

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

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

MONDAY, SEPTEMBER 14, 2026
8:47 A.M.

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A P P E A R A N C E S

COMMITTEE MEMBERS:

Kevin Palkki, Chair

David Miller, Vice Chair

Malia Cohen, represented by Deborah Gallegos

Michael Detoy

Monica Erickson

Troy Johnson

Fiona Ma, represented by Patrick Henning

Lisa Middleton

Ramon Rubalcava

Theresa Taylor

Yvonne Walker

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Chief Operating Investment Officer

Stephen Gilmore, Chief Investment Officer

Prashant Yerramalli, General Counsel

Robert Carlin, Senior Attorney

Ron Chavez, Investment Manager

Shazia Dawood, Investment Manager

Amy Deming, Investment Director

A P P E A R A N C E S C O N T I N U E D

STAFF:

Richard Fiebrandt, Investment Manager

Rafael Garcia, Investment Manager

Drew Hambly, Investment Director

June Kim, Deputy Chief Investment Officer

Simiso Nzima, Managing Investment Director

Brian Parks, Investment Manager

Christine Reese, Investment Director

Renee Salazar, Deputy General Counsel

Justin Scripps, Managing Investment Director

Sin Sai Vang, Investment Manager

Lauren Rosborough Watt, Investment Manager

ALSO PRESENT:

Ralph Ballard

Jennifer Blair

Dr. Britt Dowdy, CFT

Michael Flaherman, Retired Public Employees Association

Tammy Loreda Dhanota, Service Employees International
Union Local 521

Tom Gjerde

Kellie Guevara, Service Employees International Union
Local 521

Edward Hasbrouck, Divest from Tesla

A P P E A R A N C E S C O N T I N U E D

ALSO PRESENT:

Jameel Hunt, Service Employees International Union, United
Service Workers West

J.J. Jelincic, Retired Public Employees Association

Scott Kelley

Manju Kumar

Stephanie Marvin, Service Employees International Union
Local 521

Steve McCourt, Meketa Investment Group

Tom Pattison, Divest from Tesla

Ruth Radetsky, Divest from Tesla

Frank Ruffino, California State Retirees

Stacy Schmidt, Service Employees International Union Local
521

Tom Toth, Wilshire Advisors

Larry Woodson

I N D E X

	PAGE
1. Call to Order and Roll Call	1
2. Public Comment	2
3. Executive Report – Stephen Gilmore	18
4. Action Consent Items – Stephen Gilmore	25, 29
a. Approval of the September 14, 2026, Investment Committee Timed Agenda	
b. Approval of the June 15, 2026, Investment Committee Open Session Meeting Minutes	
c. Supplemental Income Plans Glide Path Implementation	
5. Information Consent Items – Stephen Gilmore	26
a. Annual Calendar Review	
b. Draft Agenda for the November 16, 2026, Investment Committee Meeting	
c. Quarterly Update – Affiliates Performance and Risk	
d. Quarterly Update – Investment Controls	
e. Disclosure of Placement Agent Fees and Material Violations	
6. Information Agenda Items	
a. Affiliate Fund Policy Amendments – First Reading – Amy Deming, Christine Reese, Rafael Garcia	29
b. CalPERS Trust Level Review – Stephen Gilmore, Lauren Rosborough Watt	37
c. CalPERS Trust Level Review Consultant Report – Tom Toth, Wilshire Advisors; Steve McCourt, Meketa Investment Group	77
d. Global Fixed Income Annual Program Review – Justin Scripps, David Bader, Richard Fiebrandt	95
e. Global Public Equity Annual Program Review – Simiso Nzima, Ron Chavez, Shazia Dawood, Drew Hambly, Sin Sai Vang	121
f. Summary of Committee Direction – Michael Cohen	153
7. Adjournment of Meeting	157
Reporter's Certificate	158

P R O C E E D I N G S

CHAIR PALKKI: Good morning. I'd like to bring the Investment Committee to order. Can we please start with the roll call.

BOARD CLERK LEMUS: Kevin Palkki.

CHAIR PALKKI: Good morning.

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.

Yvonne Walker?

1 Mullissa Willette.

2 COMMITTEE MEMBER WILLETTE: Here.

3 BOARD CLERK LEMUS: Dr. Gail Willis.

4 CHAIR PALKKI: Thank you very much and thank you
5 all for working with this. I know this will be the first
6 meeting where we moved public comment to the beginning.
7 So we'll start off with public comment. I have Ruth
8 Radetsky, Tom Pattison, and Edward Hasbrouck.

9 RUTH RADETSKY: Good morning. I am Ruth Radetsky
10 from San Francisco. Elon Musk came out as a neo-Nazi dog
11 whistler more than a year and a half ago. He continues to
12 try to buy votes for far right, explicitly racist,
13 anti-Democratic politicians all over the world, yet you
14 still support him by investing in Tesla, and not just a
15 little. You held 5.6 million shares worth \$2.3 billion as
16 of your most recent SEC filing from the end of June.
17 That's up about eight percent from 5.2 million shares at
18 the end of March.

19 The increase isn't just index-driven rebalancing,
20 since Tesla's weight in at least one common index actually
21 went down about six percent between March and June. And
22 that's just the public equities. That doesn't even count
23 the private equities that I can't know anything about.
24 You can't even arguing that it's your fiduciary duty to
25 hold Tesla. It hasn't been a good investment over the

1 last few years. And the steady drum beat of bad headlines
2 about Tesla continues. Tesla's competition both for
3 electric cars and self-driving technology gets stronger
4 and stronger. The Tesla bubble will burst.

5 I am the daughter of a refugee from Nazi,
6 Germany. I don't use the word "Nazi" lightly. You should
7 not be putting California public servants' money in that
8 Nazi's hands. Exercise the oversight over Investment
9 staff your Board seats give you. Act. Sell Tesla. Thank
10 you.

11 CHAIR PALKKI: Thank you.

12 DR. TOM PATTISON: Dr. Tom Pattison, California
13 taxpayer. Members of the Investment Committee thank you
14 very much for this opportunity for democracy to happen.
15 CalPERS has already recognized the problems with Tesla's
16 excessive executive compensation and shareholder dilution.
17 You have voted against Musk's pay packages, and I
18 appreciate that, but these objections have not led to
19 divestment. Musk has already received extraordinarily
20 stock awards who market value has greatly exceed Tesla's
21 cumulative lifetime profits. I consider that excessive
22 compensation and so would anybody else.

23 And the newest award has the potential for
24 substantially more. The consequences in reduction in what
25 pension investors own. As additional shares go to Musk

1 existing shareholders own a smaller percentage of the
2 company, have a smaller proportional claim on future
3 earnings. Even if Tesla succeeds, CalPERS participates in
4 that success with an extremely diluted ownership state.

5 Meanwhile, Tesla acknowledges that Musk doesn't
6 devote his full time and attention to the company. He
7 divides his commitment among several businesses and other
8 ventures. That makes effective independent board
9 oversight especially important and raises the question of
10 whether this Board can set meaningful limits on him, not
11 your Board, but the board of Tesla. The other pension --
12 other pension funds have already divested. They have
13 demonstrated that selling is a practical option when
14 ownership no longer meets their standards.

15 CalPERS has identified these concerns. I urge
16 you to act on them through orderly divestment. California
17 public employees deserve independent standards that have
18 consequences.

19 Again, thank you very much for this public
20 comment.

21 CHAIR PALKKI: Thank you.

22 EDWARD HASBROUCK: My name is Edward Hasbrouck
23 I'm here again to ask you again to sell Tesla. There's an
24 election coming up before your next meeting. And that
25 means you face both personal political choices of who to

1 vote for on a secret ballot, but also a public fiduciary
2 responsibility to ensure and assess before the election
3 whether your portfolio has the best possible resilience,
4 against the extraordinary political risks posed by this
5 election.

6 Of course, other billionaires have staked their
7 fortunes and their businesses on a corrupt relationship
8 with Trump, but none more so than Elon Musk. And no
9 single stock is more exposed to the political risks of
10 crony capitalism and dependence on a corrupt relationship
11 with Trump than Tesla.

12 You know, Tesla valuation of its stock is not
13 based on its second rate hardware, or software, or its
14 problems with manufacturing and quality control. Most of
15 the value of the stock comes from Musk's cult of
16 personality and his ability to tie it to Trump's cult of
17 personality, all of which could be jeopardized by the
18 election.

19 And beyond that, Tesla's stock depends crucially
20 on corrupt favoritism built on Musk's relationship with
21 Trump, not just in government contracts, but in regulatory
22 favoritism and perhaps most of all, in the near impunity
23 that Musk has obtained from Trump against any regulatory
24 or legal enforcement against Tesla.

25 Investing in Tesla and increasing your investment

1 in Tesla is not an investment in diversification, rather
2 it's a deliberate choice against diversification to
3 overconcentrate your investments in the single riskiest
4 stock in your portfolio, an unnecessary risk in the face
5 of this upcoming tsunami of political risk, an unnecessary
6 risk that you've chosen to take contrary to your fiduciary
7 duty betraying both CalPERS pensioners and the taxpayers
8 of the state.

9 Please act. Assess and act on the risk and
10 valuation of Tesla, and make that the starting point to
11 regular reviews of the risk and valuation of your other
12 top holdings in which your portfolio is overconcentrated.
13 We urge you to act before the bubble bursts, not wait till
14 after.

15 Thank you.

16 CHAIR PALKKI: Thank you for your comments.

17 Next, I have Larry Woodson and Manju Kumar. I
18 apologize if I misspelled the -- or mispronounced the last
19 name.

20 And then after that, we'll bring up Tammy
21 Dhanota, Kellie Guevara, and Stacy Schmidt.

22 Good ahead, Mr. Woodson.

23 LARRY WOODSON: Good morning. Larry Woodson.
24 Thank you for the opportunity to comment. My comments are
25 in partial opposition to the Chair's new sequencing of

1 public comments on the Investment Committee agenda.

2 First, Chairman Palkki, I do appreciate that
3 after the last Investment Committee meeting, you shared
4 me -- with me your plans to place public comments as the
5 first item on the agenda. I was able to give you some
6 feedback. And as I said then and restate now, I fully
7 understand placing comment up front when there are a large
8 number of protestors and commenters on such issues as
9 fossil fuel and Tesla investments. Others still have the
10 opportunity to comment on specific agenda items as the
11 meeting progresses.

12 However, to completely eliminate public comments
13 at the end of the meeting is unnecessarily limiting
14 stakeholder input. There will be situations when
15 stakeholders who sit through the entire meeting may hear
16 comments from the Board, staff, or the public, which will
17 precipitate a need for additional public comments, which
18 till then they hadn't considered. I predict the number of
19 new comments at that time would be few and not cause a
20 huge extension of the meeting.

21 So, in conclusion, I hope the Chair will consider
22 allowing comment at the end of meetings as well,
23 especially if there's no protest and a large number of
24 commenters up front like today, even if there are public
25 comment at the conclusion is warranted. And I was happy

1 to see that Pension and Health Benefits and other
2 committees retained public comment at the end.

3 Thank you.

4 CHAIR PALKKI: Thank you for your comments.

5 Next -- so I'm sorry Manju, Tammy, Stacy, and
6 then -- actually, I think we can put all four of you up,
7 if you're all together.

8 MANJU KUMAR: My name is Manju and I'm child care
9 worker and union serving many CalPERS members, SEIU 521.
10 I am deeply concerned that CalPERS is investing in
11 companies that enrich the very people working to cut
12 service like the ones I provide. That SpaceX IPO in
13 particular seems to be money-making scheme for a wealthy
14 individual and their associates, who then donate million
15 -- millions to political candidate and organizations that
16 support legislation like HR 1, which has severely impacted
17 public across the country. I do not want my union
18 civilian hard-earned money being used in way that could
19 contribute to cutting our wages, especially considering
20 how risky these investment can be for their retirement.

21 Many of us question now and doesn't have signed a
22 petition because of these concerns. Please meet with SEIU
23 521 to discuss investment in risky technology stock.

24 Thank you for your time.

25 CHAIR PALKKI: Thank you.

1 TAMMY DHANOTA: Good morning. My name is Tammy
2 Loreda Dhanota. I'm a -- been a member of CalPERS and
3 SEIU Local 521 for over 31 years.

4 I'm very, very concerned about CalPERS exposure
5 to companies like Palantir. I want to honest. I've been
6 here speaking several times over the years and it's kind
7 of frustrating. We, as members, sent a letter to this
8 Board regarding immigration in July and you sent an
9 inadequate response. I'm here to tell you that's not
10 acceptable.

11 And this morning, I cut my family vacation short.
12 I was in Las Vegas with my cousins coming from three
13 different states and I had to -- instead of fly home,
14 instead of staying an extra day to spend with my cousins,
15 as I had planned, I had to come here and talk to you
16 again. So I'm not really very happy about that, but I
17 just wanted to let you know.

18 I'm very concerned about CalPERS' exposure to
19 companies like Palantir. Palantir is a company that puts
20 our money at risk, our money, our hard-earned money that
21 I've been use -- been putting into my pension for over 30
22 years at risk due to its flagrant and disrespect for human
23 rights and its wildcard CEO who does not sound like
24 somebody who should be entrusted with our retirement
25 money.

1 Palantir has been called out by trusted
2 international organizations, such as amnesty
3 international. And this groundswell of public opinion
4 against Palantir could put it on shaky ground, since so
5 much of its revenue is reliant on government contracts.
6 So what happens if the public backlash forces our
7 government to cut the contracts? Nothing good for
8 Palantir's revenue and therefore nothing good for its
9 investors.

10 We have questions on how CalPERS intends to limit
11 exposure to scenarios like this and we've begun collecting
12 signatures on a petition and asking for a meeting. Please
13 limit our money's exposure to Palantir as much as
14 possible. And I know I've been here asking for this more
15 than three times. Don't let our retirement ride to the --
16 on the whims of someone like Alex Karp. Meet with SEIU
17 521 to discuss exposure to risky tech stocks.

18 You all sit on this Board and have a
19 responsibility to protect our pension funds. At this
20 point, I'm starting to feel less confident about you as a
21 Board. So again, I'm here to demand a meeting with you as
22 we requested and as soon as possible.

23 CHAIR PALKKI: Thank you.

24 STACY SCHMIDT: Hi. My name is Stacy. I'm an
25 SEIU member and a CalPERS plan participant. I'm concerned

1 about CalPERS exposure to SpaceX. On the day of its IPO
2 and four days following, SpaceX started at \$137 per share
3 and peaked at \$160 per share. It has never since reached
4 that peak and has spent about half its time on the public
5 market below its IPO price, meaning that most investors
6 who bought into SpaceX post-IPO have lost money.

7 Evaluation of SpaceX is based on almost entirely
8 on the future of our -- sorry, the future promise of its
9 ownership of Grok IA platform via its purchase of Twitter.
10 This is not a reliable source of income now and it will
11 not be one in the future. I'm grateful for CalPERS letter
12 to SpaceX expressing concerns about its IPO. And I think
13 we should continue the work in making sure it doesn't --
14 we don't let these risky financial moves negatively affect
15 our retirements.

16 Please put CalPERS in a stronger financial
17 position by limiting our exposure to financial games like
18 Elon Musk has played with SapceX. SEIU 521 has begun
19 circulating a letter and it's now signed by many members
20 and CalPERS participants. And now we are asking for a
21 meeting to discuss this with you. Please meet with us at
22 SEIU 521, so we can discuss our concerns and mitigate
23 them. Thank you.

24 CHAIR PALKKI: Thank you.

25 KELLIE GUEVARA: Good morning. My name is Kellie

1 Guevara. I work at the Santa Clara Office of Education as
2 an accountant. I'm a CalPERS plan participant and a
3 member of SEIU 521.

4 As you know, SEIU leaders from multiple SEIU
5 locals, including SEIU 521, sent the CalPERS Board and
6 staff a letter asking CalPERS to take all appropriate
7 steps to proactively manage the fiduciary risks of the
8 current U.S. federal administration's approach to
9 immigration enforcement.

10 As stated in the letter, data indicates that the
11 federal government's current approach to immigration
12 enforcement is having a significant negative impact on the
13 State economy, on the fiscal health of many jurisdictions
14 that participate as plan sponsors in the system and on
15 markets within and beyond the State in which CalPERS
16 invest. The situation has only worsened in recent months.
17 According to a recent report from UC Berkeley and UCLA,
18 the Trump administration detained almost 50,000 people in
19 July 2026, marking its highest monthly arrest total during
20 President Trump's second term.

21 The abduction, detention, and deportation of our
22 friends, families, and neighbors is a moral abomination
23 that is tearing apart the fabric of our communities. That
24 alone is enough reason not to participate in an industry
25 built on such practices. Our letter made clear that the

1 economic devastation caused by these practices make it a
2 fiduciary imperative that CalPERS take steps immediately
3 to understand the potential negative impacts of these
4 practices on the fund.

5 I'm here on behalf of many SEIU members across
6 the state of California to ask for the Board to act upon
7 the request we made in our July letter, including
8 instructing your asset management partners across your
9 portfolio to assess potential risks to portfolio companies
10 arising from aggressive immigration enforcement policies
11 and/or their participation in immigration enforcement
12 operations, report back to the fund on the findings of
13 these risk assessments, initiate an internal assessment of
14 the potential impacts of immigration enforcement policies
15 on the pension system as a whole, including impacts on
16 portfolio companies, plan sponsor finances, and broader
17 systemic economic risks and share the results of the
18 assessment.

19 We also request meeting with Investment Chair --
20 with you Investment Chair Palkki and Investment Vice Chair
21 Miller to discuss these issues further. Thank you very
22 much for your consideration.

23 CHAIR PALKKI: Thank you for your comments.

24 I have no other in-person comments, but I do have
25 three callers.

1 CALPERS STAFF: Yes, Chair Palkki. We have
2 Jennifer Blair to comment on Item 2. Jennifer Blair, you
3 are now live and can proceed with your comments.

4 JENNIFER BLAIR: Good morning, members of the
5 CalPERS Board and thank you for all of the support for the
6 workers of California. I have been counselor faculty in
7 the CSU for the past four years and a member of the CFA.

8 I would like to highlight the letter sent to you
9 by SEIU speaking to risks of investments with companies
10 and ties to immigration and customs enforcement, including
11 Palantir and Axon, and express acknowledgement of your
12 response on September 8th to that letter.

13 I am calling in today to speak to continued
14 concerns around investments with Palantir, and Axon, and
15 other companies that are contracting or complicit ICE,
16 which is currently engaged in deeply dehumanizing
17 practices in our country.

18 I read and would like now to refer to item number
19 16 from the CalPERS Governance and Sustainability
20 Principles titled, "Human Capital Management Practices,"
21 which explicitly communicates commitment for universal
22 human rights, and includes the following, quote,
23 "Corporations should adopt maximum progressive practices
24 toward the elimination of human rights violations in all
25 countries or environments in which the company operates.

