

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

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FECKNER AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

TUESDAY, MARCH 17, 2026  
9:01 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Kevin Palkki, Chair

David Miller, Vice Chair

Malia Cohen, represented by Deborah Gallegos

Michael Detoy

Monica Erickson, also represented by Nicole Griffith

Troy Johnson

Fiona Ma, represented by Patrick Henning

Lisa Middleton

Ramon Rubalcava

Theresa Taylor

Yvonne Walker

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Chief Operating Investment Officer

Stephen Gilmore, Chief Investment Officer

Robert Carlin, Senior Attorney

Drew Hambly, Investment Director

Simiso Nzima, Managing Investment Director

Tiffany Pokk, Investment Officer

Craig Rhines, Associate Investment Manager

APPEARANCES CONTINUED

STAFF:

Renee Salazar, Deputy General Counsel

Lauren Rosborough Watt, Investment Manager

ALSO PRESENT:

Diana Cassady, Third Act Sacramento

Al Darby, Retired Public Employees Association

Yvette DiCarlo

Christy Fields, Meketa Investment Group

Dan Fuchs, Fossil Free California

Steve Hartt, Meketa Investment Group

Sally Kalaghan, XR

Steve McCourt, Meketa Investment Group

Glaiol Sabha, MD, Third Act Sacramento

Clair Schoen, XR

Sara Theiss, Fossil Free California

Sheila Thorne, Fossil Free California

Tom Toth, Wilshire Advisors

Rosie Yakub

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PROCEEDINGS

1  
2 CHAIR PALKKI: So I'd like to bring the  
3 Investment Committee to order. Can we start with the roll  
4 call, please.

5 BOARD CLERK LEMUS: Kevin Palkki.

6 CHAIR PALKKI: Good morning.

7 BOARD CLERK LEMUS: David Miller.

8 VICE CHAIR MILLER: Here.

9 BOARD CLERK LEMUS: Deborah Gallegos for Malia  
10 Cohen.

11 ACTING COMMITTEE MEMBER GALLEGOS: Here.

12 BOARD CLERK LEMUS: Michael Detoy.

13 COMMITTEE MEMBER DETOY: Here.

14 BOARD CLERK LEMUS: Monica Erickson.

15 COMMITTEE MEMBER ERICKSON: Here.

16 BOARD CLERK LEMUS: Troy Johnson.

17 COMMITTEE MEMBER JOHNSON: Here.

18 BOARD CLERK LEMUS: Fiona Ma.

19 Lisa Middleton.

20 COMMITTEE MEMBER MIDDLETON: Present.

21 BOARD CLERK LEMUS: Ramon Rubalcava.

22 COMMITTEE MEMBER RUBALCAVA: Present.

23 BOARD CLERK LEMUS: Theresa Taylor.

24 COMMITTEE MEMBER TAYLOR: Here.

25 BOARD CLERK LEMUS: Yvonne Walker.

1 COMMITTEE MEMBER WALKER: Here.

2 BOARD CLERK LEMUS: Mullissa Willette.

3 COMMITTEE MEMBER WILLETTE: Here.

4 BOARD CLERK LEMUS: Dr. Gail Willis.

5 CHAIR PALKKI: Excused.

6 So again, good morning. For those of you who  
7 were not present yesterday, the Investment Committee met  
8 but adjourned without completing Agenda Item 4c from our  
9 action consent agenda regarding proposed changes to the  
10 Investment Committee delegation. Mr. Rubalcava suggested  
11 a change to the Committee's delegation to reflect the  
12 Committee's continuing responsibility for asset allocation  
13 in the Affiliate Funds under TPA. Staff have prepared  
14 additional language to address Mr. Rubalcava's comments,  
15 which I believe has been printed out and made available to  
16 the Committee members for their review. At this moment,  
17 I -- did you want to speak on that?

18 COMMITTEE MEMBER RUBALCAVA: No.

19 CHAIR PALKKI: So at this moment, what is the  
20 pleasure of the Committee?

21 COMMITTEE MEMBER RUBALCAVA: Move approval.

22 CHAIR PALKKI: I have a motion to move by Mr.  
23 Rubalcava.

24 COMMITTEE MEMBER TAYLOR: Second.

25 CHAIR PALKKI: A second by Ms. Taylor.

1           ACTING COMMITTEE MEMBER HENNING: I would like to  
2 vote on this item, so if it's okay that you'll allow me to  
3 voice into the meeting as present. I missed the roll  
4 call.

5           CHAIR PALKKI: Oh, yes. So we're recording that  
6 Mr. Henning for Fiona Ma is here as well. Yeah. Thank  
7 you.

8           ACTING COMMITTEE MEMBER HENNING: Thank you.

9           CHAIR PALKKI: So I have a motion. I have a  
10 second. Is there any discussion on the item?

11           Seeing none, all those in favor say aye?

12           (Ayes.)

13           CHAIR PALKKI: Any opposed?

14           Any abstentions?

15           Motion passes. Thank you.

16           And we can now continue with Item number 2,  
17 consent -- action consent items, approval of the March  
18 17th Investment timed agenda. What is the pleasure of the  
19 Committee?

20           ACTING COMMITTEE MEMBER HENNING: Motion to  
21 approve

22           CHAIR PALKKI: I have a motion by Mr. Henning.

23           VICE CHAIR MILLER: Second.

24           CHAIR PALKKI: Second by Mr. Miller.

25           Any discussion?

1           Seeing none. All those in favor say aye?

2           (Ayes.)

3           CHAIR PALKKI: Any opposed?

4           Any abstentions?

5           Thank you. That passes.

6           We can now move forward to Item 3, Information  
7 Agenda Items. 3a, CalPERS Trust Level Review Consultant  
8 Report. Mr. Toth.

9           (Slide presentation).

10          TOM TOTH: Good morning. Tom Toth with Wilshire  
11 Advisors. Nice to see everybody again today. Given that  
12 Wilshire is going first in this go-around, I'll start with  
13 some comments around the broader market, some strategic  
14 themes. And then I'll touch on portfolio performance and  
15 then we can -- I can -- happy to take questions. And then  
16 we can -- we can move forward.

17          One of the things I wanted to make sure to  
18 emphasize is as we're looking at some of the points I'll  
19 make in the coming slides, one of the things that you  
20 won't find there is the geopolitical impacts, much of  
21 which we discussed yesterday. And there's a good reason  
22 for that. One, these slides were created before the last  
23 couple of weeks, but two, I think it's really important to  
24 keep the Committee focused on long-term strategic  
25 portfolio thinking as opposed to trying to react to



1           TOM TOTH: These are some strategic themes that I  
2 think are important to keep in mind. And they are related  
3 to geopolitics in a sense, but much more longer term. So  
4 some of the strategic objectives that I think it's fair to  
5 say will be true, regardless of administration and through  
6 time is this idea of being dominant in the artificial  
7 intelligence space. And we use the term win the AI arms  
8 race here. I don't think there's really a winning,  
9 because it's going to be a consistent, I'll say, process  
10 of improvement, where folks are -- models are getting  
11 better hopscotching each other. And that's just going to  
12 be a continual process. I don't think there's really an  
13 end to that.

14           The second strategic objective here is rebuilding  
15 the industrial base. We've talked quite a bit about  
16 onshoring and reducing dependencies on external actors  
17 kind of shoring up becoming a more resilient economy we'll  
18 call it. This requires a significant amount of  
19 investment.

20           And then financial stability, this is something  
21 we've talked about quite a bit over the previous quarters,  
22 addressing the budget deficits, and the current deficit,  
23 and ultimately looking to get on a more sustainable path,  
24 and how does this link to markets? So those are sort of  
25 high level strategic themes, but how does it -- how does

1 it play into markets and how should the Committee think  
2 about when it comes to the portfolio?

3 Well, there are risks and trade-offs to those  
4 strategic objectives, and we list them there at the  
5 bottom. Rising interest rates, and we'll have a -- just a  
6 slide to discuss what that might look like. Given the  
7 deficit levels, those rising interest rates just increase  
8 the dollars that go to debt service, and those dollars  
9 cannot be used for other things. And that's something  
10 that can be quite challenging. Market drawdowns similarly  
11 impact the fiscal picture as governments rely on capital  
12 gains taxes, as an example. California is not immune to  
13 that, as I know everybody at the dais knows. And then  
14 inflation, and this is really where it starts to play into  
15 portfolio construction. I mentioned the rebuilding the  
16 industry base is going to take significant investment.  
17 And that could be inflationary over time.

18 Now, I want to be clear, there are likely to be  
19 some deflationary impacts from artificial intelligence is  
20 that is utilized to drive efficiencies in the economy.  
21 But the way that I'm thinking about this and sort of a  
22 time series is the inflationary impacts are likely to be  
23 more front-loaded and the deflationary impacts from  
24 artificial intelligence and efficiencies driven by it are  
25 likely to be more medium to longer term.

1           So, inflation is a risk that we want to be very  
2 cognizant of when it comes to building portfolios.

3           Ms. Taylor, did you have a question?

4           COMMITTEE MEMBER TAYLOR: Just real quick. You  
5 said earlier that you weren't really doing geopolitical,  
6 so I was a little confused.

7           TOM TOTH: Headlines. The geopolit -- I'll say  
8 the short-term geopolitical headlines, so the war in Iran,  
9 as an example. This is more, I'll say, grand geopolitics  
10 vis-à-vis China in particular. So these strategic  
11 objectives are related to that, but not the short-term  
12 headlines that we're, you know, currently experiencing

13           COMMITTEE MEMBER TAYLOR: And these are strategic  
14 objectives of the United States government?

15           TOM TOTH: Correct.

16           COMMITTEE MEMBER TAYLOR: Okay. Really?

17           TOM TOTH: I think so, yeah. Now, you -- we can  
18 get into the -- get into minutia, but I think these three  
19 are going to be long-lived strategic objectives. And I  
20 think that was, you know, probably true even rewinding the  
21 clock, you know, two, three years.

22           So we talked a bit about the Federal Reserve, if  
23 we want to move to page three.

24                                   [SLIDE CHANGE]

25           TOM TOTH: There's a lot of back and forth and

1 shift in sentiment in terms of what the Federal Reserve is  
2 likely to do. And what we wanted to point out here is  
3 that even as the Fed has embarked on cutting rates, and  
4 you can see those last stair steps down starting in  
5 September of last year, as we move through the current  
6 period, the expectation for further cuts has reduced. If  
7 we would have talked sort of back in that November time  
8 period, we would have thought there were maybe four to  
9 five cuts likely in 2026, as inflationary pressures  
10 were -- some related to the price of oil, have increased.

11 The odds of cuts have gone down. Currently, the  
12 expectation is one to maybe two, depending on what happens  
13 with statistics. So that's an important dynamic to keep  
14 in mind, sort of higher for longer relative to  
15 expectations at the end of last year. But equally  
16 important is that those -- any Fed cuts don't necessarily  
17 read to falling long-term rates. So historically, when  
18 the Fed cut short-term interest rates, that generally led  
19 to a decrease in long-term rates. What we've seen over  
20 the last couple of months is that's not, in fact, the  
21 case. And so the green bar chart there at the bottom, you  
22 can see that the spread between the 10-year longer term  
23 rates and Fed funds has actually gone up rela -- even as  
24 the Fed has been cutting interest rates. So there's some  
25 of that dynamic, I mentioned, pressure on interest rates

1 on that early page.

2 If the Fed cuts interest rates and inflation  
3 re-accelerates rates, the market is demanding a risk  
4 premium around that. And that's a risk certainly to fixed  
5 income assets, as well as an impact on interest payments  
6 for the government.

7 ACTING COMMITTEE MEMBER HENNING: I apologize,  
8 Mr. Chair. This seems like the same prediction from the  
9 last Fed Chair. Do you see any differences or any  
10 variances with the new Fed Chair coming in?

11 TOM TOTH: So tough to say. I'm going to -- so  
12 I'm going to say no, but with caveats, he -- the -- I'll  
13 say the nominated Fed Chair, who will likely be confirmed,  
14 there is some discussion that he's likely to be more  
15 amenable to cutting interest rates, but that remains to be  
16 seen. And it's important to keep in mind that while he's  
17 the Fed Chair, there are other voting members, and they  
18 have an impact as well.

19 So, one of the, I think, critical I'll say points  
20 is Fed independence. And is that going to be compromised  
21 going forward, that's an open question. The message has  
22 been no, but market participants are certainly paying very  
23 close attention to that because of past statements.

24 So I don't expect a radical shift in Fed  
25 direction with the new Chair. Being data depends which

1 been a fairly typical message. I expect that's going to  
2 continue.

3 Let's flip forward to page six.

4 [SLIDE CHANGE]

5 TOM TOTH: So we talked about the -- what  
6 interest rates are likely to do, what inflation might look  
7 like. And then when we think about how you might grow  
8 your way out of some of the deficit issues that we have  
9 broadly, we just put a chart here the -- how, what we term  
10 running it hot, might look like. And "it" being the  
11 economy. You can see the bar chart on the far right-hand  
12 side with a nominal GDP up meaningfully, north of 8  
13 percent with real GDP at 4.3 percent.

