MEETING

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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JAMES F. PETERS, CSR
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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(Remote)

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

Michele Nix, Chief Financial Officer

Scott Terando, Chief Actuary

Prashant Yerramalli, General Counsel

Mascha Canio, Managing Investment Director

Katie Carl, Investment Manager

APPEARANCES CONTINUED

STAFF:

Robert Carlin, Senior Attorney

Peter Cashion, Managing Investment Director

Sarah Corr, Managing Investment Director

Saeed Daroogheha, Investment Director

Jane Delfendahl, Investment Director

Amy Deming, Investment Director

Rafael Garcia, Investment Manager

Juan Gaviria, Investment Director

Kristl Okimoto, Investment Manager

Ryan Ong, Investment Manager

Anton Orlich, Deputy Chief Investment Officer

Christine Reese, Investment Director

Renee Salazar, Deputy General Counsel

Justin Scripps, Investment Director

Roar Storebaug, Investment Director

Lauren Rosborough Watt, Investment Manager

Edward Yrure, Investment Director

ALSO PRESENT:

Crissy Anne Aguirre, Service Employees International Union-United Healthcare Workers West

Ralph Ballart

Amanda Ballentine, Service Employees International Union-United Healthcare Workers West

APPEARANCES CONTINUED

ALSO PRESENT:

Margaret Brown, Retired Public Employees Association

William Michael Cunningham

Al Darby, Retired Public Employees Association

Ana Facio, Divest Tesla

Michael Flaherman, Retired Public Employees Association

Elnora Fretwell

Halyard Freyder, Service Employees International Union-United Services Workers West

Edward Hasbrouck, Divest Tesla

J.J. Jelincic, Retired Public Employees Association

Jonathan Karpf, California Faculty Association

Eric Lerner, California Common Good

Jessica Martinez, California Faculty Association

Susan McCarthy

Steve McCourt, Meketa Investment Group

Joanna Nunez, California Faculty Association

Michelle Ramos Pellicia, PhD

Frank Ruiz

Kimberly Sloan, Service Employees International Union-United Healthcare Workers West

Mary Smith

Tom Toth, Wilshire Advisors

Larry Woodson

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PROCEEDINGS

CHAIR PALKKI: Good morning, everyone. Happy Pride. I'd like to get the Investment Committee started, so if we can start with the roll call, please.

BOARD CLERK LEMUS: Kevin Palkki.

CHAIR PALKKI: Here.

BOARD CLERK LEMUS: David Miller.

VICE CHAIR MILLER: Here.

BOARD CLERK LEMUS: Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Here.

BOARD CLERK LEMUS: Michael Detoy.

COMMITTEE MEMBER DETOY: Here.

BOARD CLERK LEMUS: Monica Erickson.

COMMITTEE MEMBER ERICKSON: Here.

BOARD CLERK LEMUS: Troy Johnson.

COMMITTEE MEMBER JOHNSON: Here.

BOARD CLERK LEMUS: Patrick Henning for Fiona Ma.

ACTING COMMITTEE MEMBER HENNING: Here.

BOARD CLERK LEMUS: Lisa Middleton.

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK LEMUS: Ramon Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Here.

BOARD CLERK LEMUS: Theresa Taylor.

COMMITTEE MEMBER TAYLOR: Here.

BOARD CLERK LEMUS: Yvonne Walker.

COMMITTEE MEMBER WALKER: Here.

BOARD CLERK LEMUS: Mullissa Willette.

COMMITTEE MEMBER WILLETTE: Here.

BOARD CLERK LEMUS: Dr. Gail Willis.

CHAIR PALKKI: Thank you so much.

We do have one member that is not -- is joining us virtually. So I do have to go through the attestation. God morning, Board members. Because we are not all president -- present in the same room and Board members are participating from remote locations that are not accessible to the public, Bagley-Keene requires the remote Board members to make certain disclosures about any other persons present with them during open session. Accordingly, the Board members participating remotely must each attest either that they are alone or if there are one or more persons present with them, who are at least 18 years old, the nature of the Board member's relationship to each person.

So at this time, I'd like to ask Mr. Patrick Henning that you attest accordingly.

ACTING COMMITTEE MEMBER HENNING: I attest that I'm all alone.

CHAIR PALKKI: Thank you.

So that brings us to the next agenda item. Just so that everybody is aware, we are going to move into our executive report and then after executive report, we'll move public comment to the beginning. I have one, two, three, four, five six public comments. And then we'll move the public comment to two minutes each.

So the floor is yours Mr. Gilmore.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. I wanted to start off by commenting on a couple of appointments that we announced last week. The first of those appointments is for the Deputy Chief Investment Officer for Private Markets. And I'm very pleased that we were able to promote Anton Orlich into that position. He's done a wonderful job leading our private equity efforts. You've seen that in the transformation in performance, the clarity of the strategy, the vision has been executed well. And I've been really impressed with the quality of the transformation of the culture within the team. So all those things I think hold us in very good stead for the future across the portfolio.

We also announced the appointment of Derek Walker, who will be the Managing Investment Director for the Total Fund team. And Derek will come to us from Canada Pension Plan, where he spent I think around 18 years across a whole range of functions in total portfolio. So he comes with a very strong Total Portfolio

Approach background and I'm really looking forward to him joining the team.

So that will complete the leadership team within Investment. So it would be great to have that have that happen.

At this time, I'd also like to acknowledge the excellent work that Brian Leu has done, as the interim head for the Total Portfolio Fund management, so a big thanks to Brian. He has overseen all the work that's gone in to getting across the line for a launch of TPA on the 1st of July.

And those are, I guess, a new arrival in the case of Derek, but we also have a departure with Arnie Phillips retiring. He has been with us almost 33 years. I've really appreciated his wise counsel, his good humor, and just his friendliness and he's a very well respected member of the team.

So with that, Chair, I'll pass it back to you.

CHAIR PALKKI: Thank you so much for that report. Yeah. I'm very excited for Mr. Orlich. I got a chance to talk with him and very impressed with his work so far with the fund and CalPERS that he's doing. So I do not see any other commenters, so we will now jump into public comment.

I have Jonathan Karpf. I apologize if I mispronounce any of these last names. Joanna Nunez and

Jessica Martinez.

And then after that, I'll have Ana Facio, Ruth Radetsky and Edward Hasbrouck.

JONATHAN KARPF: Greetings. And thank you for your work on behalf of the 29,000 faculty in the Cal State University system. I've been the CFA Retirement Specialist since 2007. I've also been a CalPERS retiree since 2019.

In those roles, I'm aware of your fiduciary duty to steward the investments in the interest of your members. Today, however, I'd like to amplify the letter sent to you by SEIU regarding economic risks associated with some of your investments. Palantir provides ICE the ability to track and deport undocumented immigrants. The meat, agriculture, construction, home health care markets are all high dependence on the labor of undocumented immigrants. According to the 2024 House of Representatives data, undocumented immigrants paid almost $100 billion in taxes that year. They paid 25.7 billion in Social Security, as well as 6.4 billion in Medicare taxes, neither which they could access.

Undocumented immigrants paid 8.5 billion in California state taxes, 16 billion in California sales taxes, plus 1.8 billion in unemployment contributions. From the Institute on Taxation and Economic Policy, in a large majority of states N equals 40, including California, undocumented immigrants pay higher state taxes and local taxes than the top one percent of households.

Consequently, we are very concerned about the economic risks to our members due to the current federal administration's immigration policies. Than you very much.

CHAIR PALKKI: Thank you for your comments.

Jessica Martinez and Joanna Nunez.

You can both come down. There's plenty of chairs here. Yeah.

JOANNA NUNEZ: Good morning, members of the Investment Committee. My name is Joanna Nunez. I'm an Assistant Professor at Sacramento State in the Department of Women's and Gender Studies. I'm also the mother of two and the daughter of immigrants.

I'm here today because I cannot be at peace knowing my pensions is being invested in corporations like Palantir Technologies, corporations whose technology enabled the reign of terror being unleashed on immigrants, Black and Brown, people like my parents and my neighbors.

Palantir produces technology used for military targeting, predictive policing, and mass data collection to name a few of the evils it is involved in. Its technology provides the infrastructure needed to track, abduct, arrest and kill people in our communities and abroad.

My comrades in SEIU have already laid out for this Committee in clear financial terms why Palantir and other companies like it are a risky investment. I want to underscore that they are also an unethical one. Companies that profit from grave human rights violations should have no place in our pension investments. Palantir is not a bet on innovation. It is a bet on permanent crisis and permanent crisis is not a retirement strategy.

As acclaimed author and journalist Naomi Klein has argued corporations like Palantir turn catastrophe into profit. They do not invest in the future of society. They bet on its collapse.

As a professor of women's and gender studies, I teach my students about our capacity to build a world together that is not invested on domination and exploitation. Across the country, people protesting Palantir are chanting, "Palantir you know it's true. The crimes of ICE depend on you." But those crimes also depend on investors. They depend on institutions willing to treat human suffering as an acceptable source of return. And right now through CalPERS those crimes depend on us. We must divest. Thank you.

CHAIR PALKKI: Thank you.

Jessica.

JESSICA MARTINEZ: Good morning. My name is Jessica Martinez. I'm faculty at Sacramento State. I'm a member of the California Faculty Association and CalPERS plan participant. I appreciate the Board's responsibility to safeguard our retirement security through responsible, long-term investment decisions. I'm speaking today because I believe CalPERS should carefully examine. It's investments in Palantir and Axon through that fiduciary lens. These companies are increasingly connected to immigration enforcement and deportation operations. Palantir provides technology that supports immigration enforcement and deportation operations.

While Axon supplies law enforcement technology used in those efforts. At the same time, economists have warned that large-scale deportation policies could significantly reduce economic growth, increase inflation, and weaken the labor force that supports our economy.

Immigrants have been a major driver of recent GDP growth and remain essential to our state's and nation's economic future. As an educator, I see every day how immigrants, students, and families contribute to California's future workforce and economic vitality. As fiduciaries, I hope you will consider not only the short-term performance of these investments, but also the broader economic risks associated with business models tied to policies that may undermine long-term economic stability.

As a CalPERS participant, I want my retirement funds invested in a strong sustainable economy that supports thriving communities and lasting prosperity. I urge the Board to review these holdings and consider whether continued investments in Palantir and Axon is consistent with that responsibility.

Thank you.

CHAIR PALKKI: Thank you. Next, I have Ana Facio, Ruth Radetsky and Edward Hasbrouck.

ANA FACIO: Ready?

CHAIR PALKKI: Yeah.

ANA FACIO: Hi. I'm Ana Facio. Prior to 2025, Tesla was being investigated over its self-driving software and AI technology, which wasn't as good as advertised. Tesla has the largest number of crashes per driver of any car on the road, making it one of the least safe cars. Between 2013 and 2025, Tesla death total was 772 and Tesla autopilot deaths was 65, including two fatalities involving the use of full self-driving cars.

In 2026, Electrek's reported Tesla is dealing with a major active lawsuit and regulatory action against the company, with exposure estimates ranging from 2.7 to

14.5 billion. TÜV reports shows European EVs are outperforming Tesla where it matters most, build, quality, reliability, and road worthiness. Registration data compiled from major European markets show that Tesla saw its volume drop 27.8 from 2024 to 2025.

Tesla's new car registration in Europe fell 17 percent in January 2026. It's a very weak start to 2026 for Tesla in Europe when Chinese EV giant BYD has more than doubled its market share across the European Union, Britain, Switzerland, Norway and Iceland. Tesla is no longer a good financial investment please consider divesting from Tesla. Thank you.

CHAIR PALKKI: Thank you.

RUTH RADETSKY: Good, morning. I'm Ruth Radetsky, former CalPERS member from San Francisco here to ask you to divest from Tesla and to stay out of SpaceX. We've made the financial arguments. And though they are as compelling ever to me, your SEC filings prove they are not compelling to you, or to the portfolio managers who report to you. And for that, you are failing in your fiduciary duty.

But more importantly, and continuing to invest in California public servant's money in Tesla and continuing to empower Elon Musk, the trillionaire who helped slam America's doors shut, except for White South Africans, the trillionaire who continues to meddle in elections at home and abroad, the trillionaire whose attack on US AID had caused the death of 500,000 children by January of this year. By continuing to empower Elon Musk, you are on the wrong side of history. You will carry that shame with you long after this country closes the book on this shameful chapter in our story.

After Trump was elected the first time, I exercised my right, as the daughter of a refugee from Nazi, Germany to claim German citizenship, so that if it became a matter of life and death here, I could find refuge in the country my mother fled.

The first time I went to Germany with my shiny new passport, I told that story. Each time, the person I told it to cried tears of redemption. More than 70 years later, those people still carry their parents' and grandparents shame. Do you want to inflict that shame on your children? Sell Tesla, all of it, now.

Thank you.

CHAIR PALKKI: Thank you.

Next, Edward

EDWARD HASBROUCK: My name is Edward Hasbrouch and I'm disappointed that the report that we just heard said nothing about your continued investment from Tesla, and that the report you commissioned from the staff you have chosen to withheld from -- withhold from public release. Closed session to sessions and a secret report do nothing to provide any evidence to the public that your continued investment in Tesla is based on a realistic assessment of its valuation and risk or on anything other than continued dogmatic religious adherence to indexed based investment and it will myth of the market or on a false idea that continuing to -- that selling Tesla and spreading that investment over a larger number of holdings would increase your risk rather than reducing your exposure to extreme risk in a few very large holdings.

But again, you've done nothing to dispel those public concerns. You're probably tired of us and wish we'd go away. We're tired of coming here again and again, and not having our concerns acted on or discussed publicly, not seeing any evidence to back up your continued dogmatic, blind faith, blinkered investment in a meme stock.

But it's not just us. Even if we go away, the questions, the issue will not go away until you address it publicly. And the questions will be asked most importantly when, not if, the bubble bursts of Elon Musk's cult of personality, and the protection from enforcement action that he's bought himself by buying a fascist government. When that happens, those questions will be asked of you. Why did you continue to invest in Tesla, despite its risks and overvaluation? Sell it now.

CHAIR PALKKI: Thank you.

Do we have any callers?

Three.

CALPERS STAFF: Yes, Chair Palkki. We have Michelle Ramos here to comment on Item 2. Michelle Ramos, you are now live and can proceed with your comments.

DR. MICHELLE RAMOS PELLICIA: Yes. Thank you. Good morning, Board members. I am Dr. Michelle Ramos Pellicia, Professor at California State University, San Marcos, Vice President of the California Faculty Association, CalPERS plan participant, a proud immigrant.

And along with my colleagues here, I want to share my concern about how my retirement is being invested. I am aware that CalPERS is investing in Palantir, a tech company that supports Immigration and Customs Enforcement with -- in identifying and tracking deporting immigrants. Does my pension is being invested in a company that supports terrorizing the very same communities where the students I teach come from.

My campus, CSU, San Marcos, is located in north San Diego County, where we witness that violence ICE inflicts on community members daily. In the last weeks and even today, we witnessed community members kidnapped by ICE from car washes, while taking their children to school from their landscape -- from their landscaping jobs, from their apartments. Students have lost parents, siblings, and had to deal with great loss -- this great loss, in addition to trying to figure out how to continue living without their parents or loved ones, while attending to their responsibilities as students and their new responsibilities as caregivers, given that their parents are -- have been kidnapped.

And so I ask you, how do I respond to my students and my neighbors impacted by ICE that my pension is invested in Palantir. Palantir's valued are not aligned with the CalPERS fiduciary interests of its participants and the communities in which we live and work. And thus, I urge you to divest from Palantir.

CHAIR PALKKI: Thank you.

Next caller.

CALPERS STAFF: Next, we have Ralph Ballart to comment on Item 2. Ralph Ballart, you are now live and can proceed with your comments.

RALPH BALLART: Yes. Good morning. I'm a physicist and I teach at community college. I'm one of the team of people who have been warning you about the Tesla bubble for some time. And now we need to talk about the SpaceX bubble. The one thing I'd want to point out this morning is that there's a common link between these two massive stock bubbles. Not only is it Musk, but what Mush has done. With Tesla, he had the electric vehicle franchise. He owned it. And he threw it away for his vision of full self-driving only dependent on cameras and the computers processing behind the cameras.

Waymo, others, use a full suite of sensors. Musk didn't do that. And now for years, he's been stuck because the performance of his robotaxis is not sufficient and not safe. Now, we have the SpaceX bubble, which I assume, based on your belief in the efficient market's hypothesis that you will invest in. But he's done the same thing again. He owned the low earth orbit rocket franchise, with the that Falcon 9 without competition. And he's in the process of throwing that way for his Starship Mars rocket.

What's the flaw in the Mars rocket? It uses the same ceramic heat tiles that the Space Shuttle used. It failed the Space Shuttle, as we all know. It will fail his Mars rocket. So now, we have the SpaceX bubble, in addition to the Tesla bubble. I urge you to divest from Tesla and not invest in SpaceX.

A final note, I am so proud to be associated with my colleagues who you heard from today. They are the best. Thank you very much for your attention.

CHAIR PALKKI: Thank you for your comments.

Next caller, please.

CALPERS STAFF: Next, we have Susan McCarthy to comment on Item 2. Susan McCarthy, you are now live and can proceed with our comments.

SUSAN McCARTHY: Thank you. I'm Susan McCarthy. I'm in CalPERS. I ask that CalPERS divest its Tesla stock as soon as possible. And argument has been made that by being Tesla's shareholders, CalPERS affect the actions of the Tesla Board. That's a delusion. It's true stockholders can indeed influence actions of a company's board sometimes, but not in this case. Tesla has a captive board, captive to Elon Musk.

Some members are captive because they are friends, like James Murdoch, or relatives like Kimbal Musk, but all of them, all of them, are captive because they are paid huge amounts of money, more than Board members are paid at other companies, a hundred times more. Yes, a hundred times more.

Board Chair Robyn Denholm is paid more than the Chairs at Apple and Alphabet. In the 2025 lawsuit, the court said she couldn't be impartial, because she had received more than 280 million from Tesla, $280 million dollars, an amount she admitted was life changing. I don't think there's anything shareholder like CalPERS can do that will change Denholm's thinking. CalPERS versus $280 million. No contest.

It's not just Denholm. They're all paid insane amounts. They can't and won't hear shareholders, because their ears are stuck with money. Don't accept the argument that CalPERS can influence Tesla by attending shareholder meeting. In this case, it is a delusion. Please divest from Tesla now.

CHAIR PALKKI: Thank you for your comments.

Is there any other callers?

I'm going to take silence as no.

Okay. I do have three more here. Crissy Anne Aguirre, Amanda Ballentine. I apologize if I butcher your last names. And Kimberly Sloan.

KIMBERLY SLOAN: Good morning. My name is Kimberly Sloan. And I'm here again today to -- with some of my team members, Crissy Anne and Amanda. And I've been a dialysis technician at Satellite Dialysis U.S. Renal in Santa Rosa now for a little over 17 years and I'm also a member of SEIU-UHW. More than two years ago, we voted to join SEIU-UHW to fight for our contract to address the deteriorating conditions we are seeing on a daily basis in our clinics. For many of us, this work is more than just our job. It's a commitment. Our patients come to us three to four days a week often for years. We know their families and their struggles. And we're responsible for caring for them during some of the most difficult times in their lives.

But since our clinics were acquired by Bain Capital, the impact on our workplace has been devastating. The company cut our retirement contributions in half and at the same time our health care premiums have increased dramatically, while starting wages for our specialty are the same as the local burger chain down the street. And these cuts are affecting workers who are already stretched thin. CalPERS and their families may very well be receiving dialysis treatment at one of our many clinics. They may be part of our community that we care for every day.

Our patients deserve safe staffing. Our communities deserve experienced caregivers who can afford to stay in this profession, and the workers who dedicate their lives to this work deserve fair wages and benefits. So today again, we ask for CalPERS support and we respectfully request a meeting with Bain Capital, as soon as possible, to discuss these important issues.

Thank you.

CHAIR PALKKI: Thank you.

CRISSY ANNE AGUIRRE: Good morning, Chair and members. My name is Crissy. I am a nurse and I work at

Satellite Dialysis. Today, I'm here to speak about concerns regarding recent changes implemented since U.S. Renal assumed management of our clinics. As fiduciaries, and stewards of public investment, I know you are focused on performance, efficiency and long-term value.

However, I ask that you also consider how business decisions affect the patients and health care workers who experience these changes every day. Many of our new processes may appear effective in reports and productivity metrics, but the reality at the clinic level can be different.

One example is a scheduling system known as SchedulePro. On paper, the schedule may show 30 to 45 minutes between patients, but in practice, staff only have five to ten minutes to disconnect one patient, clean, prepare the station, and safely begin treatment for the next patient. Dialysis patients are not simply appointments on a schedule, many are elderly, medical fragile, or leaving with multiple health conditions. Some require addition assistance due to mobility limitations, low blood pressure, or other complication.

Safe, high-quality care requires flexibility and clinical judgment, not just adherence to productivity metrics. Another concern is increasing pressure to reduce cost. Responsible financial management is important, but patient safety and infection prevention must always remain the highest priorities. Staff should never feel pressured to choose between meeting efficiency goals and following best clinical practices. Dialysis patients already face significant physical, emotional, and financial challenges. They deserve care that respects medical needs, transportation limitation, and quality of life.

Health care workers deserve staffing models that allow them to provide safe, compassionate, and effective care without constant pressure and exhaustion. I respect fully ask Board to consider this concerns as part of your oversight and engagement with health care investment. Strong financial performance and quality patient care should not be competing priorities.

Thank you.

CHAIR PALKKI: Thank you.

Next.

AMANDA BALLENTINE: Good morning. My name is Amanda Ballentine: I've worked for Satellite Healthcare for ten plus years and a member of SEIU-UHW. May of you invested in U.S. Renal Care, because you believed you were investing in health care, but I wonder how many of you have seen what is happening inside the clinics. From where you sit, you see financial reports, budgets and performance metrics. From where I stood for 10 years, I saw patients whose lives depended on the quality of care they've received every single treatment.

Since U.S. Renal Care took over Satellite Healthcare, I've watched changes that concern me deeply. Resources have been reduced, costs have been cut, experienced staff have left or been pushed out. Union represented clinics that once had a strong voice for employees and patients have seen that voice weakened. Patients notice when there are fewer experienced staff. They notice when familiar faces disappear. They notice when the culture of a clinic changes from one focused on patients to one focused on cutting costs.

I dedicated ten years of my life to caring for dialysis patients. Then after a decade of service, I was terminated under circumstances that were wrongful and unlawful. While my experience is personal, it forced me to ask a question that every investor should ask. What happens to patient care when the people who have dedicated years to serving patients are no longer there? The answer is simple. Trust is lost. Experience is lost. Continuity of care is lost.

I am asking you today to look beyond the quarterly earnings and ask harder questions. Are these decisions improving patient scare? Are experienced staff being valued and retained? Are patients receiving better care today than they were before?

As investors, you have the power to ask difficult questions and demand meaningful answers, not only about financial performance, but about patient outcomes, staff retention, and the long-term impact on these decisions on the people who depend on dialysis to survive, because the true value of a health care company is not measured by solely by its profits, but the quality of care it provides.

Thank you.

CHAIR PALKKI: Thank you.

So that is all the public comments I have, with the exception of those that are attached to agenda items.

That brings us to Agenda Item 3, action consent items. What is the pleasure of the Committee?

VICE CHAIR MILLER: Move approval.

CHAIR PALKKI: I have a motion by Mr. Miller.

COMMITTEE MEMBER TAYLOR: Second.

CHAIR PALKKI: And a second by Ms. Taylor.

Because we're not all in the room, we need to do a roll call.

BOARD CLERK LEMUS: David Miller?

VICE CHAIR MILLER: Aye.

BOARD CLERK LEMUS: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK LEMUS: Michael Detoy?
COMMITTEE MEMBER DETOY: Aye.
BOARD CLERK LEMUS: Monica Erickson?
COMMITTEE MEMBER ERICKSON: Aye.
BOARD CLERK LEMUS: Troy Johnson?
COMMITTEE MEMBER JOHNSON: Aye.
BOARD CLERK LEMUS: Patrick Henning?
ACTING COMMITTEE MEMBER HENNING: Aye.
BOARD CLERK LEMUS: Lisa Middleton?
COMMITTEE MEMBER MIDDLETON: Aye.
BOARD CLERK LEMUS: Ramon Rubalcava?
COMMITTEE MEMBER RUBALCAVA: Aye.
BOARD CLERK LEMUS: Theresa Taylor?
COMMITTEE MEMBER TAYLOR: Aye.
BOARD CLERK LEMUS: Yvonne Walker?
COMMITTEE MEMBER WALKER: Aye.
BOARD CLERK LEMUS: Mullissa Willette?
COMMITTEE MEMBER WILLETTE: Yes.
BOARD CLERK LEMUS: Dr. Gail Willis?
CHAIR PALKKI: Thank you.
That brings us to Action Item number 4, Information Consent items. I have not received any request to pull any items.
So that brings us to Agenda Item number 5, Total Fund Policy review, second read.