1 Additionally, these practices should emphasize and focus
2 on preventing discrimination, harassment of any kind
3 including sexual harassment and/or violence based on race,
4 color, religion, national origin," end quote.

5 This year in a June 26th press release from the
6 United Nations Office of the High Commissioner For Human
7 Rights concerns around ICE included this, quote,
8 "Detainees to include entire families of children and
9 medically vulnerable people are frequently reported to
10 face inhuman conditions of detention and treatment,
11 including inadequate health care and food, and exposure to
12 disease outbreaks and overcrowded facilities. There have
13 been concerning allegations regarding the use of force,"
14 end quote.

15 I ask that you use your power and collective
16 voice to divest from these companies with connections with
17 ICE. In compassion, in community, and with care, thank
18 for your time.

19 CHAIR PALKKI: Thank you for your comments.

20 Next caller.

21 CALPERS STAFF: Next, we have Stephanie Marvin
22 with SEIU to comment on Item 2. Stephanie Marvin, you are
23 now live and can proceed with your comments.

24 STEPHANIE MARVIN: Thank you. My name is
25 Stephanie Marvin. I am member of SEIU 521 and CalPERS. I

1 am speaking out of concerns with CalPERS exposure to
2 SpaceX IPO. This is a public stock that seems to be doing
3 poorly and it's raising a lot of questions that I do not
4 feel have been adequately answered.

5 We want to meet with you to discuss our concerns
6 in order to establish transparency that we can trust. The
7 SpaceX IPO quickly following its acquisition of Twitter
8 seemingly to boost its valuation seems to be a
9 money-making scheme for the richest of the rich. And I
10 want to make sure we are limiting our exposure to it as
11 much as we possibly can. If we are exposed to the SpaceX
12 IPO as like a clear explanation on how and why,
13 understanding that kind of decision and how it's made
14 would do a lot of help to trust CalPERS in this decision
15 going forward.

16 Ever since the 1998 ethical failure, CalPERS has
17 had like Board members accepting bribes, I am not trusting
18 your decision to keep SpaceX IPO. So please meet with
19 SEIU 521 to discuss exposure to SpaceX and other risky
20 tech stocks. Thank you for listening and for your time.

21 CHAIR PALKKI: Thank you for your comments.

22 I have one more caller.

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

1 RALPH BALLARD: Yes. Thank you. I'm a citizen
2 and a community college physics professor. I'd like you
3 to -- I'd like to urge you to sell Tesla. I'd like to
4 give you a technical perspective on why you should do
5 that. We've all seen Waymo's robotaxis. They bristle
6 with all these sensors. Why do they do that? Why do they
7 have all these sensors?

8 Waymo realizes that if one of their robotaxis
9 causes an accident that kills someone, their robotaxi
10 business will be over. And so therefore, they have all
11 these redundant sensors to make sure that doesn't happen.
12 Musk, with Tesla, has belatedly realized this. His
13 robotaxis only use AI and cameras. The problem with an
14 AI-based vision system is that it will inevitably make
15 mistakes. It will misidentify something, and therefore it
16 causes accidents. And for a robotaxi business, that is
17 catastrophic.

18 We all see Waymo is scaling their deployments all
19 around the country. Musk can't do that. So what he does
20 instead is he just keeps on making announcements, look at
21 the golden colored robotaxi, but he can't fully deploy it
22 at scale, because it will cause accidents and death, and
23 his business will be ended.

24 So what he does instead is he uses this system as
25 a Level 2 Driving Assistance System with customers and in

1 the Model Ys and other cars that he has deployed. He
2 calls that system full self-driving. We call it full
3 self-crashing system, because it's causing literally
4 hundreds of accidents around the country that have caused
5 many deaths.

6 This is an increasing legal disaster for Tesla.
7 More and more liability suits are resulting in damages in
8 many millions of dollars, and time is running out for
9 Tesla with this system. We urge you to sell Tesla. Thank
10 you to the Committee for your attention.

11 CHAIR PALKKI: Thank you for your comments.

12 Are there any other callers?

13 Seeing none, thank you all.

14 That moves us into Agenda Item 3, Executive
15 Report. Mr. Gilmore.

16 CHIEF INVESTMENT OFFICER GILMORE: Thank you very
17 much, Chair Palkki. I'd like to start by recognizing a
18 couple of our very talented team members who've recently
19 won external awards. Both rising stars. The first I
20 would mention is Hailey Tracy, who is in our equity team.
21 You've had a chance to meet here once before, but she's
22 been recognized as a rising star.

23 We also have Jlay Tor who is in our private
24 markets operations team. One of the people that keeps
25 things moving seamlessly. She's been recognized by the

1 National Business Leadership Conference. So two different
2 organizations, Pensions and Investment and the National
3 Business Leadership Conference recognizing two of our very
4 talented people. So I think that's great news, great to
5 see.

6 And with that, on to the agenda for today. We
7 will be discussing the first written -- first reading
8 changes to affiliates policies based on what was agreed in
9 June, fix the Legislators' fund and also the Judges'. We
10 will then go on to the trust level review. This is the
11 annual trust level review that Lauren and I will go
12 through. And we'll follow that with our Board
13 consultants. And we have capital markets program reviews,
14 so we have equities and we have fixed income. Those will
15 be Justin Scripps first chance to present to the Board in
16 his new role as MID for fixed income, another one of our
17 talented team member internal promotion. So very happy to
18 see him come up and make that presentation.

19 And we also have sitting in the audience Derek
20 Walker who you met in July. This is his first formal
21 Investment Committee meeting. So really happy to have him
22 here.

23 And with that, I'll pass back to you, Chair.

24 CHAIR PALKKI: Thank you.

25 Ms. Willette.

1 COMMITTEE MEMBER WILLETTE: Thank you. Good
2 morning. Congratulations to our team members and their
3 recognitions. That's really exciting to see.

4 A quick note, I just wanted to say that I think
5 our funding status climbing to over 85 percent is really
6 good progress. I think I'm looking forward to TPA, what
7 we're doing and what we hoped it would do, right, in its
8 first full quarter. I'm confident in TPA in our staff to
9 keep implementing well and leading on a global scale.

10 I do want to raise something and -- so to bring
11 it back. Back in March though, I raised AI governance as
12 a human capital management priority. And I know staff was
13 still in early innings at the time. Since then, the CEO
14 of one of the leading AI labs has published at length how
15 disruptive this could be to the workforce and our economy.

16 Workers are essential to this fund. And I think
17 it's more than just a human capital management question
18 any more. It's showing up in our real estate portfolio as
19 well, in data centers and infrastructure. And I think we
20 had some committee direction back in June to look at
21 citing risk in our investment assessment framework. So I
22 do think it would be prudent for us to have a future
23 technology framework to mitigate risks and find
24 opportunities.

25 So if you want to add -- if you want to say

1 anything or respond now or -- I welcome it, or if you want
2 to 6d and 6e to address part of that, or...

3 CHIEF INVESTMENT OFFICER GILMORE: I take those
4 points. And it's an area where things have been evolving
5 rapidly, especially during the last week or so, when we
6 have an open AI model which may have solved one of the
7 millennium prize and mathematical challenges, and also, as
8 you mentioned, they already came out with comments backed
9 by open AI and also backed by Elon Musk as it happens.

10 So many, many things happening. Internally, we
11 think about AI, I guess, in three different segments. We
12 think about how we are investing the exposure in the
13 portfolio. We think about how we might be using
14 internally. And, of course, we think about responsible A
15 I. And so you'll hear from Peter in November on where
16 we're up to with our thinking on that.

17 So obviously extremely important area for us to
18 be considering. So thank you.

19 COMMITTEE MEMBER WILLETTE: Thank you. I'm
20 confident TPA is the framework that allows us to move as
21 nimbly as the changes in the system too. So looking
22 forward to that.

23 CHAIR PALKKI: Yeah. I just -- I also want to
24 share my congratulations to the members that were
25 recognized by other organizations. You know, I've pushed

1 quite a bit on making sure we go above and beyond. And so
2 it's always good to hear that other institutions are
3 recognizing our staff as well. So thank you for that. I
4 am not seeing any other comments. However, I do have one
5 public comment was on 2. So if we can have that caller
6 come in.

7 CALPERS STAFF: Yes, Chair Palkki. We have Scott
8 Kelly to comment on Item 2. Scott Kelley, you are now
9 live and can proceed with your comments.

10 SCOTT KELLEY: Thank you very much for taking my
11 call. I'm a professor of biology and also a computer
12 expert, computer scientist bioinformatics at San Diego
13 State University. I'm really proud of CalPERS. I think
14 it's a great pension, but there's some investments that I
15 think are really dangerous for us and from our students.
16 My students come to work every day terrified that they're
17 going to be picked up by ICE. I tell them to work at home
18 as much as possible. And we're talking legal students,
19 but sometimes undocumented. And they're afraid for their
20 families as well.

21 They're also being tracked by the companies that
22 we invest in, particularly Palantir. I've been following
23 Palantir since 2017, where they were using algorithms to
24 target minority neighborhoods, but saying it was unbiased.
25 And the way they do this is they do a training set on

1 who's already in jail. And, of course, we know that
2 people in jail are -- tend to be Black and Brown people.
3 So they use that as their training set and they go to
4 the -- they tell the cops go to that neighborhood and pick
5 up more people and they put that back in the training
6 sets.

7 They've been doing this for a decade. Now,
8 they're doing it for putting people in literal, and it's
9 not hyperbole to say, concentration camps or shipping them
10 to countries where they don't belong. So I really think
11 that we have to think about this.

12 You did write a letter to us. We spoke about
13 this. And it does talk about CalPERS need to do -- have
14 fiduciary duty and to follow the law, but I do want to
15 talk about the fiduciary duty of the AI bubble, which
16 we're coming in, which is actually a circuly -- circular
17 financing scheme that's also -- also is funded by the U.S.
18 taxpayers. So we know this is circular funding, that
19 NVIDIA's propping up these companies. So this is actually
20 a dangerous bubble for all our companies.

21 But another thing to think about when funding
22 these companies is if you're picking up all these
23 workers -- the other day they picked up 50 workers
24 building a hospital in Pennsylvania. And this was partly
25 Palantir, and Flock, and Axon, and these other companies.

1 They rounded them up. This is destroying this building
2 company -- this company -- construction company. It's
3 also hurting farms, hospitals, and all these other
4 companies that we are investing in that are actually
5 making real products. Immigrants are vital to so many
6 sectors of society and we are scaring them from even
7 coming to work. So that's also a fiduciary duty.

8 Your letter also cited the law. And, of course,
9 you have to follow federal law, but using the law as a
10 means and a reason for funding in companies is really,
11 really dangerous, because in the past it's been legal to
12 dump toxins in the waterways. I'm actually working on a
13 project where they used to dump pesticides at the bottom
14 of the ocean. That was legal. It was legal to have
15 segregation. It was also illegal to marry outside your
16 raise.

17 So I really think that argument is kind of flat,
18 when you say, oh, it's illegal to pick up all these
19 people. So I really want you to think hard about these
20 particular investments what they're doing to our society,
21 what they're doing to other companies, and really consider
22 hard whether you want to be investing in this because --
23 in these companies because of all these reasons.

24 And I really appreciate you taking my call. And
25 again, I'm a big fan of my pension, but I also want it to

1 be ethical. Thank you.

2 CHAIR PALKKI: Thank you for your comments.

3 I have no other public comments, so that can take
4 us to Item number 4, action consent items. I do have one
5 request to pull 4c for discussion. Mr. Rubalcava.

6 There you go.

7 COMMITTEE MEMBER RUBALCAVA: Thank you, Mr.
8 Chair. Mr -- yeah, Commissioner.

9 Yes. I wanted to use this opportunity, since
10 we're dealing with the Supplemental Income Plans glide
11 path implementation to congratulate the CalPERS 457 team
12 for their -- for receiving their leadership recognition
13 award from NAGDCA, which is the National Association of
14 Governmental Defined Contribution Administrators. They
15 won in the technology and cybersecurity category for their
16 efforts in improving the digital engagement experience.
17 So I want to congratulate them. I know they won one last
18 year too.

19 And since I have the floor, I think it's
20 appropriate to also congratulate the State of California,
21 because they won a similar award under the Plan Design and
22 Administration Category. So congratulations to the State
23 and congratulations and -- again to the CalPERS 457 Plan.
24 Thank you, Mr. Chair.

25 CHAIR PALKKI: Thank you, Mr. Rubalcava. I don't

1 have any other discussion on 4c. However, we do need to
2 take a vote on that. What is the pleasure of the
3 Committee.

4 VICE CHAIR MILLER: So moved.

5 COMMITTEE MEMBER RUBALCAVA: I move.

6 CHAIR PALKKI: I have a motion by Mr. Miller and
7 a second by Mr. Rubalcava. All those in favor say aye?

8 (Ayes.)

9 CHAIR PALKKI: Any opposed?

10 Any abstentions?

11 The ayes have it. Thank you.

12 That brings us to Item number 5, information
13 consent item. I do not have any requests to pull any
14 items. However, I do have public comment on 5d.

15 Mr. Jelincic.

16 J.J. JELINCIC: Good morning, J.J. Jelincic,
17 RPEA. CEM Benchmarking is important, because it feeds
18 into the staff's bonuses. It looks to see if something is
19 disclosed. It does not look at whether the information is
20 accurate or timely.

21 I would like to appoint -- point to Attachment 1,
22 page 4 of 19. When people talk about the grifting and
23 open corruption in the Trump administration, they
24 frequently point to Thrive Capital. I was therefore
25 mildly surprised to learn in September that back in

1 January you committed over \$1.1 billion to Thrive. I
2 guess delayed transparency is better than no transparency.

3 I know your practice is not to comment and to sit
4 there like mutes, especially when staff has not given you
5 the talking points or permission to speak. Nonetheless, I
6 am hoping that at least one of my fiduciaries will tell me
7 what were you thinking?

8 I observe that corruption needs shadows and
9 silence to thrive. Thank you for your time.

10 CHAIR PALKKI: Thank you for your comments.

11 I do have one more public comment, Michael
12 Flaherman on Agenda item 5.

13 MICHAEL FLAHERMAN: Michael Flaherman from RPEA.

14 Quickly also about Thrive Capital, J.J. and I
15 have not even spoken about this, but it came to my
16 attention recently that Thrive is involved in a deal to
17 buy an interest in the LA Lakers. And I just note the
18 interesting coincidence that suddenly a lot of money has
19 flowed from the pockets of CalPERS into Thrive Capital. I
20 wonder whether Thrive Capital Investments, LP, \$200
21 million maybe is the specific vehicle, because they filed
22 a Form D with the SEC, but they never updated their ADV to
23 list it, which guides -- I actually think is noncompliant.

24 But here's the thing -- here's the thing about
25 investing in sports teams. I think we all remember, those

1 of us who have been around, there was a mania to invest in
2 the Kings that fell apart. It's not, in general, a
3 financially sensible idea for a tax-exempt investor to own
4 a sports franchise. And the reason for that is because
5 the money to be made from owning a sports franchise has a
6 lot to do with billionaires being able to harvest the
7 operating losses that a sports franchise throws off. And
8 so billionaires can pay more for -- or should pay more to
9 own a sports franchise than this organization, which is
10 tax exempt.

11 And it worries me that -- I recognize I'm
12 building all of this on a conjecture about this enormous
13 amount of money going into Thrive Capital and the news
14 reports about what Thrive is doing with the Lakers. So
15 maybe I'm completely wrong and nothing is going on. But
16 if something is going on, I just hope that there's a
17 discussion that's happening in closed session where
18 somebody is asking explain how this works from a tax
19 consequence, because we can't get all off these tax
20 benefits that the other bidders can get. So if we're
21 outbidding them, the only way for us to outbid them is to
22 accept a lower return than they would.

23 So that's the kind of discussion that I hope
24 would occur. You know, I think we're all very saddened to
25 see that in open session it doesn't, but I offer that for

1 your consideration.

2 Thank you very much.

3 CHAIR PALKKI: Thank you for your comments.

4 So I do need to step backwards just a little bit
5 to clarify on Item 4, the action consent item. Let's just
6 do it this way really quickly, because it was unclear that
7 we voted on all three items. So can I entertain a motion
8 to approve 4a, 4b, and 4c?

9 VICE CHAIR MILLER: Move approval.

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

11 ACTING COMMITTEE MEMBER HENNING: Second.

12 CHAIR PALKKI: And second by Mr. Henning.

13 Thank you.

14 All those in favor say aye?

15 (Ayes.)

16 CHAIR PALKKI: All those opposed say nay?

17 Any abstentions?

18 Thank you.

19 Okay. That brings us into Item 6a which --

20 CHIEF INVESTMENT OFFICER GILMORE: Amy,

21 Christine, and Rafael.

22 (Slide presentation).

23 INVESTMENT DIRECTOR REESE: Good morning, Mr.

24 Chair, members of the Committee. Christine Reese, CalPERS
25 team member.

1 With me today is Rafael Garcia, one of my team
2 members in the Affiliate Investment Program and Amy
3 Deming, the Director for investment compliance and
4 operational reporting. And we're here to present some
5 policy changes that relate to the asset liability
6 recommendations that were adopted in June.

7 [SLIDE CHANGE]

8 INVESTMENT DIRECTOR REESE: Rafael will walk
9 through the presentation of the proposed policy changes.
10 Amy will also make some comments. And the Board
11 consultant Wilshire is here, should you have any questions
12 for them. So, at this point, I will hand it off to
13 Rafael.

14 INVESTMENT MANAGER GARCIA: Good morning, Chair,
15 Committee members. Rafael Garcia, CalPERS team member.

16 This item is a first reading of proposed policy
17 amendments for the Legislator's Retirement Fund, or LRF,
18 and the Judges's Retirement System II Fund, JRS II. In
19 short, these changes align the policies with the Board's
20 June 2026 approved ALM recommendations and related
21 implementation steps.

22 Next slide, please.

23 [SLIDE CHANGE]

24 INVESTMENT MANAGER GARCIA: Starting with LRF,
25 the amendment aligns a policy to reflect the Board's

1 approved strategic asset allocation and removes the global
2 equity benchmark. It also widens the TIPS policy range
3 from plus or minus three percent to plus or minus five
4 percent.

5 The reason is straightforward. Under the
6 approved allocation, the TIPS target rose from 35 percent
7 to 49 percent. So a plus or minus three percent band is
8 relatively tight. Widening it to plus or minus five
9 percent better fits the larger target and provides more
10 room for normal market movement between rebalances.

11 Next slide, please.

12 [SLIDE CHANGE]

13 INVESTMENT MANAGER GARCIA: Turning to JRS II.
14 In the June Investment Committee meeting, private equity
15 was approved as an incubation strategy. The proposed
16 policy amendments create an opportunistic and innovation
17 strategy or program. This provides a governed way to make
18 investments outside the approved asset allocation,
19 including incubation strategies. Within that framework,
20 private equity would be an added investment with a zero
21 percent target, a plus five range, and a five percent cap
22 on JRS market value.