14 That has wobbled a bit, probably pulled back.  
15 There was some thought prior to just the last call it  
16 month or so, that that actually was accelerating. Some of  
17 the revised statistics that we've seen, particularly on  
18 the employment front has called that into question. But  
19 there is thinking that the Federal Reserve will tolerate a  
20 higher level of inflation than they have in the past.  
21 That's the running it hot. And that's to try to right  
22 size the nominal economy relative to the deficit level in  
23 order to try to get that -- start moving that more back  
24 into balance.

25 And this has some important, I think,

1 implications, particularly for the consumer. So if I can  
2 shift gears to slide 7 with this idea of K-shaped economy.

3 [SLIDE CHANGE]

4 TOM TOTH: You might have seen this term in the  
5 past. And it's essentially a tale of two different  
6 economies, and you can think about them as an economy for  
7 those who own assets and an economy for those who don't.

8 And we label them the haves and have nots here,  
9 and kind of give some of the criteria around that. If you  
10 own a home or you own a substantial portfolio of stocks,  
11 you would be on the haves. If you're -- you rent or don't  
12 own substantial assets early in your working life, that's  
13 the have knots. And so, why the K-shape? Well, if you  
14 turn to page 8 --

15 [SLIDE CHANGE]

16 TOM TOTH: -- you kind of see it in the chart.  
17 This is a chart of the price of stocks in blue and then  
18 consumer confidence in red. And you can see the sharp  
19 divergence in 2020 as, again, those who have assets,  
20 those -- the price of those assets have continued to march  
21 higher. Even at the same time consumer sentiment, which  
22 is a much broader measure, has fallen and remained well  
23 below historical longer term averages since that time  
24 period.

25 And so what has -- what has driven this? We

1 start to talk about the theme of affordability onto page  
2 9.

3 [SLIDE CHANGE]

4 TOM TOTH: And we start with a picture of wages  
5 relative to core CPI. And you can see the whole as wages  
6 fell below inflation, which we talked about over the  
7 years. That has gotten better. And since -- as we've  
8 moved through time, wages have outpaced core inflation.  
9 But that's not the whole picture, and so we say, but that  
10 doesn't look so bad there. But if you flip to the last  
11 slide I'm going to touch on for the market comments on  
12 page 10 --

13 [SLIDE CHANGE]

14 TOM TOTH: -- when you think about some of the  
15 bigger items in a person's life and what those cost, the  
16 story is quite a bit different. So what we plot here is  
17 wages relative to things like food, which is stripped out,  
18 of course, of CPI from a prior page, and that's there in  
19 green. You can see wages are still below -- the growth in  
20 wages is still below the growth in food prices. Home  
21 prices, which is generally the largest purchase of person  
22 makes, have substantially outpaced wage growth. And then  
23 energy, which has been quite volatile, also remains well  
24 ahead of the pace of wage growth.

25 And food and energy, in particular, which are

1 stripped out, of course, CPI, those are things that the  
2 average consumer has -- engages with on a weekly basis.  
3 You go to the grocery store, food costs more than it did  
4 previously. You go to the gas pump, filling up your car  
5 costs more than it did previously, and that has a  
6 meaningful impact on consumer sentiment. That's the down  
7 leg of the K, and that could have spill-over effects in  
8 terms of economic growth, given that the U.S. is broadly a  
9 very consumer-driven economy. If the vast majority of  
10 folks are on the lower leg of that K versus benefiting  
11 from rising prices in assets, they're likely to retrench  
12 and perhaps not spend quite as aggressively as they had  
13 before.

14           And this is, I think, an example of where the  
15 stock market is somewhat divorced from the underlying  
16 economy. And that's become even more exacerbated with the  
17 concentration in sort of the mega cap tech stocks, which  
18 are having a positive impact on prices, but doesn't  
19 necessarily filter through to the vast majority of  
20 consumers. And I think that's one of the big explanations  
21 for how consumer sentiment has remained stubbornly low,  
22 even as stock markets have gone up quite substantially.  
23 And even with all of the volatility that we've seen over  
24 the last couple of weeks, stock markets are still  
25 reasonably close to all-time highs. They're not

1 aggressively lower, although there has been a lot of  
2 volatility.

3 I'll stop there and see if there are any  
4 questions on the broad market before I just touch on a  
5 couple of high level points on the portfolio and maybe  
6 also foreshadow how some of the reporting could change as  
7 we move forward.

8 CHAIR PALKKI: I'm not seeing any questions.

9 TOM TOTH: Okay. Lets flip forward to page 13.

10 [SLIDE CHANGE]

11 TOM TOTH: This is a look at our forward-looking  
12 expected returns for the portfolio based on the strategic  
13 asset allocation and the actual portfolio. Here's an  
14 example where we are going to shift to focusing on a  
15 comparison relative to the reference portfolio, which  
16 we've discussed for the total portfolio approach. So this  
17 will get rejiggered a bit, and you'll start to see the  
18 actual portfolio's total risk level should be relatively  
19 close to that risk level of the reference portfolio, so  
20 we'll adjust this as we move through time.

21 [SLIDE CHANGE]

22 TOM TOTH: Similarly, as we look at page 14, and  
23 sort of the contribution to total risk, and you can  
24 solve -- I'll focus just on the bottom right-hand side.  
25 These are the same charts, but just measuring target,

1 interim target and actual allocation. You can see which  
2 parts of the portfolio are the biggest drivers of  
3 portfolio risk. And these again are based on  
4 forward-looking expectations not realized results. So I  
5 wanted -- I wanted to make that clear. So again,  
6 something that we'll adjust as we move towards the total  
7 portfolio approach.

8 Any questions on the forward-looking outlook for  
9 the -- for the plan? If not, I can do a little bit of  
10 performance review starting on page 18. And I'll just --  
11 this is the only page I'm going to touch on here.

12 [SLIDE CHANGE]

13 TOM TOTH: Last year was a very good year for  
14 assets. And that was true really cross the board. You  
15 can see the total fund, as Stephen mentioned yesterday,  
16 was up 15.4 percent. It did outperform the policy  
17 benchmark by about 70 basis points and substantially  
18 outperformed the actuarial rate. So, a very good year  
19 across the portfolio. Some of the bigger drivers of that  
20 not surprisingly were equity assets, public equity in  
21 particular, up just over 22 and a half percent, slightly  
22 ahead of the policy benchmark, and private equity up 17.8  
23 percent over the last year.

24 Income also had a nice year with a high single  
25 digit returns, up about 9 percent outperforming its policy

1 index by about 30 basis points. Real assets rebounded.  
2 It's been a challenging period for real estate assets, as  
3 you've heard in the past, but up about 5.2 percent, and  
4 contributing to the outperformance of the total portfolio,  
5 you can see outperforming its benchmark by 2 percent over  
6 the last year.

7           And then finally a smaller portion of the  
8 portfolio, albeit growing, the private debt portfolio up  
9 almost 12 and a half percent, meaningfully outperforming  
10 its policy benchmark by north of 3 percent. So really, as  
11 you look across the portfolio, strong performance in  
12 aggregate with the PERF up north of 15 percent, as well as  
13 good relative performance. So from a selection  
14 standpoint, a portfolio positioning standpoint really a  
15 good news story for 2025.

16           I will stop there and see if there are any  
17 questions, before I turn it over to Meketa to maybe dive  
18 deeper into the public side -- the private side of the  
19 portfolio.

20           CHAIR PALKKI: I'm not seeing any questions. I  
21 do have one sort of -- while I think some members may jump  
22 in here too. So last year, obviously, topics over  
23 tariffs, things like that, we saw the markets fluctuate  
24 early on. But then obviously throughout -- as the total  
25 year went on, the markets actually did really well. Do

1 you see this scenario happening sort of again or do you  
2 see this scenario of '26 looking a little bit different  
3 than '25?

4 TOM TOTH: So I always hesitate to give shorter  
5 term, you know, market prognostications, but I'll do my  
6 best. Given the uncertainty around the geopolitical  
7 environment, it's a challenge to say, you know, what is  
8 likely to happen moving forward. But if the conflict in  
9 Iran wraps up on the time frame that the General provided  
10 yesterday, that does clear the way for oil prices to  
11 soften, inflation perhaps remain contained, and the  
12 Federal Reserve to continue normalizing interest rates.  
13 That is likely to be a positive for risk assets. If it  
14 drags on longer than expected, the exact opposite scenario  
15 is possible, where oil prices remain high. That  
16 constrains consumer spending, and that would be a negative  
17 for assets. So that's sort of the fulcrum from where we  
18 sit right now.

19 Expected returns kind of across assets remain  
20 subdued because of valuation. So there isn't a valuation  
21 tailwind that's likely to occur in equity markets. Fixed  
22 income assets are, I'll say, reasonably priced, given  
23 where yields are, certainly relative to what we were used  
24 to in the zero interest rate environment. So I don't  
25 think it's a robust risk asset market in terms of

1 expectations for the year, and it's going to be very  
2 heavily dependent on what happens with the war in Iran.

3 CHAIR PALKKI: Thank you.

4 Ms. Middleton.

5 COMMITTEE MEMBER MIDDLETON: All right. Tom,  
6 when we start looking at where investment is taking place,  
7 so much of it is being driven by the belief that AI is  
8 going to be an incredible change agent and opportunity for  
9 every organization that we know. Are there warning signs  
10 out there that we are too invested in AI as a change and  
11 do you have any concerns in that area?

12 TOM TOTH: Valuations in terms of AI stocks, I  
13 generally -- I'll say I'm generally concerned about that.  
14 Overinvested, I would say no. I don't think overinvested  
15 is the way I would term it. It's certainly a risk factor.  
16 And there's going to be both positives and negatives from  
17 AI adoption in the economy. It certainly can drive  
18 efficiencies. It can help everybody do their job I'll say  
19 better. Others might not term it that way. But there's  
20 going to be a lot of disruption. And how quickly that  
21 disruption happens and how well it's managed are going to  
22 be critical success factors, and that's unclear at this  
23 point.

24 I'm sure you've read some of the stories about --  
25 and I think it was the Anthropic CEO who estimated that AI

1 could replace I think the number was 40 percent of entry  
2 level white collar jobs in the next couple of years. That  
3 pace of change is so much faster than anything we've  
4 experienced previously. How you manage through that  
5 change is going to be, you know, telling -- is going to be  
6 very telling. And so that's a -- that's a big risk. I  
7 don't want to underplay that.

8           But what we see on the other side is likely to be  
9 some pretty cool things, I mean, not to undersell it. I  
10 think there's -- I'm a big believer in technology. I  
11 think generally it -- that progress leads to higher  
12 standards of living, but there's certainly going to be  
13 bumps in the road and those need to be managed.

14           COMMITTEE MEMBER MIDDLETON: I think one of the  
15 scary things that is out there is markets have been  
16 incredibly resilient, but we have -- you used the word  
17 "uncertainty". I lost track of how many times during the  
18 course of the last 15, 20 minutes, and it's what everybody  
19 is saying over and over again as we approach so many  
20 different issues. And it leaves all of us wondering at  
21 what point does something catch up to us?

22           TOM TOTH: Right. And I think the key for  
23 managing the portfolio through a period of time like that  
24 is consistency through time. There will be a period of  
25 time where there -- it catches up, the market draws down,

1 it will be a scary time as investors remaining focused on  
2 the strategic plan, continuing to invest, looking for  
3 opportunities. At the -- when you get to the other side  
4 of that period, that will be a successful investment  
5 program. So, something to keep in mind.

6 COMMITTEE MEMBER MIDDLETON: Thank you.

7 TOM TOTH: Um-hmm.

8 CHAIR PALKKI: Thank you. Those are all the  
9 questions.

10 Ms. Walker.

11 COMMITTEE MEMBER WALKER: Oh, sorry. Okay. Hi,  
12 Tom. So, as we're talking about AI -- and I, like you,  
13 believe in, you know, it's coming. It's going to be here  
14 and we have to figure it out. But as far as investment --  
15 our investments, how much of it gets -- how much do our  
16 changing workforce play into the investments we make?  
17 Because, you know, we'll have to train people differently.  
18 We -- if things are to be believed, there will be less  
19 workers. What are we going to do with those folks? We  
20 don't have a society that it -- at least in America, that  
21 says, hey, we're going to take care of everybody. We  
22 don't have that society. And so -- and I think that that  
23 would have an impact on where we invest, and how we  
24 invest, and, you know, because of our lives.

25 I mean, even today, I was talking to a lady in

1 the park and I took my grandsons, you know, and the notion  
2 that -- like, her son, he's back home. He's in his 30s.  
3 He's embarrassed. He cannot afford a home, which is  
4 typically been where we get our wealth, right, our  
5 familial wealth. And, you know, and I see it in my --  
6 with my own kids, right?

7 And so, how do we balance that out with invest --  
8 because I get it, we're here to make money, but what good  
9 does it do us to make money if our families -- you know,  
10 because most of the people that invest in this fund are,  
11 you know, working class people.

12 TOM TOTH: Sure.

13 COMMITTEE MEMBER WALKER: And so, if our families  
14 cannot thrive, you know, or have even the smallest part of  
15 what we have, you know, what is our responsibility then as  
16 the fund?