(Slide presentation).

CHAIR PALKKI: Ms. Deming, the floor is yours.

INVESTMENT DIRECTOR DEMING: Thank you. And it's my pleasure to present to the Board today. Amy, Deming Investment Controls and Operational Risk team head and CalPERS team member.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: Today, we're seeking approval -- (clears throat) -- excuse me. Today, we're seeking approval from the Investment Committee regarding the proposed structural revisions, repeals to the up -- to the new investment policy resulting from the adoption of the TPA approach, and we also received direction from the Board to try to improve the user experience, so the structural changes alongside the Total Portfolio Approach changes.

This is the second read. We talked to you in March about these changes and how we've gone about our process and such. We took your feedback and we have a couple of areas that we want to talk to you about where we've incorporated your feedback. Firstly, within the CalPERS statement of Investment Policy, which we are sometimes calling the umbrella policy that's overarching all of the rest of the policies. We've updated it to clearly reinforce pension sustainability as a strategic investment objective and aligning that with the goal of improve the funded status, and aligning it also with the Asset Liability Management Policy.

Next, certain changes have been updated in the PERF Investment Policy. We've clarified the active risk language, first off. Second off, we've looked at the frequency of reporting in certain areas and made it more frequent where we could. But that, in addition to the new reporting that you'll get with the new dashboard, as well as the Insight Tool, it looks sufficient from our perspective. That being said, the Board can always ask us for more frequent reporting at any time that you wish.

Last, but not least, we've added the reference portfolio benchmarks that Wilshire has presented and you approved in March. So those were the key changes. We did provide an inventory of changes, so that you could have a complete document in attachment 2, two of 30, so there's a lot to look at, but hopefully attachment 2 was helpful for you to see what has actually changed from March, given that there's, in aggregate, a lot of change happening.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: With that, I wanted to remind you what we discussed in March. With the new policy structure, the objectives are to incorporate the T -- the TPA, enhance your experience, and then design the

PERF Policy, which is new, and affiliate policies in accordance with their specific objectives. A lot has not changed. Some of the areas that have not changed are the Investment Beliefs, Governance and Sustainability Principles, Divestment Policy, Responsible Contractor Program, Private Equity Outsourcers, the glossary and so forth.

What has changed is the new PERF Investment Policy. And that's what we spent a little bit of time talking about last time. It's very much designed to align with the Total Portfolio Approach. So it's new. It's condensed, versus the old Total Fund Policy.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: We also spent some time talking about the total -- the tracking changes that we've done. So again, this is all to share really and be transparent about what's changed what's not changed. Again, what's moved under this new structure under the umbrella is listed here in Section 1. What's moved with minor changes, we've shown a red line to, and that's also not much change. And then again, the PERF policy is new. And then with all of this, we would be repealing the Total Fund Policy, but that's also in the attachments with comments, whether each section is either moved or removed, because we want to make sure that we're as transparent as possible with respect to that policy repeal.

The Absolute Return Strategies and Inflation Assets Program policies are no longer necessary under a Total Portfolio Approach, and those would also be repealed.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: One of the things we also spoke about in March, but I think it's worth revisiting is how the new PERF Policy contemplates key investment constraints. So right now, with the Strategic Asset Allocation being replaced by -- you know, by the reference portfolio, that's a big change that the Board adopted in November of last year. Then in policy, we had multiple strategy and risk limits. Those would all be replaced by the active risk limit of 400 basis points. And keep in mind that with the leeway that the portfolio had under the Strategic Asset Allocation, there was about 450 basis points of leeway already. The intention here is to also be reporting on the -- on the dashboard with how we're actually using the active risk. So again, transparency on that one.

Leverage, we -- the policy currently has about 15 percent active and five percent strategic levers, so rePlacing that with a collect -- or an aggregate of 20 percent leverage, so not big change there. And then there are deal level requirements. Certain deals require prudent person opinions. There are limitations to concentration to a fund a or general partner. No change there.

So that, in aggregate, are the key things that I wanted to highlight from March. We have also, throughout this process, worked very closely with Wilshire and Meketa. So with that, I would like to open it up for questions, but also bring Tom Toth and Steve McCourt from Wilshire and Meketa to provide their feedback on this process and how they've also gotten comfortable with this change.

TOM TOTH: Good Morning, Tom Toth with Wilshire Advisors. As Amy laid out, we're supportive of the changes to policy, which codifies the governance guardrails necessary to implement the change to the Total Portfolio Approach. I did want to take just a minute to highlight the work that has been done around active risk governance. We've been very involved on your behalf in discussions around the risk modeling process, to ensure that appropriate procedures are in place to monitor the use of active risk, because that is one of the key governance guardrails in the policy. These procedures include a description of the active risk model, key assumptions, inputs and data sources, as well as the calculation methodology.

We've independently assessed the strategy funding mixes based on our own capital market assumptions and believe they're reasonable. We've looked at sensitivity analysis of the active risk modeling, given those underlying assumptions around equity exposure, as well as correlation estimates. And we believe this analysis supports the analytical rigor of the risk modeling methodology.

And I'd be happy to answer any specific questions the Board might have.

STEVE McCOURT: Great. And Steve McCourt from Meketa investment Meketa Investment Group. Mostly in echoing Tom's comments. The staff had -- has over the last 18 months done a great job of receiving feedback from us, particularly with respect to how the policy -- suggested policy changes impact the private market asset classes and risk control within the private market asset classes. As we've noted in our letter, both for the first reading and the second reading, many of the risk controls for the private market asset classes remain under the new policy. Those few that don't, as Tom highlighted, will be managed through the active risk modeling that staff has done and will be doing on the portfolio.

We're pleased that staff has involved Wilshire, the general consultant, in the development and oversight of that active risk model and are comfortable with the policies as presented to you here today.

CHAIR PALKKI: Thank you, both.

Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Thanks. My question is about the role of Wilshire and Meketa. There's some new language in these policies that references their role as over -- having now oversight to the risk element of the portfolio. Can you describe what that means exactly and how does that -- what is the interaction between that and your current role? Will it change? Do you still provide advisory? Is there any conflicts? If you could explore that for me a little bit, I'd appreciate it.

TOM TOTH: Let me address that first. The last point first. No, I -- there is no conflict. It's really, I'll say, an expansion of the work that we do on behalf of the Board in terms of oversight to ensure that the policy guardrails are actually capturing the risks associated in the portfolio, so I don't think there's any issue with that. It doesn't change the role that we play on behalf of the Board in terms of oversight. The reason I think there's maybe specific language in place is some of the, I'll say, the technical aspects of risk modeling, it's something Wilshire has 40 years of expertise at doing, so I think are well positioned to provide that oversight.

If we were to run into any issues where we would have disagreement with staff that we're unable to come to some level of agreement, we would elevate that immediately to the Board for feedback and direction. So I think that's really the term of "Oversight" is on the day-to-day understanding that the technical aspects of risk modeling I think is certainly in our wheelhouse, but always keeping in mind that if there are issues, making sure the Board id cognizant of them and aware.

ACTING COMMITTEE MEMBER GALLEGOS: Okay. Could you -- I'm sorry. I don't really understand what you're going to be doing, what this new level of oversight is. What do you mean when you say "Oversight"?

TOM TOTH: Do we're involved in the discussions around the underlying inputs and assumptions that go into the risk model around correlation estimates. For example, if there were a situation where there was a desire to change those correlation estimates and we thought that was unreasonable --

ACTING COMMITTEE MEMBER GALLEGOS: Got it.

TOM TOTH: -- that's the oversight that we would --

ACTING COMMITTEE MEMBER GALLEGOS: Got it.

TOM TOTH: -- be providing.

ACTING COMMITTEE MEMBER GALLEGOS: Got it.

TOM TOTH: If we couldn't come to some level of agreement, we'd elevate that to the Board for direction.

ACTING COMMITTEE MEMBER GALLEGOS: Understood. Okay. Thank you.

TOM TOTH: Um-hmm.

ACTING COMMITTEE MEMBER GALLEGOS: Appreciate it.

CHAIR PALKKI: Thank you. Ms. Willette.

COMMITTEE MEMBER WILLETTE: Thank you. I have a few questions and I'm supportive of the changes, but I want to make sure that I'm clear at what's actually being adopted on a couple points. So our Investment Beliefs stay with minor changes with three forms of capital framework, right, the financial, physical, human, and the idea that we're managing to all three when we make investment decisions. And then we also have kept the FPIC language, which speaks to the community rights and consent.

So a question I have for staff is when we go from this document into the actual work of evaluating a private markets deal, for example, a -- like an infrastructure fund building data centers or private equity fund with portfolio companies in communities where our members live and work, where in the process does the question of stakeholder input get asked? And I mean that broadly, not just with the FPIC sense, but whether the workers, or the community, or the stakeholders that are impacted are -- and will be affected by those investment decisions, how that capital gets deployed? Do they have a genuine input on whether -- into our -- into our analysis and their diligence? Is there a checkpoint specifically in the diligence workflow when someone asks that question? Is that in the framework, I guess?

CHIEF INVESTMENT OFFICER GILMORE: What I would say is that for any investment, we're looking at our overall fiduciary responsibilities. We're looking at whether the investment make sense. Now, a lot of the investments we make, of course, are of our managers. And we're looking for those managers to have the right principles and processes in place. For instance, they adhere to our labor market principles.

So it's just something we would do as a matter of course, when thinking about the quality of an investment. So it's just one of the things that we'll be looking at as part of due diligence. So I'd say it's just an automatic part of what we have to look at when making an investment.

COMMITTEE MEMBER WILLETTE: Okay. Thank you. That's really good to hear. I'm happy to hear that. I just do want to make sure that we're clear that there's a difference between adopting the principle and there's a mechanism that we know specifically backs up that principle. So I'm going to -- maybe specifically on a couple of those items, it's going to come up in 6c and 6f later today, so we'll drill into it at that time.

Thank you.

CHAIR PALKKI: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you very much for your report. And it looks like everything that we had asked to be in there is in there, so thank you very much. And it's a lot of information and I tried to go through all the attachments. And I think the -- there's two that are specifically helpful in the change of policy and stuff.

But what I was going to bring up is that as we go forward and discuss this later in 6 -- in Agenda Item 6, I just want to advise staff and our investment consultants that we do need to manage the risk when it comes to what Ms. Willette was talking about, and that is inclusive of how that becomes an accountability issue. So, yes, checking a box is fine, but we want to make sure that when these principles are being broken, that there's some accountability behind it. And we've talked about this a million times, but -- and I'll bring it up again. I just want to make sure.

CHAIR PALKKI: Thank you. I am not seeing any more requests for questions. Thank you so much for this report. Thank you to all the staff that put this together and thank you for taking our comments into the first reading and putting them into this. I saw the changes, so I really appreciate the work. So, with that, is there a motion --

VICE CHAIR MILLER: So moved.

CHAIR PALKKI: I have a motion to move approval of the second read from Mr. Miller.

COMMITTEE MEMBER TAYLOR: Second.

CHAIR PALKKI: A second from Ms. Taylor.

We need to do a roll call -- oh, public comment. Thank you.

We do have one public commenter on 5a. Mr. J.J. Jelincic.

J.J. JELINCIC: I had to move, so Dave would remind you.

J.J. Jelincic, RPEA. You're about to embark on a grand experiment by taking on more risk. You've abdicated your role in asset allocation, the biggest driver of returns. The goal is higher returns, not higher risk-adjusted returns, just higher returns. The plan is to take on more risk. The only thing stopping the portfolio from becoming 100 percent biometric startups is that you've placed a 400 basis point active risk. How is that risk calculated? It's been delegated to staff and it's complicated. The model for the PERF is compared to the model for the reference portfolio. No information is provided on what or how comparisons will be made, neither model is available to the beneficiaries of the public.

It's worth noting that the reference portfolio itself is heavily weighted to a proprietary index fund. How does the model handle higher risks for assets? Well, we assign values. Private equity is already your highest risk asset. The plan is to move to higher risk categories within private equity, smaller funds, smaller portfolio companies, growth cap, growth and venture capital. Secondary transactions will play a role. Positions purchased at a discount will immediately be marked up to the GP's assigned net value. The markup from market cap -- market value to GP value will be counted as unrealized returns.

How will the returns be risk adjusted and reported? Well, we don't do it now, so why should we start?

The plan to expand private debt. The PERF will got higher return -- nominal returns for taking on the risk of lending to organizations that cannot and will not -- or will not borrow in the public market. Hopefully these higher returns will actually get collected and not just as payments-in-kind. Hopefully, you will get the principle back. How will the risk-adjusted returns be calculated? They won't. Real assets will increase returns by moving to riskier assets. Hopefully, the riskier assets will lead to higher returns. It worked so well in housing.

Thank you for your consideration.

CHAIR PALKKI: Thank you.

So with that, I do still have a motion from Mr. Miller, a second from Ms. Taylor to approve the second reading of the Total Fund Policy. So can we have a roll call vote, please

BOARD CLERK LEMUS: David Miller?

VICE CHAIR MILLER: Aye.

BOARD CLERK LEMUS: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK LEMUS: Michael Detoy?

COMMITTEE MEMBER DETOY: Aye.

BOARD CLERK LEMUS: Monica Erickson?

COMMITTEE MEMBER ERICKSON: Aye.

BOARD CLERK LEMUS: Troy Johnson?

COMMITTEE MEMBER JOHNSON: Aye.

BOARD CLERK LEMUS: Patrick Henning?

ACTING COMMITTEE MEMBER HENNING: Aye.

BOARD CLERK LEMUS: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK LEMUS: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK LEMUS: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

BOARD CLERK LEMUS: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK LEMUS: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

BOARD CLERK LEMUS: Dr. Gail Willis?

CHAIR PALKKI: Excused.

That -- thank you so much. Action Item 5a passes, which -- thank you very much.

That brings us to Action Item 5b, Asset Liability Management, second read.

(Slide presentation).

CHAIR PALKKI: Mr. Gilmore and team.

(Laughter).

CHIEF INVESTMENT OFFICER GILMORE: I'll pass over to Michele Nix.

CHAIR PALKKI: Thank you.

CHIEF FINANCIAL OFFICER NIX: Good morning. My Michele Nix, team member. So this morning we are going to -- if you could put the presentation up, please.

Okay. This morning, we are here with an action item to discuss the second read of the asset liability management overview of the affiliate trusts. This is everything except for the PERF, which we approved last year, and it doesn't include the Supplemental Income Trust, because we'll be doing that later on.

So before I start that, Christine Reese will be up here to present this. She is the Investment Director for the Affiliate Investment Program. But before she gets up here to discuss this, let's go into the next slide, please.

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: It looks like I've got control over the slides here. Okay.

So today's agenda. Like in March, we'll start with a brief overview of the affiliate asset liability management process, which does differ a bit from the one we just went through with the PERF. We'll then go trust by trust with a trust overview and into our recommendation and rationale. We'll end with next steps and I can preview those now on the next slide.

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: So looking at the -- let's see. Did I go on the right slide here?

So looking at the asset liability management timeline. After these June meetings today, I want to remind you that the Total Portfolio Approach will take place starting July 1st of this year. In September, there is -- we're going to talk about the supplemental income plans and we'll have a second reading for action and the first reading of any resulting affiliate policy updates.

In November, the second reading and action for the affiliate policy updates will take place. And also in November, we'll have the first read for updating the asset liability management policy to reflect the read for action to -- I'm sorry -- to reflect the Board deliverables under the Total Portfolio Approach. There will be a second reading in February 2027. From there, the cycle is dormant and the asset liability management process finally ends. I feel like we've been doing this forever, at least since last year, but it will go dormant until we have the mid-cycle review in the early 2028.

And with that, I will hand this over to Christine Reese to continue the program.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: Great. Thank you, Michele. Good morning, Mr. Chair and members of the Committee. Christine Reese, CalPERS team member. I'm happy to be back here from March. And I'm joined by Two of my Investment Office team members, Saeed Daroogheha and

Rafael Garcia to present the second reading of the results and recommendations for the affiliate fund asset liability management analysis, also known as ALM. We will also be seeking approval of the recommendations that are made today.

Before I begin, I would like to thank my colleagues that have participated in this initiative, the collaboration, and contributions are very much appreciated.

So if we turn to page four.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: Today's presentation covers seven different trusts. We have three defined benefit, two health and welfare, and two prefunding trusts. The ALM review for the two defined contribution trusts also known as the Supplemental income plans will be in just a short while today. And that will be the first reading.

So the ALM work here is based on a strategic asset allocation framework with set allocations to asset classes, which has historically been used. And the Total Portfolio Approach, which has been evaluated for the PERF will be assessed for its applicability to the affiliate funds after this ALM cycle. So from the first reading to the second reading, we have made a few updates. We modified the rounding for expected risk and return values from one decimal place to two. And this will better show the comparison and portfolio options when there are small differences.

Second, we added page 17 in response to some feedback during the first reading. This will show the impact of adding private equity to the Judges' II portfolio.

And third, we added pages 39 and 40 in the appendix. And those two pages show the capital market assumptions for Q4 of 2025 compared to the second quarter, which are the ones we're using. And we included a portfolio optimization for the Judges' II portfolio as a sample. So we conducted that analysis to really validate that the CMAs have not changed significantly from the ones we're using for this analysis.

So for today's presentation, there are a lot of details. I will be conducting a full review of the recommendations and trust analyses so that we can kind of refresh our collective memories. Rafael will discuss the recommendation for the private equity component for Judges' II. And then at the end of the presentation, we'll have Wilshire come up for a few comments, and then we will all be available for questions.

So, if we can move to page five --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- the recommendations are unchanged from the first read in March. And they are to adopt the capital market assumptions, approve the recommended portfolios along with two benchmark changes for the LTC Fund, and approve the addition of private equity for Judges' II. Our objectives in arriving at recommendations are to minimize the risk of loss, maximize expected returns, maintain liquidity and minimize costs. There are trade-offs between these objectives, and recommending a policy portfolio involves weighing these trade-offs against one another.

So if we move to page six --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we'll start with the CMAs. For this body of work, we used three different sets, five-year, 20-year and 30-year time horizons. And this is to align the CMAs with the trust characteristics that we're evaluating. For all time horizons, the expected returns did not change significantly from the mid-cycle in 2024. And generally speaking, what we're seeing is just a slight increase for fixed income and a slight decrease for equities. So these five-year CMAs are used for the Health Care Fund. And we can see this on page seven.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: So the Health Care Fund is a reserve for our self-funded health care programs. And it's intended to cover situations, in which claims exceed premiums in any given year. So this fund has a short investment time horizon and a conservative investment strategy to reduce the risk of loss. The current allocation is 100 percent liquidity. This is also known as cash equivalents. These are short-term income-producing investments with low risk, low returns. They provide principle protection and have high liquidity.

So typically these securities are U.S. Treasury bills, commercial paper, time deposits, CDs, and other similar assets. So the expected return for the portfolio is 3.45 and the expected volatility is 0.48 percent.

Moving to the next slide --

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INVESTMENT DIRECTOR REESE: -- we are recommending to maintain the current portfolio. In the future, we may bring back some other options for the Health Care Fund at such a time when the reserve is a little bit larger.

So if we move to page nine --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- the CMAs for the

20 years are used for defined benefit and prefunding trusts. So the results are similar to the five-year, slight increase for fixed income, and slight decrease for equities from the mid-cycle.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: Moving into the first defined benefit trust, the Legislators' Retirement System Fund. This is a defined benefit plan that is closed. It has a -- one of the lower discount rates at four and a half percent and it's 96 percent funded. The fund is cash-flow negative and has a conservative investment strategy to reduce the risk of loss. The current allocation is low on equities and higher on fixed income and inflation-protected assets. The portfolio-expected return of 5.24 is higher than needed for this very conservative fund, so we have an opportunity to reduce the risk from the current level of 6.94.

So on the next page --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we have the current portfolio and three different options. We -- in this particular case, we are recommending Option B. The expected return and risk are more closely aligned with the values from the 2024 mid-cycle. So volatility comes down to 6.31. And the return would come down to about 4.85, which does leave a bit of a buffer above the discount rate.

So this allocation shift would actually exit equities, decrease fixed income and REITs, and increase TIPS, which are inflation-protected securities.

On page 12 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- this is the Judges' Retirement System. This is also a closed defined benefit fund, but it's different in that it's a pay-as-you-go fund. And so, the reserve we have invested is intended to be available if we need to pay benefits. It has a very short time horizon and it's very conservative, again to reduce the risk of loss. The allocation is the same as the Health Care Fund, liquidity.

And on the next page, we --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- recommend to maintain that same portfolio. And the return there is about 3.31, expected vol at about 0.78.

Okay. Moving into Judges' II --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- this is a defined benefit plan that is relatively young and cash flow positive. The discount rate is six percent and it's funded at 109 percent. It has a long investment time horizon. The investment strategy is moderately aggressive and focused on growth. Investments don't need to be sold in order to pay benefits. And this enhances the fund's ability to handle volatility.

So the current allocation is diversified across a balance of growth and fixed income assets. And the expected return is 6.47 and the expected volatility is 11.74.

On the next page --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we show the current portfolio and the options. We are recommending to maintain the current portfolio. For a cash flow positive fund with the long-time horizon, the current portfolio is well diversified. It's aligned with the fund's growth-focused investment strategy. The expected return is supportive of the discount rate. It increases the buffer to -- from about 30 basis points to 50 basis points, which we are comfortable with.

In comparing the current portfolio to Option B, which has a similar expected return, the expected volatility for the current portfolio is marginally higher, but maintaining the current portfolio helps to save on costs of buying and selling assets when transforming to a new portfolio.

So those expenses are in addition to the ongoing expenses of the fund. It's a one-time cost. And those can be estimated to be up to about five basis points. Notably, when we did the review for the Q4 CMAs and reoptimized this portfolio as a sample portfolio, the current portfolio and Option B were very similar in terms of asset allocation, volatility, and return.

So our next recommendation is to add private equity as an asset class for this fund. And I will turn it over to Rafael to review our findings along with some updates that we've made.

[SLIDE CHANGE]

INVESTMENT MANAGER GARCIA: Thank you, Christine. And good morning, Investment Committee members. Rafael Garcia, CalPERS team member.

Today, I'll be reviewing our recommendations to introduce private equity to the Judges' Retirement System II Fund, or JRS II, inclusive of updates since our last discussion. Starting on slide 16, as noted previously, both the five-year and 20-year outlooks show that private equity is the highest returning asset within our analysis. The CMA shows that private equity exceeding global equity by 2.2 percent for the five-year expected return and by but 09 percent for the 20-year expected return. This reinforces our rational for considering this asset class as a long term diversifier and return enhancer for JRS II.

Moving to slide 17 --

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INVESTMENT MANAGER GARCIA: -- in response to the request from the first reading in March, we assessed the potential impact of private equity on the portfolio. To do this, we compared the current portfolio to an optimized version that includes a five percent private equity allocation and the same level of risk. The optimization showed a shift primarily out of global equity and into private equity, resulting in an expected rate of return of 6.55 percent versus 6.47 percent, which is an eight basis point increase expected return for the total portfolio. The increase in expected return with no increase in expected risk improves the portfolio risk return efficiency.

On slide 18 --

[SLIDE CHANGE]

INVESTMENT MANAGER GARCIA: -- there are no changes to the strategic rationale presented at the first read. Private equity remains a strong fit for JRS II as the fund is open, cash flow positive, and able to support a long-term, less liquid investment.

Moving to slide 19 --

[SLIDE CHANGE]

INVESTMENT MANAGER GARCIA: -- the implementation approach is centered on establishing an incubated private equity program, which is a process used to test a new investment strategy, manager or product before deciding whether to commit more capital. The incubation approach will provide a flexible investment amount with a maximum limit of five percent. This will be in a controlled environment that allows private equity to be carefully monitored and grow in a measured way rather than having an immediate strategic asset allocation target.