23 To support that change the proposal also widens
24 global equity range from plus or minus five percent to
25 plus or minus seven percent, and fixed income range from

1 plus or minus five percent to plus or minus six percent.
2 These are the two asset classes that would flex as private
3 equity is funded.

4 In the June analysis, a five percent private
5 equity allocation was funded primarily by reducing global
6 equity by about six percent and modestly increasing fixed
7 income. Widening these two ranges gives us the
8 flexibility to implement and rebalance the fund during
9 implementation.

10 Next slide, please.

11 [SLIDE CHANGE]

12 INVESTMENT MANAGER GARCIA: On governance and
13 reporting, the amendment adds several oversight provisions
14 for the new program. These include a form -- formal
15 gov -- general pension consultant oversight role over
16 program activities on the Committee's behalf, expands
17 annual reporting by the general pension consultant to
18 cover the Opportunistic and Innovation Program, annual
19 staff reporting on investments, performance and risk, and
20 adding partnership agreements to the external manager
21 section of the policy.

22 In addition, entry to a new strategy or the
23 liquidation of what, as a whole, would require approval
24 from the Chief Investment Officer, or delegate. This is
25 intended to give a clear governance checkpoint for

1 significant program decisions.

2 Next slide, please.

3 [SLIDE CHANGE]

4 INVESTMENT MANAGER GARCIA: As this is a first
5 reading, we welcome the Committee's feedback today. We'll
6 incorporate that feedback into a second reading in
7 November. And if the amendments are approved, the
8 policies will be updated. Thank you.

9 And now, I'll turn it over to Amy Deming for a
10 few comments.

11 [SLIDE CHANGE]

12 INVESTMENT DIRECTOR DEMING: Thank you. Yeah. I
13 think the team explained the changes really well, so not
14 much more to add on that front, but I can comment on the
15 process. The policy changes before you were a
16 collaborative effort between the Affiliate Investment
17 Program and the ICOR team, Investment Controls and
18 Operational Risk.

19 The changes are consistent with how new
20 strategies have been incubated in the past and also
21 consistent with the Total Fund Policy language that you've
22 recently approved back in June. Thus, I'm comfortable
23 from a -- from a -- I'm comfortable and supportive from an
24 oversight perspective that these policy changes are
25 consistent with all other changes and a good oversight

1 program in general.

2 I think with that, we would like to open it up
3 for questions. And as Christine said, Wilshire is also
4 available for any questions you might have.

5 CHAIR PALKKI: Thank you for that report. I'm
6 going to start with Ms. Gallegos.

7 ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank
8 you. Can you describe how you plan to allocate to, let's
9 say, private equity? You want to include an allocation.
10 Will you be sourcing it from the same pool of potential
11 investments that we have in the PERF or will it be a
12 different sourcing strategy? And if the former, how are
13 you going to ensure a fairness of allocation?

14 INVESTMENT MANAGER GARCIA: Thank you for the
15 question. At this point, we haven't made that
16 determination, so we're actually open to exploring
17 multiple options. And so -- but we have not come to a
18 formal decision on how we're going to access the equity
19 specifically.

20 ACTING COMMITTEE MEMBER GALLEGOS: Would -- do
21 you think you would have that by the next -- by the second
22 reading some sort of clarification on how you intend to --

23 INVESTMENT MANAGER GARCIA: Potentially, yes.

24 ACTING COMMITTEE MEMBER GALLEGOS: Okay. Thank
25 you.

1 CHAIR PALKKI: Thank you, Ms. Gallegos.

2 Next, I have Mr. Rubalcava.

3 COMMITTEE MEMBER RUBALCAVA: Oh. Thank you, Mr.
4 Chair. Under -- in Attachment 3, there's an amendment to
5 the policy to allow this opportunistic and innovation
6 program. In Table 1-2, it talks about the consult --
7 it's -- some new language about the consultant's role.
8 Does that also -- it's not very clear to me. Does that
9 new language extend to the -- or instructs the consultant
10 to also look at this opportunistic and innovation program,
11 the implementation of it? It follows some of the
12 questions about how private equity is going to be
13 implemented.

14 TOM TOTH: Good morning. Tom Toth with Wilshire
15 Advisors, the general pension consultant. The short
16 answer, Mr. Rubalcava, is yes.

17 COMMITTEE MEMBER RUBALCAVA: Thank you. That --
18 I just want to make sure we cover all the bases.

19 Thank you very much, Tom.

20 Thank you.

21 CHAIR PALKKI: Thank you.

22 Mr. Miller.

23 VICE CHAIR MILLER: Yeah. Thank you for the
24 presentation. Yeah. I appreciate the clarity and the
25 care that went into it. I appreciate that it addresses

1 the -- kind of the technical and nuts and bolts aspects,
2 but I really want to acknowledge the appreciation for our
3 role, and the oversight, and the need to really get the
4 governance right on this kind of change. It's -- I
5 appreciate the discussions. I appreciate the input and
6 the work that the team did and our consultants did. And,
7 yeah, it's -- that's really where my focus is. With all
8 this change with the whole change in the environment, TPA
9 and everything, for us, the governance aspects, being able
10 to understand the changing nature of it and have that
11 really be clear and up front in everyone's minds is very
12 much appreciate.

13 CHAIR PALKKI: Thank you for that. I have Ms.
14 Gallegos again.

15 ACTING COMMITTEE MEMBER GALLEGOS: Yeah. So just
16 following up on Vice Chair Miller' comments and my
17 question. Before we see the second reading, I think it
18 would be good to have all those things, the nuts and
19 bolts, nailed down. And perhaps we can work with the
20 consultant on figuring out how we're going to actually
21 source new strategies.

22 Thank you.

23 CHAIR PALKKI: Thank you. I don't have any other
24 commenters.

25 However, Tom, since you're sitting there,

1 anything else to add to the...

2 TOM TOTH: Chair Palkki, nothing additional.
3 Just I'll reiterate what's in the opinion letter.
4 Wilshire is supportive of the language as proposed as
5 being consistent with the actions that were adopted by the
6 Board earlier this year.

7 CHAIR PALKKI: Great. Thank you.

8 I do not have any public comment for 6a, so thank
9 you all for the report. I appreciate it. I look forward
10 to seeing the second read.

11 INVESTMENT DIRECTOR REESE: Thank you very much.

12 CHAIR PALKKI: That brings us to Item 6b, CalPERS
13 Trust level review.

14 (Slide presentation).

15 CHIEF INVESTMENT OFFICER GILMORE: Thank you,
16 Chair. This is the annual review. We will go through
17 performance. And, of course, as always, we will talk
18 about the external environment and our thoughts on that,
19 but that always remains a little bit complex. So it
20 should be an interesting discussion today.

21 [SLIDE CHANGE]

22 CHIEF INVESTMENT OFFICER GILMORE: As a reminder,
23 for the fiscal year or the financial year through to in
24 June, we returned 14.8 percent. Obviously, we announced
25 that in July. At the time, the PERF was managing 635

1 billion and the funded status was 85 percent, as we all
2 know. Of course, that's a one-year return. It's a very
3 good return over a -- over a period of a year. But of
4 course, what's more important is the longer term return
5 and the funded ratio. And what was good to see was of
6 every period 20 years, 10 years, five years, and one year,
7 we had met or exceeded the discount rate of 6.8 percent.

8 That's interesting to think about what that
9 means, 6.8 percent. If we continue to achieve that
10 discount rate of 6.8 percent, you could expect full
11 funding at around ten years or so. But the reality is it
12 won't be a straight line. There will be ups and downs.
13 And the most important thing is to have that sort of
14 return over a longer period of time.

15 [SLIDE CHANGE]

16 CHIEF INVESTMENT OFFICER GILMORE: Now, you
17 should be coming more familiar with this dashboard, a lot
18 on here. We've tried to make some things simple. If it's
19 in green, that's pretty good. It's in line with what we
20 might expect. If it's gray, it's short term and it's too
21 early to say. But you can see the returns obviously
22 highlighted in green. You can note one thing highlighted
23 in red, which is the CEM Benchmarking, where we're a lower
24 cost fund than others, but the excess return contribution
25 over a five-year period was low. We'll get an update to

1 that in the fourth quarter. I'm not sure whether that
2 will change or not, but we need to watch for that. We
3 also have that funded status in, I guess, that burnt
4 orange color, 85 percent.

5 Policy exceptions, we'd highlighted three things
6 that were exceptions there. They've all now corrected
7 with the move to TPA. And as a reminder, what those
8 exceptions were related to things that we were actively
9 trying to do. So there was an exception in listed
10 equities, so we had more tracking error in the factor
11 sleeve that was deliberate. And that actually added to
12 the value-add through the period. We also had a couple of
13 deviations in the private equity. But that was again
14 deliberate where we had more of focus on gross -- growth
15 rather than buyout.

16 The next two items, portfolio equity equivalent
17 risk and active risk, those are things that I would
18 continue to highlight. And I'll mention a little bit more
19 when we through the slides. But I would say from a broad
20 perspective that equity equivalent risk, or sometimes we
21 refer to as EEE, 74.6, is very, very close to what we
22 would have with the reference portfolio. The reference
23 portfolio 75 percent equities, you can think that is an
24 equity equivalent risk of 75. So the actual portfolio at
25 the end of June was very, very close to that reference

1 portfolio risk.

2 The active risk, 235 basis points, a little bit
3 below the longer term operating range that we would
4 expect, but that's really a function of us scaling up our
5 private market exposures, and all the rest on track

6 [SLIDE CHANGE]

7 CHIEF INVESTMENT OFFICER GILMORE: Now, I'm going
8 to go through a number of slides looking at different
9 periods And looking at total return, looking at excess
10 return attribution. But what you can see from this is
11 that over the five years, the actual performance of the
12 PERF has exceeded its benchmark by 59 basis points.
13 That's really good and some pretty strong contribution
14 across the line. You can see that in dollar terms,
15 there's little bit of a detracting from private equity,
16 but that's partly a function of I guess having a legacy
17 portfolio and a new strategy. The new strategy, of
18 course, has been very additive.

19 But in terms of return terms, it's also a
20 positive contribution. So really good to see that
21 positive contribution from essentially all the asset
22 classes over a five-year period.

23 [SLIDE CHANGE]

24 CHIEF INVESTMENT OFFICER GILMORE: Over a
25 one-year period, here we've just shown the makeup of that

1 14.8 percent. Of course, the biggest contribution coming
2 from public equities, you know, very strong return and a
3 large allocation. Private equity also a very strong
4 contribution.

5 The value-add portion is great at 1.1 percent or
6 113 basis points. So it really makes a difference. So if
7 we just achieve the benchmark, we would have returned 13.7
8 as compared with the 14.8 that we actually achieved.

9 [SLIDE CHANGE]

10 CHIEF INVESTMENT OFFICER GILMORE: And in terms
11 of the excess returns, you can see the breakdown of that
12 113 basis points. Again, I'd note private equity. What
13 happens in this situation, private markets are through to
14 the end of March and you've also had a period of
15 exceptionally strong public equity market performance. I
16 would expect that to -- that relativity to change. I
17 expect private equity will deliver strong results over the
18 near term, and you'll see that change. But for anything
19 to keep up with public equities would have been quite
20 difficult. But a really good result with that excess
21 return attribution, 113 basis points over the last year.

22 I would say that's partly a combination of, you
23 know, the SA we had, and also the actions we had taken to
24 get us ready for our total portfolio approach. So there
25 were some things we did in the portfolio to get us ready.

1 And some of those things contributed quite strongly to
2 that return.

3 [SLIDE CHANGE]

4 CHIEF INVESTMENT OFFICER GILMORE: Five-year
5 contribution, again driven primarily by public equities
6 and a strong contribution from private equity as well
7 leading to that 6.8 percent.

8 [SLIDE CHANGE]

9 CHIEF INVESTMENT OFFICER GILMORE: And the asset
10 allocation, I think what's interesting to look at here is
11 we've split out public equities and fixed income into the
12 active portion and the passive portion. And the passive
13 portion is essentially the reference portfolio portion.
14 And you can see that we have about the same size exposure
15 to active public equities, active fixed income, and
16 private equity.

17 Obviously, they have different riskiness,
18 particularly the fixed income being somewhat lower, but
19 it's interesting to see that relative -- relativity. You
20 can also see from this point here that the active fixed
21 income has been scaled back somewhat. And the active
22 public equity has been scaled up, and that's actually
23 performed quite well for us. So I think just an
24 interesting metric to look at.

25 [SLIDE CHANGE]

1 CHIEF INVESTMENT OFFICER GILMORE: I've also, I
2 guess, highlighted this one going through the dashboard.
3 But this is something that I think will be a page that
4 we'll always want to pay keen attention to. The top shows
5 that active risk. So that is the, you know, the
6 management team. That's the internal team actively
7 deviating from the reference portfolio, because we think
8 that by investing in other asset classes, we can add
9 value. And at the moment, we're taking around 235 basis
10 points of active risk, again, as I mentioned, slightly
11 below that longer term active risk that we would expect to
12 be taken, particularly as we build out to increase our
13 private market exposure. So I expect that you'll see that
14 235 basis points just tick up and will be comfortably
15 within that 250 to 350 basis point range.

16 Of course, the reality is we need to be able to
17 find those good invests. If we don't, then we won't take
18 the active risk. But if you see us using that active
19 risk, it's because we expect to be adding value.

20 Again, below that, you see the expected equity
21 equivalent exposure at around -- or just under 75 percent,
22 which is where we would expect it to be. Now, I think of
23 any single metric that you look at, this is probably the
24 most important one, because it gives you a sense of the
25 overall market risk. And I think it's a useful way of

1 summarizing the asset allocation. Normally, you're quite
2 used to looking at a portfolio that has equities, fixed
3 income, private equity, real estate, infrastructure, and
4 private debt, and so on.

5 That's quite hard to get that instant
6 understanding of how much risk is there. And this is a
7 way of kind of consolidating it. Yes, you'll still get
8 the -- you know, the asset allocation like usual, but that
9 single measure of equity-equivalent exposure is a good
10 summary or approximation for the overall market riskiness
11 of the portfolio.

12 [SLIDE CHANGE]

13 CHIEF INVESTMENT OFFICER GILMORE: Again, it's
14 also helpful to think about where the overall portfolio
15 risk is coming from. And here, we've shown where the
16 contribution to volatility comes from. And the biggest
17 contributors are private equity, active public equity, and
18 this contribution from real assets, giving a total
19 volatility number of 13.9, which is a little bit higher
20 than the past, partly because we're taking a little bit
21 more risk and also some modeling recalibrations.

22 [SLIDE CHANGE]

23 CHIEF INVESTMENT OFFICER GILMORE: Contribution
24 to active risk. Again, the biggest contribution is coming
25 from private equity. What's interesting to note here is

1 that the active risk contribution from public equities is
2 quite low. Because even though we're taking active risk,
3 even though it's been a good contributor to the portfolio,
4 it still looks a lot like index public equity. But
5 that's, as I say, the contribution. So that 235 basis
6 points of active risk, you can see the compensation,
7 almost half of it -- actually, just under half comes from
8 private equity, because we have high conviction in that
9 area and the team has been delivering.

10 [SLIDE CHANGE]

11 CHIEF INVESTMENT OFFICER GILMORE: In terms of
12 outcomes, realized outcomes, are very much in line with
13 what we would be anticipating. So we had these
14 projections in 2021. The returns have been slightly
15 higher than that 6.8 percent. So you can see the blue
16 line a little bit above the -- you know, the expected
17 return. Not quite one standard deviation strong, but
18 looking good.

19 [SLIDE CHANGE]

20 CHIEF INVESTMENT OFFICER GILMORE: And before I
21 pass over to Lauren, I'm just going to make a couple of
22 comments about how difficult it can be to put these charts
23 together and to be thinking about things in advance of a
24 meeting like this, because these materials get prepared,
25 you know, a couple of weeks beforehand. And over the last

1 couple of weeks we've had quite a few interesting
2 developments. And as Director Willette mentioned, there
3 is -- there have been things happening in the AI space.
4 There have also been things happening in conflict zones.
5 Oil prices are higher.

6 Market is now anticipating with something like a
7 90 percent probability that the fed will hike rates this
8 coming week. Interest rates have been rising in the long
9 end. So the 10-year treasury is almost five percent. So
10 a lot of things going on. And with that, I'll pass the --
11 I won't say the presentation, but I'll pass it over to
12 Lauren to tell us what's happening and what's going to
13 happen.

14 INVESTMENT MANAGER ROSBOROUGH WATT: Thank you,
15 Stephen. I think I can just walk away now. He said
16 everything.

17 No.

18 So good morning, Investment Committee, Chair
19 Palkki, Vice Chair Miller. I'm Lauren Rosborough Watt
20 from the Investment Office. Thank you for having me here
21 today. So, yes, I'm going to speak to developments in the
22 U.S. and global environment, and drivers of those returns
23 over the past quarter, but I am going to talk to more
24 recent developments as well. And then I'm going to place
25 these into context to historical returns over reference

1 portfolio and talk around some of the more topical issues
2 or narrative some of the drivers of the returns that we've
3 seen recently. Now, when I talk around reference
4 portfolio, as you know, referring here to a portfolio
5 built of global equities and U.S. treasury bonds.

6 So throughout the second quarter of this year and
7 beyond, U.S. and global economies continue to reprice in
8 response to a wide range of events. You'll be well aware
9 of these. Let me just try and quickly list some of them
10 out. We've had the Iranian conflict, which is the second
11 geopolitical energy shock in recent years. We've had
12 continued and accelerated defense spending, a ramp up in
13 the AI buildout with positive earning surprises, and
14 denouncements of greater spending on data centers and
15 related infrastructure.

16 On that trade side, the IEEPA tariffs President
17 Trump signed into effect by Executive Order we disallowed
18 by the Supreme Court. That was just before the court
19 began. But he imposed a blanket 10 to 15 percent tariff
20 instead. And more recently, targeted tariffs have been
21 implied via what's called Section 338, which is the trade
22 practices channel.

23 Together, these elements underpinned a global
24 inflation uptick, although certainly not to the scale that
25 we saw in 2022. So this stalling of disinflation has lent

1 itself to hawkish rhetoric from central banks - and
2 Stephen alluded to this -- and rate hikes in some others
3 around the world. Together, this has resulted in higher
4 wholesale interest rates priced by market participants,
5 both in the shortened, so that's central bank policy rate
6 end, and also at the longer end, so 10-year to 30-year
7 duration. And indeed, the U.S. 10-year bond broke five
8 percent this morning. So, yeah, so it's certainly getting
9 up to those big round numbers.

10 This is a long list. And I think the chart here
11 illustrates the takeaway that I'm trying to demonstrate,
12 and that is how well financial markets and assets have
13 performed despite these events, news, and changes. And
14 what you can see on the right-hand side of this chart
15 here, those asset returns that have done particularly
16 well, equity, so risk assets. And those, in this case,
17 commodity prices have done this well, which is on the
18 left-hand side. So oil prices which fell -- now this is
19 for the quarter. So this is follow-on from the original
20 new surprise from the Iranian conflict. Of course, oil
21 prices have been rising subsequent to the end of June or
22 start of July.