17 TOM TOTH: And Ms. Walker you're asking the  
18 really difficult public policy questions. And so I'll try  
19 to link that back to what is in the portfolio or could be  
20 in the portfolio that starts to address it, but I don't  
21 want to hold out the PERF as the solution to those --

22 COMMITTEE MEMBER WALKER: Right.

23 TOM TOTH: -- because that's not certainly my  
24 role. So where are you getting exposure to that? And so  
25 things like in the real assets portfolio building new

1 infrastructure to improve, you know, the community -- the  
2 lives of communities, potentially multi-family housing  
3 could start moving down the path. Affordable housing, we  
4 talked at I believe it was the July off-site last year  
5 about affordable housing as an opportunity. Again, that's  
6 something that could address the topics that you brought  
7 up. And the portfolio really across the board in both  
8 public equity and private equity has exposure to the AI  
9 innovators, which are likely to be the beneficiaries of  
10 this change.

11           And so that I think in terms of how to manage the  
12 portfolio through a period of uncertainty, it comes back  
13 to first principles, which you've heard me say in the  
14 past, and that is diversification, looking for  
15 opportunities kind of across capital markets, so that  
16 you're connected to, I'll say, the big winners in a  
17 changing economy.

18           COMMITTEE MEMBER WALKER: Okay.

19           CHAIR PALKKI: Ms. Taylor.

20           COMMITTEE MEMBER TAYLOR: Thank you, Mr. Palkki.

21           So, Ms. Walker brought up a very prescient item.  
22 We're already dealing with this. My son lives at home  
23 because it's just cheaper. He makes a lot of money -- I  
24 mean, a decent amount of money for working in the public  
25 sector. And it's easier for both of us to pool our

1 incomes to not have to pay each of us \$3,000 a month for  
2 rent, right? And then talk about owning a house, that is  
3 even something else entirely.

4           And I think AI, while, you know, we're hearing a  
5 lot of stuff from the owners and the -- and the movers and  
6 shakers of AI, I think some of it could possibly be a lot  
7 of promotion right now. But the last thing we need is  
8 putting people out of work, because this government is not  
9 set up to even consider universal income or anything like  
10 that to re -- or affordable housing. There's just no --  
11 it's so intrinsic -- our housing market is so intrinsic  
12 with the stock market and making money, it's -- that's why  
13 it's become so unaffordable.

14           I think my main concern is what you kept saying  
15 through your presentation is the uncertainty that we're in  
16 right now. And we've had some years of really great  
17 growth that have helped CalPERS recover. What I fear is  
18 this uncertainty under this current regime that we're  
19 under with things going off the rails all over the place,  
20 right? We've got wars. We've got all kinds of things.  
21 And I'm not even going to go into that. But that kind of  
22 uncertainty eventually lends itself to the market having a  
23 downturn, right?

24           We can talk about people put out -- losing their  
25 jobs or too afraid to be at their jobs because of DHS. We

1 can talk about the Iran war, the lack of oil, which also  
2 will cause a supply chain issue. So how do you see -- if  
3 this were to result in a downturn, do you see it as a  
4 cataclysmic downturn as big as something like 2008 or is  
5 it something that, as someone else said, that we seem to  
6 have kind of a divorced reality between the markets and  
7 the reality? Is that going to be the case or is it going  
8 to be a softer downturn? How are you seeing this?

9 TOM TOTH: Yeah, I would probably err on the side  
10 of a softer downturn or a shallower downturn. The 2008  
11 analogy, I don't -- I don't see that, the cascading  
12 linkages that befell the whole financial system. I don't  
13 see that even in a -- I'll -- even in a slowdown. And so  
14 I think it would be more of a not -- I don't want to  
15 sugarcoat this, a garden variety sort of economic slowdown  
16 or recession, which you have some restructuring.

17 COMMITTEE MEMBER TAYLOR: By sector you're  
18 thinking more like or all around?

19 TOM TOTH: Usually a slowdown is driven -- it  
20 will have some sector-specific kind of impact, but  
21 generally it leads to a kind of a broader based slowdown  
22 in terms of growth. There -- we talked a little bit about  
23 questions around credit, what that looks like moving  
24 forward, and are there some linkages there that are going  
25 to be exposed. That's certainly a risk and I know the

1 team is very focused on that. You heard Mascha talk about  
2 that and the analysis that her team is doing around that.

3 But it's a risk and we want to be attuned to it.  
4 And I think what it again comes back to is we don't want  
5 to be concentrated in one area and we want to diversify  
6 across capital markets. Some parts are going to do better  
7 than others. Some sectors are going to do better than  
8 others. And being exposed to that is really the way to  
9 manage through the volatility.

10 So that's what I would say, keep your -- keep  
11 your eye on the prize so to speak. So to answer your  
12 question, Ms. Taylor, I think if we were to see a  
13 slowdown, it's likely to be shallower, more garden  
14 variety, and not something cataclysmic like 2008. I don't  
15 see that on the horizon.

16 COMMITTEE MEMBER TAYLOR: I appreciate that. One  
17 of the issues with the AI sector is that there's a lot of  
18 money needed, much more money than Silicon Valley or any  
19 IT stuff has ever needed before. And I'm just curious,  
20 that's like one of the largest sectors of profit in our  
21 markets right now, right? It's like the top seven  
22 companies.

23 So what happens if that is truly a bubble, which  
24 is what I'm reading all over the place, that that is --  
25 there's too much money and not enough performance to show

1 that that's actually working, right --

2 TOM TOTH: Um-hmm.

3 COMMITTEE MEMBER TAYLOR: -- that AI is actually  
4 working. So that's also another factor, let alone the  
5 geopolitical factors.

6 TOM TOTH: Right. And that plays to valuation,  
7 which does go into our forward-looking assumptions, which  
8 we've talked about in the past. I certainly think  
9 that's -- I think that's a risk, that concentration in  
10 public equity markets in particular is something we've  
11 highlighted before. And moving from investment, which is  
12 substantial -- and there's actually been -- I don't want  
13 to get too in the weeds here, but there's been a bit of a  
14 shift from the funding of that investment from company  
15 free cash flow to debt issuance. And it's still --  
16 they're making a lot of money.

17 COMMITTEE MEMBER TAYLOR: It's still a problem,  
18 yeah.

19 TOM TOTH: But it become -- it can be a bigger  
20 problem if you transition too much into credit. And if  
21 that goes, that can have that -- those linkage effects I  
22 alluded to earlier.

23 That does -- at this point, does not appear to be  
24 an issue, but something to be attuned to, you know, moving  
25 forward as another risk.

1           In contrast to the internet bubble in the late  
2 '90s, many of these companies that have performed so well  
3 are also making a lot of money. It's not the pure  
4 speculation that we saw earlier, but there are some big  
5 privately held companies that have not turned a profit yet  
6 and continue to invest, and invest, and invest. And those  
7 are -- those are -- those are more speculative. I don't  
8 think you can get around that. The market that they're  
9 addressing is enormous, so it could payoff, but the time  
10 horizon for that is uncertain.

11           COMMITTEE MEMBER TAYLOR: Thank you very much.

12           TOM TOTH: I keep using that word and I'm trying  
13 to stop myself.

14           COMMITTEE MEMBER TAYLOR: I know, but it's -- it  
15 is -- that's where we're at. I appreciate it.

16           CHAIR PALKKI: Thank you.

17           Ms. Walker.

18           COMMITTEE MEMBER WALKER: Okay. Sorry. So  
19 Stephen, maybe this is for you and not Tom, but it could  
20 be for both of you, so don't feel like one or the other  
21 has to answer. But, you know, as we talk about  
22 uncertainty, that's the one thing that we can count on.  
23 It's always going to be uncertain. There's going to be  
24 bubbles. There's going to be ups. There's going to be  
25 downs. There's going to be all of these things. And so

1 in my world, how I dealt with it is, you know, do a lot of  
2 scenario planning, right? So regardless of what -- you  
3 know, as best you can, you figure out like what's coming  
4 or not coming. And as best you can, you have something  
5 ready, so that, you know, you can respond.

6 I think it makes it -- I think, at this moment,  
7 it makes a lot of sense that we have moved to TPA, because  
8 I think it's going to make our ability to respond a lot  
9 different, right?

10 So, I don't know, are we doing that? Make me  
11 feel better. Make me feel better and say absolutely  
12 we're -- you don't have to tell me exactly what we're  
13 doing in this forum, but make me feel better.

14 CHIEF INVESTMENT OFFICER GILMORE: I don't know  
15 if this will make you feel better or not, but it's  
16 actually very hard to scenario plan. What I think is  
17 probably more important is to be thinking about possible  
18 scenarios and what happens to the portfolio in those  
19 scenarios. And it may be that some are unacceptably  
20 painful, and we can do something about that, in terms of  
21 changing the portfolio. But the idea that we can predict  
22 a scenario and preposition the portfolio for that is  
23 challenging, because by the time a scenario becomes --  
24 it's obvious, the market has priced it. So the idea of  
25 having do this, like break glass, do this. If the index

1 happens, it's actually very hard for a portfolio our size  
2 to preposition for that.

3 COMMITTEE MEMBER WALKER: Okay. I'm not thinking  
4 in terms of, you know, break -- you know, this happens,  
5 break glass, do this, right, because that is really  
6 impractical, right? But it is -- and I guess maybe you're  
7 saying the same thing you look at, you know, as much as  
8 you can. And nobody has a magic ball or a crystal ball,  
9 but as much as you can, like what are the odds of this  
10 coming, or that coming, or whatever, and how can we  
11 position ourselves in the interim, right, so that it is  
12 easy to pivot, for lack of a better word. And I'm not  
13 doing this in money terms, but I hope I'm coming across to  
14 you.

15 CHIEF INVESTMENT OFFICER GILMORE: Yeah. No,  
16 we'll talk about this when Lauren comes up as well --

17 COMMITTEE MEMBER WALKER: Okay.

18 CHIEF INVESTMENT OFFICER GILMORE: -- and talk  
19 about some of the scenario maps or heatmaps.

20 COMMITTEE MEMBER WALKER: Okay

21 CHIEF INVESTMENT OFFICER GILMORE: And the key,  
22 there is a -- is a word that Tom mentioned before is  
23 diversification. It's about having things in the  
24 portfolio that do relatively well given different  
25 scenarios. So we will have things in the portfolio that

1 typically do well when growth is strong and inflation is  
2 low. The challenge is more about having things in the  
3 portfolio that do well when growth is poor and inflation  
4 is high. And, of course, that is a potential situation.

5 Now, if the crisis in Iran extends for a long  
6 period of time, that's a stagflationary environment. So  
7 the things that normally hit portfolios like ours, or for  
8 almost any pension fund, will be, you know, recessions and  
9 stagflation. But we can have some things that do mitigate  
10 some of the risks. So there are some, you know, equity  
11 exposures that have done very well during this period.  
12 And you can think of, you know, the oil companies, we have  
13 defense, and so on, but it's about having that diversified  
14 portfolio. But we'll talk about that when Lauren comes  
15 up.

16 COMMITTEE MEMBER WALKER: Okay8. You're making  
17 me feel a little better.

18 TOM TOTH: And, Ms. Walker, maybe I can provide a  
19 specific example that hopefully will make you feel better.  
20 The liquidity planning that you've heard the team talk  
21 about, that provides some of those -- the ability to  
22 react, and to make sure that you have liquidity when you  
23 need it, which could be redeployed in an opportunistic  
24 fashion to take advantage of dislocations. And that's  
25 been a substantial improvement over the years, the last

1 number of years, to improve both the look through into the  
2 portfolio's liquidity position, and then ways to access it  
3 through time. So the ability to pull those levers is  
4 something the team has improved meaningfully.

5 CHIEF INVESTMENT OFFICER GILMORE: I think that's  
6 absolutely true. The other side of that, of course, is  
7 that having adequate liquidity means you don't have to  
8 sell things when you don't want to. So both of those  
9 things can be value additive.

10 COMMITTEE MEMBER WALKER: I'm feeling better  
11 already.

12 (Laughter).

13 CHAIR PALKKI: Anybody else?

14 Okay. Those are the --

15 TOM TOTH: Very good.

16 CHAIR PALKKI: That's I have on my list here.

17 TOM TOTH: Thank you.

18 STEVE McCOURT: Good morning. Steve McCourt with  
19 Meketa Investment Group. I have with me Christy Fields  
20 and Steve Hartt. We'll be going through a summary of our  
21 reviews of your four private market asset classes. I'll  
22 make some introductory comments. Christy will be covering  
23 real estate, Steve, private equity, and then I will follow  
24 through private credit and infrastructure comments at the  
25 end.

1           So just as a -- as a refresher, you, as a  
2 Committee, engaged Meketa to assist you in your  
3 responsibility of monitoring and overseeing the investment  
4 activity within the private market asset classes. That  
5 includes private equity, private credit, real estate, and  
6 infrastructure. The role of these asset classes, as a  
7 whole, can be summarized as supporting the total fund with  
8 strong long-term returns and with diversified sources of  
9 returns over time. And historically, all of the asset  
10 classes have provided on those objectives.

11           You'll see, as we go through, that performance  
12 has generally been quite strong on a relative, if not  
13 absolute, basis as well across each of the private market  
14 asset classes. We'll note that the investment teams in  
15 the private markets areas, over the last several years,  
16 have continued to migrate the portfolios to lower cost  
17 structures, including customized accounts in  
18 co-investments, would that have and should continue to  
19 reduce the overall fees and expenses associated with the  
20 private market assets classes.