If approved, we will be bringing policy changes in September and November for first and second reads, and no investments will be made until the policy language is proved. This sequence is intended to ensure the Committee has the opportunity to review and approve the governing policy before any capital is deployed.

This concludes the portion of my presentation and I hand it back to Christine.

Thank you.

INVESTMENT DIRECTOR REESE: Thank you, Rafael.

So moving on to slide 20 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we will resume the trust review. So the next set of trusts are the prefunding trusts. And we'll start with the California Employees -- Employers, sorry, Retiree Benefit Trust. This is also known as the CERBT. This is a voluntary program for employers to prefund future benefits such as retiree health care costs. Our goal with this program is to offer strategies that have differing levels of risk and return, so that an employer can select the strategy that most closely aligns with the their goals.

And we have three strategies. Their investment strategies are moderately aggressive, moderate and moderately conservative. So the current allocations, expected returns, range from 6.57 to 6.2, and expected volatility ranges from 12.42 to 8.98.

So approximately 60 percent of employers are in Strategy 1, 25 are Strategy 2, about 14 percent are in Strategy 3, and about one percent actually have -- are in multiple strategies. For all three of these strategies, we recommend maintaining the current portfolios. From the 2024 mid-cycles, returns and risk have both increased somewhat, but remain within a range that we believe aligns with the investment strategy and provides employers that choice of strategy. The current portfolios are well diversified and maintaining them avoids the cost of transitioning to a new portfolio.

So if we can move to page 24 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- CEPPT is also a voluntary program. And this program is for employers to pre-fund future pension payments. Again, our goal with this program is to offer a choice to the employers. And we have two strategies here. We have a moderately conservative, and a conservative. The current allocation's expected returns here range from 5.8 to 5.39, and the volatility ranges from 8.96 to 6.35. And the time horizon on this trust is a little bit shorter than the CERBT funds retiree health care benefits, pretty far down the road. This trust is to fund future pension payments, which is -- has kind of a shorter time horizon.

Approximately 42 percent of employers are in Strategy 1, 28 percent in Strategy 2, and 30 percent are in both strategies concurrently. So for these two strategies, we also recommend maintaining the current portfolios. Following the same pattern for the CERBT and the Judges II, we find that these allocations provide a good choice for the employers and align well with their investment strategies.

So if we can move to page 27 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- this is our last set of CMAs. These are the 30-year and these are used for the Public Employees' Long-Term Care Fund. These are provided by the external investment manager. And then we kind of compare them to our internal survey to validate them. We see the same the pattern here, fixed income slightly higher and equities slightly lower.

On page 28, the Long-Term Care Fund is our last trust to review today. This fund provides coverage of costs for long-term care expenses. The fund is temporarily closed to new enrollments. It's cash flow negative in the amount of about 115 million per year. The discount rate is 4.75, and the funded ratio is 97 percent. The investment strategy is conservative to reduce the risk of loss. And in the 2024 mid-cycle, we reduced the expected return from six and a quarter down to five and a half, and expected risk came down more than three full points from 9.6 percent to 6.4 percent.

With the capital Market assumptions not changing significantly, the current allocation just has a slightly higher expected return of 5.62 with the same risk as the mid-cycle at 6.4.

So on page 29 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- our recommendation is again to maintain the current portfolio supportive of the discount rate. It maintains the buffer. It aligns with the conservative investment strategy, and avoids the cost of moving to a new portfolio.

So lastly for this trust, Wilshire has recommended changing two benchmarks, these two benchmarks will remove lower quality bonds from the benchmark, and that aligns with the investment strategy.

So page 30 shows the recommendations --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- which we've reviewed previously and we're seeking approval for.

And then on page 31 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we can move into next steps. So if the recommendations are adopted today, the investment policies for all of the changes here -- I guess for the Legislators and the two benchmarks will be updated using our administrative policy update approach. The allocation changes for the Legislators' fund will be implemented in July -- June and July. The JRS II policy changes will then, as Rafael mentioned, be brought back separately first -- first and second reads in September and November. And then the first reading of the SIP is shortly after this reading.

So at this time, I invite the Board consultant Wilshire to come up and make a few comments and then we will be happy to take questions.

TOM TOTH: Good morning. Tom Toth with Wilshire Advisors. In our work with staff, we've spent a lot of time going over the asset class capital market assumptions, the modeling process and the constraints that go into it, including minimum allocations to TIPS, global REITs, and commodities. We feel they are quite reasonable and consistent with previous reviews. The candidate portfolios appropriately balance the expected return and risk at the total portfolio level, taken into account each fund's specific circumstances, including size, their funding status, and contribution patterns. Given that, the recommendations in front of you reflect a disciplined, stable approach with only targeted adjustments as warranted. And so we're very comfortable with those recommendations.

I'd be happy to answer any questions.

CHAIR PALKKI: Looks like you're free.

(Laughter).

CHAIR PALKKI: I am not seeing any questions from any of the Board members. So I really appreciate the work that you've all done on this. It's a lot of work. And rather than me sharing my gratitude, I'm just going to move to the -- I don't see any public comment, so we're going to jump into a vote here.

I will wait for --

COMMITTEE MEMBER TAYLOR: I'll move the item.

CHAIR PALKKI: Okay. So let me put this on the record. So I have a motion Ms. Taylor to adopt the capital market assumptions, approve the recommended portfolio for each affiliate fund as the policy portfolio as presented, approve the following benchmarks as recommended by Wilshire on the Long-Term Care Fund, and approve inclusion of private equity for JRS II as an incubated investment strategy not to exceed five percent.

VICE CHAIR MILLER: Second.

CHAIR PALKKI: And I have a second from Mr. Miller.

With that, can I have the roll call, please?

BOARD CLERK LEMUS: David Miller?

VICE CHAIR MILLER: Aye.

BOARD CLERK LEMUS: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK LEMUS: Michael Detoy?

COMMITTEE MEMBER DETOY: Aye.

BOARD CLERK LEMUS: Monica Erickson?

COMMITTEE MEMBER ERICKSON: Aye.

BOARD CLERK LEMUS: Troy Johnson?

COMMITTEE MEMBER JOHNSON: Aye.

BOARD CLERK LEMUS: Patrick Henning?

ACTING COMMITTEE MEMBER HENNING: Aye.
BOARD CLERK LEMUS: Lisa Middleton?
COMMITTEE MEMBER MIDDLETON: Aye.
BOARD CLERK LEMUS: Ramon Rubalcava?
COMMITTEE MEMBER RUBALCAVA: Aye.
BOARD CLERK LEMUS: Theresa Taylor?
COMMITTEE MEMBER TAYLOR: Aye.
BOARD CLERK LEMUS: Yvonne Walker?
COMMITTEE MEMBER WALKER: Aye.
BOARD CLERK LEMUS: Mullissa Willette?
COMMITTEE MEMBER WILLETTE: Yes.
BOARD CLERK LEMUS: Dr. Gail Willis?
CHAIR PALKKI: Excused.
Thank you so much, that passes. And again, thank you so, so much for all the work that you put into this. I really, really appreciate it. So thank you all.
I think we can get through one of these before we take a break. So that will bring us to Agenda Item 6, information agenda items. I think we can get through one before we take a break here.
So let's start off with the quarterly Chief Investment Officer report. Mr. Gilmore.
CHIEF INVESTMENT OFFICER GILMORE: Thank you. If we can have the slide please.
(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: Thanks very much.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: I wanted to just show you a different way of reporting the metrics on the -- on the PERF. This is part of attempt to increase transparency. I know we're already very transparent, but this is meant to give you more meaningful information across a broader range of metrics. You can see along the type line we have the PERF performance and total assets. Now, of course, these numbers are at the end of March and quite a lot has happened since the end of March. Since the end of March, the equity market is up very strongly. So our total assets will be materially more than you see there. Likewise, the return numbers, particularly for the one year, fiscal year-to-date, quarter-to-date will be -- will be quite a bit higher.

Now, what we've tried to do with this metric, or this diagram, or graphic is to let you know when we think things are on track till we've highlighted those in green, where they're at risk, that buff color, or where they're off target.

We've also highlighted another range of metrics with respect to things like short-term returns, which we don't really think is meaningful to say whether they're on or off target, because it's such a short period of time, so we've put those in gray. But as you can see, you know, total assets now well over 600 billion, because of those strong returns since the end of March.

We've also added in metrics on -- or we will add in metrics on how the portfolio is doing relative to the reference portfolio. Now, I know that people do like that. They want to know how we're doing versus simple -- versus a simple off-the-shelf portfolio, so you'll see that. We've put in the CEM benchmarking results. Now, the -- those results are from sometime ago. I think the '23-'24 year, we'll get updated results fairly soon. And we've got the funded status.

Now, that funded states there that you see is, you know 81.6, a bit lower than we showed three months ago, but that's because the total assets there are lower, that will -- and that would be quite a bit higher now because of the strong returns that we've seen since the end of March.

We also report the policy exceptions here. You can see two. That was as at the end of March. But, of course, since then, there have been a couple of other things that have worked up. Basically, what has been happening is that we've deliberately been pursuing various activities. For instance, we have, as you know, changed the strategy with respect to private equity. We've focused more on growth and venture relative to buyout. We've tilted away from mega and large buyout to middle market. And that has caused a couple of breaches, because we're slightly outside the usual range. That's deliberate. We want to do that.

The same applies to listed equities, where we have deliberately taken action to reduce some exposures, and that leads to a slightly higher active risk. And there's also a slight breach -- or there was a slight breach with respect to fixed income, because we've got very, very tight duration limits. With the move to a total portfolio approach, those breaches will just disappear that you'll get information on active risk as you heard earlier.

We've also reported here the risk equivalent, so this is effectively the equity beta or the market risk of the portfolio. It's slightly below the reference portfolio market risk at 72 percent. And we've also highlighted the active risk that we're currently taking, which we have as 237 basis points, which is a little bit below the range we would expect to be operating under through time.

So I would normally expect us to be somewhere around the 300 basis points or so. But, of course, we've got to find those good investments. Now, remember that active risk represents those occasions where we think we can do well by deviating from the reference portfolio. So it's a good thing. If we think we can find those investments, we'll take that active risk and deviate.

And along the bottom, we have some other important metrics, one which is a new one, which is looking at the likelihood that our funded status falls below 70 percent. Now, at the end of March, that likelihood would have been 39 percent. Of course, as I said, the market has performed quite well since the end of March, and that likelihood would be a bit lower now.

Of course, we've got the volatility and we updated -- we're have a tracking with respect to our climate solutions, and we've got a couple of liquidity measures in there. So you will see that each quarter. Hopefully, it's giving you more information, more useful information. Hopefully, that's parent. So I know that people say, ah Total Portfolio Approach, you're going to get less information. Well, this is an example of you actually getting more information and I think it's more useful information.

Sorry. Director Middleton.

COMMITTEE MEMBER MIDDLETON: Stephen, thank you. One of the numbers on here that I find interesting is the active risk and that we are currently below the range that is authorized. Do we have historical data that would allow us to take a look at over the last few years in terms of where we have tended to be in terms of our active risk in comparison to what is targeted and what is maximum?

CHIEF INVESTMENT OFFICER GILMORE: We do. And historically, that active risk would have been somewhat lower, because the biggest contributors to active risk here are going to be the exposures to private markets. And we've been increasing our exposure to private market assets. Also, historically, there was a lot of focus on what was referred to as actionable tracking error in equities and fixed income. And that meant that in practice we didn't take that much active risk.

COMMITTEE MEMBER MIDDLETON: Right.

CHIEF INVESTMENT OFFICER GILMORE: So we do have that information. And if you would like, we can give you that history.

COMMITTEE MEMBER MIDDLETON: I would like to see it, because one of the assumptions that we sometimes seem to have implied to us is that whatever risk we authorize, that is the level of risk that you're going to run to immediately, and that's just not my experience.

CHIEF INVESTMENT OFFICER GILMORE: I think that's accurate. It would take us some time to get to the midpoint of that operating range and it will depend on us finding attractive investments.

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

CHIEF INVESTMENT OFFICER GILMORE: And with that, I'll pass over to Lauren.

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you, Stephen. Thank you.

Good afternoon. Lauren Rosborough Watt, CalPERS team member. Thank you for having me here today. Thank you, Chair Palkki.

I'm here to speak to you today around the macroeconomic and market drivers of the fund's return, and to talk to the outlook with respect to a scenario perspective.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Oh, no. I can do it. I can try. There we go. I may have to pass on to someone else. Technology is not my forte. So if we look at the March quarter, as Stephen mentioned, when we're writing the report, financial markets were suffering some volatility in the wake of the Iranian conflict. And we spoke about that at the last IC. And they've largely recovered.

Now, given that the fund has a longer term perspective, I'm going to speak to trends over the last year, rather than over the last quarter. And also, as Stephen mentioned, over the past year two March returns have been robust for the assets and the fund more broadly. Public equities have performed strongly via rising tech and AI related stocks and on the back of continued economic activity and revenue growth.

Credit and private equity have performed well, given the robust economic backdrop, going into calendar year 2026 and stable and higher for longer short-dated interest rates have supported credit returns more broadly in both public and private assets -- excuse me, public and private markets.

We've had great resiliency in emerging market economies and less dependence on the U.S. in the post-pandemic world that supported emerging market debt returns. And sovereign debt has gone through a full circle where growth expectations in to the end of 2025 declined and now real rate expectations have increased. And the U.S. treasury returns in our portfolio have printed positive for the year to March.

Now, the secular themes that we've spoken about before continue to drive market returns, but it is causing a divergence between asset markets and sentiment, which is shown on this chart here. So weaker sentiment reflects the rising uncertainty since the pandemic, as the economic, political, and geopolitical environment changes, and it's shaping activity and inflation with notable volatility of news announcements and rapid policy shifts, the secular drivers of climate transition, the global topography shift towards an older workforce, and the large-scale AI and tech investment raising concerns around the labor market and the labor share of businesses income from households.

All of these secular elements point to higher and more volatile inflation, which is another cited reason for the decline in sentiment. You can see there on the blue line.

Specifically with respect to CPI it printed 4.2 percent for the year to May. But even if we take out energy, which was the largest component of that, because of the conflict at present, core PCE inflation, which is the Fed's target that takes out energy prices and food prices, is running at 3.3 percent. So you can see that there's a broadening of inflation pressures in the U.S. economy and inflation is running above target.

Financial markets not only price in what has happened, but also price in expectations for the future.

And to that end, the expectations are for continued growth in earnings to the AI sector, as relatively, relatively stable fundamental backdrop with no expectation of Fed rate changes this year. And finally, on a global scale, a boost in defense spending by government and that supported the broader equity market outside of the U.S.

In deed, despite the news flow and weaker sentiment overall, the broad backdrop has been supportive of asset returns and absolute returns reported today, and improve the funded status of the fund from 75 percent in 2024 to, I think the last public number was 83 percent -- excuse me, 83 percent.

So the AI theme I'm going to focus on and looking at this slide. It is becoming a larger contributor to the growth outlook and it's anticipated to continue to support economic activity going forward. Consumer spending, as you know, is just under 70 percent of the U.S. economy, but rising inflation has been eating away at the amount households can purchase. And we've seen real personal consumption fall from a run rate of 3.4 percent in 2024 to 2.4 percent on average in 2025. And the last number for Q1 2026 was 1.4 percent.

The AI and tech build-out, now that's both data centers, also other CapEx information technology and research and development. That's been a growing contributor. Numbers differ, but broadly speaking around a third of economic activity over the last year is attributed to this growth.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: When we look forward into 2026 and 2027, these secular themes start to influence on analyst's expectations. And I'll point you to the graphic above. A reminder of this graphic. It shows reference portfolio returns. That's equities and bonds in one year's time, if inflation and growth surprise to the upside or the downside relative to trend. And the color is an indication of the conditional returns that is based on historical relationships that's conditional on moving from one of the four area -- from where we are today to one of those four areas, stagflationary, recession, inflationary boom, or disinflationary boom.

So on one hand, concerns around the impact of higher energy prices have on growth in conjunction with elevated supply push inflation due to the reduction in global oil supply with the Iranian conflict, as demonstrated there by a shift from their cross towards the left of the oval that I've drawn on the heatmap. The corresponding reference portfolio return is weaker than today, denoted by the movement towards orange.

On the other hand, the AI CapEx spend has some analysts anticipating stronger growth in a year's time, because of the demands for CapEx exceed supply, what we call demand-led inflation, and less lending towards the right side of the oval there in the graphic. Both seem likely outcomes, and, in fact, what we're seeing at both are occurring simultaneously, so they're not mutually exclusive. And you'll recall I spoke another time here at the IC around a mild stagflationary environment and we are seeing that with growth slower than what we had in 2024-25 and inflation being elevated.

To the extent that consumer's real income is squeezed with rising prices and the AI build-out continues, it's worth highlighting there that the oval is above the middle in terms of inflation, so that inflation is anticipated to remain elevated in the foreseeable future.

To this end, the fund's diversification is its strength. So the chart here refers to a reference portfolio, but we own assets that perform well in an inflationary environment, real state for example, in particular infrastructure, and that over time this diversification can help to weather shocks as we move from that cross in the graphic.

Just to sum up. Looking head, global macroeconomic landscape is highly uncertain, and dependent on the evolution and potential conclusion of the conflict. There are two narratives forming for the remainder of 2026 - these are not mutually exclusive, i.e., both are underway right now - global fragmentation, the persistent AI cycle, and backdrop of sticky inflation.

So thank you for your time. I'm happy to take questions.

CHAIR PALKKI: Thank you for that report. I am not seeing any questions. I did -- I actually did have a question, but you actually answered it, so thank you for that report.

Anybody else?

Go ahead. Push it.

Go ahead.

COMMITTEE MEMBER MIDDLETON: Lauren, we've heard an awful lot about potential bubbles on various investments strategies and various investment types. Can you give us your assessment as to what you think the risks are related to a sudden devaluation in any particular asset or asset class, in light of what we have seen over the course of the last five, six years since the onset of COVID that has clearly made a substantial change in consumer outlook.

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you very much for your question. I think the most cited overvaluation, as it were, is in public equity markets, specifically in AI and tech-related stocks, so often spoken to as the Mag Seven, for example. If I speak specifically to the S&P, given the vast majority of these firms are in the U.S. equity market, what you see is the current price earnings ratio is 25 to 27, around the most recent number. And that's the current price over earnings.

What you see looking forward however is the 12th month forward price earnings, remember markets price in expectations for the future, is actually lower at around 21 times. And the reason for that is AI, unlike the dot-com bubble, for example, has notable and persistent revenue or earnings that we're seeing. And as a result, with respect to the ratios, earnings is expected to go up. The price earnings ratio is falling.

What we have seen over the first half of this year, in fact, since the start of the year, is a broadening out of growth in the U.S. equity market. In fact, the S&P ex-Mag Seven has actually outperformed the total S&P since the start of this year. And part of that is somewhat of a reassessment around the risk and the concentration of AI. And the fact that we've seen this broadening out actually provides some resiliency to the equity markets at this point in time.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. My area of expertise is local government and the influences there. What I can tell you is my own observations over the course of particularly the last year is the upsurge in opposition to data centers and AI is something I don't think is going to be a passing phenomena. It has been across the board politically, across geographic areas, and incredibly intense, and the unity which these organizations are coming together is something I don't think anyone was predicting a year ago.

I'm not saying that is right or wrong, but I can tell you as an observer of what pressures come to local governments, this is real, and it is likely to have an impact on the ability of organizations to have new developments in their areas. How that's going to translate into profitability for these sectors, that's for you folks to make a determination, but I don't think we can ignore this.

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. Thank you for those comments. I think that speaks directly to the right-hand side of that oval and that I spoke about. There's this supply/demand myth. There's a lot of demand to build data centers. And what you're referring to is there is a reticence to supply, as it were, the ability to build. And that mismatch causes relative price adjustments, and hence the inflationary or sticky inflationary environment. And no doubt, that is likely to remain persistent. In fact, even after -- so the conflict with energy prices lasts in inflation for one year, because inflation is a one-year rate of change.

(Clears throat).

INVESTMENT MANAGER ROSBOROUGH WATT: Excuse me.

But even beyond that, analyst expectations for inflation into later of 2027 still remain around high twos to low three percent.

COMMITTEE MEMBER MIDDLETON: Thank you.

CHAIR PALKKI: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you. Lauren, you always give a very interesting report. And I -- you didn't sugarcoat anything, so that was -- that was rather nice. But tailwinds fiscal stimulus, I was just sitting there going what was the stimulus? I don't understand.

INVESTMENT MANAGER ROSBOROUGH WATT: So the tailwinds fiscal stimulus, there's two things specifically. The one I think is most notable is the 2025 tax refunds for consumers that have come through. Tax refunds year to date are running at about 357 billion. I think I looked this morning at the latest numbers. Now, what happened last year with the tax cuts that the Trump administration put through, it didn't change payroll taxes, so it meant when people submitted for their tax return, they were more likely to receive a refund. And that predominantly came through in April.

Those tax refunds are run -- at a run rate of more than for the entire 2024 and 2025 year, just to give you an idea about scale and we're only into June. So that fiscal tailwind or that fiscal stimulus has supported the U.S. economy through this year, and in particular for households who are on one hand seeing higher food and energy prices, but on the other hand have more cash in their pocket from their tax refunds.

And the other one by way of stimulus is some latent stimulus that's continuing from 2023, '24 and 2025. Although, that is largely expected to decline into the end of 2026. So there is a swivel in terms of this direct wealth transfer or direct income transfer that we saw during the pandemic. But what we're seeing now is more a reduction in taxes for both consumers or households and businesses, and that acts as the fiscal stimulus going forward.

COMMITTEE MEMBER TAYLOR: Okay. That last part I didn't quite get, the latest stimulus for whom you were saying?

INVESTMENT MANAGER ROSBOROUGH WATT: So --

COMMITTEE MEMBER TAYLOR: I got the middle class, right? You're saying the middle and lower class got more money, but then you said there was also another factor to that.

INVESTMENT MANAGER ROSBOROUGH WATT: So there's been two impacts on households. You're absolutely right. Let me clarify. One was in 2025, the impact which has largely been hit in terms of cash flow for this year in terms of tax refunds, but also the 2026 tax rates are lower. Now, there is a distributional impact of that, and it does hit the higher income end, more than the lower income end. Although middle income do receive benefits as well in terms of lower taxes going forward. So there is those two impacts.

COMMITTEE MEMBER TAYLOR: Okay.

INVESTMENT MANAGER ROSBOROUGH WATT: So the 2026 one is looking forward and the one from last year that's been hit the first half of this year in terms of tax refunds is the one that was looking backwards.

COMMITTEE MEMBER TAYLOR: Okay. So then the -- so then the actual tax break did come through for the higher incomes in '26, which is what is also considered a headwind or tailwind?

INVESTMENT MANAGER ROSBOROUGH WATT: So the tailwind for 2026 will come through when tax returns are submitted in 2027.

COMMITTEE MEMBER TAYLOR: In '27. Okay.

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah, that's right.

COMMITTEE MEMBER TAYLOR: Okay. And then, as Lisa was talking about, the AI tech related infrastructure build-out, there's also a lot of pullback on investments in AI, because now there's this feeling of overinvesting. So I want to -- and that was -- that's also on a tailwind here, I see. So how serious is that? Because we've read a lot about it in the news and it sounds real scary, so I just wanted to know how serious is that?

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. There's a -- I don't want to say there's two sides, but there are two sides. You know, one of the benefits that I think around and knowing, you know, where some of your concerns lie is if there's a slowing in the build-out, either because there's the inability to build because of supply constraints or because there's more reticence or a reassessment around the pace of that build-out, that helps in terms of thinking around the relative changes that we're seeing in society at the moment.

And specifically, I'm thinking here around the labor force. So there has been a lot of consternation around the impacts that AI might have on the demand for labor. And the speed of that transition will be the greater impact on the labor market. So putting that another way, the slower that transition or the more that transition slows, the longer, the easier it is for the labor force to retrain or to reorientate, and to be able to work with, say for example, AI, and have less structural unemployment, which so far we're not seeing, but there is a lot of concern that that might come to fruition in the future.

COMMITTEE MEMBER TAYLOR: Okay. Great. Thank you very much.