23 And the last one there that's predominantly
24 underperformed has been gold. And gold is a -- sort of a
25 safe haven return or asset has been outperforming, but, of

1 course, and a risk on environment has underperformed.

2 [SLIDE CHANGE]

3 INVESTMENT MANAGER ROSBOROUGH WATT: Let me share
4 a little further into some of the thematic and narratives
5 that drove these returns over the quarter, specifically
6 the why-ore. I'm going to focus here on the U.S. economy.

7 First is the labor market. That's that chart on
8 the left. And we speak about this a lot when I come here.
9 And that is weakness or the softness in the labor market
10 that has been happening since the post-pandemic peaks.

11 There are some indicators that still suggest
12 there remain pockets of weakness. And you'll recall, I
13 mentioned in the June quarter, the numbers were -- the
14 June month, the numbers were particularly weak, but we
15 haven't seen yet any evidence of acceleration or further
16 broadening in that weakness in the labor market.

17 The labor force participation rate here, which is
18 that narrow blue line on the left-hand side has been
19 declining. But rather than it being a disaffected labor
20 force, people choosing to opt out of the labor market, the
21 overwhelming driver has been demographics, two factors.
22 Specifically, one is the 65 years and older cohort are
23 retiring and this reduces their participation rate. To
24 give you some numbers to demonstrate this point. In 2019,
25 there were just over 28 million 65 plus year old

1 individuals that were choosing not to participate in the
2 labor market, in other words weren't employed or weren't
3 looking for a job. Today, there's over 35 million.

4 And of course, the equity returns or the
5 bolstering in wealth due to the equity returns we've seen
6 for these individuals 401(k) portfolios may also be a
7 contributing factor. This in conjunction with tighter
8 immigration policy has actually reduced the size of the
9 labor force over 2026. Consequently, there's a smaller
10 pool of workers and the unemployment rate remains low,
11 which is the heavier line on the left -- on the left-hand
12 side.

13 Now, I'm not saying that the labor market is
14 vibrant by any sense. Job hiring is low. The search
15 costs for a new job is high. And we know that over 60
16 percent of homeowners have a set mortgage rate of under
17 three percent or sub three percent mortgage. And that
18 tends to delay their finding a new job in another city or
19 state for that. They prefer to stay in their current
20 house rather than pay. I think mortgage rates are now 6.8
21 percent.

22 So altogether, the labor market appears to have
23 stabilized. This supports consumer spending, which is a
24 notable driver of the economy and one of the reasons why
25 the U.S. Economy has done well. And you'll recall the

1 last time I spoke around the tax returns, tax refunds that
2 consumers had that also supported them.

3 The second chart, the one here in the middle is
4 another often cited reason why the U.S. economy has been
5 resilient. This chart shows data center private
6 construction work put on the plate -- in place. So that's
7 actual construction in the ground. And it is growing very
8 rapidly from a low base. It also accelerated in 2026.
9 And this is sort of symptomatic of a wider trend of
10 investment in AI and tech-related infrastructure. We
11 estimate the value-add of this to the U.S. economy is
12 around about a third of the contribution, is around a
13 third in recent quarters. And it's a persistent tailwind.
14 So it's another reason why the economy has held up so well
15 against these various shocks.

16 And the final chart, speaking to what Stephen was
17 mentioning before. Some of the consequences of continued
18 consumption and also competition for capital and that
19 competition investment by both the tech industry but also
20 by the federal government has pushed long-dated interest
21 rates. Now, this chart shows 10-year U.S. treasury bond
22 yields and also market pricing for that yield out to 2031.

23 [SLIDE CHANGE]

24 INVESTMENT MANAGER ROSBOROUGH WATT: So if we
25 move to the final slide, we can see what financial market

1 participants were pricing in for the end of this year for
2 growth and inflation. And this is the dotted oval and how
3 historically this translates into a reference portfolio
4 return. This quarter and in deed the annual return has
5 well exceeded the returns estimated by this heatmap. That
6 yellow is a single digit return for a reference portfolio,
7 based on historical macro surprises of growth and
8 inflation.

9 And this is why we can only really use history as
10 a guide. We need to know what's happening today as well
11 as what has happened in the past. But also those factors
12 that I mentioned earlier as the persistent tailwinds as to
13 why returns have outperformed what historical indication
14 would have suggested. What we're seeing now is market
15 participants are less uncertain today than they were last
16 quarter, and that's the solid oval. And you can see where
17 we currently stand which is that cross. So there's a
18 smaller range of expectations going forward.

19 So where do we go from here? What are the risks
20 from here? And there's disparate views and most hinge on
21 the outcome of the AI buildout and demand for AI services.

22 So rising interest rates due to concerns around
23 fiscal largesse or sticky inflation are less positive for
24 returns more broadly. And in addition, if that is
25 accompanied with weaker expectations for future AI

1 earnings compared to what's currently priced in, then what
2 we could see is repricing in valuations. And you could
3 shift to the left and potentially down within this heatmap
4 space.

5 On the other hand, expectations for technological
6 innovation, which will increase the capacity of the
7 economy and allow it to continue to grow, rising interest
8 rates due to excess demand, so continued consumption, or
9 improvements in productivity can increase asset return on
10 assets even with higher interest rates, and that would be
11 shift to the lower right side of this chart. And clearly
12 more green is better for reference portfolio return than
13 more red.

14 Now, both of these have very different impacts on
15 the reference portfolio. And that speaks to our continued
16 exposure to growth assets. We want to capture that
17 upside -- that potential upside, but also to the team's
18 focus on diversification opportunities to ensure the fund
19 is more resilient if a downturn were realized.

20 Thank you for my -- hearing me here today and
21 I'll pass back to Stephen.

22 CHIEF INVESTMENT OFFICER GILMORE: And, Chair,
23 I'll just pass back to you for any questions.

24 CHAIR PALKKI: Great. Thank you for that report.
25 Let's -- just for the record, Ms. Taylor is present, so --

1 and we'll start the questions with Ms. Gallegos.

2 ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

3 Just going back to the presentation you made. I was a
4 little surprised to see the volatility numbers so high for
5 private equity. Active risk. I think it was a couple
6 before.

7 CHIEF INVESTMENT OFFICER GILMORE: Let's find it.

8 ACTING COMMITTEE MEMBER GALLEGOS: Yeah.

9 CHIEF INVESTMENT OFFICER GILMORE: Yeah. This is
10 the contribution to the total portfolio volatility.

11 ACTING COMMITTEE MEMBER GALLEGOS: Maybe just
12 explain to me why. Private equity, I would think, Given
13 the longer term and it's not marked to market wouldn't
14 have as high of volatility.

15 CHIEF INVESTMENT OFFICER GILMORE: This is --
16 yeah. This is like Exante. So it's looking at the
17 fundamentals. So it's not based on what you will see
18 reported for the returns. So we're trying to look at the
19 underlying risk. So it's going to be a little bit more
20 volatile than public equities in general. You'll find
21 that eventually it will be even more volatile than that.
22 So, yeah, space on the fundamentals.

23 ACTING COMMITTEE MEMBER GALLEGOS: Okay.

24 CHIEF INVESTMENT OFFICER GILMORE: That's why.

25 ACTING COMMITTEE MEMBER GALLEGOS: Is there

1 anything you can point to that's driving that or is it
2 just something that's typical over time?

3 CHIEF INVESTMENT OFFICER GILMORE: It's typical
4 over time. I think if you -- if you think about, let's
5 say, venture, it's going to be higher. It's smaller
6 stocks. Smaller stocks will tend to be more volatile.
7 Historically, buyout might have had more leverage, so you
8 might have seen that being a bit more volatile. That's
9 changing, of course, with rates where they are. We tend
10 to focus -- we're focusing more and more on growth and
11 you'll find that's probably a little bit more volatile,
12 not dramatically so. So I would say it's marginal in a
13 sense. As you can see, the contribution to total
14 volatility from private equity is not much more than the
15 contribution from active public equity.

16 ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

17 CHIEF INVESTMENT OFFICER GILMORE: But thanks
18 though. Thanks for the question.

19 ACTING COMMITTEE MEMBER GALLEGOS: Thanks.

20 CHAIR PALKKI: Thank you.

21 CHIEF INVESTMENT OFFICER GILMORE: And the
22 reported volatility will be lower than that, because, you
23 know, the valuations are -- can be lagged and --

24 ACTING COMMITTEE MEMBER GALLEGOS: And that's why
25 I was surprised I think.

1 CHIEF INVESTMENT OFFICER GILMORE: Yeah. The
2 reported volatility will be lower than that almost
3 certainly.

4 CHAIR PALKKI: Thank you.
5 Ms. Taylor.

6 COMMITTEE MEMBER TAYLOR: Thank you, Chair
7 Palkki.

8 I apologize for coming in late, but I -- and I
9 know I missed some of this presentation. Lauren, I
10 just -- there is an expectation going forward of just
11 volatility is what you're basically saying. We don't know
12 where interest rates are going to end up. We don't
13 know -- so we're kind of in this don't know what's going
14 to happen, right, is what -- basically what I got out of
15 your --

16 INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. I
17 think some of the takeaways would be -- I mean we've spoke
18 about uncertainty many times and markets have responded to
19 some of those events like Liberation Day tariff
20 announcement. That was a large surprise. What we're
21 seeing is we're still seeing a number of different events
22 and surprises occur, and yet market returns seem to be
23 looking through that somewhat. And so while the
24 volatility in news and events, there is this disconnect
25 between macro and the market.

1 COMMITTEE MEMBER TAYLOR: Right.

2 INVESTMENT MANAGER ROSBOROUGH WATT: I think
3 that's maybe a takeaway that I'm trying to demonstrated.

4 COMMITTEE MEMBER TAYLOR: And that's interesting,
5 in that, you know, some of these events, you know, the
6 war, the tariffs, the new tariffs on Canada that are 50
7 percent with them now tariffing us for 50 percent. This
8 is odd that the markets aren't reflecting that, because it
9 does affect prices, right, so...

10 CHIEF INVESTMENT OFFICER GILMORE: Yeah. Look,
11 one of the -- I think one of the things I find very
12 interesting is looking at what the market is pricing in
13 for inflation. And you might think with all this going on
14 that inflation expectations might have risen. But if you
15 look at longer dated expectations, they've been very, very
16 stable. And it -- yes, you may have seen longer term
17 interest rates rising, but that's not because of inflation
18 expectations rising. That's primarily because real
19 interest rates, so interest rates after inflation or term
20 premia that is the additional yield that's required for
21 longer dated instruments, those things have been rising.

22 And I find that quite interesting. So you can
23 ask why have real yields been going up. And Lauren
24 pointed to a couple of the things relating to just the
25 demand for capital. That is also that uncertainty. That

1 demand for capital is coming from the private sector.
2 It's coming from the public sector in terms of large
3 deficits, and -- but what's also interesting is it seems
4 to be a global phenomenon. It's not just the U.S.

5 Lauren mentioned that other central banks have
6 either been hiking or are likely to hike. And if you look
7 at the market pricing now, the market is anticipating that
8 the Federal Reserve will hike maybe three to four times.
9 It remains to be seen whether that will happen or not.
10 But to your point, the market is really looking through
11 these shorter term shocks and saying that inflation
12 expectations remain reasonably stable.

13 And so it would be very interesting to watch the
14 Federal Reserve this week to see what they do and to look
15 at the reasoning behind that.

16 INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. Do
17 you mind if I add just a couple of points onto that?

18 COMMITTEE MEMBER TAYLOR: Sure.

19 INVESTMENT MANAGER ROSBOROUGH WATT: Stephen is
20 absolutely right. There's a -- there's a difference
21 between some of the drivers of long-dated interest rates
22 overseas versus the U.S. And I think that's why I started
23 talking about global and then focused on why the U.S.
24 could well be different. If you look at some of that
25 move, as Stephen said, for the U.S. inflation is

1 relative -- I mean, it's higher than it was 2018, 2019,
2 but certainly stable. What we're seeing is this term
3 premia type component overseas, so Japan, the UK in
4 particular France has moved higher. So this risk premium
5 that investors are requiring for holding sovereign bonds
6 is much higher, where we're not really seeing that in the
7 U.S. to the same extent.

8 So while there is still, you know, finan --
9 fiscal -- you know, there's I think about nearly \$2
10 trillion worth of debt from the federal government going
11 to be issues this year, but markets are less concerned
12 about that, than what they are in other countries, in
13 terms of the amount of spending or the risk premia on
14 those.

15 The other one I would mention is you mentioned
16 Canada. And you would expect -- I agree with you. You
17 would expect 50 percent tariff on some of these products
18 to have had a larger market impact. And indeed, if you
19 look at expectations for growth for Canada, there is an
20 expectation that growth will be weaker next year, down to
21 around 1.7 percent, but then bounding back by the end of
22 2027 back to two percent.

23 So that tells me one of two things. One is
24 either markets think that Canada can withstand this. Now,
25 the U.S. is Canada's largest trading partner, so it's

1 quite tricky to see. The other one is that the markets
2 are looking through this news and expecting that it may
3 well be wound back. So -- and we have seen some of that
4 happen over the last two years with this administration.

5 COMMITTEE MEMBER TAYLOR: Over and over, yeah.

6 So then my last question is on you referenced all
7 of the triggers, right, for some of this economy,
8 instability, war, AI, infrastructure, data centers, and
9 the -- what we were just talking about, right, the -- but
10 so I think I'm really concerned. It's been in the news
11 for a week now and the op-ed by the Anthropic CEO. And
12 then the response by the United States government was
13 ridiculous.

14 I'm wondering if -- and I understand that Peter
15 is going to come talk to us in November about this, but I
16 think it's a more urgent event, than that. If they -- if
17 they're coming out in public right now saying that this is
18 dangerous and we need to slow it down, and they're begging
19 for the government to regulate them -- I think I read in
20 one of the articles that this is prisoner syndrome,
21 because they're making money, so they can't stop, but they
22 have to get somebody to help them stop, because this is
23 going to destroy people. This will -- I'm -- I kind of
24 knew this when this first started.

25 Anyway, is it possible that we, as the largest

1 pension fund in the United States, make a statement about,
2 yes, we agree. Maybe we should do a moratorium. It
3 doesn't have to be like we want you to, but I think it's
4 important that we weigh in on this. And also, you know,
5 Peter and his group can talk to CalSTRS and others to do
6 that as well. I think it's really important that we weigh
7 in on this, if the government is saying we don't care.

8 CHIEF INVESTMENT OFFICER GILMORE: Look, I --
9 look, I think this is something that we've all been
10 thinking a lot about and it's evolving extremely rapidly.

11 COMMITTEE MEMBER TAYLOR: Yes.

12 CHIEF INVESTMENT OFFICER GILMORE: And there are
13 some very credible people who've come out with let's say
14 calls for slow down, calls for, you know, texting of
15 tokens, looking at taxes on labor versus capital and stuff
16 like that. So, you know, we're thinking about all these
17 things. I think this will take a little bit of time for
18 us to come up with a thoughtful response, but it's
19 certainly an area that we have to be thinking about.

20 COMMITTEE MEMBER TAYLOR: Are we -- so we are
21 thinking about making some sort of response from CalPERS.

22 CHIEF INVESTMENT OFFICER GILMORE: We will think
23 about that, yes.

24 COMMITTEE MEMBER TAYLOR: Okay. I do appreciate
25 that.

1 CHIEF INVESTMENT OFFICER GILMORE: It's -- as you
2 can, appreciate it's fast moving --

3 COMMITTEE MEMBER TAYLOR: It is.

4 CHIEF INVESTMENT OFFICER GILMORE: -- and very
5 complex.

6 COMMITTEE MEMBER TAYLOR: I just wanted to let
7 you know that as a Board member I'm very concerned about
8 this and that we should move on it.

9 CHIEF INVESTMENT OFFICER GILMORE: Definitely
10 understood.

11 COMMITTEE MEMBER TAYLOR: Thank you.

12 CHAIR PALKKI: Thank you.

13 Ms. Middleton.

14 COMMITTEE MEMBER MIDDLETON: All right. Thank
15 you. Well, President Taylor stole most of my mind, so --
16 (Laughter).

17 COMMITTEE MEMBER TAYLOR: Sorry about that.

18 COMMITTEE MEMBER MIDDLETON: -- I'll try to hold
19 back on some of them. But one part of AI and the data
20 centers that has -- gives me significant concern is the
21 extent to which debt has been used by a very large number
22 of these firms in order to ramp up extremely quickly. And
23 at the same time they have taken on significant debt. If
24 there is a reaction from the public, and I think we are
25 seeing a reaction from the public, that is going to

1 significantly slow, does that not create some financial
2 volatility for these organizations? And we know that the
3 market, and CalPERS as well, are extremely reliant on the
4 tech sector for the returns that are coming in.

5 CHIEF INVESTMENT OFFICER GILMORE: I think, first
6 of all, when you're talking about debt, it's worthwhile
7 reflecting on the bigger spenders in this space and
8 hyperscalers up until the last few years were strongly
9 cash generative, and so could finance a lot of the
10 spending without taking on debt. And so they haven't
11 really been loaded down with debt for the most part. So
12 that's one consideration.

13 But as Lauren was saying, that extra demand for
14 funding is putting pressure on rates. If we can be
15 thinking about some of the downsides here, but also, you
16 know, the distribution of parts of that comes as extremely
17 wide.

18 COMMITTEE MEMBER MIDDLETON: Um-hmm.

19 CHIEF INVESTMENT OFFICER GILMORE: So there are a
20 lot of potential upsides. If you think about what's been
21 happening with generative AI or then you get agentic AI,
22 then you get physical AI, you get changes in processes,
23 you could have huge productivity gains. It's not -- it's
24 not all one way. But what I do find interesting is that
25 population in the U.S. is more cautious than will be the

1 case in other parts of the world, let's say Asia. So
2 there's more of a pushback here.

3 But then there are all these geopolitical
4 considerations. So if there's a slow down here, what
5 happens in other parts of the world? So, again, like I
6 said, it's extremely complex. And you can see some of the
7 organizations that are closest to the AI space are now
8 generating very, very strong returns. You can look at
9 what Anthropic has been saying, for instance or see
10 NVIDIA.

11 So it's a complex picture. And I think the
12 distribution of outcomes is extremely wide. Obviously,
13 over the last week or so, there's been lot more discussion
14 with, as you say, the CEO of Anthropic coming out, a
15 person who had resigned from Anthropic talking about the
16 risks, other people talking about, you know, sort of dire
17 outcomes and assigning probabilities. It's certainly
18 attracted attention.