21           The teams have also generally, more at the  
22 margin, migrated the portfolios away from more  
23 traditionally core areas of the private market asset  
24 classes into more diversifying areas in each of the four  
25 asset classes. And you'll hear more about that as well.

1           And finally, I want to highlight that in the  
2 aggregate as of the end of the calendar year 2025, the  
3 private market asset classes comprised approximately 35  
4 percent of the total fund. And that allocation has been  
5 going up somewhat over the last several years.

6           So with that introduction, let me -- let me hand  
7 it over to Christy to cover real estate first.

8           CHRISTY FIELDS: Good morning. Christ Fields,  
9 Meketa. Your Real Estate Program has a value of  
10 approximately 54 billion currently. That's approximately  
11 70 percent of your total Real Asset Program and about 9  
12 percent of the total plan.

13           As Tom mentioned, real estate has had a bit of a  
14 challenging row. Since -- prior to 2022, real estate  
15 benefited for more than a decade of low interest rates and  
16 economic tailwinds. But since then, we've had a pretty  
17 substantial repricing of real estate across all property  
18 types and markets. And so, that was reflected in your  
19 benchmark, which showed has had 10 quarters of negative  
20 appreciation or depreciation. So your portfolio has been  
21 impacted by that. But what we've seen in the most recent  
22 numbers is values starting to come back. And you'll see  
23 in your performance, although not terribly impressive,  
24 absolute returns, improving relative returns. And so your  
25 returns are exceeding the benchmark for the current

1 1-year, 3-year, and 5-year periods.

2           Your portfolio is very well diversified by  
3 property type and by market. And you see that  
4 particularly in some of your portfolios like in your  
5 apartment portfolios, which is roughly 30 percent of your  
6 real estate exposure, in your neighborhood  
7 grocery-anchored retail centers, and in your data center  
8 properties.

9           And so the diversification is really serving the  
10 system. And then as Steve mentioned, the team has been  
11 focused in adding in -- legging into some non-core  
12 commingled funds and other investments to help augment  
13 returns on a go-forward basis. And so that work is  
14 ongoing and we will expect that to start to be reflected  
15 in the returns as well.

16           STEVE HARTT: Good morning. Steve Hartt from  
17 Meketa Investment Group. I'll talk about the private  
18 program. I think the four aspects to highlight, so first  
19 the program is about \$110 billion, just over 18 percent of  
20 the portfolio as of the end of 2025. So the four aspects  
21 really to talk about are the performance improvement,  
22 increase in diversification, the staff's work to take  
23 advantage of the structural alpha. What I mean on that is  
24 just emphasizing co-investments. And all this while  
25 maintaining the quality of the manager selection that they

1 have there.

2           So, we don't want to spend a lot of time talking  
3 about near-term performance, because private equity is a  
4 long-term asset class, but it is a remarkable change in  
5 improvement in the return -- near-term returns over 600  
6 basis points. The 1-year return improved compared to this  
7 time last year. And the diversification showing up. Very  
8 strong performance in the growth and the venture  
9 portfolios that the allocation has been growing there and  
10 the performance has been strong.

11           The performance of the co-investments in the CIAs  
12 has also been very strong and continues to be a strong  
13 area where the staff is paying attention. Forty-one  
14 percent of the new commitments has been into this  
15 particular area.

16           And as I mentioned, we participate in the  
17 investment meetings and looking at the quality of the  
18 managers that staff is selecting to deploy capital has  
19 remained very strong. Meanwhile, they've been deploying a  
20 lot of capital. So a very positive report on the private  
21 equity side.

22           STEVE McCOURT: Great. I'll hit infrastructure  
23 and private credit briefly. Infrastructure, very similar  
24 to prior reports that we've provided continues to post  
25 strong returns on both the absolute and relative basis.

1 The trailing 3-, 5- and 10-year returns for the  
2 infrastructure asset class were 7.7 percent, 9.3 percent  
3 and 9.0 percent respectively over each of those time  
4 periods. That represents significant outperformance  
5 relative to the technical policy benchmark, largely  
6 because the policy benchmark as you know is a real estate  
7 benchmark today. But even relative to more traditional  
8 inflation-related benchmarks, the program has performed  
9 very well, and over time has significantly exceeded the  
10 capital market expectations for the asset class.

11 The biggest parts of the evolution of the  
12 infrastructure program continue to be the additional  
13 deployment of capital into infrastructure. The program  
14 today now represents 4 percent of your overall PERF, which  
15 is a significant relative increase to where you were five  
16 and ten years ago, creeping up from 1 and 2 percent now to  
17 4 percent. So a lot of capital has been deployed over the  
18 last decade to get those allocations up at higher levels.

19 And then as I highlighted initially with  
20 incremental capital that the Investment team is  
21 deployment, focusing a little more on non-core areas of  
22 the market to deploy capital, which have more diversifying  
23 characteristics than traditional core assets do. The  
24 final asset class I want -- I want to cover is private  
25 credit.

1           And I'm going to divide this into kind of two  
2 components. One is -- which will sound repetitive, the  
3 performance and program portfolio management processes,  
4 but I did also want to say a few words about the recent  
5 headlines around private credit in the marketplace that  
6 you may have seen. Your private debt program continues to  
7 produce very strong returns. For the trailing year, the  
8 program returned 12.4 percent, exceeding the policy  
9 benchmark by over 3 percentage points. Over the past  
10 three years the returns are 13.4 percent, also in excess  
11 of the benchmark. And since inception, a hair below 11  
12 percent per year.

13           So, like private equity and infrastructure, the  
14 Private Debt Program, while early in its infancy has  
15 produced returns that are relatively strong, but also  
16 significantly higher than long term expected returns for  
17 the asset class, which is a nice way to start a relatively  
18 new asset class.

19           The Investment team in the last 12 months  
20 committed \$12.4 billion of assets across 22 investments.  
21 And that has helped bring the allocation to private debt  
22 up to 4 percent of the total fund. Under the last  
23 strategic asset allocation, the long-term target was 8  
24 percent. So, the private debt program continues, as you  
25 know, to be in a building phase. And the Private Debt

1 Program, like the others, is invested within all the  
2 policy parameters that you've set forth.

3 Let me say a couple of comments about recent  
4 headlines on private credit. The -- there's been sort of  
5 two concerns in the private credit industry worth noting  
6 from your vantage point. One has been the potential  
7 impact that AI has on the business models of software  
8 companies in particular. And I'll say a couple of quick  
9 comments on that. And the other has been the trend of  
10 semi-liquid credit funds receiving redemption requests  
11 from primarily individual retail investors. And I'll say  
12 a few words about that.

13 And I'll do my best not to use the word  
14 "uncertain", but we'll see how that goes. The AI impact  
15 on software -- on the software industry started bubbling  
16 up as a meaningful market concern a few months ago. And  
17 it continues to be a concern for many publicly traded  
18 software companies.

19 The reality is nobody quite knows exactly how AI  
20 will impact software business models. The fear, and right  
21 now it's largely fear, is that AI will allow consumers and  
22 businesses to effectively create their own software very  
23 inexpensively, and thereby disintermediating the role of  
24 the software company in the economy.

25 From most people's perspectives, it's way too

1 early to tell whether or not that's a reality. And like  
2 most things, as they unfold, the reality is likely to not  
3 be on either side of the -- of the debate in terms of a  
4 massive dislocation caused by AI or zero impact. It will  
5 be some middle ground between the two.

6 But software has been a particularly robust  
7 sector of the economy for mergers and acquisitions,  
8 private credit lending, and private equity transactions,  
9 largely because software companies have historically  
10 generated significant amounts of free cash flow. And so  
11 part of the market's concern is that this business model  
12 that generates massive free cash flow, which can be used  
13 to support lending, if those cash throws diminish, it  
14 would erode the quality of a lot of the loans that are  
15 made to software companies. As we sit here today, these  
16 are fears. They aren't realities, but it's something that  
17 the market will continue to have a significant eye on.

18 The relatively good news for your private debt  
19 program is as a recent entrant into the private debt area,  
20 most of the capital that you have put to work so far in  
21 private debt has been put to work in vintage years that so  
22 far are less exposed to potential credit weakness or  
23 perceived credit weakness in the marketplace. The vintage  
24 years that have been identified as those somewhat more at  
25 risk are 2020 and 2021.

1           And, of course, as I noted before, you still have  
2 effectively dry powder in the private debt area that  
3 you're putting to work. So if there is pricing concerns  
4 in the private debt area, you have an opportunity to be  
5 opportunistic and offensive in any dislocation, which is  
6 the enviable position to be in.

7           The other topic I want to hit on private credit  
8 is the redemption topic. Private credit, much like  
9 private real estate historically, part of the investor  
10 base for private credit and an increasing part of that  
11 investor base has been retail investors who have invested  
12 in private credit through either publicly traded BDCs,  
13 business development companies, and/or semi-liquid funds  
14 that are registered and available for retail investors.

15           Those semi-liquid funds allow investors to redeem  
16 capital once a quarter, and those vehicles have redemption  
17 limits on their funds. In the last month and a half or  
18 so, there have been a number of private credit semi-liquid  
19 funds, where the redemption requests have exceeded the  
20 limit of liquidity that they're required to provide, and  
21 those funds have effectively been gated, meaning they  
22 haven't provided to the end investor all liquidity that  
23 they -- that was requested from them.

24           That process is a normal mechanical process of  
25 the way those semi-liquid funds are expected to operate.

1 But as retail investors are still relatively new to the  
2 private markets world, they're sort of discovering gating  
3 and illiquidity for the first time.

4 BDCs are traded publicly every day in the stock  
5 market. And so, their share prices have generally fallen  
6 quite significantly in the last couple of months as  
7 investors, again mostly retail, have expressed their fears  
8 that software exposure may be damaging in the -- in the  
9 BDC credit portfolios.

10 So those were the two kind of broader topics.  
11 I've summarized them both by saying to date there isn't a  
12 lot of evidence of significant deterioration in the actual  
13 credit quality of credit portfolios. There's some at the  
14 margin, but not what you would expect yet, if this were a  
15 significant credit event. But I would also say it's been  
16 16, 17 years since we've had a legitimate credit cycle in  
17 the U.S. So there will be, at some point, a recession.  
18 There will be, at some point, a credit cycle. We just  
19 don't know if that's 3 months away, or 3 years away, or  
20 even longer than that.

21 So I didn't say the word "uncertain" once, but  
22 you get the gist.

23 (Laughter).

24 STEVE McCOURT: That concludes -- that concludes  
25 our report. Happy to take any questions.

1 CHAIR PALKKI: Thank you. I appreciate the word  
2 choices.

3 (Laughter).

4 CHAIR PALKKI: Ms. Taylor.

5 COMMITTEE MEMBER TAYLOR: What are BDCs, bad  
6 debt?

7 STEVE McCOURT: BDCs are vehicles that trade  
8 publicly that consist of underlying loans. And they've  
9 been around for decades in the marketplace. Typically,  
10 BDCs employ a modest amount of leverage as well. And so  
11 as an investor, you can invest in a BDC and get exposure  
12 to effectively private credit loans. And those BDCs have  
13 stock prices that trade daily.

14 STEVE HARTT: So just as a -- the acronym stands  
15 for business development corporation.

16 COMMITTEE MEMBER TAYLOR: Okay. Essentially,  
17 it's a bunch of loans that have been packaged up to be  
18 traded on the stock market.

19 STEVE McCOURT: Yes.

20 COMMITTEE MEMBER TAYLOR: Got it.

21 Kind of like mortgages, but a different kind --  
22 or a different loan.

23 STEVE McCOURT: Yeah, not too dissimilar, yes.

24 COMMITTEE MEMBER TAYLOR: Okay.

25 STEVE McCOURT: They're predominantly corporate

1 loans as opposed to real estate loans.

2 COMMITTEE MEMBER TAYLOR: And you're not seeing  
3 significant deterioration of that.

4 STEVE McCOURT: The level of defaults, level of  
5 stress in the marketplace has bounced up and down the last  
6 couple of years. There's, so far, not a significant  
7 deterioration in the credit quality underlying private  
8 credit vehicles, including BDCs.

9 COMMITTEE MEMBER TAYLOR: Okay. Thank you very  
10 much.

11 STEVE McCOURT: Yep.

12 CHAIR PALKKI: Mr. Rubalcava.

13 COMMITTEE MEMBER RUBALCAVA: Oh, thank you. Yes.  
14 My question relates to we've been talking about -- my  
15 colleagues have been talking about -- asking questions  
16 about AI. And I noticed on the real estate report, one of  
17 the positive signs I think was these data centers for the  
18 cloud and what have you. And I'm looking for -- there was  
19 one -- just one paragraph. In the memo, you talked about  
20 there's clear winners and losers in this market. And I  
21 guess that's one of the winners. But I couldn't get a  
22 sense of are we growing in that area? I know it's above  
23 the benchmark the returns, but is that something that  
24 we're -- we see as a potential, I'll use the term,  
25 opportunistic place we're going to go or how do we see

1 that in the future the data centers? Because I know  
2 there's been a lot of people referenced a bubble. I mean,  
3 if -- and also, I know they need a lot of energy, and  
4 that's another concern. So I'm just wondering how you see  
5 us involved in this data center explosion.

