIOR ATTORNEY CARLIN: Sorry.

CHAIR MILLER: Okay. Here you go, Ms. Griffith.

ACTING COMMITTEE MEMBER GRIFFITH: Thank you. Because Director Erickson has potential conflict under Government Section 187100, I will be recusing from part of the closed session consistent with Government Code of Regulations, Title 2, Section 18707. Thank you.

CHAIR MILLER: Okay. Thank you. Got that on the record. Okay. And so, we'll recess into closed session. We'll reconvene in open session after closed session. And so off we go. We'll set the room up and what about a 10 minute break or so. Okay.

(Off record: 4:51 p.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 6:22 p.m.)

CHAIR MILLER: Okay. We're finished with closed session. We've reconvened in open session and unless I hear a strong objection, we are adjourned.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 6:22 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 23rd day of November, 2025.

JAMES F. PETERS, CSR
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