19 COMMITTEE MEMBER MIDDLETON: It is clearly
20 complex for all of us. One of the things that gives me
21 pause and concern is that it's been over 20 years since
22 we've had a significant correction in tech stocks in
23 values. And the market is even more reliant now on tech
24 than it has ever been. We have certainly prospered
25 greatly over the last two decades from our investments

1 there. That always raises the question, at what point do
2 we need to start looking to what the downside could be?

3 INVESTMENT MANAGER ROSBOROUGH WATT: So on the --
4 on the debt side, there are some natural mechanisms,
5 market mechanisms. For example, you're right in that
6 there has been an increase in debt issuance by
7 hyperscalers. As a share of the total investment grade
8 index, it's not that large. It's not super significant,
9 but the duration, so the maturity is much longer. So, IG
10 typically is around five to seven years. This is more
11 like your ten years. And so duration adjusted, it is
12 notable. What we are seeing as spreads have been
13 widening, so it's become more expensive for them to issue
14 debt in that space than what it was prior. And to -- and
15 to some extent, you know, this conversation about capital
16 or demand for capital, capital scarcity naturally pushes
17 interest rates up, and that will then price out the
18 marginal investment, the one that might not do as well as
19 some other. So there are some natural mechanisms in the
20 market in order to slow this down, as it continues to move
21 through.

22 CHIEF INVESTMENT OFFICER GILMORE: I will also
23 say there are some differences -- quite a few differences
24 from 2000. And if you look at some of the earnings,
25 earnings growth has been extremely strong. So if you look

1 at the broader market, you might have seen
2 price-to-earnings multiples actually coming down, because
3 of that very strong earnings growth. There's a question
4 as to how sustained that will be. Some people are
5 thinking that you might get a peak in, you know, 2027.
6 Then there are others who are talking about the transition
7 away from just like the first round to those broader
8 applications where processes start to change, where you
9 transition to physical AI. So this could be something
10 that just keeps on giving for a very long period of time.

11 COMMITTEE MEMBER MIDDLETON: Thank you.

12 CHAIR PALKKI: Thank you for that. I also want
13 to note for the record that Ms. Walker is present as well.
14 Mr. Rubalcava.

15 COMMITTEE MEMBER RUBALCAVA: Thank you, Mr.
16 Chair. I, too, echo some concerns of President Taylor and
17 Trustee Middleton about AI destroying mankind, but we'll
18 let -- we'll let Stephen handle that. My question -- if
19 we're still alive. On the chart titled "U.S. Economy
20 Steady, Despite News and Events," I thought that's a very
21 telling title. And that leads to my question, but first,
22 before my question, a comment.

23 On the first chart about participation rates and
24 you explained that it was a combination of the 65 plus
25 over bubble, people retiring, and also the immigration

1 scenarios that were -- people alluded to during public
2 comment, strongly of course. And so I think it's
3 interesting to me. I recently moved about a year ago.
4 And I noticed there's a lot of -- I saw that 65 plus of
5 people turning. And I also noted they depend a lot on a
6 workforce to take care of them. And I think at some
7 point, there's going to be a crisis where who's going to
8 take care of the people who do need long-term stability --
9 I mean long-term care and nursing care. And I'm just
10 worried about what's going to happen there. But that's
11 just a comment.

12 My question is you used -- somebody used the word
13 "disconnect" and -- maybe it was you or I'm not sure. But
14 recently, there was some news articles Bank of America
15 issued a note on the economy and they were talking
16 basically there was -- perplexed or why are people so
17 calm, given these scenarios you see on the U.S. economy is
18 steady despite news and events. So I was hoping you could
19 speak to that. Are we missing something? Is -- are we
20 missing something?

21 I'll just add that during the summer - I haven't
22 finished it - I started reading a book. I forgot the
23 author, but anyway, I'll tell you during the break about
24 the book. But I am worried. I mean, does the Bank of
25 America see something that we should be worried? I mean

1 the title -- I mean given all the news and developments,
2 why is everything so calm? Are we missing something? Are
3 we ready for the correction to use somebody else's term?

4 INVESTMENT MANAGER ROSBOROUGH WATT: Thank you
5 for your -- for your question, and your comment, and your
6 sentiment. I think many of us feel the same way. We have
7 had a number of successive years of exceptional returns
8 and economists tend to look on the -- sort of the negative
9 side, I guess glass half full, and looking for what are
10 those risks and where are they. And I guess my
11 presentation today was trying to explain why, given the
12 sentiment, do we -- are we not seeing it translate into
13 real effects in the economy. And I think the disconnect
14 in some way is due to this new innovation that's been
15 coming through AI specifically in the economy. And that's
16 been swamping some of these cyclical effects.

17 Now, in prior times I've been here, we've spoken
18 about K-shaped economy. I don't want to overplay the
19 labor market, while the labor market -- you know, the
20 unemployment rate is low. It's not a vibrant labor
21 market. There is definitely still weakness. And what
22 we're seeing with inflation having ticked up in the U.S.,
23 we're seeing real wages erode, which means it's more
24 difficult for people to buy the same amount of goods and
25 services that they had in the past.

1 So I don't have an answer unfortunately for you,
2 but certainly share those sentiments. And I would argue
3 fiscal spending, so government spending, defense spending,
4 and also this -- the AI buildout has been sort of the
5 tailwind push that's helped to support both the U.S.
6 economy and also global economies, when perhaps normally
7 an economist -- you know, economists might have thought
8 the economy may have slowed by this stage.

9 CHIEF INVESTMENT OFFICER GILMORE: I agree with
10 Lauren on that. I would just add that some of the
11 spending is not so interest rates sensitive. So the CapEx
12 that we're seeing is less sensitive to that rise in
13 interest rates that we're seeing. Also, there are
14 probably those wealth effects, strong equity markets.
15 Lauren talked about the greater number of retirees, so
16 that wealth hasn't really been impaired. The question is
17 what happens if those interest rates keep rising? Is
18 there a point when it actually does affect some of those
19 asset prices and wealth? But for now, it hasn't had much
20 impact.

21 COMMITTEE MEMBER RUBALCAVA: Thank you.

22 CHAIR PALKKI: Thank you.

23 Ms. Taylor.

24 COMMITTEE MEMBER TAYLOR: I thank very much,
25 Chair Palkki. Mr. Gilmore, I'm just kind of astonished

1 that you're saying it's not having much impact. The
2 American people are feeling it. Everyone is feeling it,
3 whether you're buying groceries, filling -- it cost me \$70
4 to fill up my gas tank. I have a four-cylinder car. So
5 everyone is feeling this inflation, whether or not buying
6 is stopping. Most of the stuff we have to buy. It's
7 food. It's gas. State of California just demanded State
8 workers back at work four days a week. Buying more gas,
9 right?

10 So I'm not sure -- it's the markets you're -- you
11 know, this entity called the markets that seem to be calm
12 about it. The American people are not.

13 CHIEF INVESTMENT OFFICER GILMORE: You know, I
14 was referring to, I guess, the economic growth rather than
15 sentiment. And if you're talking about disconnects, you
16 know, that might be one of them as well disconnect between
17 sentiment and --

18 COMMITTEE MEMBER TAYLOR: Yes. That's a huge
19 disconnect.

20 CHIEF INVESTMENT OFFICER GILMORE: And so when
21 you're -- so when we're talking about not really having
22 much impact, I'm talking about overall economic growth.

23 COMMITTEE MEMBER TAYLOR: And it's interesting,
24 because the markets used to be really sensitive to this
25 kind of, you know --

1 CHIEF INVESTMENT OFFICER GILMORE: Sentiment.

2 COMMITTEE MEMBER TAYLOR: -- sent -- yeah,
3 sentiment. The labor market, the inflation, and they are
4 completely disconnected from the people now. They don't
5 serve the people. They serve the rich. And this is
6 what's getting really ridiculous for the rest of us. But
7 in that, I just wanted to say, as I pulled up another
8 article just now -- and it's not the New York Times, but I
9 think it's the Wall Street Journal. I think it's
10 important to remember that, yes, they are making a ton of
11 money, right, but we don't know, other than AI becoming
12 very dangerous, we're not seeing the results as people
13 that much, right? It's -- you know, it's just now being
14 rolled out into businesses, and phone services, and stuff
15 like that, but it's -- I'm not sure where these -- where
16 are these profits coming from? Because our other articles
17 I read said it's based on Pretty much nothing.

18 CHIEF INVESTMENT OFFICER GILMORE: I think it's
19 happening very quickly. I mean one of the things I read
20 over the weekend was a summary of a conference where a
21 number of organizations were talking about how -- this was
22 actually coming straight through to the bottom line. So
23 like ServiceNow talking about how they've been
24 incorporating AI and how it had saved X numbers of hours
25 and costs. So you are seeing it come through in the

1 bottom line. As I mentioned, the aggregate earnings
2 numbers have been very strong.

3 COMMITTEE MEMBER TAYLOR: And so they are earning
4 money from where they're selling it to. Is that where
5 this money is coming from or is it just stock market
6 earnings?

7 CHIEF INVESTMENT OFFICER GILMORE: It will be
8 coming from sales. But, of course, there are differences
9 between when are the revenues recognized and when the cost
10 is maybe recognized. Some of these things occur over many
11 years. Also, you are seeing, you know, margins increase.
12 So the share, the capital keeps increasing. So there are
13 societal implications with that as well. So lots of
14 structural things happening.

15 COMMITTEE MEMBER TAYLOR: Okay. And then the
16 last thing I will say is I'm just going to read this. "A
17 top scientist at the company, Evan Hubinger, wrote on X
18 that he thought there was a more than ten percent chance
19 AI could kill all humans in the next decade." Another
20 employee said that, "He would burn my equity to the ground
21 in a heart beat for a one percent higher chance we make it
22 out of this situation alive."

23 It sounds pretty dire. I just want to make sure
24 that you guys are on the same page, profits or not,
25 whether or not China is going to keep going, right? This

1 is -- this is humanity we're talking about.

2 CHIEF INVESTMENT OFFICER GILMORE: Yeah. This is
3 why I mention the very wide distribution of possible
4 outcomes. So there are these dire ones. And obviously,
5 last week, you know, those comments in terms of, you know,
6 the person who'd resigned from Anthropic after having
7 worked at OpenAI and that comment about, you know, a ten
8 percent increase --

9 COMMITTEE MEMBER TAYLOR: Right.

10 CHIEF INVESTMENT OFFICER GILMORE: -- or a ten
11 percent chance. Those things grabbed attention.
12 Obviously, there are quite a lot of essays and books that
13 have kind of foretold this sort of downside risk.

14 COMMITTEE MEMBER TAYLOR: Correct.

15 CHIEF INVESTMENT OFFICER GILMORE: But on the
16 other side, you have these --

17 COMMITTEE MEMBER TAYLOR: Movies too.

18 CHIEF INVESTMENT OFFICER GILMORE: But on the
19 other -- yeah, but on the other side, you have this huge
20 potential as well. So there's just this incredibly wide
21 distribution of possible outcomes.

22 COMMITTEE MEMBER TAYLOR: We're betting on
23 something though that wide distribution of outcomes is a
24 nice way of saying we're just -- you know, we're waiting
25 for the money. And unfortunately, the outcome could be

1 something entirely different. And I just want to make it
2 clear that it is a risk and it's our fiduciary duty,
3 because if we don't have retirees, we don't have State
4 workers, because of AI, we don't have a pension fund,
5 so...

6 CHIEF INVESTMENT OFFICER GILMORE: Absolutely.

7 COMMITTEE MEMBER TAYLOR: Thank you. I'm done.
8 Sorry, Kevin. I saw you looking at me like what?

9 CHAIR PALKKI: I'm listening.

10 (Laughter).

11 CHAIR PALKKI: Thank you for those comments. I
12 do not have any other comments from the Board. So unless
13 there's anything else, we can move into public comment. I
14 do have two speakers on 6b, J.J. Jelincic and Michael
15 Flaherman.

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

17 I want to draw your attention to Attachment 3.
18 It's a very important item. It puts a lot of money in a
19 lot of people's pockets. Before you pay out, based on
20 those numbers, take a look at them. On page 14 of 22, you
21 report a one-year return of 91.8 percent for Thrive
22 Capital Partners Opportunity Fund LP, 77.5 percent for
23 Thrive Capital Partners VII Growth, LLC, 81.7 percent for
24 Thrive Capital Partners IX Growth, LP, 72.5 for Thrive
25 Capital Partners IX, LP.

1 By the way, on the next page, Trident Investment
2 Opportunities II, LP has reported a one-year return of
3 154.1 percent. Those are criminal activity levels of
4 return. Are you sure they are real? Is it consistent
5 with your fiduciary duty to pay out your -- your duty to
6 control costs to pay out based on numbers if you're not
7 sure of them?

8 Silence and shadows.

9 I want to make a couple other points because it
10 came up in the discussion. GASB defines the discount rate
11 as the expected return of the portfolio. You have decided
12 to define them differently. I think the auditors will
13 have some fun with that, so, anyhow.

14 And I forget to write my note on what the other
15 point was and forgot it, so I'm not going to make it. But
16 again, thank you for your attention.

17 Remember, silence and shadows.

18 CHAIR PALKKI: Thank you for your comments.

19 Mr. Flaherman.

20 MICHAEL FLAHERMAN: Michael Flaherman, RPEA.

21 I would summarize my comment very succinctly as
22 way to go, Theresa Taylor. That was spectacular the way
23 you took the AI issue and you continue to drill down. You
24 got a response of there's a wide distribution of possible
25 outcomes. You pointed out that that means that at one end

1 we're all dead. And I actually don't want to imply that I
2 actually know the answer either. I don't. I'm just
3 thrilled from a process perspective to see the Board
4 engage, number one, substantively, but most importantly,
5 you got kind of a brush off, which was kind of the classic
6 we're thinking about it and you went back to it. And
7 that's something that, you know, all of us in the audience
8 see this happen, you know, month, after month, after
9 month, where your staff succeeds in just brushing you off.
10 They treat your questions like it's a deposition, and they
11 are hostile witnesses, and they offer you the most narrow
12 responses they possibly can. And, you know, we watch how
13 you get deflated in expressing reasonable curiosity. And
14 I would just encourage you to keep it up, because that was
15 really great.

16 Thank you very much.

17 CHAIR PALKKI: Thank you for your comments.
18 That -- I don't have any other public comments for 6b.

19 I think -- I think this is a good place to take a
20 quick 10-minute break. So we'll come back at 10:46.

21 (Off record: 10:36 a.m.)

22 (Thereupon a recess was taken.)

23 (On record: 10:50 a.m.)

24 CHAIR PALKKI: All right. We'd like to get
25 started back up again. So thank you all for that quick

1 break and welcome back.

2 This brings us to Item 6c, Trust Level Review
3 Consultant Report.

4 Mr. Tom Toth.

5 TOM TOTH: Good morning. Tom Toth with Wilshire
6 Advisors.

7 (Slide presentation).

8 TOM TOTH: I will try to add a couple of comments
9 following on staff's and I won't spend too much time on
10 specific performance information, because I think that was
11 truly covered earlier.

12 But a couple -- one of the big things that
13 happened over the last quarter in markets was in fact the
14 change in leadership at the Federal Reserve.

15 [SLIDE CHANGE]

16 TOM TOTH: So I wanted to highlight that. As we
17 look at some of the statistics from what we call the old
18 boss here, Mr. Powell, I think it's somewhat of a mixed
19 report card through his tenure, particularly inflation.
20 You can see that the -- with the peak north of nine
21 percent under his watch and 3.6 percent overall across his
22 eight years, certainly higher than the two percent target,
23 which we've talked about in the past. But at the same
24 time, his targeted programs did keep unemployment, while
25 very volatile, ultimately ending at a reasonably low rate.

1 The bottom line on the right-hand chart there shows that
2 when he started, unemployment was at 4.1 percent, and when
3 he finished, it was at 4.3 percent. Well within I would
4 say the margin of error for that time series.

5 So unemployment remained relatively contained.
6 Inflation hotter than desired. So that's why I say
7 somewhat of a mixed report card there. That's the past,
8 as we look forward thinking about the new boss --

9 [SLIDE CHANGE]

10 TOM TOTH: -- Chair Warsh. One of the, I think,
11 most important things to keep in mind as investors moving
12 forward is his approach or desired approach, I should say
13 to communication to markets. He is a believer that the
14 Fed should, in essence, say less so that markets can
15 really focus on underlying fundamentals as opposed to
16 trying to guess what the Federal Reserve is going to think
17 about underlying market fundamentals. So his approach to
18 communication is likely to be a bit less transparent or
19 less -- sort of less information to markets, so that
20 markets can focus on fundamentals, and therefore pricing,
21 in his view, will be more accurate.

22 The impacts of that are unclear at this point,
23 given relatively early in his tenure. I think markets are
24 likely to be a bit more volatile with that approach, as
25 they try to digest that change in approach.

1 [SLIDE CHANGE]

2 TOM TOTH: Lauren did mention the shift in market
3 expectations for interest rates. And I'll just touch very
4 quickly on this. This also highlights a comment that
5 Stephen had made about the timing of these charts. The
6 story is the same, but the numbers are different. And
7 what I mean by that is in this cart, you'll note that the
8 markets expectation for cuts -- and I'm focused in on the
9 dotted blue line specifically here, you can see back in
10 late February, the expectation was for interest rate cuts.
11 That has moved up above that zero line. But it was
12 effectively a coin flip 50/50 whether the Federal Reserve
13 would raise rates. That's actually substantially higher,
14 as Stephen pointed out. So the fact that we had to get
15 these tables to you in time, sort of, I think camouflages
16 how dramatically things have moved just over the last
17 couple of weeks.

18 But the story remains the same in that market
19 expectations have shifted from the expectation of cuts to
20 one of interest rate increases. And we'll see how that
21 transpires over the next couple of Fed meetings.

22 [SLIDE CHANGE]

23 TOM TOTH: And then finally on kind of the
24 broader interest rate market. I think it's always
25 important to keep in mind that short-term rates do

1 influence long-term rates, but they're not an ironclad
2 law. Long rates don't necessarily have to follow what the
3 Fed fund's rate is doing. And we have a recent example of
4 that in this chart, which shows the Fed fund's rate in
5 red. And you can see that stair step down. Those are the
6 Fed fund cuts. But the ten-year nominal number has not
7 fallen nearly -- has not fallen at all. And, in fact,
8 over just the last couple of weeks, as Lauren pointed out,
9 have -- has increased quite materially and actually
10 breached five percent today.

11 So you can think about the Fed Fund's rate as
12 being a suggestion of where interests rate might go, but
13 certainly not, in fact, an ironclad law.

14 And questions on the broader market. You had a
15 nice fulsome discussion, I think, before I came up here,
16 but I'm happy to answer any specific questions?

17 Nope. Okay.

18 CHAIR PALKKI: Hold on. I've got one. Ms.
19 Taylor.

20 TOM TOTH: Ms. Taylor.

21 COMMITTEE MEMBER TAYLOR: Sorry about that.
22 Thank you, Mr. Palkki. I was just -- I'm not sure why you
23 gave us the overview of the old boss and the new boss,
24 which -- it was interesting. I just -- wasn't Jerome
25 Powell over the Fed during the pandemic?