6 CHRISTY FIELDS: Yes. You currently have data  
7 centers representing approximately 7 percent of your  
8 portfolio.

9 COMMITTEE MEMBER RUBALCAVA: Okay.

10 CHRISTY FIELDS: And they have performed quite  
11 well.

12 COMMITTEE MEMBER RUBALCAVA: Yes.

13 CHRISTY FIELDS: You were -- CalPERS was quite  
14 and early mover into the data center space. You have a  
15 relationship that's 15 plus years old that began investing  
16 in data centers. And so, the data centers that you're  
17 invested in are largely around business connectivity and  
18 cloud computing, less so these new giant data centers that  
19 are housing large language modules and AI. So you have  
20 a -- you have what we believe to be a prudent exposure to  
21 this space. It's not necessarily an area of focus for  
22 expansion at the moment. You continue to obviously  
23 evaluate opportunities as they arise, but this is a core  
24 part of your portfolio that's performing quite well with a  
25 very strong manager and a very well aligned relationship.

1           COMMITTEE MEMBER RUBALCAVA: I love the answer.  
2 Thank you very much.

3           CHRISTY FIELDS: Thank you. Thank you, Mr. Chair

4           CHAIR PALKKI: Thank you.

5           Is there any other comments? I don't see any.

6           I do have one question. Since you brought up  
7 real estate, obviously we saw the bubble and we saw the  
8 effects of the bubble from 2008. However, these days  
9 we're getting a lot of questions about affordable housing.  
10 Do you see, because of those conversations, opportunities  
11 rising or do you still see them sort of stagnant because  
12 of the word that we don't want to use due to 2008?

13           CHRISTY FIELDS: We remain chronically  
14 underhoused in the U.S. And so residential remains a very  
15 attractive investment opportunity. As I mentioned before,  
16 apartments, be they market rate, and affordable, you have  
17 exposure to multi-family apartments across different rent  
18 price points and cohorts -- income cohorts. Roughly about  
19 30 percent of your real estate portfolio is in apartments.  
20 And we would expect that to continue to grow, just given  
21 the compelling fundamentals, the tremendous demand and the  
22 lagging supply in that space.

23           CHAIR PALKKI: Great. Thank you.

24           Mr. Rubalcava.

25           COMMITTEE MEMBER RUBALCAVA: Thank you for asking

1 the question, Mr. Chair. I want to follow up. On the  
2 affordable housing family rental, are we involved in  
3 ownership, rental? Are we -- I guess my question is what  
4 role, if any, do we play in the construction of affordable  
5 housing?

6 CHRISTY FIELDS: Yeah. You pursue both  
7 acquisition of existing assets and development of new  
8 assets across the spectrum of multi-family. A large part  
9 of affordable housing strategies tend to be acquisition  
10 and preservation of affordable housing. And so that's the  
11 majority of that portfolio. But as I mentioned before,  
12 the team is looking to expand your presence in all kinds  
13 of residential.

14 COMMITTEE MEMBER RUBALCAVA: Thank you very much.

15 CHRISTY FIELDS: Of course.

16 Oh, it your button.

17 COMMITTEE MEMBER RUBALCAVA: I will definitely  
18 welcome if we do pursue in the construction side getting  
19 reports. Thank you.

20 Thank you, Mr. Chair.

21 CHAIR PALKKI: No. Thank you for those comments.  
22 I don't see any other requests to speak, so thank you.

23 So that brings us -- I don't have any public  
24 comment for 3a. That brings us to 3b, Trust Level Review,  
25 Mr. Gilmore.

1 (Slide presentation).

2 CHIEF INVESTMENT OFFICER GILMORE: Thank you,  
3 Chair. I was going to talk about, I guess the first  
4 slide. If you can go to the next slide, Lauren.

5 [SLIDE CHANGE]

6 CHIEF INVESTMENT OFFICER GILMORE: But Tom has  
7 done a very good job of that, so I'm going to pass  
8 straight to Lauren to talk about what's going on in the  
9 world and how we think about scenarios.

10 INVESTMENT MANAGER ROSBOROUGH WATT: Thank you.  
11 Hello, everyone. Good morning. Lauren Rosborough Watt,  
12 Investment Officer here. Thank you for having me here.  
13 Appreciate it. I'm actually going to dive a little bit  
14 today and spend some time talking about the second slide  
15 on the --

16 [SLIDE CHANGE]

17 INVESTMENT MANAGER ROSBOROUGH WATT: Just given  
18 the scenario -- given the situation that we're currently  
19 experiencing and the talk around scenarios and the impact  
20 for other -- the potential for asset returns, I wanted to  
21 spend some time talking around the heatmap that we bring  
22 to you and have done for about the last year.

23 But first of all, let me set the starting point  
24 for the U.S. and global economies. The U.S. economy, as  
25 you know, afforded a recession in 2022-2023, that was

1 unlike many of the developed markets, developed market  
2 peers. Consequently in the U.S., our risk premia is  
3 narrow in some asset classes and we've spoken around that  
4 going into the end of 2025.

5           Growth, broadly speaking, is slowing now. And  
6 the Q4 numbers that came out, part of that was due to the  
7 government shutdown. But nonetheless, over 2024-25, real  
8 economic growth in the U.S. has been easing back. The  
9 labor market is softening and we spoke about that last  
10 quarter. There's evidence of dispersion of experiences  
11 and Tim Toth mentioned that around the K-shaped economy,  
12 so I won't go into great detail there. We also spoke  
13 about that last quarter too.

14           Confidence is moribund and inflation is sticky.  
15 Now, this all adds up, it sounds quite negative. To put a  
16 little bit off con -- contextualization around it.  
17 Financial conditions remain easy. Now, they have  
18 tightened in recent weeks, but still remain relatively  
19 easy. Households and corporates are not overlevered.  
20 Unlike say going into the Global Financial Crisis, the  
21 balance sheets are relatively strong. And the data,  
22 broadly speaking, when all taken together, are relatively  
23 favorable. So certainly slowing, but relative favorable.

24           For many other developed market economies, they  
25 are emerging from a slow down. Emerging market economies

1 performed better last year, as the U.S. dollar  
2 depreciated, but asset returns in their markets have also  
3 responded to the risk-off tone we've seen in recent weeks,  
4 given events. So that's starting the point.

5           So now, let's look forward. And I refer to this  
6 slide here. And you can see expectations for -- analyst  
7 expectations for U.S. real GDP growth for December 2025.  
8 Now, we have that number, but that number has been  
9 released now. But when this was put together, it was --  
10 it was yet to be released. 2026 and 2027 all tend to sit  
11 around that 2 percent rate.

12           And you can see the histogram, which looks at  
13 historical GDP outcomes for the U.S. tends to peak also  
14 around that 2 percent. So it's the most frequent number.  
15 It's also the historical average for the U.S.

16           When we collated and reviewed analyst's reports  
17 around this 2 percent growth, what struck us was not that  
18 growth was, broadly speaking, expected to be on average  
19 going forward, but more that there was a discussion around  
20 potential risks on the horizon. And the group here today  
21 have spoken to some of those, AI being one, labor market,  
22 for example, being another.

23           Given the difficulty making projections around  
24 these uncertain outcomes, both in terms of timing and in  
25 terms of size, analysts -- it appeared that analysts were

1 choosing more of a middle path in terms of GDP growth, and  
2 then talking around the risks about both of them.

3 [SLIDE CHANGE]

4 INVESTMENT MANAGER ROSBOROUGH WATT: So here we  
5 are in the heatmap that we show you. And first off, let's  
6 ignore some of the boxes. It's somewhat old information.  
7 I'm actually -- as I said, I'm going to divert. I'm going  
8 to spend some time talking around this heatmap, what is,  
9 what it's not, and how we think about it, and how this is  
10 only one way that we look at risk -- one of the lenses  
11 that we look at risk when we think about scenarios in the  
12 Total Fund Portfolio Management group.

13 So the heatmap itself, just a reminder, it looks  
14 at the impact of global equities and U.S. Treasuries in  
15 the 75/25 reference portfolio. When real growth is above  
16 or below potential or that 2 percent level. So above to  
17 the right on the X axis and below to the left. And  
18 inflation, when inflation is above or below target, target  
19 being around that 2 percent level, so to the top half or  
20 to the bottom half.

21 And color code -- excuse me, the color coding  
22 there is the asset returns for a reference portfolio as we  
23 transition into that segment, either top left, bottom  
24 right, and so forth. Red is more negative, green is more  
25 positive, and you can see the spectrum between.

1           So let's talk about stagflation, since it's all  
2 the discussion. Unconditional probability, according to  
3 PIMCO, is that five percent of the time, the U.S. economy  
4 be in a recession or has been in a recession. That's very  
5 small. When we think around it qualitatively, the U.S.  
6 has had three sort of stagflation type experiences of  
7 differing degrees. Two in the 1970s into 1980 with the  
8 oil crisis. And one more recently, 2022 with Russia  
9 invading Ukraine. That impact was lessened on the U.S.,  
10 but was greater on some other countries around the world,  
11 such as Europe for example.

12           I'm pointing this out to talk around the  
13 distinction of how we get from where we are today, sort of  
14 near the middle up towards that top left. And I think  
15 there's two main distinctions. And the first one is it  
16 tends to be a surprise, or an exogenous, or an external  
17 shock. And what we've seen recently was that, you know,  
18 there were some musings ahead of time, but nonetheless in  
19 December, I don't think anyone was predicting or  
20 projecting our current circumstance to occur.

21           The second one is that it's a supply constraint.  
22 It's an explicit supply constraint that boosts prices.  
23 And our historical situation in the U.S. has been in oil  
24 and we are seeing that at present.

25           So there are three channels by which this impacts

1 on a reference portfolio or asset returns. One is growth,  
2 one is inflation, and the other one is uncertainty. And  
3 I'm sorry, Direct Palkki, or Chair Palkki I am going to  
4 use the word "uncertainty".

5           Growth could be real economic growth. It could  
6 be earnings growth. It could be expectations. Inflation  
7 is current inflation, also expected inflation, inflation  
8 expectations. And uncertainty refers to risk premia. So  
9 the return that we as investors demand on our assets given  
10 an uncertain environment. All three aspects tend to work  
11 negatively for equities. Equities like inflation, but  
12 they don't like too much inflation. They don't respond  
13 well to too much inflation or to big surprises in  
14 inflation, at least historically.

15           Bonds on the other hand can behave quite  
16 differently. And the inflation and growth component  
17 somewhat offset. So in the very short run, as consumption  
18 is hit, you know, our wallets are hit, our prices go up.  
19 That tends to revalue yields higher, so bond prices fall.  
20 And then as the economy slows because we have less  
21 earnings power, as it were, in our wallets, then demand  
22 slows. And typically historically central banks will  
23 reduce interest rates and interest rates will fall and  
24 bond yields will rise.

25           And the reason why I point this out as a

1 stagflationary environment is that one situation  
2 historically where bonds acts less as a diversifier, less  
3 as of a hedge to equities as what it does in say a  
4 recession quadrant.

5 All right. So how do we think about the world?  
6 Well, this is -- this is only one way that we look at  
7 scenarios. This is the transition from where we are today  
8 to that scenario, but -- and that's very short term. If  
9 we look longer term, then these -- because these are  
10 transitory situations, we don't end up in stagflation and  
11 stay there for a very long time or forever. So, from a  
12 longer term return perspective, we might move up towards  
13 the left, for example, and then come back down. And that  
14 transition also has some long-term consequences, and I'll  
15 talk a little bit more about that in a minute.

16 We also look at historical episodes, as to what  
17 has happened in the past. We work with our strategic  
18 partners to better understand how they look at modeling  
19 these scenarios and what their returns or expected returns  
20 are in these particular scenarios.

21 We have a number of different models internally  
22 that we look at also, because there are different  
23 assumptions around them. We'll look at stress tests, so  
24 we take a historical period over time and apply it to our  
25 portfolio today. And the Total Fund Portfolio Management

1 team is drilling more into investment strategies more  
2 recently. And what you see here, you know, we're talking  
3 about a referenced portfolio, so we will refer to asset  
4 classes, but with a transition to a total portfolio  
5 approach, there is a focus more on the investment  
6 strategies and the team is doing work on that. And then  
7 we look at both the reference portfolio and also at our  
8 portfolio.

9           So I'm mentioning this to try and, you know, help  
10 you to understand that this -- there is one -- this is one  
11 lens by which we look at scenarios. But I think out of  
12 all of them, there are three main takeaways. And the  
13 first one is that the returns for a reference portfolio  
14 can be wide and varied. And I mentioned that before, this  
15 is a transition from where we are now to that end point,  
16 which is why, in a stagflation, it tends to be quite deep  
17 red.