CHAIR PALKKI: Thank you. I'm not seeing any other questions. Yeah. I'm interested to see -- well, I'm actually interested to see what the data brings us next year, because of all the shifting and shuffling that we're seeing this year. So thank you for that report. And that brings us to -- I think this brings us to a good spot to take a break. So we'll take 15 minutes. We'll come back at 10 -- let's make it an even number. Let's call it 10:50.

(Off record: 10:34 a.m.)

(Thereupon a recess was taken.)

(On record: 10:53 a.m.)

CHAIR PALKKI: Great. Thank you. So really quickly before we move forward with the agenda, I do have a public comment on 6a. Mr. Eric Lerner.

ERIC LERNER: Good afternoon, trustees and staff. My name is Eric Lerner. I'm here today representing California Common Good, a statewide network of thousands of union and community members. For many months, we've been engaging with you about a number of critical issues relating CalPERS hundred billion dollar climate solution investments. This includes the importance of crafting a meaningful definition for what a climate solution is and isn't, so that there is accountability on the types of investments that CalPERS defines as a climate solution.

For example, there's a CalPERS climate solution investment in Saudi Aramco, the state-owned national oil company of Saudi Arabia, the world's largest oil company. And the investment is in carbon capture, a technology most experts agree is an expensive, energy-intensive strategy used by fossil fuel companies to justify continued oil and gas extraction.

While we applaud CalPERS progress made toward the $100 billion climate solutions goal, it remains challenging to understand how these investments reduce climate risk to the fund, absent strong guardrails and definitions. So a big questioning many of us are wondering is what will CalPERS investments in SpaceX look like into the future? How will investments in SpaceX impact CalPERS net zero targets, such as the fund's commitment to reducing carbon emission's intensity of its investment portfolio by more than 50 percent by 2030.

Similarly, major tech companies involved in the data center build-out were responsible for a significant portion of CalPERS public investments in climate solutions, according to data obtained by California Common Good. These investments are responsible for increased power demand, rising utility rates, and the build-out of polluting energy infrastructure. How are these climate solutions?

CalPERS beneficiaries deserve to understand how CalPERS climate strategies protect the retirement while protecting the health of our planet. Well look forward to continuing to work with you on these concerns, because without strong guardrails, the fund risks undermining its own goals. Thank you.

CHAIR PALKKI: Thank you.

I do not have any other public comment on 6a.

I am being told though I have to announce the times for each section. So correct me if I'm wrong, but can I do it this way. On public comment for Item 6b, 6c, 6d, 6e, 6f, 6g and 6h we set the time for two minutes.

Hey, all right. Thank you.

COMMITTEE MEMBER WILLETTE: Why two minutes?

CHAIR PALKKI: Thank you. So we can move forward with 6b.

COMMITTEE MEMBER WALKER: Mr. Chair

CHAIR PALKKI: Yes, Yvonne.

COMMITTEE MEMBER WALKER: I was just wondering why two minutes?

CHAIR PALKKI: Because we set the two minutes at the very beginning of the meeting and it would be unfair for those that already spoke that had two minutes to allow for any other adjustments. It makes it fair across the Board for the entire day.

COMMITTEE MEMBER WALKER: I believe, and I should have said something then, I thought that there was some thinking behind the two minutes, just because we took the public comment out of order or whatever. But I believe before we just say, oh, we're going to change how much time people get, that should be a decision of the Board. I mean, we don't --

COMMITTEE MEMBER TAYLOR: That's at the behest of the Chair. I'm sorry to interrupt.

COMMITTEE MEMBER WALKER: Excuse me. I have the floor. You can finish when I finish.

I believe that, as a Board, we are here, our stakeholders, our constituents, they come in, they spend their time. We've got nothing else to do. We should at least hear them. Three minutes -- cutting a minute is not -- you know, is not going to add a whole lot or whole little to our day. And we owe it to them to hear them. And so I just think we ought to think about --

(Applause).

COMMITTEE MEMBER WALKER: -- as we're cutting, because it feels like we're cutting for our convenience and not for our stakeholders or our constituents.

CHAIR PALKKI: I appreciate the comments, but I also feel that it needs to be fair across the board for the entire day.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: I was just going to -- I was just going to repeat what I said. It is at the behest of the Chair of the Committee. And it's in the law basically, that you can call that -- the time at the beginning of the meetings, so -- and yes, it's more fair to do it if you're doing one time for everybody instead of, oh, you can now have three minutes and you can only -- you guys only get two, so...

CHAIR PALKKI: Ms. Willette.

COMMITTEE MEMBER WILLETTE: I just want to also state my support of Ms. Walker's comments. I think our notification to the public already had public comment at the end the day. So moving that without noticing the public, I feel like does give some folks a disadvantage already. And then we also notice, you know, yes, unless directed by the presiding officer per California code, but there is a three-minute limitation that was noticed to the public. And I feel that some people had prepared or planned to speak for three minutes or later in the day for three minutes, then we should make every effort to go by what we noticed and give them -- and give the public three minutes, and also have a public comment at the end of the day for folks that had read and followed our instruction on when our public comment would be.

CHAIR PALKKI: Ms. Walker.

COMMITTEE MEMBER WALKER: And I appreciate California law, it's at the behest of the Chair. But just to put on notice that I will no longer just stay silent and think it's coming from a good place. And I will -- the next time it comes up, I will make sure that I move that our folks get a chance to speak for the three minutes that they prepare for coming here, right? I just think it's -- when you talk about unfair, that's unfair.

CHAIR PALKKI: Thank you. Yeah. I believe we wanted to move public comment to allow our stakeholders to speak at the beginning, so we hear them first. So that was my intention with moving public comment to the beginning of the day, but I also feel that making sure that everybody has an equal chance to speak at equal times throughout the day. So if we're going to set the three minutes, we keep it at three minutes at the beginning of the day and we go from there.

I still plan on moving public comment to the beginning of the Investment Committee, just because I truly believe that hearing from the stakeholders first in the morning is much better than having them wait five, six hours, seven hours, eight, hours whatever that day is to hear them. So those are my comments.

So with that, we're still keeping two minutes for the day and we'll move into 6b, the Asset Liability Management, first reading. Mr. Gilmore.

CHIEF INVESTMENT OFFICER GILMORE: I'll pass through to Christine.

INVESTMENT DIRECTOR REESE: Okay. Thank you. Happy to be back. So good morning, Mr. Chair, members of the Committee. Christine Reese, CalPERS team member.

(Slide presentation).

INVESTMENT DIRECTOR REESE: I'm joined again with two of my Investment Office colleagues, Saeed Daroogheha and this time Katie Carl to present the first reading of the results and recommendations for the supplemental income plans. This is the asset liability management analysis.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: So before we get started, I would like to take a moment again to thank my colleagues, both internal to CalPERS and external, for all of the collaboration and contributions.

For today's presentation, I'll review the analysis and recommendations. Katie is going to review some program characteristics and the elements of a glide path. We'll also have Wilshire come up at the end and then we are all available to take questions.

So to provide an introduction, the supplemental income plans are -- and we can -- we can stay on this page. So the supplemental income plans are defined contribution savings vehicles for individuals. And the focus of this review is the strategic asset allocation for the target date funds glide path within the investment lineup. The glide path sets the allocation and derisking path for each of the 11 target date funds that we have.

So this review and the recommendation were developed in close partnership with RVK, an investment consulting firm with expertise in defined contribution plans and glide path analysis and design.

The primary objective of the glide path analysis is to select an asset allocation that minimizes retirement income shortfall, maximizes income replacement and minimizes costs. So if we could move to page four.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: The recommendations resulting from the analysis are to adopt the capital market assumptions, approve TIPS, which are treasury inflation-protected securities, and its associated benchmark as a new asset class allocation within the target date funds and to adopt the recommended glide path.

So at this time, I'll turn the presentation over to Katie to talk about plan characteristics and how a glide path works.

[SLIDE CHANGE]

INVESTMENT MANAGER CARL: Thank you, Christine. And good morning, Mr. Chair and members of the Committee. Katie Carl, CalPERS team member. I'll be discussing a few elements of the supplemental income plan, also known as the SIP. I'll cover the structure of the program, invest -- investments we have in the lineup, participant usage and basic elements of a glide path.

Starting on slide five here, the SIP is comprised of two different plans. The first is the Public Employees' Deferred Compensation Fund. This is a 457 Plan primarily for public agencies. Contributions can be made pre-tax or after-tax into a Roth. This plan has 800 plus employers, over 38,000 participants, and three billion in assets.

The second plan is the supplemental contributions program, also known as the SCP. This program is available primarily to State employees and members of the judges' and legislators' retirement systems. Contributions here are made after tax and earnings grow tax deferred. This plan has over 5,000 participants and approximately 125 million in assets.

Participants in each of these plans have access to the SIP investment lineup, which includes target date funds, core funds, a self-managed account, which I'll describe on the next slide.

[SLIDE CHANGE]

INVESTMENT MANAGER CARL: Here on slide six are the three fund categories within the SIP lineup that are based on how involved a participant would like to be in managing their own asset allocation. The first category are the target date funds. Participants here can invest in a fund closest to their retirement date and the allocation and rebalancing will be managed for them throughout their career.

The second category are the core funds. These funds are for participants looking to have a more active role in their investments. The lineup has broad market index funds covering major asset classes. And participants in these funds manage their rebalancing in asset allocation.

And then the third category is the self-managed account, or SMA. This is available through a brokerage. Participants can use this account to invest in assets that are not part of the SIP lineup. In this account, they have access to mutual funds, ETFs, stocks from all major exchanges, bonds, money market funds, and certificates of deposits. Here participants manage their own rebalancing and asset allocation. It's most important to note that participant have full choice and can invest in any or all of the funds within this investment lineup. As well, participants can invest in a target date fund that aligns with their retirement date or they can select other target retirement date funds, if they would like a fund with a different risk profile.

So, on the next slide, we can look at participant usage across these three categories.

[SLIDE CHANGE]

INVESTMENT MANAGER CARL: Since our last ALM review, that was in 2022, target date fund balances and contributions have risen. Balances have increased from 54 percent to 56 percent and contributions from 75 percent to 80 percent. The target date funds are the default option, if a participant doesn't make an election when they join the program. Participants are free to change their fund selections at any time though.

Core fund balances and contributions have decreased since 2022. Balances have declined from 44 percent to 41 percent and contributions have declined from 25 percent to 20 percent. The self-managed account usage remains consistent with industry averages at around three percent. Now, we'll look at how a target date glide path is structured on the next slide.

[SLIDE CHANGE]

INVESTMENT MANAGER CARL: So the target date fund glide path is a plan that adjusts the mix of investments in a portfolio over time from higher risk assets to lower risk assets, as the target retirement year approaches. These adjustments are managed by CalPERS as the plan sponsor, which alleviates the participants from rebalancing in asset allocation activities. The chart is a visual representation of how a glide path de-risks the target date funds. And two different types of glide paths are shown here.

The top line is through glide path, which is what the SIP plan uses, while the bottom line is a to retirement glide path. So focusing on the top line to step through how the glide path works, the horizontal access shows the number of years before and after retirement. The dashed line in the center represents the retirement date. And to the left of the line are the pre-retirement years and to the right are the post-retirement years.

The vertical access shows the percentage of growth assets in each of those can funds. For the target date funds that are farthest away from the retirement date, the percentage of growth assets starts high and stays constant. This is shown on the left side of the graph and is known as the plateau phase. And as retirement date draws nearer, the percentage of growth assets declines. This is the de-risking phase and is represented by the diagonal line.

And a few years after retirement is the landing phase, which is on the right side of the graph. And at this point, the portfolio has a more conservative asset allocation and maintains it throughout the retirement period.

The SIP program utilizes a through glide path, based on participant demographics and industry trends, which show the participants generally do not take immediate distributions at retirement. Instead, they delay withdrawals until later in life making a longer de-risking phase more appropriate for this program.

Moving to slide nine --

[SLIDE CHANGE]

INVESTMENT MANAGER CARL: -- just review some of the benefits of a glide path. And those are it provides an asset allocation framework that alleviates the need for participants to rebalance their own portfolio. It provides a diversified suite of funds that offer broad market exposure and de-risks over time. It provides a formal review every four years in line with the ALM cycle to ensure it remains optimized and it considers risk and return over the entirety of a participant's career.

That completes my part of the presentation today and I'll hand it back to Christine.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: Thank you, Katie. So if we can -- we're on page 10. So this is a representation of the retirement income model that's used to evaluate the effectiveness of a glide path. So market data, participant demographic data, projected retirement spending, retirement income sources, and actual -- actuarial data are all used in the model to assess how well a glide path performs against various measures in providing income and retirement. On page 11 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we have a little bit more detail on the glide path optimization methodology. This is used to help evaluate one glide path against another glide path, when you're comparing multiple options.

So if we turn to page 12 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we have our capital market assumptions. These show expected returns, expected volatility, and correlation for the asset classes that are currently used along with another one that we're going to be recommending to add. Notably, the CMAs are sourced from the same survey and time period, as the CMAs for our other affiliate trusts. So although we have an outside investment consultant doing the modeling, we do use our internal CMAs for this exercise.

On page 13 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- are the glide path -- glide path Demographic inputs based on our SIP participant population data and assumptions from this review compared to the review in 2022. So I'm just going to kind of walk through this. The retirement period -- the production time period - sorry - for the glide path starts at age 21 and assumes retirement at age 62. The years of service for this analysis was reduced from 42 years to 41 years to bring in a little bit more of a conservative approach on the calculations in case, you know, that there's a full year in the start or the end of a career that is not actually a part of the years of service.

Household size is estimated at two people. And contributions in terms of what the participants are contributing from 2022 until now have decreased. They now range from an average of 1 to 2.8 percent. The income replacement goal is up six percent to 89 percent. And what that is is a calculation of how much of the preretirement income will be needed in retirement to maintain the same kind of level of -- level of quality of life.

So these two measures, the annual contribution declining and the income replacement goal increasing have likely changed due to economic pressures of higher inflation. The pension formula that's used in the modeling is the two percent at 62. The majority of participants do fall into that category. And then lastly, the analysis assumes no Social Security. As the majority of the participants that work at the agencies, the agencies do not participate -- many of those agencies do not participate in Social Security.

So before moving to the next page, which begins to cover the results and recommendations for the analysis, I'd like to spend a moment and talk about the evaluation process that was used to arrive at these recommendations. So we first evaluated the current glide path. Then we compared five different optimized glide paths. And these different glide paths introduced changes, such as increasing international equities, adding short-term bonds, or adding treasury inflation-protected securities.

If we now look at page 14 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- the evaluation showed that adding an allocation to TIPS in the glide path would be beneficial, as it produces similar retirement income at lower levels of risk and increases inflation protection.

Although TIPS can underperform in a deflationary environment or be impacted by rate shocks, a historical analysis confirms that TIPS have, on average, outperformed cash equivalents and short-term bonds in protecting purchasing power. So the allocation to TIPS will be in addition to an existing small allocation to TIPS that's inside of the real assets component. So putting this all together, we'll look at the current glide path compared to the recommended glide path.

So if we move to page 15 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- this shows the current glide path. And this chart is structured very similarly to the chart that Katie reviewed with the target date funds on the horizontal access and the asset allocation on the vertical access. The asset allocation is also shown in the table below the chart. So the changes we see between the current glide path and the recommended glide path are going to be decreases to global equities, real assets and cash equivalents, and increases to fixed income and the addition of the TIPS asset class.

So if we move to page 16 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- this is a representation of the recommended glide path and you can see the -- there's a new asset class, TIPS, in both the chart as well as the table. To better see the percentage differences between the current and the recommended, we can look at page 17.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: And the table at the bottom shows the changes for each target date fund and each allocation, and the changes range between one and five percent.

So, if we move to page 18 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- and look at how this new recommended glide path performs in comparison to the current glide path, we have ten measures that we're showing here. And seven of the ten are either improved or remain constant, and three measures show a slight decline.

So highlighting some of these comparisons, the risk-return profile is improved with expected return decreasing by 0.01 percent, but expected volatility decreasing by 0.28 percent. The ending balance at retirement is slightly higher. The probability of shortfall is marginally higher at -- from 97 -- 93.7 to 94.1. However, the two rows at the bottom show that the worst case annual return at retirement and the probability of negative returns near retirement are improved. Also, another part of the rationale is that TIPS will bring in that -- some level of inflation protection.

So the results of our analysis lead us to the recommendations on page 19.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: And again, it's the capital market assumptions, adding TIPS with the associated benchmark, and approving the glide path. And then for next steps on the next page --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we'll take feedback from the Committee today. We will be prepared to present a second read in September. We will be prepping the updates to the Investment Policy. We will also be collaborating with the program team to communicate the changes to all of the participants and all of the employers that are in these programs. And if the recommendations are adopted in September, the glide path will be updated on October 1st.

Lastly, in 2027, the 2020 fund will be merged into the income fund. So we'll actually move the participants into the income fund. Both of those funds will have an identical asset allocation. So we can close the 2020, move participants into the income fund. And shockingly, we will be opening the 2070 fund.

So this concludes our presentation. And at this time, I'll invite Wilshire to come up and make a few comments.

TOM TOTH: Hello. Tom Toth with Wilshire Advisors. In evaluating the glide path options, as Christine noted, staff focused on trade-offs between the competing goals of maximizing expected income replacement while adhering to those defined risk limits. She noted that the cycle's analysis included the addition of TIPS as a stand-alone asset class. We view that dedicated TIPS allocation as a prudent enhancement as their unique return characteristics can provide meaningful inflation protection without increasing overall volatility, in fact, in some instances, actually decreasing total portfolio volatility.

Additionally, the demographic and participant behavior incorporated through the modeling as Christine noted. And this approach really provides a holistic view of success for SIP participants.

The recommended glide path improves expected risk-adjusted returns with lower expected volatility and reduced probability of negative outcomes, while adding that structural inflation protection. We believe the recommended glide strikes an appropriate balance between the expected return and risk metrics and those participant outcomes and are supportive of the recommendation.

Happy to answer any questions.

CHAIR PALKKI: Thank you. Let's start with Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Hi. Thank you. I like the addition of the TIPS. My question is why are we just adding them now? They -- it's an asset class been around for a while, as has inflation, and we are -- we are now in the midst of inflation, which means the TIPS have already sort of priced that in. So why are we adding them in now and why hadn't we not added them in previous cycles.

INVESTMENT DIRECTOR REESE: Thank you for the question. So in 2022, we had gone through a long period of very low inflation. We did the strategic asset allocation study and it -- in the optimizer, TIPS wasn't necessarily kind of brought up as a -- as a benefit at that time. We do have an allocation to TIPS and we do have some inflation protection in the real assets fund. And if you look at the two graphics or the percentage values for the allocation, that real assets fund, the allocation, is going down a little bit, in favor of the TIPS. So we have valued inflation protection, just not a dedicated TIPS allocation.

CHIEF INVESTMENT OFFICER GILMORE: I would also add that real interest rates have done up, so it's probably a better time to be going long TIPS than it might have been when interest rates were zero and negative.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

CHAIR PALKKI: Thank you.

Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. In the Board letter and in your presentation, demographics is a big part of how you've designed the plan. And I noticed that the assumption is that they start at age 21, retire at age 62. Is that a reflection of a real -- I mean, is that based on some actuarial -- I mean, is that the real situation or is that just for assumptions for planning? I mean, what percent of our members actually sign up at age 21? Isn't it -- I mean, I just wonder how realistic that is.

INVESTMENT DIRECTOR REESE: It is a -- it is kind of an average.

COMMITTEE MEMBER RUBALCAVA: It is average.

INVESTMENT DIRECTOR REESE: Yeah.

COMMITTEE MEMBER RUBALCAVA: Okay.

INVESTMENT DIRECTOR REESE: Yeah, it's not -- I don't know the numbers for how many start at 21 and end with a full career at 62. So it is part of the modeling to create what's called kind of an average participant, which is kind of a representative participant for the -- for the glide path.

COMMITTEE MEMBER RUBALCAVA: Excellent.

And I notice we have a consultant, RV -- RVK, that helped design everything. We also have third-party administrators, one for each plan, Voya, and I guess it's Nationwide. Are they involved in any of this stuff or they just basically administrate.

INVESTMENT DIRECTOR REESE: Yeah. So Voya is the sole administrator for this plan. And then Nationwide is the administrator for the Savings Plus Program, which is for the State employees. So it's --

COMMITTEE MEMBER RUBALCAVA: So this -- are we -- so this guide plan is only for the one -- the 457 that CalPERS is administrator over for agency employees.

INVESTMENT DIRECTOR REESE: Exactly.

COMMITTEE MEMBER RUBALCAVA: Okay. Thank you.

INVESTMENT DIRECTOR REESE: So Voya is the administrator there. And no, they're not involved in the modeling that we've done. We do collect demographic data from them, so they do have a lot of the demographic data, which we collect, and then provide into the modeling. And they will also work very closely with us on the participant and employer communications, as well as sunsetting the 2020 fund and then moving the participants into the income fund and opening the 2070 fund. So they are definitely a close partner. They just aren't part of the modeling of the SAA.

COMMITTEE MEMBER RUBALCAVA: Gotcha. I'm a big supporter of retirement income replacement 457 Plans. I mean, that was my introduction to the retirement world was back -- way back when was through the 457 Plan experience.

So I am supportive of adding a inflation protection program into the -- into the glide path -- the target date funds. And I appreciate you having the chart, which shows how it -- closer to when its added and how it increases as a percentage you -- as a person gets closer to their retirement age. So thank you very much.

CHAIR PALKKI: Thank you for those comments.

COMMITTEE MEMBER RUBALCAVA: I will move. If nobody has any questions, Mr. Chair, I will move adoption.

CHAIR PALKKI: We don't have to adopt. It's just an information item.

COMMITTEE MEMBER RUBALCAVA: Oh, that will be next -- September?

COMMITTEE MEMBER TAYLOR: The second reading, yes.

CHAIR PALKKI: So. Other that -- oh, hit your button. There you go. Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Could we move forward with adoption if there's no objection or does it have to be agendized in action.

CHAIR PALKKI: My understanding is that there has to be a meeting posted for the first reading and then a meeting posted for the second reading before an action can be made.

ACTING COMMITTEE MEMBER GALLEGOS: That's a -- that's a --

CHAIR PALKKI: I think it's a legal requirement.

ACTING COMMITTEE MEMBER GALLEGOS: No, I don't think it is.

CHAIR PALKKI: Looking at our legal advice.

CHIEF EXECUTIVE OFFICER FROST: So technically, the agenda is noticed that an information item could be turned into an action item. I'd also want to check with staff to see if they would have any issues with moving forward today. I can't imagine they would, but it's really at the discretion of the Board.

INVESTMENT DIRECTOR REESE: No.

CHIEF EXECUTIVE OFFICER FROST: But typically, if we agendize an information item, we typically stick to an information item and then agendize the action item. But again, there is a footnote that would allow you to move forward in that way.

ACTING COMMITTEE MEMBER GALLEGOS: I would move that we move forward, unless there's any objection to the Board, and get this implemented.

COMMITTEE MEMBER WALKER: I'll second.

CHAIR PALKKI: Okay. So seeing that there is a motion to approve the -- what is it -- approve the asset liability management supplemental income plans recommendations as presented, I'm going to keep the motion, but I do need to jump into public comment first, if there's no other questions.

So Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Just a procedural question. Do we need to first have a vote to move this to be an action item?

CHIEF EXECUTIVE OFFICER FROST: (Shakes head).

COMMITTEE MEMBER MIDDLETON: No. You would not have to do that. You would not have to modify the agenda that you approved earlier.

COMMITTEE MEMBER MIDDLETON: Okay. Thank you.

CHAIR PALKKI: Okay. So let's move into the public comment on this before we take the vote. So I have Elnora Fretwell. I'm sorry if I pronounced that wrong.

ELNORA FRETWELL: Hello. Elnora Fretwell, the public. You changed the time without the whole public and Board members knowing you are changing the time, and it's not on the agenda. You say you wanted to hear our thoughts, but you cut the time down. The reason you first gave was because the other public didn't have that same time frame. The next reason that you changed the time to accommodate the speakers to speak first. But with the penalty of going first, you lose time. How is that fair and show your concerns.

If we have to lose time to speak first, then how is that a plus? Maybe we don't want to speak first if we're going to lose a minute. So, next time, you can change it to one minute, because too many people want to talk. Where is the trust? How do we trust you when you do things like that without even letting us know anything like that. Thank you. I had to make it short, because I didn't know if I would have enough time to speak in two minutes.