1 TOM TOTH: He was, yes.

2 COMMITTEE MEMBER TAYLOR: Yeah. Yeah. So, I
3 mean, certain event -- I mean, you made it --

4 TOM TOTH: Different environment, Ms. Taylor.

5 COMMITTEE MEMBER TAYLOR: -- you made it sound
6 like this is, you know, just the way he performed, but we
7 had economic issues at the same time.

8 TOM TOTH: And that's a fair point, Ms. Taylor.
9 I think my -- what I was trying to highlight is the
10 different frameworks that the two chairs take in looking
11 at markets, which are different, but it says nothing about
12 what actually might transpire. And so to your point, we
13 had a, knock on wood, once-in-a-lifetime pandemic. And
14 the response to that was extraordinary by every measure.

15 Would Kevin Warsh done -- would he have done the
16 same thing? I don't know. Candidly I would say probably.
17 And, in fact, I think I won't flip back to the page, but
18 on the -- on the slide we pointed out that is it likely to
19 be significantly different under Chair Warsh? Our point
20 being in a very financialized, highly indebted economy,
21 the Federal Reserve is incentivized to keep the music
22 going.

23 COMMITTEE MEMBER TAYLOR: Right.

24 TOM TOTH: And it's likely. I would anticipate
25 he would likely be active as well.

1 COMMITTEE MEMBER TAYLOR: Okay. So you don't --
2 based on the activities right now, where he's -- he's
3 basically -- seems to be taking away shareholder rights --
4 being okay with taking away shareholder rights, so --
5 based on, you know, what's happening right now. But -- so
6 you're saying otherwise, if something big happens, he may
7 get involved with cuts to interest rates, or hikes to
8 interest rates, or - - is that what you're saying?

9 TOM TOTH: I would think he would be --

10 COMMITTEE MEMBER TAYLOR: Okay.

11 TOM TOTH: -- active as well, yes.

12 COMMITTEE MEMBER TAYLOR: Okay. Thank you.

13 TOM TOTH: Um-hmm.

14 CHAIR PALKKI: Thank you.

15 Ms. Middleton.

16 COMMITTEE MEMBER MIDDLETON: Thank you.

17 Tom, there has been an awful lot in the general
18 media on bond rates, and yields, and where they are going.
19 And could you comment as to what direction you think
20 treasury is going to take and what the long-term
21 implications are?

22 TOM TOTH: So that is a multi-trillion dollar
23 question, as it happens, Ms. Middleton. Interest rates
24 have gone up very quickly and quite substantially in
25 reaction to, you know, the increase in real yields, some

1 variability around inflation expectations. Although, at
2 the long end, as Stephen pointed out, those do continue to
3 remain anchored. Where are rates likely to go from here?
4 We have a shorter term fair value model that actually
5 places them around fairly valued now. So what's likely to
6 happen over the shorter term? I think if they continue to
7 creep higher, it will be -- certainly be at a slower rate
8 of increase. And if you were to ask me over the next six
9 months, I wouldn't be surprised to see them retreat a bit.

10 Just markets tend to -- tend to overreact over
11 the short term. And so the move has been fast enough over
12 the last couple of -- couple of months. I wouldn't be
13 surprised to see that retrench a little bit.

14 COMMITTEE MEMBER MIDDLETON: All right. Thank
15 you.

16 TOM TOTH: Longer term, and that's probably more
17 important from the Board's perspective as a strategic
18 investor. I think the tailwind, i.e., pressure on
19 interest rates, is likely to remain. If you think about
20 the deficits that we're running and the demand for capital
21 for AI buildout as we talked about earlier, that shows no
22 signs of abating. And so there's likely to be upward
23 pressures on interest rates over time.

24 COMMITTEE MEMBER MIDDLETON: All right. And
25 picking up on some of the conversation that we had earlier

1 in the previous section, within the Board, I know there is
2 concern about the volatility of the market and what do we
3 need to be doing in order to mitigate risk moving forward?

4 TOM TOTH: Um-hmm. And I think the keyword is
5 "resilience" and looking to build strategies into the
6 portfolio that enhance that resilience through different
7 market environments. So an example of that would be
8 looking at return streams which provide some level of
9 inflation protection, hard assets, as one example. And
10 then uncorrelated strategies, so those might be slightly
11 higher turnover strategies that look to put together or a
12 return stream that is uncorrelated to market risk
13 premiums, and can take advantage of dislocations. I think
14 that's going to be the key.

15 Given where we see forward-looking, long-only
16 return premiums generating the types of returns that
17 you've seen in the reports today is going to be more
18 challenging going forward. So layering in those
19 strategies I think is going to be key.

20 COMMITTEE MEMBER MIDDLETON: All right. Thank
21 you.

22 TOM TOTH: Um-hmm.

23 Chair Palkki, are you cutting me off or --

24 CHAIR PALKKI: No, you're good. You can
25 continue.

1 TOM TOTH: Just a couple -- just a couple of
2 other comments. I mentioned I wasn't going to talk too
3 much to realized performance. But in Attachment 1 -- 6c,
4 attachment 1. I'll flip us to page -- oh, sorry. One
5 more there, Matt in 6c. I just wanted to point out the
6 rolling active risk for the portfolio on a realized basis.
7 And I'm on -- I'll get us to page 19.

8 [SLIDE CHANGE]

9 TOM TOTH: Here we go. So this looks at the
10 rolling three-year active risk of the portfolio. And I'll
11 just point out that it remains reasonable at right around
12 two percent, but it has moved higher. That has been
13 intentional as the team has looked to drive active returns
14 in the portfolio. That increase in active risk has been
15 additive to portfolio results. Stephen pointed out the
16 1.1 percent return over and above the benchmark. And
17 we'll talk more about those specifically as we get into
18 the program reviews for global equity and global fixed
19 income, specifically where that active risk has, in fact,
20 added value.

21 Okay. Now, turning to one -- we're going to turn
22 to Attachment 4. But before we get there, I did want to
23 comment on that opinion letter, which is in Attachment 3.
24 This plays into our evaluation of the program reviews
25 later in this agenda. And I wanted to point out that our

1 firm evaluation was increased over this last fiscal year.
2 This is in response to the successful launch of TPA, after
3 two years of Board education and discussion, as well as
4 meaningful progress in filling senior investment
5 leadership positions within INVO. Both Deputy CIO roles
6 for capital markets and for private markets were filled.
7 The retirement of the MID for the Total Fund Portfolio
8 Management team was addressed through an external
9 appointment in July of this year. And the MID for private
10 debt has now settled into the role after coming up on a
11 full year there.

12 Additionally, the -- there was an internal
13 promotion at the MID level for global fixed income
14 following the retirement of a long-time leader in that
15 space. And I think that highlights -- and you'll here
16 this in the global fixed income letter, it highlights a
17 strong bench of internal investment talent, which we feel
18 should be called out.

19 As you know, and as we've said in the past, we
20 leave stability in leadership is absolutely critical in
21 successfully implementing the reference portfolio and
22 active risk framework, which has been improved by the
23 Board. And we wanted to recognize the strides that have
24 been made in that space over the last fiscal year.

25 Be happy to answer any questions around that

1 opinion letter on the firm.

2 CHAIR PALKKI: I don't have any questions, so
3 please continue.

4 TOM TOTH: If we could flip to Attachment 4.
5 This is the Wilshire Trust Universe Comparison Report. So
6 this is a comparison of the results for the portfolio
7 relative to other very large public pension systems. The
8 specific universe here is greater than \$50 billion. As
9 you might imagine that universe is relatively limited, so
10 we are talking about a universe of about I think it's 23
11 funds in total. Over the last fiscal year, the portfolio
12 in aggregate ranks in the top third of the universe, the
13 29th percentile specifically. And over the last two years
14 actually ranks even better, in the 15th percentile of that
15 large public plan universe.

16 So we are seeing some positive results over the
17 shorter term time frame. There clearly is -- remains work
18 to be done over the longer term. And that, I think,
19 highlights some of the comments I just made about the
20 benefits of stability and investment approach and
21 consistency as we move through market cycles to drive
22 those longer term universe comparisons higher.

23 The one other point that I'll make here is around
24 a specific program and that is the Private Equity Program.
25 You saw the performance that is generated over the last

1 year. That's in just strictly return space. This is in
2 comparison to other private equity investors in large
3 public portfolios.

4 [SLIDE CHANGE]

5 TOM TOTH: And so I will highlight that over not
6 just the more recent time periods, and I'm looking at the
7 very bottom line on that table, over the last fiscal year,
8 ranks right at the top of the universe at the first
9 percentile. But you can see that that goes back much
10 further than that with even the seven-year number now also
11 ranking at the first percentile and the ten-year ranking
12 at the fifth percentile, which I think is a testament to
13 the current strategy and how well it is done relative to
14 peers. It has not been in place for 10 years, but its
15 impact is dramatic enough to pull that full 10-year number
16 up to the fifth percentile on a universe comparison --
17 from a universe comparison standpoint.

18 Any questions on the universe comparisons?

19 If not, I can turn it over to your other
20 consultant on the private market side for their comments.

21 STEVE McCOURT: Good morning. Thank you, Tom.
22 Steve McCourt with Meketa Investment Group. I'll provide
23 a brief review of the private market programs. Happy to
24 answer any questions at the end.

25 At the end of June, your for private market asset

1 classes comprised roughly 35 percent of the overall
2 CalPERS investment program. Each of them was invested in
3 accordance with the strategic plans that are being
4 presented to you by the Investment staffs of each of the
5 programs.

6 Our observation is that staff across the private
7 markets programs has been productively engaged in the
8 process of migrating towards the total portfolio approach.
9 And all programs remain very diversified from a top level,
10 which is an important risk mitigant for the programs.

11 I want to highlight performance just quickly
12 since Tom addressed some of the performance as did -- as
13 did Stephen. Hitting private equity first returns have
14 been very strong relative to peers and also on an absolute
15 basis. Over the last decade, the private equity program
16 has returns 13.1 percent per year on average and has
17 posted double digit annualized returns over all trailing
18 time periods over the last 10 years.

19 The Private Debt Program has also posted double
20 digits returns over all time periods since inception, 11
21 percent over the trailing year, 14 percent over the
22 trailing three years, and 11 percent per year over the
23 last five years. The Real Estate Program has produced
24 more modest returns, roughly three to four percent per
25 year over the last five and ten years respectively.

1 That's in the context, of course, of a real estate bear
2 market during the COVID period. Returns for real estate
3 have matched or exceeded the real estate benchmark over
4 those time periods.

5 And finally, the Infrastructure Program has
6 posted high single digit returns over all trailing time
7 periods, exceeding its benchmarks. And just a final
8 comment on risks. When we think about the risks affecting
9 your private market programs today, given how they are
10 invested by the Investment team, the broad risks really
11 reflect the risk that reflect your -- the impact to your
12 broader portfolio and that have been discussed already
13 today. There are things like the level of interest rates,
14 inflation, the sustainability of AI spending. Those broad
15 macroeconomic factors drive ultimately the returns of all
16 asset classes and private markets included in that.

17 Your Investment teams continue to do a very
18 strong job at diversifying away idiosyncratic risk within
19 the various portfolios, but those macroeconomic lists
20 risks are left for all asset classes. That concludes our
21 report. Happy to answer any questions.

22 CHAIR PALKKI: I'm not seeing any questions.
23 Thank you for the great report.

24 STEVE McCOURT: Thank you.

25 CHAIR PALKKI: So that is -- yeah, I don't have

1 any questions from the Board here, but I do have two
2 public commenters. Larry Woodson and Tom Gjerde.

3 Sorry if I mispronounced your name.

4 LARRY WOODSON: Good morning again. Thank you
5 for the opportunity to comment. First, as I've stated
6 previously to the Board and staff, my research has
7 revealed that the time-weighted returns methodology that
8 PE Investment staff has begun to use to calculate PE RORs
9 results in significantly higher numbers than true rate of
10 return. Numerous qualified sources say that TWR should
11 not be used to calculate PE returns. The internationally
12 recognized CFA Institute Research and Policy Center, which
13 Michael Cohen told me Investment staff follows, says TR
14 should never be used for valuing PE, but only for public
15 assets.

16 TWR for PE is best used to compare the
17 effectiveness of various managers, which would be fine if
18 they did it just for that.

19 This weekend, I emailed to all Board members and
20 key exec staff a link to a September 4th article in *The*
21 *Guardian* titled, "Private Equity Faces Existential Crisis
22 in the U.S. as Unsold Companies Pile Up." You may not
23 have had time to read it yet, but some of the highlights
24 include a list of well-known businesses PE bought and
25 bankrupted, including Eddie Bauer, Kmart, Joann Fabrics,

1 Steward Health, which I've previously spoken about, which
2 resulted in six hospital closures and 37 hospital
3 bankruptcies in ten states.

4 But the main theme of the article is that PE
5 funds are sitting on a record number of unsold companies,
6 many of which are unable to sell or must sell at a loss.
7 They sit for 10, 20 years or more, and, as you know, are
8 called zombie funds. And PE firms are running into a wall
9 of persistently high interest rates rising the buyout
10 prices. Because they can't sell, they slash and burn on
11 operating side, which eventually leads to bankruptcy.

12 There's much more in the article, which should
13 influence CalPERS to cut back significantly on new PE
14 investments. What doesn't appear in any of today's
15 presentations is a breakout of liquidated PE funds. Maybe
16 they're not even being incorporated. As I learned after
17 submitting a PRA and receiving a list of three years of
18 liquidated CalPERS PE funds, the ROI for those returns was
19 significantly below the 11.9 percent five-year return,
20 which included those three years.

21 The liquidated funds were closer to six percent
22 and were full of zombie funds. In conclusion, I hope the
23 Board will request that staff provide annual performance
24 reports of PE liquidated funds to the Board and
25 stakeholders. It's shocking to me that they've never done

1 that. And by the way, Meketa is also a consultant to
2 Oregon State Pension Fund and they recently recommended
3 that that pension fund significantly reduce their new PE
4 investments percentage for this year.

5 So there you have it. Thank you.

6 CHAIR PALKKI: Thank you.

7 Go ahead.

8 TOM GJERDE: Good after -- good morning. My name
9 is Tom Gjerde. I'm a recent retiree, former State
10 employee. And I've been watching the CalPERS meetings for
11 probably about ten years and I love reading the Wilshire
12 reports because they're always a great opportunity at this
13 time in September to kind of evaluate annual returns and
14 make some observations.

15 I actually want to thank the -- whoever is
16 involved with investing our funds in the CERBT fund,
17 because the CERBT 1 actually outperformed the PERF this
18 year. And it turns out it's done very well in the last
19 several years. I was looking at the returns. If you look
20 at Attachment C, you'll find a lot of this. This is on
21 page 14 and 20. Do you mind pulling up page 20 on the
22 Attachment C.

23 CHAIR PALKKI: So just continue your comments.

24 TOM GJERDE: Sure. So if you look at the PERF's
25 returns for three years, it earned 11.9 percent. CERBT 1

1 return was 13.5 percent. And if you look further in your
2 affiliate funds, the target date 2030 fund returned 14.10
3 percent. And if you look a Vanguard 2030 fund, it
4 returned 13.62. I wanted to point out that your reference
5 portfolio benchmark for three years was only 11.3, so all
6 of these beat the benchmark. If you take the Vanguard
7 LifeStrategy Fund, which is basically just passive indexes
8 of stocks and bonds, you can take the 60/40 you can take
9 their 80/20 LifeStrategy fund, divide it -- or average it,
10 you'll get that that fund would have -- a hypothetical
11 70/30 fund would have returned 15.10 percent over the
12 three-year period.

13 So really what I'm getting at is that there's
14 some real passive strategies that you're already employing
15 with your affiliate funds that are doing very well in this
16 market. I wanted to point out something else. As
17 recently as ten years ago, CalPERS had 48 percent of its
18 fund in public equity. And as of the end of this fiscal
19 year, it's down to about 38 percent, if my math is
20 correct.

21 And in the last three years, it went from 45
22 percent to 38 percent, which I know has been part of this
23 move to private equity. But I also wanted to point out
24 within your own report here, that the one-year return for
25 your global public equity cap-weighted was 25.8 percent

1 versus private equity of 17 percent. On the three-year
2 return, it was 20.7 percent versus 14 percent.

3 So don't give you on public equity. It's doing
4 very well for this fund. Thank you very much.

5 CHAIR PALKKI: Thank you for your comments.

6 That brings us to Item 6e. No, sorry, 6d, Global
7 Fixed Income Annual Review.

8 (Slide presentation).

9 DEPUTY CHIEF INVESTMENT OFFICER KIM: Good
10 morning, Mr. Palkki. I'm June Kim, your Deputy CIO of
11 capital markets. Pleasure to be with you today. And I'm
12 just here to introduce the Global Fixed Income team led by
13 your recently appointed Managing Investment Director,
14 Justin Scripps. So Justin, I'm going to hand it over to
15 you.

16 MANAGING INVESTMENT DIRECTOR SCRIPPS: Thank you,
17 June. Good morning, Chair Palkki, Vice Chair Miller, and
18 members of the Board. My name is Justin Scripps,
19 Investment Office team member. I'm joined by two Global
20 Fixed Income team members, Richard Fiebrandt and Brian
21 Parks who will be assisting me in presenting today's
22 annual program review.

23 Before beginning, I wanted to take a moment to
24 thank Marcie, Stephen, and June for selecting me to head
25 the Global Fixed Income Program. It's truly an honor and

1 a privilege for me to lead this team in my new role.
2 After 18 years trading and managing credit portfolios at
3 CalPERS, I have deep respect for the team and its
4 accomplishments. And my commitment to our mission is as
5 steadfast as it was when I joined this organization in
6 April of 2008.

7 I also want to thank my predecessor Arnie
8 Phillips for the 30 plus years of service to our members
9 and for his leadership to the Global Fixed Income team
10 during the year that we will be reviewing today. As we
11 will soon discuss, this was an exceptional year for the
12 Fixed Income team and I look forward to building on our
13 long-term excellent risk-adjusted returns.

14 [SLIDE CHANGE]

15 MANAGING INVESTMENT DIRECTOR SCRIPPS: As a
16 reminder of the scale and the structure of the Global
17 Fixed Income program, we are responsible for multiple
18 active and passive investment strategies. We are unique
19 among Total Fund Program teams, in that a majority of the
20 assets we invest are managed internally by the Fixed
21 Income team. It's about three-quarters internal versus
22 one-quarter external.