18           The second one is that the expected returns  
19 stagflationary environment typically are worse than say in  
20 a recession, because of that switching correlation between  
21 bonds and equities. That said, however, that's quite  
22 widely known. And we are seeing attempts by governments  
23 and organizations in order to mitigate some of the impact  
24 that we're seeing from the strike in Iran. For example,  
25 in the UK, the government has announced that it will put

1 caps on regular -- regulatory energy price rises. The  
2 strategic petroleum reserve, there's been an agreement  
3 globally to release 400 billion barrels of it. In the  
4 U.S., the U.S. Has announced it will release 172 billion  
5 barrels over the next 120 days to try and release the --  
6 any potential severity and/or duration. And the  
7 administration is looking at other ways that it could  
8 mitigate some of these impacts on our wallets, as it were,  
9 on the household as income and on businesses.

10 So, the second point here is talking about the  
11 duration and the severity. And finally, I want to point  
12 out again that this is returns for a reference portfolio.  
13 Our portfolio is more diversified. Not all investment  
14 strategies or asset classes behave in the same way. Some  
15 respond less negatively, as it were, to a stagflationary  
16 environment.

17 And finally, we are long-term investors. And so  
18 once again this is a transition. As long-term investors,  
19 it's important that we look through.

20 I recognize I've taken up a bit of your time, but  
21 finally just to take a step back. I want to highlight  
22 that recent events are symptomatic of what we've seen in  
23 the last five years. And Tom mentioned this at the start  
24 of his talk. We've got a changing world order. You know,  
25 we have greater fragmentation. We have less coordination.

1 There's a focus on security of supply chains. We're  
2 seeing changing fiscal and monetary policy responses, and  
3 that adds complexity and uncertainty to future outcomes.  
4 And we also have underlying secular drivers that we've  
5 spoken about before, for example, climate change and  
6 demographic change.

7           And I'm pointing these out to say that surprise  
8 events in some ways are probably a feature of this  
9 environment rather than a bug. And again to solidify or  
10 to reconfirm to put it into context, it's important to be  
11 cognizant of where we are moving to, where the economy is  
12 moving to and risks to the portfolio, but also as a  
13 long-term investor to look through that and to have a  
14 longer term lens.

15           Thank you for your time today.

16           CHAIR PALKKI: Thank you. I am not seeing any  
17 questions from the Board, so thank you for that thorough  
18 report, and appreciate all the work you're doing. So  
19 thank you.

20           That brings us to 3c, proxy voting and corporate  
21 engagements updates.

22           (Slide presentation).

23           INVESTMENT DIRECTOR HAMBLY: Morning, everybody.  
24 Good to see everyone again. Drew Hambly, Investment  
25 Director, Global Equities. We're here today to give our

1 annual review of our proxy voting and corporate engagement  
2 duties. I've invited two members of my team today to join  
3 us Tiffany Pokk and Craig Rhines.

4 [SLIDE CHANGE]

5 INVESTMENT DIRECTOR HAMBLY: So, as you know, the  
6 basic function of this program is to engage with public  
7 companies in our equity portfolio and vote proxies at  
8 their annual and special shareholder meetings. We have  
9 partnerships with people that manage money for us. We  
10 have partnerships with things like the CA100, which we'll  
11 talk about some more to help us with these activities, and  
12 we conduct research to stay abreast of global trends in  
13 Corporate Governance.

14 I'm going to turn it over to my colleague Craig  
15 to go through the next few slides

16 [SLIDE CHANGE]

17 ASSOCIATE INVESTMENT MANAGER RHINES: Hi. Good  
18 morning. Craig Rhines, CalPERS staff. So this slide  
19 provides a snapshot of our proxy voting and engagement  
20 activity over the past year. So we voted more than 10,000  
21 company meetings covering over 100,000 ballot items. A  
22 keep component of our stewardship approach is holding  
23 directors accountable. We use our votes against directors  
24 to signal concerns and encourage improvement. And we  
25 follow these votes with engagement, discussions to help

1 companies move towards best practices.

2 To maximize our impact, we prioritized engagement  
3 with our largest holdings. So we engaged 368 companies  
4 over the last year, which total about 125 billion in  
5 assets under management. So to provide some context, that  
6 is well over half of our public equity AUM, which was a  
7 high watermark for the team.

8 I'd also like to note that we opposed 42 percent  
9 of say on pay proposals that we voted in 2025.

10 So slide 4.

11 [SLIDE CHANGE]

12 ASSOCIATE INVESTMENT MANAGER RHINES: So this  
13 slide highlights some key votes that you may have seen in  
14 2025. So we consider each vote on a case-by-case basis  
15 and we look to support well-constructed shareholder  
16 proposals that align with our governance and  
17 sustainability principles. Issues on executive pay,  
18 governance, and human capital management continue to be a  
19 priority for us. I'll now turn it over to Tiffany.

20 INVESTMENT OFFICER POKK: Good morning. Tiffany  
21 Pokk, CalPERS Investment Office stay.

22 [SLIDE CHANGE]

23 INVESTMENT OFFICER POKK: This slide shows that  
24 CalPERS votes on shareowner proposals for the 2025 proxy  
25 season. We continued to see a variety of shareowner

1 proposals filed on topics of governance, environmental,  
2 social, and compensation. Governance continues to be the  
3 area that we support the most and is mostly aligned with  
4 our governance and sustainability principles.

5 Next slide.

6 [SLIDE CHANGE]

7 INVESTMENT OFFICER POKK: These two charts show  
8 CalPERS support levels for the shareowner proposals in  
9 2024 and 2025. We saw that with the gray bar chart, you  
10 can see total shareowner proposals went down from 2024 at  
11 578 proposals to 2025 to 468 shareowner proposals. The  
12 blue chart shows that even though the proposals went down,  
13 we still voted consistently with our Governance and  
14 Sustainability Principles and consistently supported the  
15 shareowner proposals.

16 We looked at the environmental and social  
17 proposals and noticed that there was a slight decrease in  
18 those shareowner proposals. And we do believe that this  
19 was due to the SEC changes with the shareowner proposal  
20 process. We expect this trend to continue into the next  
21 season in 2026 proxy season.

22 And I'll turn it over to Drew.

23 [SLIDE CHANGE]

24 INVESTMENT DIRECTOR HAMBLY: Okay. Thank you.  
25 So every year, we bring the slide, things -- what's going

1 on in the regulatory and market environment and you'll  
2 probably notice there's a lot more on this slide than  
3 we've had in the past. So we have a current regime at the  
4 SEC. And I'll use the pendulum, you know, analogy. We  
5 see the pendulum swinging back toward the corporates and  
6 away from shareholders in a way we haven't seen in a  
7 number of years. We have spoken out on a number of these  
8 issues. I'm happy to address any single one of these, but  
9 the overall message here is the current regime is moving  
10 to empower corporate management over that of shareholders.  
11 And so we will continue to engage and vote in a manner  
12 that tries to protect our rights and then hopefully,  
13 others will join us in that.

14           There's been a lot of talk about the use of proxy  
15 advisory services. We use them to help guide our  
16 decisions. We do not use any proxy advisory  
17 recommendation. We never have. But they provide a  
18 valuable, low-cost service to the marketplace. And I  
19 think what you'll end up seeing is a number of entrants  
20 trying to use AI for this process. We believe that the  
21 vendors that we have engaged provide a great service to  
22 us, both operationally and informing us of things coming  
23 down the pipeline. And we will continue to use them and  
24 speak out to protect the rights for those firms to exist.

25   [SLIDE CHANGE]

1           INVESTMENT DIRECTOR HAMBLY: And then a couple of  
2 highlights from the season. Say-on-pay, as Tiffany  
3 alluded to and Craig, we vote against 42 percent. One  
4 thing we did in the last two months is partner with our  
5 equity research team to look at 10 years of CEO pay. And  
6 we did a webinar on this two weeks ago through CII. And  
7 what we found is there's very little correlation between  
8 pay on performance in the U.S. Our model set was the  
9 Russell 3000 over the last 10 years. We're using this  
10 type of research to continue to inform us of the practices  
11 out there and help to inform our vote. And so we expect  
12 our levels of support or levels against management  
13 say-on-pay in the U.S. to be consistent, if not maybe  
14 slightly higher, given some of the research that we've  
15 done.

16   [SLIDE CHANGE]

17           INVESTMENT DIRECTOR HAMBLY: And then once again,  
18 we've shown this chart for a number of years, you know,  
19 the 5-year history how we vote on say-on-pay. So in 2021,  
20 that was just before we reduced the size of the portfolio,  
21 so that gray bar at 2,300, almost 2,400 proposals. We're  
22 down to between 1,000 and 1200 proposals a year on U.S.  
23 say-on-pay. But as you can see, we've been fairly  
24 consistent the last few years with fairly high against  
25 vote relative to others in our market.

1 [SLIDE CHANGE]

2 INVESTMENT DIRECTOR HAMBLY: Okay. I'll turn it  
3 back over to Craig.

4 ASSOCIATE INVESTMENT MANAGER RHINES: Yep. So  
5 this slide highlights our work on climate risk oversight.  
6 So we continue our work with the Climate Action 100+  
7 initiative, where we lead engagement with 20 companies to  
8 encourage stronger climate governance, disclosure, and  
9 emissions management. For the top GHG emitters in our  
10 portfolio, we focus on the highest 350 emitters, where we  
11 look for disclosure and oversight of emissions management.  
12 When expectations were not met, we voted against more than  
13 400 directors at 115 companies out of the 350. We also  
14 engage directly with these companies to explain our voting  
15 rationale and discuss best practices.

16 I'll turn it over to Tiffany for slide 11.

17 [SLIDE CHANGE]

18 INVESTMENT OFFICER POKK: We updated our proxy  
19 voting guidelines for the 2026 proxy season. We've  
20 updated two areas. The first is the executive  
21 compensation section. We updated this to further align  
22 pay with the interests of long-term shareowners. Second,  
23 we updated our director voting section to hold directors  
24 accountable if they misuse the SEC no-action process  
25 related to shareowner proposals.

1           And I'll hand it back over to Drew.

2                                 [SLIDE CHANGE]

3           INVESTMENT DIRECTOR HAMBLY: Okay. So in  
4 conclusion, the key themes for us, and these have been  
5 fairly consistent over the last few years, is a focus on  
6 climate and sustainability, corporate governance,  
7 especially around pay and directors, and human capital  
8 management, and workforce disclosures.

9           So that ends our prepared remarks and we'll open  
10 it up to questions.

11          CHAIR PALKKI: Thank you so much. Start with Ms.  
12 Willette.

13          COMMITTEE MEMBER WILLETTE: Thank you. Thank  
14 you, Drew and team. There's a lot of work captured in  
15 this presentation. And I recognize it was no small feat.  
16 I genuinely want to thank you for the work that was done  
17 and the presentation today. I do want to highlight  
18 something in the report. I think it's really significant  
19 that we're on this slide that our 2026 human capital  
20 management priorities explicitly name artificial  
21 intelligence reporting and oversight alongside the freedom  
22 of association and the labor and human rights. We've  
23 never seen that before, and so I think that that's  
24 significant. I think that that's the right call.

25          I know the workers I represent they already live

1 with AI in their workplace, right? They already see it in  
2 their scheduling algorithms, in their performance  
3 monitoring, inventory, right, in the decisions about their  
4 jobs. And I do think it's important that they know that  
5 their pensions aren't being used to fund companies that  
6 govern AI really poorly and use it against them as  
7 workers. So I'm glad that we're monitoring that.

8           And I also do want to acknowledge, earlier you  
9 had the freedom of association vote, the Mandela's freedom  
10 of association vote and that we voted for it, which is, I  
11 think, the right thing to do. Thank you for presentation.  
12 But the report still shows that it received about 10  
13 percent broader shareholder support. And that tells us I  
14 think that there's a lot of work to do in the -- in  
15 talking about workers' rights and what long-term value  
16 creation how they're connected. So I think it is a good  
17 reminder that our voice matters on these issues and why we  
18 have to keep building the case. My question to -- kind of  
19 for both of those is for our other engagement priorities,  
20 like executive compensation, climate, Board diversity, et  
21 cetera, we've developed specific measurable criteria for  
22 what good looks like, and when we escalate.

23           So I'm wondering what's the equivalent framework  
24 that we're building for AI oversight and what criteria  
25 will be used to evaluate whether a company's board is

1 adequately governing how AI is used to manage their  
2 workforce, and when can we expect that framework to be  
3 operational in our proxy decisions? So -- because I want  
4 to make sure that AI is something we can actually act on,  
5 not just name as a priority.

6 INVESTMENT DIRECTOR HAMBLY: Yeah. Thank you for  
7 that. So in the last two quarters of last year, we  
8 started working with various partners to try to understand  
9 better what good AI oversight looks like. So we're in the  
10 early innings of this of trying. So we don't have a  
11 specific framework. What we find when we're engaging with  
12 companies, and we're trying to do this across a wide swath  
13 of companies where we're asking various questions. And  
14 the responses we get sort of inform us on who we think is  
15 doing a better job today.

16 So, we will continue to build this out. You  
17 know, we don't have all the answers today on this, but  
18 it's becoming part of regular engagement with every  
19 company we talk to. And so just trying to build that  
20 muscle memory and understanding who we think is emerging  
21 as leaders in this space. There's not a lot of good data,  
22 so a lot of it we're getting through having these  
23 conversations.

24 COMMITTEE MEMBER WILLETTE: Yeah. I love  
25 one-on-one conversations as a data collection. Thank you

1 so much.