CHAIR PALKKI: Thank you for your comments.

So the motion on the table right now is to approve the asset liability management supplemental income plan as recommend in the presentation today. I have a motion by Ms. Gallegos and a second by Ms. Walker.

Can I please get the roll call vote?

BOARD CLERK LEMUS: David Miller?

VICE CHAIR MILLER: Aye.

BOARD CLERK LEMUS: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK LEMUS: Michael Detoy?

COMMITTEE MEMBER DETOY: Aye.

BOARD CLERK LEMUS: Monica Erickson?

COMMITTEE MEMBER ERICKSON: Aye.

BOARD CLERK LEMUS: Troy Johnson?

COMMITTEE MEMBER JOHNSON: Aye.

BOARD CLERK LEMUS: Patrick Henning?

ACTING COMMITTEE MEMBER HENNING: Aye.

BOARD CLERK LEMUS: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK LEMUS: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK LEMUS: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

BOARD CLERK LEMUS: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK LEMUS: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

BOARD CLERK LEMUS: Dr. Gail Willis?

CHAIR PALKKI: Excused. And I also want to go on record as approving this with a "yes" vote.

So thank you for that and thank you for educating me on how to turn an information item into an action item.

So that brings us to Agenda 6c, the -- which actually gives us into quite a bit of program reviews. So we'll start with 6c, private equity annual program review.

J.J. JELINCIC: Give him a promotion and he leaves.

(Laughter).

(Slide presentation).

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Thank you. That was the fastest vote I think I've ever seen.

CHAIR PALKKI: That was a first time for me.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Thank you, Chair Kevin Palkki, Vice Chair David Miller and fellow members of the Investment Committee. I'm Anton Orlich and on behalf of the private equity team, I'm here today to walk through our 2026 annual program review, covering where we've been, where the strategy is going, and what we have delivered, why we think the road for private equity remains compelling.

The headline is simple. Three and a half years into our current strategy, CalPERS private equity has undergone a fundamental transformation in culture, in strategy, in process, portfolio construction, returns, and competitive standing. What was once last versus major peers is now in first place. I will you show the data.

Moving to slide five.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Let me start with where the program stands today. Private equity NAV, or net asset value, reached about $119 billion as of March 31st of 2026 up from 92 billion one year prior. That is a program that -- this is a program that has scaled so that it is now able to meaningfully influence total fund outcomes. The portfolio spans 134 managers and 421 funds across buyout, growth, and venture, roughly 72 percent exposure in the United States. PE's role has not changed. It is to generate excess returns over passive public equity through active management and harvesting the illiquidity premium. What did change is how we are executing on that mandate.

Slide six.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Over the 20-year horizon, PE has returned 11.8 percent annually versus 7.8 percent for public equity, a 400 bps premium. PE is CalPERS highest returning asset class and it's not close.

Slide seven.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Linking the role of private equity in the portfolio to impact, you can see that over the ten-year period, private equity's 12.9 percent return is the highest of any asset class and it has contributed to the improvement of the funded status over the last decade from 68 percent to 84 percent.

Slide 12.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: To appreciate where the private equity team is today, it is important to understand where it came from. The prior strategy in place until 2022 had a challenged record relative to the PE universe. CalPERS private equity beat the State Street private equity index in only 14 out of 91 ten-year period. To be clear, the program did succeed in its goal of outperforming public equity, but it could have done better. And the private equity team wanted to raise the bar to outperform the private equity index, the opportunity set of the investments in which it invests.

Thirteen.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Feeding the private equity index would have meant that CalPERS would have outperformed public equity tea by a greater margin.

Slide 14, please.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Against other large domestic peers, we ranked 29th out of 30 across major time horizons as of mid-2022. Among all public pension PE programs with more than $1 billion in net asset value, we ranked 54th or 55th out of 56.

Slide 16.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: The structural culprits were well documented. Decades of procyclicality, underallocation during the lost decade of 2009 to '18 that cost the total fund over $11 billion in foregone returns, concentration in large buyout, investment selection that failed to capture the alpha that is available in private equity.

To address this, the Board and CEO acted strategically and courageously to stop three decades of procyclicality and to endorse a new PE strategy. And in November 2022, we launched a fundamentally different approach built on six pillars.

Slide 17.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: First, consistent pacing. We did not let the dramatic increases in commitments in 2021 define the portfolio. Instead, we focused on keeping commitments at about $16 billion per year for four consecutive years averaging about $15.8 billion. We committed consistently, even when market sentiment suggested, the 2023 and '24 vintages would underperform. We also used secondary sales to mitigate our exposure in the 2021 vintage.

Slide 19.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Second, portfolio construction. We reduced large buyout net asset value from 46 percent to 33 percent and grew growth and venture combined from 20 percent to 38 percent. We relaunched the venture program after a decade-long absence, providing our members access to the returns of Silicon Valley that their hard work helped make possible.

Slide 22.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Third, structural alpha from separately managed accounts and co-investments. We reached our goal of at least 40 percent of commitments in co-investment, generating meaningful fee savings. Our estimate is that for each $1 billion in co-investment, we save roughly $400 million in management fees over the life of the investments.

Fourth, culture. Our team engagement scores have meaningfully improved over the last three years despite -- detailed engagement survey results are available in the appendix. Despite a super majority of the team remaining in place, the scores have meaningfully improved. What has changed is the strategy, which fosters collaboration and empowers the team to constantly improve the portfolio.

Slide 23.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Fifth, sustainability integration. We've enhanced considerations of ESG issues in our diligence process in conjunction with sustainable investments to improve our risk-adjusted returns. Also, our proactive sourcing has led to a portfolio that is more diversified in human capital. Over the last three completed fiscal years, we have committed about $6 billion to emerging managers, and $17 billion to diverse managers.

Statistics on the current fiscal year will become available after the Sustainable Investments team AB 890 reporting, according to historical timelines. Also, we have expanded participation of our buyout managers from 49 percent to 65 percent in the EDCI or ESG data convergence initiative. The share of our net asset value covered by EDCI participating GPs has risen from 50 percent to 72 percent.

Slide 34.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Sixth, investment selection. Better manager selection and co-investment deal selection are producing measurably better outcomes, which we'll quantify shortly. But before we get there, I would like to underscore how critical investment selection is in private equity. We talk about the asset class monolithically, but it's not monolithic. The difference between 25th percentile and median and 75th percentile private equity is dramatic. Active management -- successful active management is the key to having the asset class deliver for the total fund.

Slide 37.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Now the numbers that matter most, performance. We will assess the performance of the current strategy across four dimensions relative to the prior strategy, relative to public equity Relative to the private equity index or the private equity universe, and relative to peers.

Starting with the comparison to the prior strategy, the current strategy generated a since inception net IRR of 29.5 percent versus 11.2 percent from the prior strategy. On an annualized total value to paid-in capital basis, the current strategy is running 1.17 times versus 1.05 times for the prior strategy after accounting for all fees and expenses.

Thirty-eight.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: The outperformance is compounding every quarter. The current strategy excess return over the prior strategy has expanded from essentially zero at the end of 2023 when investments are first made under the current strategy began making marks to fair value as opposed to cost, to 22 percentage points on a three-year IRR this, internal rate of return, as of the most recent data.

You can see the one-year and the three-year IRRs for the current and prior strategies compared on the right.

Slide 41.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Here, we see the comparison of private equity versus public equity, and the story is also compelling. If you compare the CalPERS private equity portfolio on the ten, five, three and one, the portfolio has outperformed public equity markets whether compared to our official public equity benchmark of the Custom FTSE All-World or the Russell 2000, which is the universe of small cap domestic equity, a better representation of our actual portfolio.

What we would highlight is for the one- and three-year periods, the breakout between the current strategy and the prior strategy. And it's clear from that decomposition that it is the current strategy that's delivering the outperformance versus the public equity markets. And this has occurred at a time when public equity performance has been particularly robust, well above its historical average, and something that is not likely to continue in perpetuity.

Slide 42.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Slide 42 provides a comparison of the current strategy to the prior strategy using something called public market equivalent analysis. To keep it simple, instead of taking cash flows and putting them in the public equity markets, it takes what we did in the private equity markets and does the theoretical exercise of what would have happened if our investment in private equity had been put in the public markets. On the left, you see the total private equity portfolio comparison. There are numerous methodologies on how to conduct PME analysis. We provide several here and there are many different private eq -- public equity indexes that could be used to compare the performance of private equity.

Here are the three indexes we use are the FTSE, the S&P 500 and the Russell 2000 roughly global cap-weighted public equity markets, FTSE, U.S. large cap, S&P 500, and the Russell 2, U.S. small cap. When we decompose the current from prior strategy, you can see that the current strategy is outperforming, regardless of the PME methodology used and the public equity index used. Whereas, the prior strategy is underperforming under all combinations.

Slide 44.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Here, we provide a comparison for the private equity universe. Private equity indexes allow you to assess how the team has done versus the opportunity set of investments from which the team has had the opportunity to select.

The reversal here has been decisive. The current strategy is running at 30.9 percent three-year IRR against State Street Private Equity Index, an excess of about 22 percentage points. This holds regardless of which PE index is used. On slide 45, you can see a comparison versus Burgiss, Cambridge and State Street Private Equity Index.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: All told, the same story. Officially, we use the State Street Private Equity Index to benchmark the success of the team and selecting private equity investments.

Slide 47.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: This looks similar to what you saw on the previous slide, but it's differentiated, because it uses time-weighted returns instead of money-weighted returns. It's to illustrate that regardless of whether we use time-weighted or money-weighted returns, the story is very similar about how the current strategy is delivering returns in excess of public equity and delivering overall private equity program returns better than public equity markets.

Slide 49.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: We're going to move to a set of comparisons versus peers. And this is perhaps where the transformation is most striking. Slide 49 shows investment metrics data, which is included in Meketa's letter to the Board. As you can see, when we launched the strategy, the CalPERS Private Equity Program was negative 420 basis points versus the median public pension plan on a one-year time horizon.

Moving to the right and with the breakdown of the current strategy and prior strategy, you can see that the prior strategy continues to underperform versus public equity -- or versus peers whereas the current strategy is delivering dramatic outperformance, approximately 18.7 percentages. Slide 50.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: This is a different cut at how to evaluate CalPERS versus peers. What we have here are the 30 largest domestic public private equity programs that rank at least -- that are publicly reporting on the dates of 12-31-22 and 12-31-25.

CalPERS went from last on the three-year time horizon as of 12-31-22 to first as of 12-31-25. This is publicly reported time-weighted returns from the peer universe.

Slide 51.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Here, we have a comparison against Canadian pensions. Three years ago CalPERS was uniformly behind all these Canadian peers and now CalPERS leads. Those peers do not have the reporting frequency of domestic programs and that's why we focus on the one- and five-year periods here and that's why there are some non-available entries, as we wait for those peers to report. But the picture is clear, we have dramatically improved our standing versus Canadian peers.

Slide 52.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Wilshire puts together a data set called the Trust Universe Comparison Service, or TUCS, and it tells a similar story. We moved from third or fourth quartile to the top percentile on the one-, two-, three-, four-, five- and seven-year horizons, and first quartile on the ten-year horizon. The residual drag of the prior strategy will most impact the longer time horizons for obvious reasons. That is a dynamic that will improve as more of the portfolio falls under the current strategy.

Slide 54.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Why are these comparisons so important and what does CalPERS private equity performance mean for the funded status for the total fund beneficiaries outcomes?

As of March 31st, 2026, the cumulative dollar value of each of the current strategies versus prior strategies has been dramatically positive. Think about this as instead of investing the $47 billion in the current strategy, as we've done over the last three and a half years, what would we have less in the total fund by being in the alternative? So as of 3-31-26, if we had invested those dollars in the prior strategy, we would have $15.4 billion less in the total fund. The same logic applies across three other comparisons, approximately $10 billion less versus public equity, even though it has been a frothy time in public equity markets over the period of knee years. Fourteen billion less if we'd been invested generically in the private equity index, State Street, which, of course, is uninvestable, but it provides a good theoretical comparison, and 15.5 billion less versus the peer median.

Slide 55.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: The total fund's peer standing tells the same story. This is different from the prior similarly formatted slide, in that it shows the total fund percentile rankings for the one- one through five-year time horizons. CalPERS was third or fourth quartile in total fund as of 12-31-22 and it is now top decile on the one year as of 3-31-26. The point here is, as we've seen from parts of the presentation before, it's private equity that's actively managing equity risk, which provides the highest risk -- highest risk/reward of any portfolio, and so it will have the Biggest impact on the total fund. And we have been able to move the needle for the total fund through private equity.

Slide 56.

[SLIDE CHANGE]

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: To describe the impact for our members in another way, the $47 billion deployed under the current PE strategy, had it been invested instead in the prior strategy's return, would have led to an outcome of third quartile for the total fund versus the first quartile where we stand today. And that's over a three-year horizon. Even if we'd invested in public equity, which has done quite well over this period, the total would be second quartile. With the private equity index and the PE mean peer -- median peer, we would have been third quartile.

IN closing, four years ago, the PE program needed a turnaround. And today, by every major measure laid out in the presentation, returns peer ranking, funded status, team culture, that turnaround has arrived. The current strategy is working, and moreover, as the current strategy continues to scale, the impact on the total fund will continue to grow. The results are demonstrated by the 2023 and '24 vintages, which are first quartile by both IRR and total value paid in capital in the 35-year history of the PE program.

The PE team remains committed to discipline consistent commitment in the asset class, superior manager selection and co-investment deal selection, ESG integration in the diligence process, and cost effective implementation, which improves net returns.

We think the next decade of results will build on the foundation that the team has put in place. And under the CIO's total portfolio approach, which launches in a few weeks, the PE team will continue providing hopefully excess returns in excess of passive public equity. That active management will become all the more important if public equity markets become challenged, which is very likely, given that public markets cannot continue to have high returns year, after year, after year.

Thank you and I'm happy to take questions.

CHAIR PALKKI: Thank you so much for the report. As they all line up. Thank you for that report. Let's start with Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Anton, thank you for that fabulous report. I'm, as always, very happy with our performance and how -- and you guys moving us to the head of the pack. So congratulations on that.

I had a couple of questions on our ESG, because you said you're implementing ESG throughout the portfolio, yet I have seen a lot of data centers that are energy suckers, right, but also we are purchasing utilities, which makes sense, except that a lot of these utilities and -- are still running coal and other fossil fuels. Are we -- with these co-investments, are we planning on moving the strategy away from those kinds of investments -- or those kinds of energy with our investments, given our climate situation right now, and that we consider climate our third risk -- our third largest risk?

So I see us doing a lot of that. We've got two newish - one not so new, one kind of new - utility, and they both are -- have expanded our fossil fuel and I think that's a mistake right now, but also, I feel like if we're -- if we're a co-investor, then this gives us an opportunity. Is this something we're looking at?

DEPUTY CHIEF INVESTMENT OFFICER ORLICH:

Appreciate the question. Very important question. There's was quite a bit of it that I can't speak to.

COMMITTEE MEMBER TAYLOR: In open session?

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: No, it's more that it belongs to my colleague, Sarah Corr, in Real Assets. We only are participating in data centers and that kind of investment at the margins in private equity. It is really a place of the real assets.

COMMITTEE MEMBER TAYLOR: The same with utilities?

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Correct.

COMMITTEE MEMBER TAYLOR: Okay.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Yeah. That's in the Real Assets portfolio, under the subcategory of infrastructure. And she can speak to that very well, as can Peter Cashion, head of Sustainable Investments. In terms of your question more broadly, talking about the climate thematic, we have put in the ground in terms of our co-investment portfolio already $2 billion under the 2030 goal. Those aren't commitments. That's actually dollars in the ground in that thematic, which is very important. And we are, through EDCI and through our diligence questionnaires, asking our managers about climate exposures and considering that in the risk-adjusted return.

But when it comes to specifically investments in data centers and utilities, those are really in the Real Assets portfolio not the private equity portfolio.

COMMITTEE MEMBER TAYLOR: Okay. So and I see Sarah has come up. But I just want To make sure that we're not -- so, so far, I think I still see that we're at $59 become, right? So we really haven't moved the needle on that -- on our investments to 100 billion in climate, sustainability.

But my thing is if we're investing in fossil fuel right now and we are a co-investor and I would be happy to let Sarah talk about this. Shouldn't we be using our co-investment strength and changing the business model? Because that's a problem, if we're just getting into fossil -- more fossil fuel and not making that consideration?

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Yes.

And I'd like to, you know, be respectful for my colleague, I'll let, you know, Sarah address it now rather than in her presentation or Peter Cashion. To be clear, in our co-investment portfolio, we are not making investments in fossil fuels. I just wanted to give you that background for private equity.

With that, I'll pass it over to Sarah.

COMMITTEE MEMBER TAYLOR: Okay.

MANAGING INVESTMENT DIRECTOR CORR: Sarah Corr, Real Assets. I am happy to answer the question now going or if you're going to defer it to the infrastructure presentation, and keep this on private equity, that's fine as well. I'll take your direction.

COMMITTEE MEMBER TAYLOR: I mean, I can defer it, but if you -- since you're here --

MANAGING INVESTMENT DIRECTOR CORR: Yeah. Yeah.

COMMITTEE MEMBER TAYLOR: -- you might as well just talk about it.

MANAGING INVESTMENT DIRECTOR CORR: So in the utilities that we have done co-investments in or -- not all of them have closed yet, but there is -- there are transition plans to get rid of the coal and increase the renewables in both of them. So that was part of the thesis going in. We will be keeping an eye on that and making sure that that is actually happening.

COMMITTEE MEMBER TAYLOR: I think we need to have a report of that to the Board then.

MANAGING INVESTMENT DIRECTOR CORR: But the thesis is -- the ingoing thesis was that the coal --

COMMITTEE MEMBER TAYLOR: Okay.

MANAGING INVESTMENT DIRECTOR CORR: -- would be reduced and the renewables would be increased.

COMMITTEE MEMBER TAYLOR: Okay. So we got the one in Minnesota, I think, and then we've a bigger one in AES?

MANAGING INVESTMENT DIRECTOR CORR: That one hasn't closed yet. That's still going through FERC approval.

COMMITTEE MEMBER TAYLOR: Okay. So we don't know whether or not we're going to get into that. But is -- when you address it in -- or if you can address it, if it's in closed session, that's fine, but I just want to know if we -- if that would be one of the considerations before we sign the deal.

MANAGING INVESTMENT DIRECTOR CORR: Okay.

COMMITTEE MEMBER TAYLOR: Okay. ThanK you.

MANAGING INVESTMENT DIRECTOR CASHION: Director Taylor, I'll address a couple of your questions as well.

Peter Cashion, Sustainable Investments.

Regarding the 60 billion, that was the climate count as of last November 2025.

COMMITTEE MEMBER TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR CASHION: So we're actually tabulating the updated numbers as we speak.

COMMITTEE MEMBER TAYLOR: Okay.

MANAGING INVESTMENT DIRECTOR CASHION: Those would be available for the November Board. Obviously, we'll have an early look, probably towards the end of the summer. There is time -- it does take time for private market managers to report. The public market numbers we get quite --

COMMITTEE MEMBER TAYLOR: Right away.

MANAGING INVESTMENT DIRECTOR CASHION: -- readily, but we are waiting till the end of this fiscal year.

Regarding your comment on data centers, renewable energy. So hyperscalers identify energy provision as one of the biggest constraints for the build-out of data centers. Last year, more than 90 percent of the new electricity that came online was from renewable energy.

Essentially, that's because it's faster to market, typically cheaper and readily available, as compared to gas-fired power plants. The turbines can take up to four to five years to be provisioned. So there are significant delays there. So renewables will play a key part in the data center build-out.

Regarding transition, that, as you know, is one of the three components of our climate solutions definition --

COMMITTEE MEMBER TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR CASHION:

-- adaptation, transition, mitigation. So we do monitor that across both our public and private market companies.

COMMITTEE MEMBER TAYLOR: Okay. Thank you very much, Peter. Peter I have -- you brought up -- when you said the data centers, I forgot about water. And I think we need to keep an eye on -- because what I'm reading all over the place is that communities are saying their water is being taken away from them basically. And we can't afford that like in Central Valley or wherever else.

MANAGING INVESTMENT DIRECTOR CASHION: Correct. True. We have been working with Ceres, the environmental NGO, on best practices for data center deployment. And that does cover, of course, the water aspect as well.

COMMITTEE MEMBER TAYLOR: Okay. Thank you very much and I'm sure I will bring this up in closed session or wherever. Thanks.

CHAIR PALKKI: Thank you.

Ms. Willette.

COMMITTEE MEMBER WILLETTE: Thank you. Thank you for the report. Thank you, President Taylor, of the question. I also want to say going from last to first in three years is not a small thing. I want to acknowledge how much work probably went into that. And thank you for that. I think the data on diverse and emerging managers is actually really telling and something important about how the strategy worked. So that was really great to see in a full slide.

I do have a question on the Labor Principles implementation. We're getting attestations, what I read, from a much larger share of our managers, which it seems likely really good progress. But can you help me understand when a GP signs that attestation, what are they specifically committing to and is it about their firm's own practices, or their portfolio company's practices, or is it both?

MANAGING INVESTMENT DIRECTOR CASHION: When a firm signs -- when an asset manager signs on to the Labor Principles, they're stating their commitment to operate in broad alignment with the Labor Principles. And this should apply to both their own business practices and that of the portfolio's, at least if they own more than 50 percent. And, you know, in many cases, it is just not only good practice, but the law, for the Labor Principles. So, you know, there very few instances. It's rare when there is not a company following. And we, of course, have our engagement process, if there is a concern that is raised.

COMMITTEE MEMBER WILLETTE: Awesome. That gets to my next question. So between the time when a manager signs, and I know they reup every year, but -- and then the time we're deciding whether we're going to reup with them, how do we know what's actually happening at the portfolio company level? Is there a significant labor -- if there is like a significant labor dispute, if there's a safety incident, a lawsuit, or something that would matter to the kind of human capital analysis that we say drives returns in this program, how does that information get to us, what's the reporting -- what would be the reporting structure and escalation path? What does the engagement look like?

MANAGING INVESTMENT DIRECTOR CASHION: Right. So I would say there would be two paths. The first is just through general stakeholder engagement. We learned very quickly if there is a problem, whether it's we see it in the press or someone takes it forward to us, and then we're able to quickly assess whether that actually is a portfolio company within one of our funds. So there's that mechanism.

A second that we're just in the process of piloting, where we have a data provider that identifies to us on a weekly basis, labor and other ESG controversies related to over 9,000 of the public -- public -- sorry, private equity portfolio companies. So that will be an additional tool. It's not operational yet. We have just kind of crafted it and we're also piloting it with public markets. But this will be an additional tool to identify issues as they arise.

COMMITTEE MEMBER WILLETTE: Excellent. I like hearing that and that tool looks -- sounds amazing. I want to Make sure, because I think it's right that our human capital management is a return driver here and we want to make that clear, and I want to make sure that the accountability structure matches our commitments.

The final question I have though, I do want to ask about fees. We wouldn't have a private equity conversation without talking about fees. So it's my understanding, and I'm going to paraphrase, so let me know if I got it wrong, but that our fees won't go down, even with our co-investments increased, because we measure on IRR, is that right?

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: The return metric used should be improved, regardless of which one, because of co-investment on average. We should think about -- well, first of all, everything that you've seen in the report is net returns.

COMMITTEE MEMBER WILLETTE: Um-hmm.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: And you can improve those net returns by improving the gross returns or by reducing the cost on those gross returns. And co-investments have done both. We have done better on the gross returns with our co-investment. That's co-investment deal selection. And then because they're lower economics than commingled funds, we have also reduced the gross-to-nets -- or essentially capture that gross-to-net spread. And that would be true whether you use a multiple or a percentage-based return, which is money-weighted or time-weighted return.

COMMITTEE MEMBER WILLETTE: Okay. So our beneficiaries can see in our public disclosures exactly how much we pay in fees, but they can't see that net return or that gross-to-net spread. So essentially, I think our fees are -- this report -- the totality report has shown that our Private Equity Program is doing really well for our total portfolio, our fund.

But if our public and our beneficiaries can't have that same public visibility to the returns that they have in the fees, what does a member or where does a member who is concerned about that, where do they go to see that we are getting what we're paying for?