23 You will also note that the majority of our
24 investment activity is comprised of active rather than
25 passive management. Again, three-quarters, one-quarter

1 roughly. Another important feature of the fixed income
2 team, worthy of highlight is its depth of expertise and
3 experience. The team is comprised of portfolio managers,
4 traders, credit research analysts, and portfolio data
5 analysts, with an average tenure of 13 years and average
6 industry experience well in excess of that. This
7 extensive experience forms the foundation of our rigorous
8 securities selection and risk management, driving
9 consistent active returns. This is also expertise that
10 our team contributes to cross asset class underwriting and
11 due diligence efforts. And TPA will only allow for that
12 collaboration to grow stronger.

13 [SLIDE CHANGE]

14 MANAGING INVESTMENT DIRECTOR SCRIPPS:

15 Translating these activities into assets and
16 returns. You can see that as of the end of the last
17 fiscal year, our team managed close to \$200 billion,
18 inclusive of all active and passive strategies. We focus
19 on delivering long-term excess returns in excess of
20 passive implementation. To that end on this slide, please
21 note that excess returns are materially positive across
22 all time periods. Translating those excess returns into
23 dollar value amounts, you'll note that the aggregated
24 dollar value of returns in excess of passive management
25 over the past ten years exceeds three and a half billion

1 dollars.

2 In the following slides, we will disaggregate
3 these combined reported returns into active and passive
4 component views. And those more meaningfully represent
5 the investment strategies that we manage. Now, Brian
6 Parks will continue the annual program presentation with a
7 comment on the categorization of our investment activities
8 under TPA.

9 INVESTMENT MANAGER PARKS: Thanks, Justin. I
10 appreciate the introduction. I'm a Portfolio Manager on
11 GFI's investment grade credit strategy and it's a pleasure
12 to speak with you all today.

13 [SLIDE CHANGE]

14 INVESTMENT MANAGER PARKS: So continuing on with
15 our program summary review. As GFI has kicked off TPA
16 implementation starting July 1st, that active strategies
17 under GFI management have remained consistent with our
18 pre-TPA framework. The most important distinction that
19 I'd like to bring to your attention today is that while
20 under the SAA framework, each substrategy was viewed,
21 managed, and allocated to independently, we have moved to
22 a more holistic approach to managing our active strategies
23 collectively.

24 What this means for GFI is that our focus going
25 forward is on the outcome and the results of the

1 collective strategies together, as opposed to each
2 strategy's individual performance and isolation. And
3 we'll be thoughtfully allocating capital to strategies
4 which we think have the best risk return characteristics
5 as opposed to operating under a rigid SAA framework.

6 One final change to note on this slide, GFI's
7 passively managed U.S. treasury segment, which is not a
8 source of alpha or active returns will be presented
9 separately from GFI's active strategies going forward for
10 risk and performance purposes. The treasury allocation is
11 fixed, it's passively managed, and GFI will not be leaning
12 in or out of that allocation.

13 Next slide, please.

14 [SLIDE CHANGE]

15 INVESTMENT MANAGER PARKS: Perfect. So now
16 focusing in on our performance for the fiscal year-end
17 June 30th, 2026. As Justin mentioned, it was a terrific
18 year. For GFI, we delivered a strong set of results with
19 a 6.9 percent total return, which exceeded the PERF
20 discount rate, while generating 57 basis points of excess
21 return, or approximately \$692 million in dollar value-add.

22 Last year's performance was consistent with the
23 team's 20-year historic track record of sustainably
24 generating excess return, with a 20-year active excess
25 return number of 57 basis points per year. Over a more

1 recent time frame, the normalization of interest rates
2 combined with prudent risk taking has contributed to GFI
3 generating a 6.58 percent three-year total return of 34
4 basis points of excess return.

5 Finally, for your reference, at the bottom of
6 this slide, it identifies the active strategies that were
7 in place during the last fiscal year, the assets under
8 management, and a general description of each strategy.

9 Next slide, please.

10 [SLIDE CHANGE]

11 INVESTMENT MANAGER PARKS: And then rounding out
12 our GFI strategies, are the U.S. treasury segment and
13 short-term investment fund, which had approximately \$70
14 billion in AUM with \$53 billion in treasuries and \$17
15 billion in the short-term investment fund, notably both of
16 these strategies had been 100 percent internally managed.

17 Taking a look at performance now, the U.S.
18 treasury segment delivered a 2.85 percent one-year total
19 return, which was obviously impacted by the rising
20 interest rate environment, and the short-term investment
21 fund portfolio generated a one-year total return of 4.24
22 percent.

23 And with that, I'll pass it over to Richard to
24 continue our remarks.

25 INVESTMENT MANAGER FIEBRANDT: Thanks, Brian.

1 [SLIDE CHANGE]

2 INVESTMENT MANAGER FIEBRANDT: My name is Richard
3 Fiebrandt. I'm a portfolio manager in securitized within
4 Global Fixed Income. First, I'd like to touch on some of
5 the key themes that are driving the fixed income markets
6 currently and which are central to how we're thinking
7 about investing in this space.

8 As interest rates reached historic lows during
9 the COVID pandemic, homeowners and corporations both
10 locked in those low interest rates refinancing their
11 mortgages and issuing low yielding corporate bonds. This
12 strengthened corporate balance sheets and combined with
13 current economic strength and robust earnings growth has
14 led to favorable conditions for credit risk in fixed
15 income markets.

16 Recently, growing corporate issuance to
17 facilitate record capital expenditures is beginning to
18 lead investors to require wider spreads. But overall, the
19 yield differential between credit securities and U.S.
20 treasuries remains quite tight by historical standards,
21 even if understandably so. On the other hand, the poor
22 outlook for fiscal deficits globally has put pressure on
23 government debt yields and the market has increasingly
24 focused on U.S. treasuries, given the large and growing
25 financing needs of the federal government.

1 Further, inflation still has not yet come down to
2 the Federal Reserve's target of two percent, since the
3 rate hiking cycle began in 2022. Recent geopolitical
4 energy shocks only exacerbate the outlook for inflation,
5 and these factors have all led treasury yields to remain
6 elevated as the market prices in interest rates that are
7 higher for longer.

8 These factors set the backdrop for the balance of
9 risk and reward in fixed income. Despite tight spreads,
10 all-in yields in the ballpark of six percent are much
11 higher than what we used to after the financial crisis
12 when interest rates were near zero for an extended period
13 of time. This means that fixed income investors once
14 again can actually earn income and higher expected returns
15 going forward.

16 Geopolitical shocks, fiscal pressures, ongoing
17 inflation, and uncertain economic transformation all
18 create risk. But these also create the opportunity for us
19 as active investors to generate alpha and add value for
20 the fund.

21 Looking at the next slide --

22 [SLIDE CHANGE]

23 INVESTMENT MANAGER FIEBRANDT: -- we can drill a
24 little bit more into the active fixed income strategy
25 performance across the segments. The high level return

1 numbers here are the same that Brian presented on a couple
2 slides ago with the one-year total return for active fixed
3 income at 6.9 percent and excess returns of 57 basis
4 points. Here, we can drill a little bit more into the
5 individual strategy returns as well.

6 All active fixed income segments produced a
7 positive total return and positive excess returns this
8 year. I particularly want to highlight the excess returns
9 for the securitized segment at 104 basis points in the
10 emerging market debt segment at 113 basis points. The
11 securitized segment benefited from a market with ample
12 relative value trading opportunities during the year, and
13 from partnering with the investment treasury and financing
14 group to facilitate additional strategies.

15 The emerging market segment benefited from
16 existing and new external partners who delivered strong
17 risk-adjusted returns and provided valuable market
18 insights for the internally managed EM portfolio. Despite
19 a successful year for fixed income, we're most proud of
20 the longer term track record of risk-adjusted returns and
21 adding value consistently over time as you can see by
22 looking at the three-, five-, and ten-year excess return
23 numbers.

24 On the next slide --

25 [SLIDE CHANGE]

1 INVESTMENT MANAGER FIEBRANDT: I'd like to
2 quickly touch on some of the successes that we saw as a
3 group during the year. Collaboration has been a key theme
4 for the Investment Office, as well as for Global Fixed
5 Income. And we're always looking for ways to partner
6 across the Investment Office and with the broader
7 enterprise, but here are a couple examples that we want to
8 highlight.

9 First, our credit analysts partnered with private
10 equity and private debt teams to support underwriting on
11 deals and share our expertise across specific sectors and
12 securitization structures. We also have historically had
13 great collaboration with the Investment Treasury group as
14 liquid fixed income securities are an important source of
15 collateral for the fund. But this fiscal year, we also
16 worked with them to opportunistically deploy CalPERS
17 balance sheet in fixed income markets which help support
18 active fixed Income strategies and added additional value
19 for the fund.

20 Another success again was the expansion of the
21 external manager roster in the Emerging Markets Program.
22 The EM team has been able to build strong risk-adjusted
23 returns and enhance the strategy over time by allocating
24 across external managers with differentiated strategy
25 offerings and unique sources of alpha.

1 We've also identified a couple areas of growth
2 for us that we're beginning to focus on this fiscal year,
3 and Justin is going to touch on these more, but a big
4 priority for us this year is to continue looking for
5 opportunities to prudently increase active risk and active
6 returns to deliver additional value-add under TPA. Some
7 of this could come from new partnerships with external
8 managers and we plan to continue searching for attractive
9 opportunities to allocate their.

10 We also plan to continue enhancing GFI analytics
11 that will support portfolio management capabilities. And
12 with that, I'll turn it over to -- back over to Justin for
13 more on a look forward.

14 [SLIDE CHANGE]

15 MANAGING INVESTMENT DIRECTOR SCRIPPS: Thanks
16 very much, Richard. As I alluded to, I entered my role
17 July 1st having deep familiarity with and respect for our
18 team's history. That said, I'm certainly not anchored in
19 that history as we look forward and think about how best
20 to implement our business. Under TPA, our team will build
21 an integrated global fixed income platform with increased
22 connectivity across our teams and holistic portfolio
23 management. To accomplish that, we're focused on three
24 core areas.

25 First, our team structure. We're looking for

1 opportunities to increase linkages, resilience,
2 efficiencies, and staff development opportunities through
3 a reevaluation of our functional areas of responsibility
4 and resource allocation.

5 Secondly, under the evolution of existing
6 activities, we are contemplating strategy design
7 enhancements to optimize our active risk taking under TPA.
8 We are also enhancing analytics and reporting integration,
9 as Richard alluded to, across our team's to better -- to
10 enable better investment decision-making.

11 Thirdly, under new strategy research, we are
12 evaluating the evolving market opportunities set to ensure
13 that our active strategy toolkit captures the full breadth
14 of current opportunities.

15 Collaboration clearly is imperative to TPA and we
16 will continue our contributions to projects and
17 initiatives outside of our daily portfolio management
18 responsibilities. Examples of that, you've heard a few
19 mentioned, include lending our in-house credit market
20 expertise to support underwriting and due diligence
21 efforts in private markets, continuing to build
22 sustainability integration into our portfolio strategy,
23 and, of course, direct support -- ongoing support for the
24 data and tech initiative.

25 On the next slide, which is our final slide --

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR SCRIPPS: -- I wanted to mention that we are focused -- as I've talked about, and as Brian and Richard have highlighted, we're focused on combining investment excellence with process discipline, governance, and sustainability integration. While this key initiative slide highlights our governance and sustainability activities separately, I want to highlight that these are not separate efforts from our day-to-day investment strategy implementation. They are embedded as inputs into the investment mosaic that informs our risk return framework.

Governance and sustainability risk factors are built into the bottom-up credit analysis that informs our security selection and portfolio construction decisions. These factors are monitored qualitatively and quantitatively. They're discussed collaboratively in portfolio strategy and risk factor surveillance discussions with the Sustainable Investments team and in our continuous engagement with the Corporate Governance team. We also continue to monitor the market opportunities set for climate transition strategies with attractive return profiles.

That concludes our annual program review presentation. Thanks very much for your time and

1 attention. And at this point, we welcome any questions
2 you have for the team.

3 CHAIR PALKKI: Thank you for the report.
4 Ms. Walker.

5 COMMITTEE MEMBER WALKER: Thank you. You had the
6 slide up that said, you know, what worked and
7 opportunities, and I really do appreciate that. But what
8 didn't work, because everything can't just be roses. And
9 we're just getting roses now. And it's hard to say like,
10 oh, well, this is good, because we have nothing to compare
11 it to, as a Board.

12 MANAGING INVESTMENT DIRECTOR SCRIPPS: Thanks,
13 Ms. Walker. So opportunities to me is another way to
14 think positively about areas for growth or areas that
15 maybe perhaps didn't work as well as we would like them
16 to. So you heard me comment a number of times on the
17 desire to build an integrated fixed income platform. I
18 think when you see these bullets here, what you -- what
19 you hear from us is an allusion to the fact that perhaps
20 we got into a portfolio architecture and team design that
21 was too siloed in approach. And we see opportunities to
22 bring that together, not just to improve our idea
23 generation and sharing across our teams, but to build
24 especially going forward under TPA and active allocation
25 that's dynamic and flexible, informed by the skills of

1 each of our team members, rather than expecting each of
2 our teams to deliver excess returns as they've done quite
3 well historically, but doing it independent of each other.

4 So I think that that would be one comment I would
5 make is a huge opportunity there, but also a recognition
6 that that was a challenge in the past or an area for
7 growth, and area that didn't work as well.

8 The enhanced analytics and reporting integration
9 goes hands -- hand -- goes hand in hand with that. Our
10 team analytics are generated by each team independent of
11 each other. The decision-making that happens that's
12 empowered by those again is happening independent one team
13 to the next, to the next. I think there's lot of
14 opportunities we're recognizing to harvest efficiencies in
15 supporting those teams, both from a trading perspective
16 and from a data analytics perspective. So I think
17 those -- when we say opportunities, it's not to suggest
18 that everything worked beautifully, it's to suggest that
19 we recognize there's areas for improvement and these are
20 the areas we want to focus on.

21 COMMITTEE MEMBER WALKER: I appreciate that. I'm
22 going to ask again what didn't work? And I appreciate
23 what said, but we have them in two separate things, and so
24 that tells me we're thinking about it in two separate
25 ways, right? So under the what worked, what didn't work

1 to get us there, right? It could have been because we're
2 switch -- we've switched over to a new system. It took,
3 you know, time, new training. I don't know, because I
4 don't do that, but there -- it can't just be seamless.
5 Maybe it could. I don't know. I've never experienced
6 that though.

7 MANAGING INVESTMENT DIRECTOR SCRIPPS: Yeah. I
8 think I'm trying to highlight that it's not seamless. I
9 want to make sure that, you know, team members that were a
10 part of the program here this last year have a chance to
11 contribute, if there's anything that jumps to mind that
12 they want to comment on, because, as you know, I was on
13 secondment to the Private Debt team and not in the
14 day-to-day during this fiscal year we're talking about --
15 not to -- not to try to back away from answering the
16 question. I'm happy to do so.

17 COMMITTEE MEMBER WALKER: Oh, no that's fine
18 and --

19 MANAGING INVESTMENT DIRECTOR SCRIPPS: But let me
20 invite -- it sounds like Brian might have a contribution.

21 INVESTMENT MANAGER PARKS: Yeah. Happy to jump
22 in here. You know, if you look at the active returns that
23 were generated by our four strategies, really two
24 strategies dominated the contribution from EM, and then
25 the securitized struck -- strategies, whereas the

1 investment grade and high yield strategies delivered what
2 I would call suboptimal excess returns. Still positive,
3 but below target. You know, I think both strategies --
4 you know, over the past fiscal, we were hoping to generate
5 somewhere in the magnitude of around 20 to 25 basis points
6 of active excess returns.

7 You know, I think overall the opportunities in
8 those strategies over the past year have been limited.
9 It's been a very low credit spread environment, very low
10 spread dispersion. So the opportunities to generate alpha
11 have been, I'd say, unusually suboptimal.

12 COMMITTEE MEMBER WALKER: Thank you.

13 CHAIR PALKKI: Thank you.

14 Ms. Middleton.

15 COMMITTEE MEMBER MIDDLETON: All right. Thank
16 you. Justin, congratulations and welcome.

17 We're seeing with increased bond yields levels of
18 treasuries and others that we have not seen in a number of
19 years.

20 COMMITTEE MEMBER MIDDLETON: None of know how
21 long this trend is going to last, but what are some of the
22 perhaps short-term opportunities that this particular
23 market is presenting for us in fixed income.

24 MANAGING INVESTMENT DIRECTOR SCRIPPS: Thanks,
25 Ms. Middleton. Yes, we are -- we are definitely seeing

1 volatility in markets. We're certainly seeing volatility
2 in the treasury market. Tom with Wilshire mentioned under
3 Chair Warsh an expectation for an increase in volatility
4 associated with a Fed that no longer is highly
5 telegraphing its views on its forward rate of monetary
6 policy. I think what that means and what you've heard
7 both in the trust level review and comments from Steven
8 and Lauren, what you heard from Tom, what you heard from
9 Richard, as it relates to, you know, what view to be the
10 opportunities going forward is that elevated level of
11 uncertainty as to the forward path of interest rates will
12 cause, we believe, elevated interest rates to persist.

13 That's providing for us an opportunity in very
14 high quality bonds to lock in attractive returns when you
15 think about it from a risk-adjusted return perspective.
16 So we -- you know, to see yields on our blended exposure
17 across our different portfolios reach in excess of six
18 percent, and in some cases get within reasonable distance
19 of our total fund discount rate. That's something for us
20 to pay attention to from an opportunity perspective.

21 COMMITTEE MEMBER MIDDLETON: Right.

22 MANAGING INVESTMENT DIRECTOR SCRIPPS: I think we
23 have views as it relates to, you know, the treasury curve
24 itself. I think ours would tend to be aligned with the
25 general view that Tom expressed in materials of markets

1 can overreact. And we do think that the short end of the
2 curve right now is pricing in quite aggressive forward
3 path for Fed interest rate hikes. The ability of the
4 economy to withstand that level of hikes is an interesting
5 question to debate. Also, how strong the actual
6 underlying economy is from a labor market perspective
7 another interesting topic.

8 So I think our perspective is this is a great
9 opportunity to look for relative value, because you
10 finally have income again, but you also have dispersion.
11 And with a difference of potential outcomes and scenarios
12 comes a way to express that via active positioning.

13 COMMITTEE MEMBER MIDDLETON: All right. Thank
14 you. More a comment than a question. But one of the
15 arguments for the TPA approach is to have the greater
16 flexibility in changing markets. And as we enter into a
17 much more volatile market, it will be certainly helpful to
18 the Board to be able to see specific examples of where the
19 increased flexibility that staff has worked to our
20 advantage or worked to our disadvantage, but where have
21 you used that increased flexibility?

22 Thank you.

23 CHAIR PALKKI: Thank you.

24 I'm not seeing any other questions. I do want to
25 congratulate you, Mr. Scripps, on the promotion and look

1 forward to what the future holds.