2 CHAIR PALKKI: Thank you.

3 Ms. Gallegos.

4 ACTING COMMITTEE MEMBER GALLEGOS: So this  
5 information has been floating out there for awhile, but  
6 this morning we had news that the SEC is moving to annual,  
7 I believe -- is it annual or semiannual?

8 INVESTMENT DIRECTOR HAMBLI: Semiannual.

9 ACTING COMMITTEE MEMBER GALLEGOS: Semiannual  
10 reporting. What feedback we have received from the  
11 companies that we engage in in materials of whether  
12 they're going to pursue this and adopt it versus not, and  
13 do we plan to write a comment letter during the comment  
14 period to the SEC?

15 INVESTMENT DIRECTOR HAMBLI: Yeah. So first, a  
16 lot of the companies we've talked to I'm not sure they  
17 want to do this. They have a cadence for how they talk to  
18 their shareholders. They have regimes built up around  
19 this. And a lot of them have said, you know, we're going  
20 to kind of keep it steady as the course from now. Now,  
21 that doesn't mean there's not going to be some companies  
22 that are going to choose to go to semiannual.

23 In terms of a comment letter, I'll have to defer  
24 the Sustainable Investment team, they tend to write a lot  
25 of our comment letters, and I know they're looking into

1 this and others. So I'll have to double check  
2 specifically on this one. I think we have spoken out in  
3 favor of keeping the quarterly reporting regime. And so  
4 many of the large-cap companies that we've engaged with, I  
5 would say a good portion of them, at least for now, will  
6 keep doing as is.

7 ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

8 CHAIR PALKKI: Thank you.

9 Ms. Middleton.

10 COMMITTEE MEMBER MIDDLETON: All right. Thank  
11 you. Drew, everyone, thank you for your work and for this  
12 report. And what we do here truly does matter. It is  
13 important and it's been something that CalPERS has been  
14 able to take pride in going back for decades, that we have  
15 been responsible. We've advocated these kinds of  
16 priorities, as I understand it, because we believe they  
17 can attribute to long-term performance of the -- of the  
18 organizations that we're investing in.

19 And we clearly know we're facing some very strong  
20 headwinds right now with so many of the efforts that we  
21 have historically taken on and that we stay committed to.  
22 So my question is what more than voting no, where we see  
23 someone who is falling up short, do we need to be doing.

24 And is there an opportunity or an avenue for us  
25 to try to highlight the long-term performance of

1 organizations that we've not had to vote no on, and that  
2 have demonstrated commit -- consistency with what we  
3 identify as priorities and consistency in terms of their  
4 long-term financial results? Because I do believe it's  
5 when we can take and make that connection. We're not just  
6 being warm and fuzzy up here. There's a reason for it and  
7 that reason is organizations that conform to these kinds  
8 of priorities perform better over the long term.

9           INVESTMENT DIRECTOR HAMBLY: Yes. Thank you for  
10 that, Ms. Middleton. So one of the things we did recently  
11 is this research on CEO pay, because there is good  
12 research that demonstrates that board -- it's a key board  
13 function to oversee how the CEO gets paid. And ones that  
14 don't do it perform less well over time.

15           In addition, there was a paper that came out in  
16 January on the different types of equity awards that are  
17 granted to CEOs. One in particular, performance stock  
18 units. Companies that overuse those tend to perform  
19 worse. So as Tiffany and Craig walked you through some of  
20 our changes, and one of the things we focused on is the  
21 types of equity awards.

22           And then we did host this webinar with CII. We  
23 had over 80 industry participants, because as we've talked  
24 about before, we don't see a lot of other managers voting  
25 against pay, for example, in this moment in time. The

1 average support for U.S. say-on-pay is about 91 percent.  
2 We're voted against 42 percent of the time, but we thought  
3 by doing this type of research and getting it out to the  
4 market would make it more difficult for market  
5 participants to ignore what a key function this is. So  
6 that was, in our mind, a form of escalation and do some  
7 research, see the findings we have, get those findings out  
8 to the marketplace. So that was a key component, that  
9 coupled with some of the changes and reemphasis that we're  
10 making on pay coming into this season, as an example.

11 COMMITTEE MEMBER MIDDLETON: All right. That's  
12 an -- that's an excellent example and getting more  
13 attention to that study is something that I know I would  
14 be incredibly supportive of.

15 INVESTMENT DIRECTOR HAMBLY: Yeah. We're very  
16 pleased with the participation rate we had for that.

17 COMMITTEE MEMBER MIDDLETON: Thank you.

18 CHAIR PALKKI: Thank you.

19 Mr. Rubalcava.

20 COMMITTEE MEMBER RUBALCAVA: Thank you, Mr.  
21 Chair. Yes. I also want to join with the Board and  
22 thanking and congratulating you, and Drew, and your team  
23 for the work you do. And also I want to go a little bit  
24 further and acknowledge and thank you for your work on  
25 the -- on the Board of the Council of Institutional

1 Investors, CII, that you mentioned, and congratulate you  
2 on being elected Treasurer for the Board.

3 INVESTMENT DIRECTOR HAMBLY: Thank you.

4 COMMITTEE MEMBER RUBALCAVA: Thank you very much  
5 for your work. Thank you, Mr. Chair.

6 CHAIR PALKKI: Thank you.

7 Mr. Miller.

8 VICE CHAIR MILLER: Yeah. I also want to thank  
9 the team. One of the things that always strikes me with  
10 this is something that I don't think often we and our --  
11 even our stakeholders really sometimes fully appreciate  
12 how important this work is, because it often seems like  
13 we're swimming against the stream, you know, when you look  
14 at the percentages of the votes on some of these things.  
15 But I think the fact that we are out there, we are taking  
16 the field, we are playing, we are leading, we are engaging  
17 with our peers, other institutional investors. And the  
18 other thing is the earned media that we get out of this  
19 news cycle after news cycle in both the financial press  
20 and sometimes in the broader media as well, when we take  
21 on some of these issues.

22 I don't think we can underestimate the importance  
23 of that, both to our leadership position and to the causes  
24 and the values that we're trying to keep in play versus  
25 just throwing up our hands and saying we just won't play

1 or we'll just walk away from these fights and just let the  
2 people who don't care about the values we do have the say,  
3 and not continue to counter this stuff, because over time  
4 things change. But if we just walk away from these issues  
5 because it's hard or it looks like an uphill fight, I  
6 think that sends the wrong message. So I really  
7 appreciate this work and I really appreciate a lot of the  
8 value that it has that isn't always obvious, until you're  
9 looking at it over time and in a cumulative fashion, you  
10 know. And especially just if we had to put together a  
11 budget to try to buy paid media to take these messages out  
12 there versus what we get just by showing up and continuing  
13 to fight, despite the fact that, you know, we know that,  
14 you know, we're just one of many voices. But when there  
15 are a lot of voices, we can have an effect over time. But  
16 if we just walk away and take our money and, you know, say  
17 let it be, we wouldn't have that kind of effect. So  
18 that's my little rant for the day.

19 INVESTMENT DIRECTOR HAMBLBY: Thank you.

20 CHAIR PALKKI: Thank you.

21 I am not seeing any other questions, so thank you  
22 for your work.

23 CHAIR PALKKI: So that brings us to a great spot  
24 to take a quick 10-minute break, yes? And we can pick  
25 right back up at just -- let's say 10 -- let's go to --

1 let's pick up at 11.

2 (Off record: 10:48 a.m.)

3 (Thereupon a recess was taken.)

4 (On record: 11:01 a.m.)

5 CHAIR PALKKI: Great. Thank you. Thank you all  
6 for giving us that moment to stretch and have a bit of a  
7 break. I do want to go back to Item 3c. We now have  
8 public comment. Just as a note, we are moving the public  
9 comment to two minutes a piece just for the -- because of  
10 the amount of comments we have, and to accommodate time.

11 So, with that, I'd like to start with Diana  
12 Cassady, Sheila Thorne, and Sara Theiss.

13 DIANA CASSADY: Is this on? Yes. All right.

14 Good morning. My name is Diana Cassady. I'm a  
15 retired professor from the University of California  
16 system. And I'm here to say that corporate engagement  
17 with oil and gas companies has not worked. Instead, I  
18 think the priority for CalPERS should be to focus on  
19 selling all gas and oil investments, and that's because  
20 there's an inherent risk in these investments and the  
21 Board has a fiduciary responsibility to protect  
22 pensioners.

23 As a pensioner myself from the UC system, I was  
24 relieved to find that almost six years ago, the UC system  
25 sold \$83 billion in their endowment and pension funds

1 related to gas and oil investments, specifically because  
2 of financial risk. The quote in the LA Times op-ed that  
3 the Investment team published said quote, "We believe  
4 hanging on to fossil fuel assets is a financial risk."  
5 Clearly, there's no doubt that volatile energy markets and  
6 rapidly expanding cheap renewable energy will ultimately  
7 make -- eliminate the need for gas and oil. And UC is not  
8 alone in its decision.

9           Nearly 1,600 pension funds with assets of about  
10 \$40 trillion have made commitments to divest from fossil  
11 fuels. Here in California, just a few examples are the  
12 City of San Diego, the Los Angeles Retirement System, and  
13 the San Mateo County Fund.

14           Finally, I'll remind you of a story you'd likely  
15 read in the Financial Times and other business press  
16 stating that on March 4th, a former Cushman and Wakefield  
17 employee filed a class action lawsuit alleging the company  
18 breached its ERISA fiduciary responsibilities by failing  
19 to protect workers' 401(k) savings from climate-related  
20 financial risks. We won't know the outcome of this case  
21 for a while, but it raises serious questions about  
22 factoring in climate change risk in investment decisions.

23           I urge the Investment Committee to consider  
24 what's best for a reliable pension fund and to create a  
25 phased plan to sell all oil and gas investments.

1 Thank you.

2 CHAIR PALKKI: Thank you.

3 Ms. Thorne.

4 SHEILA THORNE: My name is Sheila Thorne. I'm a  
5 retired CFA member and a CalPERS member.

6 The fossil fuel industry operates politically.  
7 It spends an average of over \$115 million annually on  
8 lobbying against climate legislation. In California, it  
9 spent over 34 million in 2025 lobbying Sacramento  
10 lawmakers leading to their approval of boosting oil  
11 production in Kern County, which already suffers the  
12 state's highest rate of respiratory and heart disease.  
13 And the fossil fuel industry is a malignant political  
14 force. It has a long record of using violence at the  
15 sites of extraction, even to the point of malicious and  
16 torture, and has been a major importer of guns into  
17 Africa.

18 And now here, the American Petroleum Institute  
19 spent a whopping, above average \$445 million to help put  
20 trump into office. And then the major big oil executives  
21 gave 75 million more to Trump at a private dinner at  
22 Mar-a-Lago after he promised to repeal environmental  
23 regulations.

24 Thus, the fossil fuel industry fuels and supports  
25 authoritarianism to make and preserve profit, just like

1 the makers of Zyklon B in Nazi, Germany. It de facto  
2 supports the current attacks on DEI and ESG policies that  
3 are fundamental to CalPERS. And any investment in fossil  
4 fuels is a form of political consent to that  
5 authoritarianism.

6 Some have argued that CalPERS investment in  
7 fossil fuels is relatively small, and that divestment  
8 wouldn't make a difference. By that argument, neither  
9 will it make a difference continuing with the clearly  
10 failed policy of engagement with fossil fuels. But  
11 CalPERS itself is not small. It is the largest public  
12 pension fund in the U.S. and one of the 10 largest in the  
13 world. Divesting from fossil fuels would be a statement  
14 for the environment and for democracy, as well as for a  
15 safer, sounder financial portfolio that would be heard  
16 around the world. That is where you could make a real  
17 difference.

18 CHAIR PALKKI: Thank you.

19 Ms. Theiss.

20 SARA THEISS: Yeah, my name is --

21 CHAIR PALKKI: There's a button.

22 There you go.

23 SARA THEISS: My name is Sara Theiss. I'm a  
24 CalPERS retiree and a volunteer with Fossil Free  
25 California.

1 I also appreciate the work that CalPERS has been  
2 doing as -- against the headwinds and swimming against the  
3 stream, et cetera that people mentioned earlier, but I'm  
4 going to talk about the other side of that or answer the  
5 question like so what else could we do?

6 And in that regard, I just want to say I was  
7 disappointed that in revamping CalPERS investment  
8 policies, you kept the outdated one on divestment,  
9 specifically the introduction in Part A, which are now  
10 based on false assumptions, that is divesting from a  
11 sector quote, "Almost invariably harms investment  
12 performance."

13 I'll make, if I have time, three points. First,  
14 there is ample evidence to the contrary. That is in both  
15 absolute and risk-adjusted terms, the three most common  
16 indices used to benchmark U.S. institutional investment  
17 portfolios, have, as of 2024, underperformed their  
18 variance without fossil fuels over the prior 5 and 10  
19 years. And this is net of fees. And you can see page 7  
20 to 9 of the handout that I had distributed from my sources  
21 on that. And basically page 7 to 15 are an extension of  
22 that conversation.

23 And second, since I've been involved in FFCA in  
24 2018, we have striven to make the financial case for  
25 exiting the oil and gas sector due to financial risk, and,

1 you know, not basically for -- that's been our focus.