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: So we think that is represented by the net return, because it's providing the returns after all of our investment selection and cost-saving initiatives. And then there's reporting that we provide under AB 2833, which provides the amount of fees and, you know, that we pay along with pretty detailed categorization of those fees and then our portion of fees of portfolio companies. So the -- there are some other, you know, places where there's reporting, but the vast majority of it will be around the 2833 reporting. That's annual.

COMMITTEE MEMBER WILLETTE: So, remind me, the 2833 reporting is fees, but is that then fees tied to returns? So we -- so our members or the public can see that our -- that we are getting what we're paying for?

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Yes.

COMMITTEE MEMBER WILLETTE: Okay.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: And we -- it's actually so granular that it's tied to the actual, not just manager, but the vehicle.

COMMITTEE MEMBER WILLETTE: Okay.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: And so you can see what we are paying across those different categories in fees and expenses at the vehicle level.

COMMITTEE MEMBER WILLETTE: Okay. Thank you.

MANAGING INVESTMENT DIRECTOR CORR: Sarah Corr. I'm going to help my colleague Anton out now.

(Laughter).

MANAGING INVESTMENT DIRECTOR CORR: That report that he was speaking about also has gross and net returns in it. So for the more recent vintage years, you can see -- across the entire private markets, you can see gross versus net.

COMMITTEE MEMBER WILLETTE: Thank you.

CHAIR PALKKI: Thank you.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: And just for your reference, I would also just flag slide 26, which, you know, doesn't list everything. It's not meant to be an exhaustive list, but it provides a great deal of types of transparency we're providing when it comes to fees and expenses.

CHAIR PALKKI: Okay. Okay. Thank you for those comments.

Mr. Miller.

VICE CHAIR MILLER: Wow. I had a few questions, but I think most of them have been covered. I just am so pleased and impressed with the report with all the work by the team. And it just -- yeah, it's very encouraging. And one of the things that -- I think it was interesting. I appreciated President Taylor's mentioning water in terms of -- I think we often look at -- certainly the industry as a whole looks at environmental, almost exclusively through this lens of carbon footprint. But I think as time goes on, we'll see as that focus and the performance on that aspect that dimension of environmental performance is addressed more and more, water, resource conservation and recovery, water, waste, hazardous waste, et cetera, et cetera will become an increasingly important factor differentiating performance over the long haul.

And so looking at something like the water issue I think is a very important thing to bring up, because there's a lot more to the environment than carbon footprint, even things like extended producer responsibility for the products they're creating. I think the Europeans have been quite a bit ahead of us for a long time on these subjects, but it's something that for CalPERS, as a leader, to be thinking a little bit more broadly over the long haul. When we think about, when we're talking about -- when we're talking about environmental performance as something that can differentiate and help us pick the best when we've got choices in a broad diversified portfolio, some of those aspects can help differentiate between -- even between folks in a sector like the energy sector, whether it be on the private sit or the public side. Because in the long run, some of them will prevail and others will not.

And so this whole presentation has been just really encouraging and enlightening, and I'm just -- I want us to be out there shouting it from the rooftops, that this is -- this is a huge move forward for us and I'm just looking for more and better. Thanks.

CHAIR PALKKI: Thank you.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. Anton, first, I want to say thank you to you and to your team. Any performance that goes from last to first in a matter of just a few years is something that's remarkable and does not happen by chance. Thank you.

One of the comments that you made is that you have used ESG in order to improve sustainability of the portfolio. Certainly one of the arguments that we have tried to make here at CalPERS is that ESG is an evaluation tool. So could you elaborate a bit on what -- how you've used ESG as an evaluation tool and to what can -- extent can we document this as a counter to some of those critics that we have arguing that ESG is not an evaluation tool, but it is simply a politicalization of what our portfolio is.

MANAGING INVESTMENT DIRECTOR CASHION: Sure. I can kick off, and then Anton can jump in. So first thanks for the question. So ESG is really closely integrated into all private markets, including private equity. Over the last two years, more than a year and a half, we've been implementing this program. It starts in the process with part of the first screen, where we have a section Dedicated to ESG review. The ESG specialist on my team then assesses whether it's a higher risk project or not. If it is, then that requires increased engagement with the company and better understanding what they -- how they're going to address those risks.

We, of course, and for many years have relied upon the ILPA questionnaire and getting input from that. For us, it's really overall the -- an important risk mitigation tool, and that builds or goes towards the -- improving the resilience of the portfolio. As we continue to build out the ESG program, the area that we want to focus on, in addition to this, is where can ESG be an explicit value-add activity?

COMMITTEE MEMBER MIDDLETON: Right.

MANAGING INVESTMENT DIRECTOR CASHION: So one example of that would be in real estate. So to incorporate ESG to improve efficiencies, that will result in higher returns. So some of our managers have value-add playbooks, specifically related to ESG. So we want to -- now, that we have the team in place and devoting the time to it, we want to then now build that out and also check other sectors that could benefit from that.

COMMITTEE MEMBER MIDDLETON: Thank you.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: I just want to say how appreciative the team is of the comments from you, Director Middleton, and Vice Chair Miller, and Director Willette. We are so thankful for the opportunity to deliver for the members and appreciate your feedback.

COMMITTEE MEMBER MIDDLETON: Thank you.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: It is -- it is very challenging to connect a broad framework of decision-making and investments to, you know, very specific outcomes.

COMMITTEE MEMBER MIDDLETON: Right.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: We absolutely want to make clear that when we are engaging on topics in the ESG sphere, whether it's environmental or human capital, we're doing it through a fiduciary lens. And we're spending the most amount of time, as my colleague pointed out -- as Peter pointed out, on trying to find managers that have the best frameworks. And one of the reasons why it's so challenging is it's hard to quantify the investments that our partners have chosen not to do that prove to have a headwind to their return profile, because of bad ESG decision-making.

And obviously, we're not going to get every single manager and investment selection decision correct, but we think overall, the ESG frameworks are manifesting in the higher net returns you see here.

COMMITTEE MEMBER MIDDLETON: So I wanted to follow up on a slightly different area, but I think complementary. You mentioned that we are moving much more to a focus of growth and venture as opposed to buyout. One of the issues that has emerged in private equity is frequently we encounter that we have invested in organizations that create controversy and create headline risk. That comes somewhat with the territory, but I think there's one incredibly important issue whenever there are those controversies in that your time is limited, your staff time is limited, and the more that we have to spend cleaning up questions as to whether or not we should or should not be involved in this particular venture takes away from the time that you can spend making decisions as to where is the greatest growth for potentials for us to have.

So with that as a context, are there strategies within the movement to going to growth and venture that you think will mitigate against investments in those organizations with heightened headline risk and controversy risk?

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: I strongly agree with your point. And as we have been chairing the strategy since 2022, we did highlight that a disproportionate amount of the capital would be going toward middle market buyout, but even more importantly toward growth and venture. In those spaces, I would really emphasize the innovation that's coming from those segments that provide us the best prospect to reverse damage and innovate, so that we're not having water issues or climate issues.

And that's where I think the most exciting aspect of returns are. But I also strongly agree with your point that we have to try to get to a good outcome by finding better partners, because we can't possibly police every single portfolio company. There are approximately 5,000 portfolio companies. And it is extremely time intensive to manage that. Of course, as I spoke about before, private equity is not monolithic. There are corporations that are failing -- that are publicly traded, and there are corporations that are failing that are privately owned. And there is going to be, even if a company is well run, in some cases, an incident. And then the question is really do we have partners who are going to be proactive not just in avoiding the opportunities, but when something gets missed to address them. And so that's how we deal with time intensity aspect. We disproportionately apply the Private Equity and Sustainable Investments team's time to look for partners that have better frameworks for ESG.

COMMITTEE MEMBER MIDDLETON: Lastly, and this is more a comment for the public. From time to time, there are lost of questions that emerge regarding where we've made investments. And if we were to abandon all efforts to outperform the market and simply put nearly $600 billion into an index fund and public equities, we would be equally invested in all of those various ventures that many have encouraged us to have no exposure to whatsoever, because they are embedded within each and every one of those index funds.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: That's true.

COMMITTEE MEMBER MIDDLETON: Okay. Again, thank you.

CHAIR PALKKI: Thank you for those comments.

I don't have a question, but I will add. I was up early this morning watching some of the CNBC Squawk Box awe Bloomberg and there was an article that jumped in that said that there was more companies moving into private equity, private markets. And so hearing that, and then looking into the future of what do the markets look like in the future, do more businesses end up going into private markets? What happens to the public markets? What happens to proxy voting? What happens to finding companies that follow our values and our -- what we stand for at CalPERS?

So again, it's -- and it was an interesting topic. And then obviously to hear some of the -- what was being spoken today, it just sort of brought to light, and obviously we don't have a crystal ball, we won't know what the future holds, but hopefully we're prepared for whatever it brings.

So other than that, I don't have any other comments. Anton, again congratulations on the new role and everything that you're doing with the private markets right now, thank you for -- because the results are what's really showing, so -- and our members are appreciative of those results.

So, thank you.

DEPUTY CHIEF INVESTMENT OFFICER ORLICH: Thank you.

CHAIR PALKKI: So that brings us to public comment on 6c. So we got quite a few here. So we'll start -- I'll try to bring up everybody in a bit of groups here. So we've got J.J. Jelincic, Mark Swabey, and Frank Ruiz.

J.J. JELINCIC: Or we can go out of order.

MARGARET BROWN: I'm Mark.

COMMITTEE MEMBER TAYLOR: You're Mark?

CHAIR PALKKI: Oh, you are. Okay.

J.J. JELINCIC: J.J. Jelincic, RPEA. And I apologize for wanting to talk to my trustees about how they're investing my money. And I hope that the minute you gain by cutting me short, improves the quality of your life.

WC Fields once said, "If you can't dazzle them brilliance, baffle them with bullshit."

I have less than two seconds per slide, so I'll focus on slide 41 compared to slide 21 from last month. It's the same data rolled three months. The super duper new strategy improved 12.9 percent, so remarkable change on a three-year average in one quarter, especially when Russell and FTSE went down. Private equity is designed to maximize risk-adjusted return. We know the current strategy takes on more risk and should have a higher return needed to get to the same risk-adjusted return. The level of risk remains undefined.

As fiduciaries and prudent experts, you have you know that private assets have what is -- the Wall Street Journal has called "crazy math." Let me quote from Jonathan Weil's April 12th, *Heard on the Street Column*.

"Like its counterparts in private equity -- or private credit, private equity is supposed to market its assets to fair value each quarter. Those assets usually lack market quotes and are difficult to value. This opens the door for managers to rely on subjective pricing model. And they in -- and when they invest in funds, the accounting rules allow them to adopt the stated asset value provided by the fund manager. This is how StepStone was able to record a same-day markup. On December 31, 2023, a different fund, StepStone Private Venture and Growth, paid $538,000 for a stake in a venture fund CNK..."

CHAIR PALKKI: Mr. Jelincic, can you wrap up your thoughts?

J.J. JELINCIC: It made a 16 percent markup.

Having studies and listened to the presentation, can you say you know how private equity works, where the returns are coming from, are they real? Do you have a clear or any discussion of the risks being taken or how to adjust the returns? If not, are you confident you're executing your duty of care. Cherry picking assets --

CHAIR PALKKI: Mr. Jelincic.

J.J. JELINCIC: -- leads to cherry picking results.

I encourage you to read the fiduciary liability waiver you signed, read Government Code Section 1090 and seek legal counsel. Thank you for your attention.

CHAIR PALKKI: Thank you for your comments.

Ms. Brown.

MARGARET BROWN: Mr. Swabey. Hi. Thank you for allowing me to speak on behalf of Mark Swabey, a State retiree of 32 years of civil service, who could not be here this morning due to a medical illness. His comments on private equity are as follows.

Mark is opposed to CalPERS investing more billions of our precious pension fund money into private equity contracts for the following reasons.

One, CalPERS, as of its own chart of private equity investments, showed that we are investing in 341 companies, many individual estimates of more than $2 billion.

Per Mark's comments earlier this year to the Board, an individual investment of less than a half billion dollars cannot return more than $1 billion. A closer inspection showed that CalPERS had some forever contracts - I will tell him those are called zombie funds - with funds dating back to 1999, 2000, 2010, and 2015. The chart he reviewed indicated that we were likely reinvesting returns from some of those old private equity contracts into new contracts with the same companies, because we had no clear profitable exits. These forever contracts had no exit fees that would not severely reduce any returns to CalPERS.

So Mark has a different idea. Why don't we instead invest in some of those larger private equity companies that are publicly traded, or like Bain Capital, that has subsidiaries trading on the New York Stock Exchange, Nasdaq, and so on and so forth. You could take that $2 billion and invest it in TPG common stock and then earn dividends in the public, something that you could track and know the real value.

So instead of becoming a limited partner paying secret contract initiation fees, carry fees, and exit fees, we could instead become a shareholder of TPG and have more money, only paying a small broker's fee.

CHAIR PALKKI: Can you wrap up your comments?

MARGARET BROWN: Thank you.

CHAIR PALKKI: Thank you.

Mr. Ruiz.

FRANK RUIZ: Thank you for allowing me, a CalPERS retiree, to speak.

Welcome back to the upside down, inside out, substandard deviation world of private equity nightmare investing. In Alice in Wonderland, the caterpillar Absolem asks Alice, "Who are you?" To which Alice says, "I don't know." This is a question that Alice struggles to answer in Wonderland. Not only -- not until Alice says who she is, that she comes out of her nightmare.

In similar fashion, this is the question that CalPERS Board continues to struggle with in their nightmare investing. Today, we had -- or we will have a 68-page sales presentation in 2026 Private Equity annual program review by State Street, PEARS, and Wilshire and others. The presentation was filled with colorful charts, graphs and public equity language. All that was missing was the estimated billions in each category of private equity investments, such as carry contracts, co-investments, CIA contracts, and contracts that save CalPERS $400 million per billion.

I and others are concerned that in private equity investing, where we only see minimal cash returns for five years, how can there be such large returns? Where are the touted billions coming from in private equity? What is keeping CalPERS executives from providing a financial report and not a sales pitch based on projections and percentages? Where are the estimated billions from private equity coming from in categories of carry contracts, co-investments, CIA contracts, and contracts that save CalPERS 400 million per billion?

And I and others challenge, we challenge, the CalPERS Board to ask the executive staff, the executive staff, to produce such a report. What are we spending and what is CalPERS being paid in cash, not percentages? Only by knowing that will CalPERS Board wake up from its nightmare Wonderland investing and know who they are. Please do that, ask the CalPERS executive staff for a real financial report.

Thank you for allowing me to speak.

CHAIR PALKKI: Thank you for your comments.

Next I have --

J.J. JELINCIC: Can I add something?

CHAIR PALKKI: I have more public commenters.

Thank you.

J.J. JELINCIC: I just want to know if I can have my prepared remarks attached to the agenda so my comments are on the record.

CHAIR PALKKI: You can give them to the side somewhere, I think.

J.J. JELINCIC: Thank you.

CHAIR PALKKI: Yeah. So next I have Mr. Larry Woodson, Michael Flaherman -- sorry if I mispronounced the last name -- and Margaret Brown. And after that, I have Al Darby

LARRY WOODSON: Okay. Good morning. Larry Woodson. Mr. Orlich made a presentation to the stakeholders at the March 26th retiree roundtable, where he was supposed to speak on time-weighted returns methodology, TWR methodology, which CIO Gilmore told me at the January networking session was what CalPERS actually uses in the place of the GP's IRRs to calculate returns.

At the retiree roundtable Mr. Orlich spent the first half of his time praising the PE investments, reporting on various returns. When he finally got round to TWR, he gave a really esoteric description that most people there couldn't understand. I subsequently emailed stakeholder relations requesting that either Mr. Gilmore or Orlich come to a stakeholder meeting in June to enlighten us more on TWR, as did five other CSR retirees who had been confused equally.

After two months, they declined. I wonder if the Board understands TWR. Regarding the presentation today, PER -- PE giving higher returns in public market, I used the S&P as a index and found that they actually did not exceed -- and I'm going to have to cut this short, but for the five-year and the ten-year, they were short -- lower.

Last year, CalPERS wouldn't last. Since CalPERS wouldn't provide a better explanation of TWR, I did my own research and found something remarkable. Numerous qualified sources say TWR should never be used to calculate PE returns. Internationally recognized CFA Institute Research and Policy Center says TWR should not be used, only for public assets. TWR for PE is only effective in comparing the effectiveness of various managers, not value.

The tremendous PE increase in the last three years may well be a function of using an inappropriate methodology that super inflates returns. I hope the Board will look into TWR.

And as I leave, I've got to say I've addressed committees and the Board for the last ten years, I've never had a Board member pull a stunt like this, Mr. Palkki. We prepare hours going into our presentation for three minutes. And in the middle of this meeting, we had to cut a third of it out.

So thank you, Board members, who spoke up for us.

CHAIR PALKKI: Thank you for your comments.

Mr. Flaherman.

MICHAEL FLAHERMAN: Flaherman. Hi. I'm Michael Flaherman here on behalf of RPEA.

I want to call the Board's attention to a concerning an industry standard private equity contracting practice. In almost all of its U.S. private equity contracts, CalPERS agrees to provisions commonly called "tax distributions". These provisions require CalPERS to pay private equity executives' personal income taxes.

This is not a metaphor and it's not a think a political. It's what the contracts say. Given CalPERS size, it's a virtual certainty that millions of dollars leave the trust fund every year for the contractual purpose of paying private equity executives' personal income taxes. CalPERS fiduciary counsel has advised this Board that fiduciaries must respond to red flags. I submit this is a red flag. If staff believes I've misstated this contracting practice, I welcome a correction on the record. But if I haven't misstated it, then the Board should ask a simple question, why has this -- why has this question -- why has this issue never been presented to the Board for public fiduciary review?

I won't try to engage the Board about this important matter, if the Board is not interested. So I'll make a simple offer, if even one Board member wants to hear about this topic, I ask that Board member to signal their interest now.

(No hands raised).

MICHAEL FLAHERMAN: Well, I guess the record will show that nobody has expressed an interest.

COMMITTEE MEMBER MIDDLETON: That's not appropriate.

MICHAEL FLAHERMAN: I disagree. I disagree.

RPEA's position is simple, if CalPERS signs contracts that require the trust fund to fund tax distributions for private equity executives, the Board should vote publicly that doing so is fiduciarily sound.

And let me add, I'd like to address this issue which is that you choose to remain silent. You choose to adopt a policy of it being --

CHAIR PALKKI: Mr. Flaherman, can I ask you to wrap up your comments?

MICHAEL FLAHERMAN: Well, I -- she made a specific comment to me. May I respond?

CHAIR PALKKI: Well, we're in public comment, so I'm going to ask you to either finish your comment --

MICHAEL FLAHERMAN: Well, I'll just make the observation. You choose to have a policy or a practice of not engaging and that's your choice. You don't have to do that.

CHAIR PALKKI: Thank you for your comments.

So just so that the public knows, the Board cannot make any comments on public comments.

MICHAEL FLAHERMAN: Says who? Says who?

CHAIR PALKKI: Says the law.

MICHAEL FLAHERMAN: No.

CHAIR PALKKI: Thank you.

MICHAEL FLAHERMAN: No. That is not true.

CHAIR PALKKI: Thank you, sir.

MICHAEL FLAHERMAN: Cite the law. Cite the law.

CHAIR PALKKI: Thank you, sir. Thank you, sir.

Ms. Brown, I am being told that because you

you've already spoken on 6c that if you'd like to speak again, I would suggest --

MARGARET BROWN: I'll pick another number.

CHAIR PALKKI: Just pick 6h, yeah.

MARGARET BROWN: Okay. Do you want to call me back -- do you want me to come back?

CHAIR PALKKI: I mean, if want to do 6d.

MARGARET BROWN: Yeah. It will just take --

CHAIR PALKKI: Well, actually, I've already got you down for 6d. Do you want to do 6e?

MARGARET BROWN: Sure.

CHAIR PALKKI: All right. Thank you.

MARGARET BROWN: You won't tell me what number that is. Okay. Do you want me to come back or just go ahead?

CHAIR PALKKI: Yeah. Yeah.

MARGARET BROWN: Okay. I'll come back.

CHAIR PALKKI: Thank you.

I have -- the last speaker I have is Al Darby.

Thank you.

AL DARBY: Good morning. Al Darby, Vice President, Retired Public Employees Association.

Excuse my voice.

There was a comment on the Board that either private equity or public equity, they're all investing in the same things. If that's true, then I would certainly choose private -- excuse me, public equity, because it's liquid.

My first item is CalPERS appears to have introduced a bias toward private equity since 2016 by reducing the public equity allocation from 50 percent to 39 percent now. So all of this money is moved to private equity, giving it a unbalanced kind of comparison over the ten years, because during that ten-year period, the money was shifting from one to the other, so we don't have a clear picture of how much money was actually in public equity and private equity over that time.

Secondly, the question becomes was this a condition in which we rigged the election, which is a popular notion these days.

Thirdly, the funded status today would be probably better off had we left that public equity money at 50 percent, because over the past -- since 2017, the market has gone from 1800 Dow to almost over 7,000. So I'm not sure we've made a good gain -- as good a gain in private equity as it's been suggested.

The other issue that is a problem with private equity is that we are investing in companies that are undermining CalPERS health care programs.

Thank you.

CHAIR PALKKI: Thank you for your comments. Do we have any on the phone?

BOARD CLERK LEMUS: (Shakes head).

CHAIR PALKKI: No. Okay. This actually puts us at a spot where I think we can take a lunch.

Let's take -- let's come back at 1 p.m.

CHAIR PALKKI: Well, that gives us 45 minutes, right?

No.

COMMITTEE MEMBER MIDDLETON: 1:30

CHAIR PALKKI: Oh, 1 p.m. gives us 15 minutes. Eat fast everyone.

(Laughter).

CHAIR PALKKI: Sorry. I'm not mathing right right now.

1:30, yeah. Thank you.

(Off record: 12:42 p.m.)

(Thereupon a lunch break was taken.)

AFTERNOON SESSION

(On record: 1:33 p.m.)

CHAIR PALKKI: Good afternoon. I hope everybody had a well deserved lunch, not 15 minutes lunch.

(Laughter).

CHAIR PALKKI: So we can get moving here again with our agenda. We are currently at item -- information item 6c. No. No. Sorry. Sorry. 6d, Private Debt Annual Program Review.

(Slide presentation).

CHAIR PALKKI: So, Mascha, the floor is yours.

MANAGING INVESTMENT DIRECTOR CANIO: Let me see. Yeah. That works.

Well, good afternoon, Board members. Mascha Canio, CalPERS team member, Investment Office. And I'm here with my colleagues, Justin Scripps and Ryan Ong. Together, we'll present the annual program review of Private Debt.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CANIO: In this presentation, we will cover the Program's progress and performance, the actual market environment, our strategy as well as key initiatives going forward.

Moving on to slide three.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CANIO: While the approach is different, private debt and low liquidity enhanced return, in short LLER, have similar roles in producing current income and harvesting illiquidity premium. To enhance CalPERS ability to pay pensions, private debt seeks to generate attractive risk-adjusted returns, driven by the premiums in originating and structuring of private loans.

LLER invests in collateralized loan obligations, CLOs, and seeks to harvest the illiquidity premium of investments that have a remote probability of principal loss, which is through AAA and AA tranches of CLOs. Over the last three decades, these tranches have not experienced any losses. The Private Debt Program was formally established in 2022 and currently has a total capital commitment of $63 billion, of which 40 billion is unfunded, a commitment outstanding still, and an NAV of 25 billion.

Across the different private debt strategies, the NAVs for direct lending, specialty lending, and real estate financing are 20 billion, four billion and one billion respectively. While direct lending is 80 percent of NAV, this has come down from close to 85 percent a year ago, illustrating that the portfolio is diversifying.

The LLER program has been investing since 2014 and currently has an NAV of 14 billion, predominantly in the lowest risk AAA CLOs and some AA investments.

Continuing to the next slide.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CANIO: Like the team shared with you last year, default expectations are rising with increasing economic and geopolitical uncertainty, while actual default rates remain muted. Moody's, for example, warns that one-third of U.S. companies is showing strong signs of credit deterioration. The stress on companies from the higher for longer interest rate environment, in addition to some high profile fraud related corporate defaults late 2025, have contributed to the concerns in the credit market.

Another topic attracting a lot of attention from credit investors is AI related risk and exposure. Lenders have started questioning the durability of the revenue streams of software companies. In the past, recurring subscription revenue was also predictable and very sticky. This supported lender's assumptions that as the businesses matured, those revenues would convert into cash flows to service the debt.