2           And third, oil and gas prices are no longer tied  
3 to the economy as a whole. They're subject to the  
4 volatility of geopolitical events. This, of course, ups  
5 the riskiness. In 2023, oil prices went up to 125  
6 barrel -- a barrel due to the Ukraine war. Now, we're  
7 moving into the same territory in the war with Iran.

8           And I will cut this. We are watching untold  
9 suffering on the TV screens. The war has taken over. The  
10 world economy is being impacted and it's destroying  
11 billions of dollars of U.S. military infrastructure and  
12 the security rationale for the U.S. bases. The world will  
13 be quite different when the war situation is resolved.

14           Anyway, that's my points. I'll send you the rest  
15 via email. Thank you so much.

16           CHAIR PALKKI: Thank you for your comments.

17           Next, I have -- I apologize, Glayol Sahba, Al  
18 Darby and Sally Kalaghan.

19           DR. GLAYOL SAHBA: Good morning. My name is Dr.  
20 Glayol Sahba and I'm a family physician and a  
21 co-facilitator for Third Act Sacramento, a group of over  
22 700 Sacramento elders who are dedicated to help stabilize  
23 or climate and our democracy. There's so many reasons to  
24 divest, not -- and not engage with fossil fuel companies.  
25 The most important reason of all is that they are

1 contributing to the ever accelerating process of climate  
2 change.

3           One recent study showed that rate of climate  
4 change has doubled in just the last 10 years. I just want  
5 to point out the top health consequences of continued  
6 fossil fuels in the world. A 2021 Harvard-led study  
7 estimated 8.7 million deaths per year from fine particles  
8 linked to fossil fuels. Continued investment in fossil  
9 fuels will exacerbate our climate destabilization even  
10 further. Heat related deaths, cardiovascular illness,  
11 especially in vulnerable populations such as the elderly  
12 and the young, increased vector-borne illnesses such as  
13 lyme disease and many others, increased risk of asthma and  
14 other pulmonary conditions, wildfires, floods, droughts,  
15 loss of life, communities and livelihoods are all already  
16 here.

17           Fossil fuels at every stage of their extraction,  
18 refining, burning, and plastic productions, and methane  
19 leaking exhausted wells harm front-line communities,  
20 workers, pollute our environment and the climate.

21           I also want to point out some of the climate  
22 crimes specific to one company, such as Chevron, for you  
23 to understand even more reasons why you must not engage  
24 but rather divest. I have a long list of them, but I want  
25 to just say that Chevron is responsible for major

1 instances of climate destruction in California, including  
2 2001 where hundreds of gallons of oil were spilled in the  
3 San Francisco Bay. Chevron deliberately dumped 16 billion  
4 gallons of toxic wastewater into Ecuador's Amazon  
5 rainforest and it still hasn't cleaned it up.

6 It goes on and on. And I'm just going to list  
7 the countries that they have done incredible damage in.

8 CHAIR PALKKI: If you could wrap up your  
9 comments.

10 DR. GLAYOL SAHBA: Yes, I sure will.

11 CHAIR PALKKI: Thank you.

12 DR. GLAYOL SAHBA: Just these are the countries,  
13 Azerbaijan, Angola, Argentina, Canada, China, East Timor,  
14 Ecuador, Ghana, Indonesia, Kazakhstan, Poland, Thailand,  
15 Venezuela, and of course the U.S.

16 Thank you.

17 CHAIR PALKKI: Thank you.

18 Mr. Darby.

19 AL DARBY: And my mic. Okay.

20 Al Darby, RPEA, Vice President.

21 Regarding private debt, we heard a pretty rosy  
22 picture earlier from, I believe, Mr. Toth. Recent  
23 financial publications warn of increasing defaults and  
24 in-kind payments, which means the borrower simply adds to  
25 the loan to continue to make payments and is simply adding

1 to their principal balance and are not paying down in cash  
2 the actual loan -- the original loan.

3           Conditions for obtaining loans are loosening. It  
4 doesn't make sense. This dictates careful underwriting  
5 and mandatory, which is when a borrower cannot get a loan  
6 from a bank. Private lending is considered more risky  
7 than junk bonds. So that particular allocation needs to  
8 be very carefully scrutinized.

9           I yield back the rest of my time.

10          CHAIR PALKKI: Thank you.

11          Ms. Kalaghan.

12          SALLY KALAGHAN: We are the climate lamenters.  
13 We lament the loss of human life due to extreme climate  
14 events. We lament the drought, fire, famine and storms  
15 that have come and will continue to come, as we continue  
16 to use fossil fuels. We lament the loss of habitats and  
17 other species that have occurred and will continue to  
18 occur, as we continue to value profit over life. We  
19 lament the many opportunities to slow down the destruction  
20 to our planet that our leaders have lost. We recognize  
21 that the decision-makers in this room have the power to  
22 make a choice of life over profit. We pray that you will  
23 choose now to rise to the challenges of the climate crisis  
24 and begin to shed our dependence on the product that has  
25 created it.

1 Thank you.

2 CHAIR PALKKI: Thank you.

3 Next, I have Clair Schar[sic]and Rose Yakub.

4 Yep, you're good.

5 CLAIR SCHOEN: Regarding divestment from fossil  
6 fuel companies, not engagement, but divestment. My name  
7 is Clair Schoen. We lamenters are here today to bear  
8 witness to the grief, anger, anxiety that many  
9 Californians feel over the impacts of climate chaos.

10 Lamenters do not speak, but I have chosen to  
11 break my silence in order to talk to you as CalPERS Board  
12 members, but also as human beings. I begin with the  
13 assumption that you are all educated and intelligent. You  
14 know that burning fossil fuels is causing climate change.  
15 You know that this is already causing extreme weather in  
16 California and throughout the world. You know that  
17 floods, fires, and heat waves are causing untold damage  
18 and suffering and you know that these impacts are  
19 increasing every year.

20 So my question to you, in 10 or 15 years when we  
21 reached tipping points, when the climate begins spiraling  
22 out of control and your child, or grandchild, or  
23 neighbor's grandchild comes to you and asks grandma,  
24 grandpa, what did you do to prevent this? Will your  
25 answer be actually I helped finance the oil and gas

1 companies that created this disaster? I knowingly poured  
2 millions of dollars into fueling this fire. Will that be  
3 your legacy?

4 Thank you.

5 CHAIR PALKKI: Thank you for your comments.

6 Next, is there Rosie?

7 DR. GLAYOL SAHBA: Sorry. Rosie is going to make  
8 her statement on -- she's on the phone. So she'll wait.

9 CHAIR PALKKI: She's on the phone. Okay. Well,  
10 next I have callers on the phone then. So we can start.

11 CALPERS STAFF: Mr. Palkki, we have Daniel Fuchs  
12 from Fossil Free California to comment on Item 3c. Daniel  
13 Fuchs, you are now live and can proceed with your comment.

14 DANIEL FUCHS: Good morning, Board. This is, in  
15 fact, Daniel Fuchs. I am Board member Fossil Fuel  
16 California and an employee of the State of California  
17 speaking on my own behalf here today. You've heard the  
18 case made for divestment from the moral perspective, from  
19 the physical environment perspective, and from the  
20 economic perspective. And I wanted to reiterate something  
21 of all of those, especially the latter two.

22 As we look around us today during a heat wave, we  
23 know that this unusual heat is decimating our already  
24 sparse snowpack with potentially catastrophic consequences  
25 for the state, in terms of water supply and fire risk.

1 That is a direct result of the burning of fossil fuels.  
2 We also see economic effects. We understand -- we all  
3 understand that the Board has a fiduciary duty. It is our  
4 contention, and the evidence supports this belief, that  
5 the fiduciary duty is best served by divestment, because  
6 of the sectoral underperformance of fossil fuel stocks.  
7 That underperformance will only accelerate with the  
8 consequences of the present U.S. war in Iran, as the world  
9 looks around and notices, and observes the uncertainty --  
10 I know you hate that word -- the uncertainty associated  
11 with fossil fuels and the price risk inherent in those  
12 fuels.

13           We already know that the cheapest way to generate  
14 electricity is solar, the cheapest way to provide it is  
15 solar plus batteries. The world is looking at the present  
16 conflict in the Middle East and saying we need to  
17 accelerate that trend. The result is that CalPERS needs  
18 to accelerate its divestment from fossil fuel stocks in  
19 order to protect the pensions of people like me. Again,  
20 as I've said before, the world looks to California as a  
21 leader. We should preserve that leadership and divest, so  
22 that the world can observe that is the correct approach.

23           Thank you.

24           CHAIR PALKKI: Thank you for your comments.

25           Next caller.

1 CALPERS STAFF: Next, we have Rosie Yakub to talk  
2 Item 3c. Rosie, you are now live and can proceed with  
3 your comments.

4 ROSIE YAKUB: Hi. Yeah, my name is Rosie. I am  
5 an active CalPERS member calling in. My primary concern  
6 with fossil fuels is that the State of California is  
7 simultaneously using taxpayer money to mitigate climate  
8 change and invest in fossil fuels. These two things are  
9 at odds. And to be clear, I don't think that the State  
10 government is doing the wrong thing by mitigating climate  
11 change effects and funding projects that promote  
12 transition.

13 Continuing to invest in fossil fuel companies  
14 amounts to wasting taxpayer money, because Cal -- as long  
15 as CalPERS and other large investors continue to invest in  
16 companies producing fossil fuels, taxes and bonds used for  
17 climate mitigation will be less effective. CalPERS should  
18 divest from fossil fuels period. It's delusional to think  
19 that having criteria for investment will move the needle  
20 on the business focus of the large fossil fuel companies.  
21 They've had since the 1970s to remake themselves as energy  
22 companies and have refused to do so, in part because of  
23 the need for short-term profit to satisfy investors like  
24 CalPERS.

25 As a CalPERS employee, I find it disturbing that

1 a portion of my salary is given to fossil fuel companies  
2 who use it in ways that negatively impact the landscape  
3 that I work every day to help conserve. Please invest  
4 elsewhere.

5 CHAIR PALKKI: Thank you for your comments.

6 Are there any other callers?

7 CHAIR PALKKI: No. Great. So that moves us into  
8 item 3D, Summary of Committee Direction.

9 CHIEF OPERATING INVESTMENT OFFICER COHEN: Mr.  
10 Chair, I didn't record any additional direction this  
11 morning.

12 CHAIR PALKKI: And the only one that I took was  
13 we're not allowed to use "uncertain" anymore.

14 (Laughter).

15 CHIEF OPERATING INVESTMENT OFFICER COHEN: Noted.

16 CHAIR PALKKI: Thank you.

17 (Laughter).

18 CHAIR PALKKI: Yes. That brings us to 3e, public  
19 comment. Mr. Mark Swabey and Frank Ruiz.

20 Okay. So we can move forward to the phone  
21 callers.

22 CALPERS STAFF: Yes. Chair Palkki. We have  
23 Yvette DiCarlo to comment on 3e. Yvette DiCarlo, you are  
24 now live and can proceed with your comments.

25 YVETTE DiCARLO: Good morning. My name is Yvette

1 DiCarlo and I've been paying into CalPERS for 25 years,  
2 but I am now retired. Members like myself and the general  
3 public have testified in front of this Board year after  
4 year about the real-time train wreck we're all  
5 experiencing called climate change. In 2005, '06, the  
6 start of '07, even the supposedly savvy hedge fund  
7 managers, investment bankers, and Wall Street thought that  
8 they were riding a never-ending wave until it crashed  
9 really hard on the beach and it broke a whole lot of  
10 necks, both on the banking side as well as the millions of  
11 people who lost their homes.

12           Who could have possibly known that lying about  
13 the value of bad loans could ever be a problem? Well,  
14 there were a few people who were reading the tea leaves  
15 and who were actually paying attention, who came out  
16 ahead. But they didn't end up gloating. It was  
17 devastating for them to see how many people were actually  
18 hurt.

19           A similar dynamic has grossly perverted the  
20 financial world regarding oil and gas assets. It's just  
21 that it's been running a longer wave. For half a century,  
22 institutions and scientists worldwide have been measuring  
23 and model the consequences of fossil fuels that are now  
24 threatening multiple segments of our society and having  
25 rippling economic impacts that none of you are immune to,

1 including our food, energy, health, travel, et cetera.

2 A Board member asked earlier today when does  
3 fossil fuel investment catch up to us? Well, it already  
4 has. The winners in the changing economy will be entities  
5 including CalPERS that invest in sustainable and  
6 life-affirming assets that are on the right side of  
7 history and that address nonpolitical and very critical  
8 facts about our shared atmosphere.

9 So I thought just to keep myself sane, I decided  
10 to summarize my ask of the Board members today and write  
11 you a haiku that may resonate.

12 Summers were once fun, now they're life  
13 threatening. Divest from fossil fuel. Thank you.

14 CHAIR PALKKI: Thank you.

15 Next caller, please.

16 Is there any more callers?

17 No. Okay. That concludes our public comment and  
18 that adjourns our meeting. Thank you, all.

19 (Thereupon, the California Public Employees'  
20 Retirement System, Investment Committee  
21 meeting open session adjourned at 11:26 a.m.)

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CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Investment Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of March, 2026.

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