In light of the potential AI disintermediation, that heightened media attention for BDC's exposure to software loans has led to elevated redemption requests from retail investors in non-traded BDCs. This triggered regulatory -- sorry. Apologies. This triggered quarterly caps.

Although redemption requests are a signal of investor sentiment and not necessarily an indication of immediate credit deterioration. It does impact the ability of these non-traded BDCs to invest in new loans. And this will likely have further impacts on the private credit market creating attractive opportunities for investors with funds available, like CalPERS.

Under the current market conditions, committing to high-quality managers will be important in navigating through periods of turbulence. As the majority if floating rate based, the coupons automatically increase, resulting in a higher income stream for CalPERS.

Diversifying exposure across managers and strategies will better position the team to capture attractive opportunities with great relative value, especially during periods of market dislocation. To further reduce our overall cost, we will also continue to increase the share of no-fee, no-carry co-investments in the portfolio.

I'll now hand over to my Justin Scripps.

INVESTMENT DIRECTOR SCRIPPS: Good afternoon, Chair Palkki and members of the Board. Justin Scripps, CalPERS Investment Office team member.

Moving to our next slide --

[SLIDE CHANGE]

INVESTMENT DIRECTOR SCRIPPS: -- on program investment commitment activity, the private debt team has committed a little over $60 billion, as you see on this slide in cumulative capital since program inception. Program net asset value as of the end of March stood at $25 billion. The fiscal year '25-'26 commitment number you see reflected on the graph, reflects nine months of closed activity, so you should expect to see that number increase by about six and a half billion dollars by the end of '25-'26 fiscal year.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR SCRIPPS: Given that the Private Debt Program started with a focus on the direct lending opportunity set, that investment strategy represents about three-quarters of capital commitments to date. Specialty lending and real estate financing represent 18 and 10 percent respectively. The team's focus on growing allocations to specialty lending strategies has doubled that percentage of total commitments over the last three years with direct lending exposure decreasing proportionately.

This trend is likely to continue as the team continues to build out portfolio diversification and seek attractive relative returns.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR SCRIPPS: On a longer term lookback, strong capital flows into direct lending, in competition with public leverage lending markets, have compressed direct lending spreads, since they peaked in the first quarter of 2023, as shown by the blue bars in the graph. Base rates, captured by the gray bars, have also decreased with fed interest rate cuts.

More recently, as Mascha alluded to, stress in the business development company, or BDC, complex and associated investor redemption pressure have pushed direct lending spreads back above 500 basis points. The return -- excuse me, the team is monitoring this market to take advantage of attractive a investment opportunities that may result.

I will now ask Ryan Ong, my fellow Investment Office team member to continue the presentation. Thanks very much.

INVESTMENT MANAGER ONG: Thank you, Justin.

Good afternoon, Committee members. Ryan Ong, CalPERS team member. Under the strategic asset allocation, the main strategies in private debt were direct lending, specialty lending, and real estate financing. The direct lending strategy was further categorized into senior direct lending, mezzanine and special situations.

Under the TPA framework, we will be renaming the strategies to better align the activities of private debt.

[SLIDE CHANGE]

INVESTMENT MANAGER ONG: At the foundation will be senior direct lending and all other activities will now be under differentiating, which will include mezzanine and special situations, as well as specialty lending, and real estate financing. For this new differentiating strategy, we will continue to be transparent like how we show in the underlying substrategies of direct lending under SAA.

In addition, the expectation is that as any substrategy within differentiating becomes meaningful in size, it may be carved out to be a separate stand-alone strategy.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT MANAGER ONG: For the positioning of the LLER portfolio, the holdings are predominantly an BSL AAA CLO with a portion allocated to middle market AAA, and remaining to AA BSL CLOs.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT MANAGER ONG: In the last year, the private debt had a 13.2 percent return, which is an outstanding 467 basis points outperformance of the benchmark, which is the Morningstar Loan Syndications and Trading Association's Leveraged Loan 100 plus 125 basis points lagged one quarter. The three-year performance was 13.8 percent, which is an outperformance of 278 basis points. And as since July of 2020, the outperformance was 262 basis points.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT MANAGER ONG: For LLER portfolio in the last year, the portfolio had a 5.7 percent return, which is 148 basis points outperformance of its benchmark, which is a secured overnight financing rate. Looking at the longer horizons of three year, five year and ten years, the portfolio outperformed the benchmark by 220 basis points, 139 basis points and 164 basis points respectively.

I'll now hand it back to Mascha.

MANAGING INVESTMENT DIRECTOR CANIO: Thank you, Ryan. We can move to the next slide.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CANIO: As we reflect on what has worked, the LLER portfolio has expanded to approximately 14 billion. In addition, we've been able to execute a solid buildout of the private debt portfolio with approximately 63 billion in commitments and NAV of about 25 billion.

On top of that, the outperformance of 4.7 percent over the last year has been outstanding. Having started on only eight months ago, I can honestly say I'm fortunate to start with such a great team well-built portfolio. To bring in additional expertise and fresh perspective, when looking at private debt investments, the team's Private Debt Investment Review Committee has invited a subject matter expert from another asset class to join.

Going forward, we are looking to further expand and develop the Private Debt team, to continue to grow and diversify the portfolio. We are excited to continue to collaborate across INVO contributing to the successful implementation of TPA and the data and tech initiatives.

We can move to the next slide.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CANIO: Looking ahead, the team continues to expand this cross-team collaboration on new investments in alignment with TPA.

As mentioned, this includes having a non-private debt colleague as subject matter expert to the Private Debt Investment Review Committee. Private debt also continues to increase co-investment opportunities as well as enhanced workflow efficiencies, for example, in the underwriting process.

Going to the very last slide, that's number 14.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CANIO: Yes. We continue to work with our sustainable -- with our Sustainable Investments team to increase private debt's contribution to the climate solutions target, as well as to understand our GP's best practices and procedures. Private Debt has added a Sustainable Investment representative to the Private Debt IRC. And the team continues to work with Sustainable Investments Team on identifying relevant SI metrics to establish data channels for SI sharing.

This concludes our presentation. And before we take questions, let me take this opportunity to say thank you to, Anton, for covering as MID Private Debt until October 2025, and to all my colleagues for welcoming me with open arms. Thank you.

CHAIR PALKKI: Thank you for that report. I'm not seeing any commenters.

I will say I appreciate touching on that transparency. And seeing how we're fourth in the world, I appreciate you guys keeping that ranking, so...

So other than that, I don't have any comments from the Board.

COMMITTEE MEMBER TAYLOR: I have a comment.

CHAIR PALKKI: Oh, thank you. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you very much. I want to thank you guys for your report. It's very, very good. It's good to see that we're also doing very well in private debt, private credit.

On page four, you talked about the market environment. And I also know that in follow-up pages, it talked about that we invest in the AAA, the AA, and the -- and aAA. So when you said default expectations arising with economic and geopolitical certainty, what are our risks on that?

MANAGING INVESTMENT DIRECTOR CANIO: Well, we take credit risk. So as companies, the borrowers, have more difficulty in terms of repaying debt, that is an increase in Credit risk, right? So when interest rates stay high for longer, which is the current environment, when there's uncertainty about the basis of their business, that influences credit risk.

And this is exactly -- I was looking back at last year's presentation. It was mentioned to you also last year. Luckily, so far, we haven't really seen an increase in default rates, but the risk is there.

COMMITTEE MEMBER TAYLOR: Is out there.

MANAGING INVESTMENT DIRECTOR CANIO: Yeah.

COMMITTEE MEMBER TAYLOR: Especially with the AI -- I see this, the attention to AI-related risk.

MANAGING INVESTMENT DIRECTOR CANIO: Um-hmm.

COMMITTEE MEMBER TAYLOR: Okay. So -- and we haven't had any though, is what you're saying?

MANAGING INVESTMENT DIRECTOR CANIO: Yeah.

COMMITTEE MEMBER TAYLOR: Oh, that's good.

MANAGING INVESTMENT DIRECTOR CANIO: So far, so good.

COMMITTEE MEMBER TAYLOR: Okay. All right. Thank you.

CHAIR PALKKI: Thank you.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. Mascha, welcome and thank you to everyone. Private debt has been in the general media news quite a bit of late, mostly with relationship to AI and data centers. Can you talk about what would differentiate our exposure in private debt from what we are reading and seeing on a fairly constant basis applying to the larger industry?

MANAGING INVESTMENT DIRECTOR CANIO: Yeah. There is indeed a lot of attention. Thank you for your question. There's a lot of attention with respect to software loans and software businesses being under threat of AI, right? So where it was very sticky revenues initially, if what the software companies did can be easily replaced by AI, that creates concern about can they then continue to receive these revenues after subscriptions and repay the debt. So that's really the story behind it. And a lot of these software loans were initially originated in the years 2020, '21, maybe '22. And in those vehicles actually, there's -- they -- you see them predominantly in the BDC market. And hence, you saw the BDC market also trading down, maybe also related to the fact that the media pays a lot of attention to it.

In the portfolio that you have, private debt only really started in 2022. So the very initial investments that started in 2020 and '21 are very, very limited in terms of size, in terms of the total portfolio. And for as far as we can tell and the team definitely follows all the investments closely and talks to the managers regularly, we have no reason for real concern at this stage.

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

CHAIR PALKKI: Thank you very much. I'm not seeing any other comments, so thank -- oh, I keep speaking way too fast.

Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Can you explain why there's been the proliferation of BDCs in the private debt market? And they're publicly traded, correct, the BDCs?

MANAGING INVESTMENT DIRECTOR CANIO: (Nods head).

ACTING COMMITTEE MEMBER GALLEGOS: Does the value of the public -- we're not investing in the equity of the BDC. We're directing -- we're investing directly in the BDC, correctly -- correct?

MANAGING INVESTMENT DIRECTOR CANIO: In terms of BDC investments, we don't have those.

ACTING COMMITTEE MEMBER GALLEGOS: Oh, we don't?

MANAGING INVESTMENT DIRECTOR CANIO: No.

ACTING COMMITTEE MEMBER GALLEGOS: Okay. Never mind then.

(Laughter).

CHAIR PALKKI: All right. Going once, twice.

All right. That's all the comments we have.

Thank you so much for your report. I do have some public comment here on 6d. J.J. Jelincic and Margaret Brown.

MARGARET BROWN: Ladies first. Thank you.

Margaret Brown, RPEA, speaking as Margaret Brown this time. Thank you.

Today, I want to address a critical issue that should concern every CalPERS member, taxpayer and fiduciaries in this room, the revolving door that appears to reward investment executives twice, once while at CalPERS, and again after they leave.

Consider a specific timeline, Jean Hsu served as CalPERS global head of private debt. During her tenure, CalPERS started and expanded its private credit program, committing billions to external managers, including $2.68 billion allocation to Antares credit -- Private Credit Fund. Following her departure from CalPERS, Ms. Hsu joined the board of trustees. Excuse me. She allocated it to Antares Credit Opportunities, and now she serves on the Board of trustees of Antares Private Credit Fund.

I am not suggesting any laws were broken, but I am asking what incentives are you creating here? When investment executives receive substantial compensation in bonuses for managing managers and then later step into lucrative board seats, advisory roles, or executive positions with the very firms that received our capital, the system creates a massive alignment problem. Staff are rewarded for managing managers and private asset managers receive billions in CalPERS capital, generating massive management fees and carried interest.

At what pint do we ask whether investment executives are being rewarded for cultivating relationships that become their next career move. As one industry insider recently told me, it looks like they are buying their exit. When the same pattern repeats itself, you should ask whether this is a coincidence or the CalPERS culture?

Thank you.

CHAIR PALKKI: Thank you. Mr. Jelincic.

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

Investment Belief 7, "CalPERS will take risk only when we have a strong belief we will be rewarded for it." I assume this is a rational belief and not a Santa Claus belief. There is a higher level of risk loaning to organizations that cannot or will not borrow from banks or in the public market. Yet, slides 11 -- 10 and 11 were labeled risk -- or performance and risk analysis don't even look at risk, don't even use the word "risk", other than in the title. It's not clear to me how a program that has historically had negative cash flows helps pay benefits. I know no beneficiaries who want their retirement warrants to be IOUs.

There's no mention of secondaries in the report, yet we know from outside publications that the program engages in them. The same crazy math that applies to private equity that I couldn't explain last time because I ran out of time, applies to private debt. The Wall Street Journal reported on one transaction where a Blue Owl controlled business development corporation sold loans to a fund, which Blue Owl controlled as the GP and CalPERS owned as the LP, but only after changing the name to hide the Blue Owl control.

The Controller's Office has assured RPEA that it has examined the transaction and it is confident that it was on the up and up. However, it refused to discuss its review. I guess this part of the high level of transparency that CalPERS is so proud of.

As prudent experts, having studied and listened to the report, can you say how the Private Debt Program works, where the returns are coming from? Are they real? How much more should beneficiaries be paid for the extra risk they are being subjected to? Did you got a clear or any discussion of the risks being taken and how to adjust those risks? If not, how confident are you that you are performing your duty of care?

Thank you.

CHAIR PALKKI: Thank you for your comments.

Next, we have item 6e, Real Estate Annual Program

Report

The floor is yours.

(Slide presentation).

MANAGING INVESTMENT DIRECTOR CORR: Good afternoon. Sarah Corr, Investment staff. My opening remarks are going to be on the Real Assets Program before diving into discrete presentations on real estate and then infrastructure.

Upon reflection of fiscal year '25-'26, it was another year challenged by economic certainty and high interest rates. That being said, we are seeing signs of recovery. There have been six quarters of positive returns in the real assets portfolio. And over the past five years, the Program has provide $5 billion in value above the benchmark. We believe that CalPERS is well positioned to take advantage of the recovery, given our access to liquidity, while both real estate and infrastructure investors are on the sidelines. We are very mindful of the underlying risks and are fully engaged with our managers to preserve value and upgrade the quality of the Real Assets Program.

We are here with the support of the entire real assets team, even though there are only four of us before you today. The annual program reviews highlight a program overview, portfolio positioning, accomplishments and ongoing initiatives. I'm -- Ed and Jane will join me for the real estate presentation and Juan will for infrastructure.

[SLIDE CHANGE]

INVESTMENT DIRECTOR YRURE: Thank you, Sarah.

MANAGING INVESTMENT DIRECTOR CORR: Could I get one slide still.

(Laughter).

INVESTMENT DIRECTOR YRURE: Oh, my apologies.

(Laughter).

MANAGING INVESTMENT DIRECTOR CORR: He's anxious.

The historic role of real assets, specifically for real estate, is for providing predictable cash yield. It has driven CalPERS to focus on core real estate assets over -- which offer resiliency through the cycles. The outperformance of the portfolio in one-, three-, five- and ten-year demonstrates that this has served CalPERS well in the most recent cycle. The portfolio is fairly concentrated with 22 partners. As we expand the portfolio by adding new non-core managers, this number will increase.

Consistent with the strategic plan and the transition to the total portfolio approach, the team is focused on deploying capital at scale and adding new strategies while managing -- maintaining high underwriting standards.

Ed, now you can go.

INVESTMENT DIRECTOR YRURE: Thank you again, Sarah

Good afternoon, Board members. Ed Yrure, Investment team member, real assets.

Moving to slide four --

[SLIDE CHANGE]

INVESTMENT DIRECTOR YRURE: -- the real estate market remains characterized by elevated uncertainty. Geopolitical risk, evolving economic conditions, and a higher interest rate environment continue to influence investor sentiment and capital flows.

Financing costs remain above historical norms and lenders continue to maintain disciplined underwriting standards. These factors have contributed to valuation uncertainty, slower transaction activity, and delayed exit opportunities. While transaction volumes remain below long-term averages, we are seeing signs of recovery, as pricing expectations between buyers and sellers begin to converge. Fund raising conditions also remain; challenging with longer timelines as investors manage liquidity constraints and portfolio allocation pressures.

Despite these headwinds, the opportunity set is improving. Repricing has created more attractive entry points, particularly within non-core strategies. Valuations have largely stabilized. Yields have become more compelling, and property fundamentals remain supported by improving the rent and growth in net operating incomes.

In addition, stress within portions of the capital stack is creating attractive opportunities for well-capitalized investors with the scale, flexibility and execution capabilities to act decisively, such as CalPERS.

Turning to slide five, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR YRURE: Against this backdrop, our focus remains on building a resilient portfolio while positioning for long-term value creation. We continue to advance implementation of TPA by collaboratively integrating investment, operational and governance capabilities in allocating capital. At the portfolio level, we are expanding our non-core capabilities, while maintaining a strong core foundation. This balance is intentional.

Core investments provide stability, income, downside protection, while allowing us to selectively pursue high return opportunities in non-core strategies as market dislocation cleats attractive entry points. Looking head, our priorities are: One, to continue advancing TPA through cross-asset class collaboration; two, rebalance between core and non-core strategies or market opportunities justify the risk; three, optimize the core portfolio through selective acquisitions and the exit of non-strategic holdings; and four, leverage CalPERS scale, relationships and certainty of execution to access differentiated investment opportunities.

Turning to performance on slide six.

[SLIDE CHANGE]

INVESTMENT DIRECTOR YRURE: The real estate sector has faced significant challenges over the past decade, including the pandemic, the rapid rise in interest rates, challenged property fundamentals, and elevated capital costs. These events have weighed on industry-wide returns.

Despite these Challenges, our portfolio remains resilient and continues to outperform its benchmark across all reporting periods. Excess returns range from 10 basis points over the ten-year period to 280 basis points over the most recent year.

In summary, we believe the portfolio is well-positioned to capitalize on opportunities emerging across both core and non-core strategies and to generate attractive long-term risk-adjusted returns for the fund. At this time, I'll turn it over to Jane to cover the next few slides.

Thank you very much.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DELFENDAHL: Thank you, Ed. Good afternoon, Board members. I'm Jane Delfendahl, Investment team member in Real Assets.

I'll be discussing slides seven through nine, which are performance and allocation analysis and review of business updates and key initiatives.

On slide seven, seven we're looking at our positioning within real estate in terms of risk profile. The real estate portfolio is currently 88 percent core, versus 12 percent non-core. As we are continuing to expand our non-core exposure, this non-core percentage is projected to reach around 25 percent by 2030.

In addition, on slide seven, we show returns bifurcated between core and non-core versus the real estate policy benchmark. The non-core returns clearly did not meet expectations. But as discussed in previous presentations, we haven't materially invested in non-core for around a decade. So the returns you see here are driven by legacy assets that we have been seeking to liquidate. Our new non-core investing initiatives started in 2024. And therefore, the new commitments are too new to show any meaningful performance.

As part of the non-core initiative, we've established an investment plan, including a fee-efficient co-investment program, reorganized staff and devoted additional resources to the effort.

Turning now to slide eight.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DELFENDAHL: Here, we discuss achievements of the current year. Notably, real estate outperformed the policy benchmark over the one-, three-, five- and ten-year periods. Also, it appears that the portfolio is stabilizing after the downturn with six consecutive quarters of positive returns. Further, along with expanding our non-core investments and capabilities, we made progress on our data and technology initiative, collaborating with the Total Fund.

Turning to slide nine --

[SLIDE CHANGE]

INVESTMENT DIRECTOR DELFENDAHL: -- we discuss key initiatives going forward. These include, facilitating TPA implementation along with the total fund, continuing to scale non-core exposure taking advantage of CalPERS scale and brand, and continuing to advance the data and tech initiative. And now, I will turn it over to Sarah Corr to discuss sustainability.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Thanks, Jane and Ed. There continues to be strong collaboration with SI to achieve the 2030 Sustainable Investment Strategy. SI has participated in the due diligence of five investment opportunities. We continue to work with our separate accounts on the Energy Optimization Initiative for Real Estate. Yeah. The initiative provides a systematic approach for identifying attractive energy optimization opportunities that meet or exceed the return requirements.

At the same time, the Initiative seeks to reduce the carbon intensity and enhance the long-term value of CalPERS investments. Climate solutions in real estate focuses mostly on mitigation, such as energy-efficient buildings with sustainability certificates.

In closing, we remain focused on upgrading the quality of the portfolio, diversifying into non-core strategies and delivering strong performance.

That concludes the Real Estate presentation and I'd be -- we'd be happy to take questions.

CHAIR PALKKI: Thank you for that report.

Just looking at some of the -- some of the breakdown of property types. I constantly -- at the -- at the community college, I'm constantly running into students that are sleeping in cars and in parking lots.

And I keep thinking to myself, okay, why do these colleges not put up dorms? Are there -- are there opportunities like that that we haven't thought of that are popping up now. I know like the housing bubble burst and things of that sort, but are there other options when it comes to real estate that we're looking at and --

MANAGING INVESTMENT DIRECTOR CORR: As it relates to student housing specifically, we are -- as part of redoing our residential sector plan, are looking at student housing and have made a couple commitments to that. I'll tell you, dorm rooms don't look like they did when I went to school.

CHAIR PALKKI: Thank you.

Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you for the presentation. You distinguish between non-core that we haven't done and then a new one that started around 2024. Can you explain a bit more what is non-core?

INVESTMENT DIRECTOR DELFENDAHL: So non-core strategies are where we take slightly more risk than core strategies. Where core is buying stabilized property with start of a determined rental growth, where non-core strategies entail repositioning assets to increase the value of that asset. So part of the return will be due to appreciation of the asset.

COMMITTEE MEMBER RUBALCAVA: And what's the difference between what we did before, say ten years ago, and what we do now? I mean, how do --

INVESTMENT DIRECTOR DELFENDAHL: Core is investing in stabilized assets, where they're already cash flowing. There are less opportunities for appreciation.

CHIEF INVESTMENT OFFICER GILMORE: Maybe an example -- maybe an example here is if you've got a building that's fully leased, you might think that's core, leased to a good tenant. And what Jane is talking about, ones that's not stabilized is maybe one where it's not fully leased and you've got to go and find the tenants. So we've got to maybe do some refurbishing or redecoration to try and create something that looks more core like.

MANAGING INVESTMENT DIRECTOR CORR: And then I would say what's different now versus when we were doing non-core 10, 15 years ago is, at that point in time, there was a lot of development. So we were doing a lot of housing development, that -- in the early 2000s, which in 2008, '09, '10 did not serve us very well. In this refresh of the non-core strategy, we will not be focusing on development.

COMMITTEE MEMBER RUBALCAVA: Thank you for that clarification. Appreciate it.

CHAIR PALKKI: Thank you.

Ms. Willette.

COMMITTEE MEMBER WILLETTE: Thank you. I had a question on the integration of the governance and sustainability activities. You said that there are, if I can find it, five investment opportunities were reviewed, as part of the sustain -- the Governance and Sustainability Initiative. How were those five investments selected? What's the criteria to be reviewed?

MANAGING INVESTMENT DIRECTOR CORR: So that maybe have been poorly worded on my part. They participate in the due diligence of all new managers that we do.

COMMITTEE MEMBER WILLETTE: Okay.

MANAGING INVESTMENT DIRECTOR CORR: And they focus on the sustainability part of it. We did five due diligence -- we due diligenced five opportunities in the year with new managers.

COMMITTEE MEMBER WILLETTE: I'm sorry. Can you just repeat it one more time or rephrase it, so I get it clear.

MANAGING INVESTMENT DIRECTOR CORR: So SI participates in the due diligence of all new managers.

COMMITTEE MEMBER WILLETTE: Okay.

MANAGING INVESTMENT DIRECTOR CORR: During this fiscal year, there were five opportunities that we looked at that -- we looked five and they participated in all five of those.

COMMITTEE MEMBER WILLETTE: Okay. Understood. Thank you.

CHAIR PALKKI: Mr. Johnson.

COMMITTEE MEMBER JOHNSON: Yes. So I have -- I have seen a lot about the Sustainable Investment Strategy being set. This is the first time I've seen where we have pledged to invest a hundred billion in climate solutions by 2030. This might be a better question for Stephen. Where are we in that?

CHIEF INVESTMENT OFFICER GILMORE: I can answer that or Peter can answer it. You will have seen in that dashboard earlier, we had a number of over 59 billion in terms of the amount we'd invest in climate solutions. Now, I think Peter mentioned that we would update that number in November of this year. So we get exposure via the list of markets. We get exposure via real assets. We get some exposure via private equity and then -- and so on. But the last number we published I think was 59 point something, 59.5 -- reminding me.

COMMITTEE MEMBER JOHNSON: Great. Thank you.

CHAIR PALKKI: Thank you. I am not seeing any other questions, so thank you very much for the report.

That brings us to public comment on 6e. We have J.J. Jelincic, Halyard Freyder, and Margaret Brown.

MARGARET BROWN: You can go first.

HALYARD FREYDER: Okay. Thank you. Are you ready?

CHAIR PALKKI: Yeah.

HALYARD FREYDER: Hello. My name is Halyard Freyder. I am SEIU-USWW security officer in San Francisco. I am here representing the multitude of officers who protect and who maintain the properties that CalPERS is invested in. Thank you for your opportunity to speak with you today and I look forward to it.

I've been in security for a little over a year and a half now and I'm a proud member of SEIU-USWW. Right now, myself and thousands of security officers across California are bargaining for a new contract, not just to raise the industry standards, not just for wages, but for health care, sick leave and retirement plans. This is all part of a basic respect that I believe and I -- the union believes is just for workers.

One reason that we are here today is that we believe that our interest -- that the interests of security officers are completely aligned with the interests of the CalPERS participants. We believe this, because if we do our job well, your investment portfolios will have a better chance and will grow in the same way that we will.

Security officers in California protect many types of buildings from high rise commercial real estate to tech and biotech giants, to hospitals and retail. Our presence helps deter unwanted activities from unwelcomed guests, provide comfort to tenants, and to help protect proprietary interests from these businesses. We engage with homeless individuals, some with mental health issues. And sometimes, we must de-escalate aggressive behaviors from homeless people or guests themselves.

There is a misconception that security officers are here just to observe and report. That is not always true. We are expected to be first responders to on-site emergencies and we try to prepare as such.

We recognize and applaud CalPERS response contracting policy standards and their di -- excuse me -- and their -- at their directly-owned asset property. This gold standard should be a model for all responsible building owners to strive towards, but unfortunately these high standards don't apply across the fund's entire investment portfolio. Many of my fellow union security officers across California help protect CalPERS assets. We put our lives on the line every day for it.

Our goal over the next couple of months with these thousands of security officers will be to bargain for a new contract. Our goal is raise industry standards to keep peace with the demands of being a security officer and I appreciate your time today.

Thank you.

CHAIR PALKKI: Thank you for you comments.

Ms. Brown.

MARGARET BROWN: Thank you. I'd just like to say it's nice to have somebody young at the dais providing public comment. So thank you for coming.

My name is Margaret Brown representing RPEA. My comments are on private equity.

According to the report we heard earlier, you know, everything is awesome with the new private equity strategy -- I didn't sing it to save you. You're welcome -- unless you actually understand the fundamentals of private equity. Take, for example two 2024 funds you're invested in. Veritas Capital Fund IX, you've committed 400 million, but only nine million has been called. And Cobalt Investment Fund, where you've committed 100 million, but only 25 percent, a little more, has been called. So how are these funds operating?

Well, most likely, they are using subscription lines, essentially borrowing money from banks to operate. This is a common practice, but it gives illusory returns on those funds. And those -- that's what was shared today by your CalPERS team. So I urge you to ask your consultant, Meketa, about the returns on these new strategies presented today. While they might be correct arithmetically, they are not long lasting. Please ask Meketa if these 20 and 30 percent illusory returns are expected to continue in the future.

Thank you.

CHAIR PALKKI: Thank you for your comments.

Mr. Jelincic.

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

My friend Ed felt slighted last year when I didn't comment on the Real Estate Program and I didn't mean to slight him.

Real estate is supposed to act as a diversifier. Primarily produce most of its returns from cash generation. The staff report does not talk about cash, although Meketa does. There is an undefined expectation that real estate will implement TPA. Beyond consultation and taking on more risk, it does not explain how.

The plan is to further -- to move further way from the real estate benchmark by increasing non-core holdings, holdings with greater risks, development, less specialized -- or less stabilized properties - sorry about that - high loan-to-value, less focus on income. How the presumably higher returns will be risk adjusted, if at all, remains undisclosed.

Real estate is heavily weighted -- heavily overweighted in retail and severely underweighted in apartments. The review does not comment on why. This is a major bet. It may be a reasonable choice, but it is worth explanation.

I do want to give the Real Estate a shout-out. It is the one private asset that at least gets its valuations reviewed by an independent, non-self-interested third party. It gives greater confidence in the accuracy of its reported, although non-risk adjusted returns.

Thank you.

CHAIR PALKKI: Thank you for your comments.

I do not have any other public comment on this item.

So we can move forward to Item 6f, Infrastructure Annual Program report.

(Slide presentation).

CHAIR PALKKI: Ms. Corr, the floor is yours again.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Good afternoon again. The infrastructure portfolio fulfills the role of providing inflation protection within the Real Assets Program. The infrastructure portfolio is comprised of essential assets, predictable revenue models, which provide downside protection.

Consistent with the Strategic Plan, the team continues to focus on deploying capital at scale while maintaining high underwriting standards. Over the past year, we have made $9 billion in new commitments, and the value of the portfolio has increased by $5 billion.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Our current concerns are the uncertainties that are reshaping how we think about risk. Pricing is elevated in certain sectors, such hyperscale data centers. And as the asset class has grown, there's an expanding understanding of what is considered an infrastructure investment.

While there has been a rebound in fund raising, the time it takes to raise a fund continues to be prolonged. Currently, the largest investment opportunity -- opportunities appear to be in data center development, utilities and power generation. These all somewhat -- are all somewhat interconnected, as demand for development of power-hungry data centers to deliver AI is the underlying driver.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Now that there is an established core portfolio, staff has begun to add to -- add some non-core strategies to the portfolio.

The positioning of the portfolio has resulted in consistent performance, with results being between eight and nine percent for all time periods. Consistent with the strategic plan, the team continues to focus on deploying capital at scale, while maintaining high underwriting standards, and focusing on co-investment sidecars.

We commit capital to partners in a cost-effective way by making large co-investments. Our partnerships with SI remain strong and we continue to collaborate with the SIT -- SI team on energy transition and renewable assets.

I'll now turn it over to Juan.

[SLIDE CHANGE]

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

The infrastructure portfolio is approximately 60 percent core and 40 percent non-core. This marks a significant strategic shift from five years ago and is consistent with the Real Assets Strategic Plan. Staff expects to further decrease core exposure, aiming to capitalize on more attractively priced non-core investments.

The portfolio has experienced a notable acceleration in growth during the last five years from about $6 billion in 2021 to approximately $24 billion in

2025. In terms of performance, the portfolio has proven to be resilient and has outperformed its policy benchmark across all time periods. As the non-core commitments mature, we would expect the overall performance to improve accordingly.

Moving on to page number 7.

[SLIDE CHANGE]

INVESTMENT DIRECTOR GAVIRIA: The portfolio remains concentrated between U.S. and international developed markets. Since the opportunity set is historically larger outside of the U.S., it is possible that the international exposure grows over time. Further, certain sectors are more easily accessible internationally.

With respect to sector exposures, the portfolio is well diversified with a slight tilt towards transportation, utilities, and digital assets, such as data centers and cell phone towers. Staff has intentionally targeted exposure to areas that are benefiting from structural tailwinds, such as data infrastructure, power generation including renewables, and electric utilities.

Moving on to page number eight.

[SLIDE CHANGE]

INVESTMENT DIRECTOR GAVIRIA: The portfolio continues to achieve scale and diversification throughout the year, gradually leaning into non-core investments. Scaling partnerships with a strategically chosen group of investment managers has been instrumental in allowing CalPERS to act as the global marketplace and to build a large and growing portfolio. A notable investment was a large commitment to acquire a stake in AES Corporation, which will provide the portfolio with further renewable and electric utility exposure.

The Co-Investment Program, while relatively new, continues to deliver a significant amount of attractive fee-free opportunities, similar in size to the fee-paying commitments we made to commingled funds.

Finally, there has been very close collaboration with the Sustainable Investments team, jointly evaluating multiple investments. The Program is ahead of schedule relative to its 2030 target of investments that meet the climate solutions definition.

Slide ten -- nine, I'm sorry.

[SLIDE CHANGE]

INVESTMENT DIRECTOR GAVIRIA: The team is motivated and will continue advancing TPA through cross-asset collaboration. We have a very ambitious commitment plan for fiscal year '26-'27, and there are plenty of co-investment opportunities to review and managers to conduct diligence on.

Finally, the team is reviewing various middle market managers and we'll likely add exposure to that segment in the coming year.

I'll now turn it over to Sarah to cover the remaining slides.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Thank you, Juan.

Similar to my comments on Real Estate, they're a strong collaboration with SI, and market mapping, and due diligence. During the fiscal year, we committed 2.5 billion to climate solution investments. In closing, the Infrastructure team remains busy and is focused on building out a quality, diversified portfolio.

We'll now take questions.

CHAIR PALKKI: Thank you so much.

Oh, here we go. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: So this is where we were going to discuss this, huh?

(Laughter).

COMMITTEE MEMBER TAYLOR: I appreciate it. The report was very good and it also kind of went into the detail about the SI investments. But I did want to make sure you guys are saying part of it for AES is already renewable but there's also change going on for the part that's fossil fueled?

MANAGING INVESTMENT DIRECTOR CORR: That would probably be a more appropriate closed session discussion.

COMMITTEE MEMBER TAYLOR: All right. Thank you.

CHAIR PALKKI: Ms. Willette.

COMMITTEE MEMBER WILLETTE: Thank you. Thank you for the presentation. So the market section of the deck says we're in a period of unprecedented demand, specifically for data centers and AI infrastructure. So I have a couple of questions specific to those sectors. And a few minutes ago, you said that SI participates in all diligence. So for infrastructure, specifically data centers an power infrastructure, when Sustainable Investments is participating in the diligence, what are they actually looking for?

MANAGING INVESTMENT DIRECTOR CORR: So when they are participating in the diligence, it's at the manager level. So we're diligencing the manager before they've made any commitments. If they have an existing portfolio, SI would look at that, but I think Peter is probably a better position to explain what they look at right in their diligence process.

MANAGING INVESTMENT DIRECTOR CASHION: Director Taylor, so the question is the SI's ESG review and role for data centers?

COMMITTEE MEMBER WILLETTE: Yes.

COMMITTEE MEMBER TAYLOR: Ms. Willette.

MANAGING INVESTMENT DIRECTOR CASHION: Oh, sorry.

COMMITTEE MEMBER WILLETTE: That's okay.

(Laughter).

MANAGING INVESTMENT DIRECTOR CASHION: So our approach with infrastructure managers is similar across private markets in that we have an ESG review and then we also flag those either companies or sectors that have higher risk. For a data center developer or infrastructure provider to the data center, we would want to assess that they have in place kind of strong ESG reviews, that they appoint consultants to do a review of impact on the site. That would include water. That would include social and human capital considerations.

I would not say that we have a differentiated or specific strategy or ESG review process for data centers at this point. I did mention earlier in the morning session that with Ceres, they have initiated a responsible AI data center 10-point program. And we think that is very much a good approach. And, you know, we're working with them to distribute that to the various hyperscalers.

COMMITTEE MEMBER WILLETTE: Thank you. I appreciate that, because I think, as we -- as has been said, this is an unprecedented cycle and we haven't had diligence on data centers in the past. And so I think having a framework updated to reflect what's specific about this moment would be beneficial. I mean, you called it out. The water intensity is different. The power demand is different. Frankly, the political environment is different. And the demand need driving the data center use is also, I would say, unprecedented.

I'm going to ask specifically to include siting risk as part of a framework assessment if -- or if you can tell me if that is part of the current ESG framework assessment that you're using or the conversations with Ceres.

MANAGING INVESTMENT DIRECTOR CASHION: We'd have to check on that.

COMMITTEE MEMBER WILLETTE: Okay. I just think we're seeing a lot of headlines and information on community opposition, the water, the grid capacity, permitting delays, right, what all those cost? And those are all going to affect returns. So I think that it's really important that we look at siting risk when we're doing the assessment of AI infrastructure or data center investment.

And then my next question, whoever wants to answer it, pivoting a little bit, is that these also require a lot of construction, a lot of contractors on the ground, and some places where there's not strong laws. So is the Responsible Contractor Policy being applied to the contractors building these assets? And if you tell me yes, what's the enforcement mechanism?

MANAGING INVESTMENT DIRECTOR CASHION: So I'll just -- Sarah can comment further, but I think the RCP would only apply if CalPERS had a majority stake, directly or indirectly, in that company.

Sarah.

MANAGING INVESTMENT DIRECTOR CORR: Yeah. So for -- we don't do development of data centers in real estate. There is some development of data cents within the infrastructure portfolio. In the infrastructure portfolio those are commingled funds, and so the 50 percent threshold wouldn't get triggered, and so RCP would not apply to those investments.

COMMITTEE MEMBER WILLETTE: Okay. Thank you.

CHAIR PALKKI: Thank you. That is all the comments I have. Thank you. Than for that report.

I do not have any public comment for 6f. However, let's get into -- so that brings us to 6g, but before, we do have Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. I ask the Chairman to allow me to raise an issue just as we get into Committee direction. And by way of context for this, I have been on the other side of the dais. I know exactly what it is like to finish a meeting and feel like what you're doing next is immediately moving on to preparation for the next meeting and having no time to get your job done.

That said, I am concerned that we are meeting too infrequently in public for the Investment Committee. And that is a particular concern as we make the transition to a TPA model. I also am concerned with the manner in which our scheduling for the Investment Committee has matured. We are here today with a meeting that was set to begin at 8:45 in the morning and has a 6:50 scheduled end. We will be very lucky if we are out of here at 6:50 this evening. That's not the most effective way to manage anyone's time and decision-making on issues that are incredibly important.

I'm not specifically calling for any particular change in terms of numbers. What I would like is for staff to sit down with one another, as well as with members of the Board, and develop alternatives and recommendations to come back to the Board to make a decision as to whether or not there are, in fact, any changes that the majority of the Board would take and support.

With that, I am hopeful that we can get a strong conversation on what will make for the most effective public meeting time for the Investment Committee. And I lastly will say I incredibly appreciate the workload that you already have and what you have done to inform the public and us, as we -- as we take and perform our jobs.

Thank you.

CHAIR PALKKI: Thank you very much. I would concur with that and I would like to put that into Committee direction, that either -- and maybe it's myself and Mr. Miller, we can sit down with Stephen and Marcie, or whatever, and figure out some sort of an agenda of maybe two more days to get us up to six for the year. And maybe it's just like a one-day sort of -- sort of like how we do May closed session with the Health Benefits, something of that sort, something in that range. I don't know. I'm just -- but maybe we can sit down and sort of hash it out how this would work.

And then also, I do want to find a way that we can move public comment to the beginning of the agendas, so that way we can have that discussion with our -- or have that comment from our stakeholders and our public first, because I think that's very important. And then obviously we'll figure out some time that works.

So, anything else that you --

CHIEF OPERATING INVESTMENT OFFICER COHEN: We did. Just to note for the record. Two questions from members that we committed to get back to. One was on 6a, sort of the history of active risk from Director Middleton. And then just a minute ago on infrastructure, sort of how siting risk with data centers interacts with Ceres frame work, et cetera. And then the two you just mentioned, so four total.

CHAIR PALKKI: Okay. Thank you so much.

I do not have any public comment on 6g, but I do still have to hold 6h, public comment. And I have four people -- no, sorry, three in-person and two callers. So, I'll call forward J.J. Jelincic, Larry Woodson, and Michael Flaherman.

J.J. JELINCIC: J.J. Jelincic, RPEA, for the last time today.

The System boasts about its transparency. As proof, it points to the CEM ratings. I remind you, the members and the employers, that CEM publicly told you in January it rates you on public disclosure. It does not look at -- it looks at did you publish something. It does not look at whether the information is timely, accurate, or relevant. The Committee has had at least five presentations using December 25 values for the private equity and at least three using March 26 data.

However, your website Private Equity fund performance an review, you disclose only September '25 data with a notice that the general partners have 120 days to furnish financial information. December and March have come and gone. June soon will be. You also note funds with a vintage year of 2021 or later are in the initial stages of their investment cycle. Any performance analysis done on those funds would not generate meaningful results, as private equity funds are understood to be long-term investments. So your staff has been reporting on what they define as non-meaningful results.

The Private Debt -- and I see I'm getting cut off again. Private Debt posts the December '25 data and notes that anything after 2021 is not meaningful.

The CalPERS website no longer posts Form 700s for the CEO and the CIO. I don't know why. For those who don't know, you can get those either by asking CalPERS or FPPC. FPPC is quicker.

I'm just going to go to the last line. Just think how much -- how bad it would be if tran -- if CalPERS were not so transparent.

Thank you.

CHAIR PALKKI: Thank you for your comments.

Mr. Woodson.

LARRY WOODSON: Good afternoon. Larry Woodson again. This time I want to focus on what all of us likely agree is the true value of PE returns at the time liquidation. As you may recall last year, I submitted a PRA request for a list of all PE funds liquidated between 2022 and 2024. I finally got a list and I believe it's accurate. And it was a table of 115 funds with 11 columns. The key columns, total distributions, which could be compared to capital invested.

Of the 115 liquidated funds, 65 were 15 years or older, 17 were 20 plus years, meaning that 71 percent of the liquidated funds were 15 years or older, zombie funds, meaning dead and not able to be easily sold. CalPERS continues to pay two percent annual management fees on them for no management performed. Using the net IRR since inception, I was able to determine the 20 -- that 20 of the 115 funds lost money, three lost 100 hundred percent, 25 of the funds made five percent or less. Thus, 40 percent of the funds either lost money or gained less than five percent.

Using total distributions, compared to capital invested, I ran a money-weighted average. And the overall average gain is 6.8 percent. Now, that is an approximate, but I am confident is nowhere near the average five-year, 13 and a half percent reported this morning, which, by the way, encompasses the period as liquidated funds -- of the funds.

Unfortunately, staff doesn't make these key liquidated fund reports available to the Board or to the public. They need to.

In conclusion, I think the reported PE unliquidated returns are significantly inflated. Staff could do better with larger investments in S&P and less in PE. And the Board needs to question the staff on the use of time-weighted reports in calculating. And lastly -- well, by the way, eight large State pension funds are reducing their PE allocations this year.

Lastly, my main concern with PE is the tremendous harm it's causing to our health care system. More on that tomorrow. Thank you.

CHAIR PALKKI: Than you for your comments.

Mr. Flaherman.

MICHAEL FLAHERMAN: Hi. Mike Flaherman from RPEA. I want to start by echoing Ms. Middleton's comments about the idea of the Board meeting much more frequently. I think that's a terrific idea. I think it's really necessary and I would encourage this working group, if you're going to be considering how to deal with this, maybe you should have somebody go through and pull out of all of the statutes where there are reporting requirements to the Board, everything that says the Board shall receive a report monthly. Because it's very clear in the statutory scheme that there's an assumption that the Board meets every month.

And if the Board is not going to meet every month, I think you should have a cleanup bill. And you should go over to the Legislature and you say in 1980 when that statutory monthly requirement was put into place, we met every month, we were a hundred percent fixed income, but we thought we needed to meet every month. But now we have this very complicated portfolio, but is six times enough -- six times a year is enough.

And so I apologize for becoming argumentative with Ms. Middleton. I shouldn't have done that, but Board member -- but the public does have the right -- the Board members do have a right to respond to public comment. Bagley-Keene prohibits substantive deliberation for matters that are not on the agenda and you're not supposed to favor some commenters over others.

But CalPERS has resolved this tension, there is a tension in that by training the Board to appear as if it doesn't care what anyone says during public comment no matter how important the issue may be. That may be administratively convenient, but it's not required by law that you look like you don't care. And it looks painful for you. It looks -- I see the pain on the faces of some of you. You didn't spend your career serving workers, retirees, and the public to come to this Board and be told that your job is to give the back of your hand to members of the public who engage you in the very forum the law requires for engagement. The public I think sees that discomfort. We see it on your faces when you're forced to remain silent, but that silence is a choice, it's not the law.

CHAIR PALKKI: Thank you for your comments.

We have two callers.

CALPERS STAFF: Yes, Chair Palkki. We have Mary Smith here to comment on Item 6h. Mary Smith, you are now live and can proceed with your comments.

CHAIR PALKKI: Go ahead and you can speak, if you're there.

CALPERS STAFF: Mary Smith, are you there?

Okay. We will proceed with the next caller.

CHAIR PALKKI: Thank you.

CALPERS STAFF: Next, we have William Michael Cunningham to comment on 6h. William Michael Cunningham, you are now live and can proceed with your comments.

WILLIAM MICHAEL CUNNINGHAM: Goo afternoon, members of the Investment Committee and staff. My name is William Michael Cunningham of Creative Investment Research. I hold a master's degree in economics, and an

MBA in finance both from the University of Chicago. My statement on your Governance and Sustainability Principles can be found on our website at creativeinvest.com/calpers1.pdf.

Now, CalPERS maintains a governance framework that recognizes the importance of financial, physical and human capital in creating long-term value for beneficiaries, something that not all funds do these days. Investors cannot effectively evaluate long-term risk, however, without access to reliable workforce data. These disclosures are investment-relevant information.

By way of background, my work in this area goes back almost four decades. In 1991, I created a fully adjusted return methodology to measure both financial and social returns. That work was undertaken to answer a practical investment question how can returns be measured more accurately in a way that's useful to investors? The same question led us to develop diversity measurement frameworks. And ultimately, in 2006, one of the earliest diversity focused investment research initiatives at diversityfund.net. The progression was straightforward, fully adjusted return, social return measurement, diversity scoring, and practical investment applications.

We support the principle's emphasis on Board diversity, workforce disclosure, and human capital management. Investors need more decision-useful information, not less, basically because the markets function best when material information is transparent, comparable, and available to providers of capital.

I also encourage CalPERS to continue leading by example. The same standards of transparency, accountability, workforce disclosure and diversity measurement that CalPERS expects from portfolio companies and external managers should continue to be reflected in CalPERS own governance and reporting practices, as they have in the past. Maintaining rigorous disclosure standards is consistent with CalPERS fiduciary duty and its responsibility to generate sustainable returns for current and future beneficiaries.

Thank you. End of a long day.

CHAIR PALKKI: Thank you for your comments.

I believe the first call is back.

CALPERS STAFF: Yes, Chair Palkki. We have Mary Smith to comment on 6h. Mary Smith, you are now live and can proceed with your comments

MARY SMITH: My name is Mary Smith. I'm a concerned CalPERS retiree calling about the SpaceX IPO. I want to commend the CalPERS CEO Marcie Frost for co-signing the joint letter calling out SpaceXE's governance as the most management-favorable framework in the history of U.S. public markets. That was exactly the fiduciary leadership CalPERS members deserve, but that letter may not be enough, and today's agenda documents why.

Today's CIO report shows CalPERS already faces a 39 percent chance of dropping below 70 percent funded. Today's ALM document shows virtually every affiliate fund carries significant global equity index allocation. Those are the funds that will be forced to buy SpaceX, because Nasdaq and FTSE US rewrote the rules to fast track it into their indexes within days of its June 12th IPO. No vote, no opt-out, no choice.

There is no PE ratio for SpaceX, because they have no earnings. Financial Systems reported as PE 999X. It trades at a hundred times its annual revenue, while the S&P 500 trades at two to three times. This direct contradicts CalPERS own liability-driven investment principles. The S&P 500 and Dow Jones Industrial Average were the only flagship indexes that refused to change their rules.

My questions for the Board are: What dollar value SpaceX will CalPERS be forced to absorb; two, can allocations shift towards S&P 500 and Dow Jones Industrial Average funds that held the line; and three, will CalPERS formally challenge the Nasdaq and FTSE Russell rule changes, alongside the New York City Comptroller? CEO Frost did the right thing. I urge this Committee to back her up. Thank you.

CHAIR PALKKI: Thank you for your comments.

That concludes all of the public comment we have for today's open session. We'll take a short 10-minute break and then we will recess into closed session for items one through seven from the closed session agenda, and we'll immediately reconvene to open session after closed session.

Thank you.

(Off record: 2:50 p.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session)

(On record: 5:38 p.m.)

CHAIR PALKKI: Thank you, everyone. We've returned from closed session and that concludes our meeting for the Investment Committee. We'll see everybody tomorrow at 8:30 for Health Benefits.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 5:38 p.m.)

CERTIFICATE OF REPORTER

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 20th day of June, 2026.

James F. Peters

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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