2 MANAGING INVESTMENT DIRECTOR SCRIPPS: Thanks
3 very much.

4 CHAIR PALKKI: Before we move forward, I do --
5 Tom, do you have any additional comments from Wilshire?

6 TOM TOTH: I do. Tom Toth with Wilshire
7 Advisors.

8 Our program review opinion letter is in your
9 packet, but just a couple of comments. As you heard, Mr.
10 Scripps has spent nearly 20 years at CalPERS leading
11 structured securities and U.S. Treasuries within the GFI
12 program. He also recently worked with the Private Debt
13 group, actually as he just mentioned, with responsibility
14 for direct lending asset-based finance and specialty
15 lending. And it's our view that the combination of that
16 public fixed income work with the recent private credit
17 experience is very well suited to the TPA framework, where
18 you might be debating whether the appropriate position is
19 not just between public fixed income, but between public
20 or private fixed income. So being conversant in both we
21 feel is a real asset to the portfolio.

22 We also want to point out that the promotion
23 signals that CalPERS can fill its most senior positions
24 internally, which we feel is evidence of strong succession
25 planning, and think that is very valuable as well. That's

1 the positive side.

2 There are some risks we want to highlight as
3 well. Justin being promoted after the retirement of the
4 long-time MID. In addition to that, the head of credit
5 announced his retirement after more than 20 years with the
6 firm. Two senior retirements in a fiscal year does
7 increase the risk of loss of institutional knowledge, as
8 well as potential bandwidth constraints for the remaining
9 team. We understand that staff is moving to backfill that
10 credit leadership role, as well as the role opened with
11 the promotion after Justin to the MID. And as he
12 mentioned, he is evaluating the structure of the team and
13 the existing active strategies as they strive to continue
14 to deliver the strong results which you saw here today.

15 The evaluation at the very end of our program
16 review does reflect the increase in the firm score, which
17 I talked about earlier this morning. It does reflect a
18 moderate reduction in the team rating, in recognition of
19 those -- of the retirement and other departures. But we
20 think overall, there's -- they continue -- the scores
21 continue to be very strong across portfolio construction,
22 implementation, and securities forecasting. And I would
23 fully expect that as the team stabilizes after this last
24 year, we would move those scores back up to the high
25 levels, which we had seen in previous views.

1 Overall, in aggregate, the score does highlight a
2 very experienced team. You saw some of those statistics,
3 as well as their success in managing the portfolio in a
4 risk-controlled way over extended time horizons. And I'm
5 happy to answer any questions from the Board at this time.

6 CHAIR PALKKI: Thank you for that.

7 Mr. Henning.

8 ACTING COMMITTEE MEMBER HENNING: It's more of a
9 comment than a question, but very much appreciate you
10 highlighting -- Tom, taking the time to highlight the
11 succession planning. I know that's been a big matter of
12 concern for the Board and also for the executive
13 committee, and applaud the efforts that have been taken
14 place by both our CIO and our CEO. It makes a huge
15 difference. I think that we're going through this type of
16 volatility, it makes a lot of people take a second look
17 their retirement and where things are, if they want to
18 continue to be in the place that they are. And so I think
19 it's completely natural. I'm glad that we have some of
20 these career ladders that set up a move like this.

21 It's great to see you up here presenting. I
22 would also say that as a long-term State employee about
23 every eight years or so when we go through these elections
24 of a new Governor, a lot of State employees take a chance
25 to also reevaluate whether or not they want to continue

1 with their State service. So I expect that we'll also see
2 an influx of retirements of people taking a look at it and
3 see if they want to take that type of move.

4 But I'm very grateful that we are taking the
5 position to make sure that these career ladders are in
6 place. It's incredibly important for the long-term
7 sustainability of this fund.

8 Thank you.

9 CHAIR PALKKI: Thank you.

10 I don't see any other questions, so thank you all
11 for that report, which brings us to public comment. I
12 have Michael Flaherman and Frank Ruffino.

13 MICHAEL FLAHERMAN: Michael Flaherman from RPEA.

14 I want to call out a dynamic we just saw, because
15 I had been alluding to it earlier. Ms. Walker asked the
16 head of Fixed Income what didn't work and he gave a
17 deposition answer. He sounded like he didn't want to
18 answer the question. And the audience sees this all the
19 time. And it raises a question of why and why is it
20 acceptable for people to ask really good questions and to
21 get deposition answers? It's a puzzle. It's a puzzle I
22 think to everyone in the audience.

23 I'd also like to point out one other thing which
24 I think is important, and that is that report what was
25 presented to you contained dramatically less information

1 than a retail mutual fund prospectus for a fixed income
2 fund, dramatically less. I really would encourage you to
3 look, just pick one at random from Fidelity, or Vanguard,
4 or whoever. One example, for example, of what wasn't in
5 that, that would certainly half to be in a fixed income
6 prospectus for a retail mutual fund that was operating on
7 a global scale as yours is would be what countries is
8 the -- is the fixed income invested in? Maybe I missed
9 it, but I didn't see anything, a really, really basic
10 piece of information.

11 So there's not only this kind of deposition
12 approach to providing you with information when you ask
13 very good questions, but there's a kind of a deposition
14 approach like your hostile parties in litigation, even in
15 terms of the reports that they offer you, and I don't
16 really understand why.

17 Thank you.

18 CHAIR PALKKI: Thank you.

19 Mr. Ruffino.

20 FRANK RUFFINO: Am I on?

21 CHAIR PALKKI: Yep.

22 CRANK RUFFINO: Well, good morning. Still
23 morning, ten more minutes. Good morning, Mr. Chair and
24 members of the Board. Frank Ruffino, proud member of
25 California State Retirees and President Emeritus of the

1 Association of California State Supervisors.

2 A couple thoughts that I want to share with you
3 guys this morning. Although, I think I'm going to go over
4 three minutes, but I -- so I'm going to try and condense
5 as much as I can. Imagine, you were giving two pair of
6 special glasses that were designed to look backwards in
7 time rather than forward in space. The first pair can
8 only see how the markets did. The second pair is designed
9 to focus on the economy. Each would give you a very
10 different picture on how this second quarter just went.

11 The first pair would show you that the markets
12 had their best quarter since 2020. They Dow gained nearly
13 13 percent S&P 400 rose to 14.9, and the Nasdaq an
14 incredible, astonishing 21 percent. The second pair, the
15 one the sees the overall economy, has a less rosy view.

16 In fact, it would show you a picture of an
17 economy in some distress, an economy where the annual
18 inflation rate rose to 4.2 percent in May, the highest in
19 three years, an economy where consumer confidence fell to
20 a historically low level in April and May. Although, it
21 did rebound slightly in June, an economy that may have
22 only grown slightly in this quarter compared to its
23 historical average.

24 Both glasses are functioning properly by the way,
25 both have the same maker. So why is the difference?

1 What's the different views?

2 It's not hard to understand why the economy had
3 the quarter that he did. Turmoil in the Middle East sent
4 a shockwave through the oil and the fertilizer market,
5 causing the goods and services that depend on those things
6 to rise in price. Think food, gas, electricity,
7 transportation and more. By extension at higher cost of
8 living expenses, depresses consumer confidence. After
9 all, it's hard to feel confident about the future, when
10 more and more of your paycheck gets eaten up by simple
11 necessity every month, as Ms. Taylor pointed out. And
12 when consumer confidence drops, consumer spending drops,
13 leading to a slower economic growth overall.

14 I see that I only have 11 minutes -- 11 seconds,
15 eight seconds, so I really, really need to ask, how can
16 those two pairs of glasses show -- such dramatically --
17 show such dramatically different views? The answer
18 simple, but yet there is a critical truth, the markets and
19 the economy are not the same.

20 Unfortunately, my time has ran out. Thank you
21 for everything that your Board you're doing. You're doing
22 a great job. Keep it up.

23 CHAIR PALKKI: Thank you for your comments. I do
24 not have any other public comment for 6d, so we can move
25 into 6e, Global Pub -- Global Public Equity Annual Program

1 Review.

2 (Slide presentation).

3 MANAGING INVESTMENT DIRECTOR NZIMA: Good
4 morning, members of the Investment Committee. Simiso
5 Nzima, CalPERS Staff. I'm thrilled to be here with my
6 colleagues to co-present the Global Public Equity Annual
7 Program Review.

8 Over the last four fiscal years, we have been
9 increasing active risk taking in the public equity
10 portfolio, allocating more capital to active strategies.
11 I'm happy to share that we continue to be paid well for
12 taking active risk. In fact, this past fiscal year, we
13 were paid an arm and a leg when we expected to be paid
14 just an arm. It was as if we went mining for copper and
15 instead found gold. And, you know, just to be clear, we
16 are happy to continue finding gold, so no complaints from
17 us.

18 We outperformed by our benchmark by 168 basis
19 points, generating \$3.2 billion in dollar value-add above
20 the benchmark. Some may ask what's a few billion dollars
21 amongst friends? Well, that's the equivalent of paying
22 70,000, 7-0, 70,000 pensions for a full year just from the
23 excess returns that we generated by the program this past
24 year.

25 This is also the highest fiscal year return in

1 almost three decades. To put that in perspective, three
2 decades ago, I was in the second year of my undergraduate
3 studies and still a full head of hair.

4 (Laughter).

5 MANAGING INVESTMENT DIRECTOR NZIMA: This is to
6 say these level of excess returns are not to be expected
7 year in, year out. We celebrate the success, but we know
8 that over the long term, the excess returns will return to
9 a much more normalized level.

10 You may also be wondering how we intend to
11 sustain our ability to outperform the benchmark over the
12 long term. For that, you will hear from my colleagues
13 about how we've built a center of excellence in global
14 public equity with people at its core, supported by
15 processes, tools, and governance as we focus on building
16 enduring success.

17 Thank you.

18 [SLIDE CHANGE]

19 INVESTMENT MANAGER VANG: Good afternoon,
20 Committee Chair Palkki and Investment Committee member.
21 Sin Sai Vang, CalPERS team member.

22 So today, my colleagues and I will provide an
23 update on our Global Public Equity Program covering
24 portfolio performance, the evolving market environments,
25 and key initiatives that we have this coming year. We'll

1 also highlight the rationale behind our active risk taking
2 and how we'll position the portfolio going forward.

3 [SLIDE CHANGE]

4 INVESTMENT MANAGER VANG: So as Simiso mentioned,
5 168 basis points. That represents the value added by the
6 team this past year. It also marks the highest level of
7 excess return this past -- the last three decades. While
8 they -- while this was an exceptional year and a
9 significant accomplishment worth recognizing, we should
10 not lose focus on the long-term investment objectives.
11 Our three and five-year excess return of 857 basis points
12 and 50 basis points respectively are also meaningful
13 achievements and better reflects our ability to
14 consistently deliver value over time.

15 [SLIDE CHANGE]

16 INVESTMENT MANAGER VANG: This slide provides an
17 overview of how our portfolio has evolved from the
18 strategic asset allocation paradigm consisting of two
19 segments to the total portfolio approach paradigm, which
20 is organized into five strategy buckets, index oriented,
21 enhanced index, traditional active, multi-factor, and
22 climate transition.

23 [SLIDE CHANGE]

24 INVESTMENT MANAGER VANG: Lauren already
25 discussed this morning about the current market

1 environment, so I'll move over to the environment themes.
2 While markets remain volatile in the short term due to
3 geopolitical events and uncertainties around government
4 policies, we believe it's important to stay disciplined
5 and maintain a long-term perspective. Rather than
6 reacting to short-term market volatility, we're
7 selectively taking active risk where we have high
8 conviction and will be rewarded.

9 Therefore, we're concentrating our active
10 management efforts in the areas of the markets that are
11 less efficient, where skilled managers have opportunities
12 to identify mispricing and generate excess returns.

13 [SLIDE CHANGE]

14 INVESTMENT MANAGER VANG: While we have increased
15 our allocation to active management, approximately 84
16 percent of the portfolio is managed internally. This
17 reflects our belief that cost efficiency is a key driver
18 of investment outcomes. Managing a significant portion of
19 the portfolio in-house allows us to keep the investment
20 costs low, while retaining majority of the dollar value
21 added. It also provides the flexibility to respond
22 quickly to market environments while serving as a reliable
23 source of liquidity for the total fund.

24 [SLIDE CHANGE]

25 INVESTMENT MANAGER VANG: As I mentioned in the

1 previous slide, over the past four fiscal years, we have
2 thoughtfully increased our allocation to active management
3 in a disciplined and risk-aware manner.

4 Today, approximately 51 percent of the portfolio
5 is allocated to active strategies. This measured approach
6 allows us to pursue opportunities for excess return while
7 maintain a prudent level of active risk that is consistent
8 with our investment long-term goals.

9 [SLIDE CHANGE]

10 INVESTMENT MANAGER CHAVEZ: Good afternoon. Ron
11 Chavez, CalPERS team member.

12 As Simiso had alluded to, our objective these
13 last four years has been to rebuild our active equities
14 portfolio. We wanted to find strategies that we thought
15 could deliver a competitive risk return profile and still
16 be additive to our portfolio. To accomplish this, we took
17 two approaches. First, we engaged in five manager
18 searches, where we were able to identify and fund seven
19 new external managers.

20 Second, we reevaluated our existing portfolio
21 strategies, and where we had conviction and the managers
22 had strong long track records, we were able to increase
23 our allocation to these strategies to make them
24 commensurate with our level of conviction.

25 These actions enabled us to deploy \$65 billion

1 into active equities in the last three and a half years.
2 And while this endeavor took a lot of work and created
3 much change in the portfolio, the portfolio was still able
4 to generate strong results during this rebuilding period,
5 and was able to generate almost \$4 billion in active
6 equities over and above the benchmark.

7 [SLIDE CHANGE]

8 INVESTMENT MANAGER CHAVEZ: We would not be able
9 to achieve this without our amazing team. People on our
10 team have been able to enhance our processes, tools, and
11 governance, and continued to do so on an ongoing basis.
12 As far as people go, we were fortunate to hire two
13 experienced analysts in the last few years that have
14 strengthened our team. But in addition, we've leveraged
15 the expertise of the different functional areas within
16 public equities, as well as the broader Investment Office.

17 And because we took these measures, it's enabled
18 us to do multiple manager searches concurrently, something
19 that we've never been able to do before. From a process
20 standpoint, we redesigned our process to make it more
21 purposeful and efficient, while there's still time still
22 being competitive and fair.

23 This redesign has enabled us to enhance the
24 caliber of candidates that we've had in our searches, as
25 well as improve the efficiency effectively cutting the

1 search time in half.

2 As far as the tools, our team members have been
3 innovative and have created many new analytics to support
4 our existing toolkit, tools that have enabled us to get
5 greater insight into the manager's risks, and tendencies,
6 and behaviors in different market environments.

7 From a governance perspective, both within public
8 equities, as well as the broader investment office, has
9 been one that has been a proponent of transparency as well
10 as providing multiple touchpoints, so that folks with
11 different back backgrounds and areas of expertise could
12 weigh in on the investments.

13 [SLIDE CHANGE]

14 INVESTMENT MANAGER CHAVEZ: At the Board off-site
15 this summer, Simiso made a quip about how selective our
16 manager search process was. This slide is meant to
17 illustrate that point. Of the five manager searches that
18 we've conducted, they included universes that had 7,000
19 investment managers. But after our due diligence process,
20 our analytics and screening, and our contract
21 negotiations, we only selected seven new managers. And
22 that is because our process is robust and data driven.

23 And further to the point, that we've maintained a
24 high standard throughout this process. Of the five
25 manager searches that we completed, two of the searches

1 resulted in selecting no managers. And that was because
2 we weren't able to find someone that we felt could meet
3 our criteria, as well as be complementary to the
4 portfolio.

5 And then lastly, with our culture of continued
6 improvement, we continue to reach out to industry peers
7 and consultants on a regular basis to ensure that we're
8 integrating best practices in everything that we do.

9 [SLIDE CHANGE]

10 INVESTMENT MANAGER CHAVEZ: The right side of
11 this illustration highlights our performance during this
12 rebuilding period. The gray shaded highlights the
13 proportion of public equities invested in active
14 management. The blue line shows our performance over the
15 period, as measured by dollar value-add. And the one
16 comment I would make is to echo what Simiso had said
17 earlier, which is that our results in this most recent
18 fiscal year were exceptional. And we would just note that
19 over time we expect those returns to normalize.

20 [SLIDE CHANGE]

21 INVESTMENT MANAGER CHAVEZ: And this illustration
22 is similar. However, it's showing the risk-adjusted
23 performance in the form of information ratio. And to put
24 this into context, an information ratio of 0.5 over the
25 last 25 years would put you in the top quartile of all

1 global equity managers. And during this period of
2 rebuilding, we've been able to average an information
3 ratio of 0.86, which is quite an achievement.

4 [SLIDE CHANGE]

5 INVESTMENT MANAGER DAWOOD: Good afternoon.
6 Shazia Dawood, CalPERS team member.

7 Here, we're going to focus in on the returns of
8 the active and passive strategy. Across both -- all
9 periods, both strategies had positive excess return.
10 Both portfolios have delivered strong results that success
11 looks very different in active and passive management.

12 The one-year return of the active strategy is
13 quite exceptional. And I'll say Simiso-ism here, we
14 struck gold at 371 basis points of excess return for the
15 year. We'll talk more about the active strategy in the
16 following few slides, but I'd like to take a moment here
17 to talk about the passive strategy.

18 Both strategies are measured against a benchmark.
19 And a benchmark is essentially a theoretical portfolio.
20 It doesn't have to actually buy or sell securities, so it
21 doesn't incur the trading costs we do when we manage an
22 active -- an actual portfolio. So simply matching the
23 benchmark after paying those costs is already a strong
24 return, so essentially having zero excess return. But you
25 see here that over the periods we had anywhere from two to

1 ten basis points of excess return. That means our
2 implementation has more than offset the natural drag of
3 managing the portfolio. And this is a testament to the
4 good work done by our internal implementation team.

5 Also importantly, on this slide, I wanted to
6 point out that our risk footprint remains modest. We're
7 selective about taking active risk. And consistent with
8 our Investment Beliefs, we take risk where we believe
9 we'll be compensated for it.

10 [SLIDE CHANGE]

11 INVESTMENT MANAGER DAWOOD: Here, we're focusing
12 not only on the excess return generated by the active
13 strategy, but we're also focusing on how efficiently that
14 excess return was generated. You can think of information
15 ratio as the miles per gallon of active management. The
16 excess return is how far we've traveled, and active risk
17 is the fuel we use to get there.

18 Our target IR is 0.5. And that's a good IR and
19 it's indicative of skill. Over 10 years you see that
20 we've achieved IR of 0.69, which is already above that 0.5
21 target. Most recently, the numbers have been exceptional,
22 1.05 for the five-year, 1.88 for the three-year, and an
23 amazing 2.73 over the last year.

24 Just as we want the highest miles per gallon,
25 because it represents fuel efficiency, the higher the IR,

1 the more excess return we're getting for the active risk
2 we're spending. These numbers are excellent, but we don't
3 expect information ratios at this level to persist.
4 That's an -- that's important context for this next slide.

5 [SLIDE CHANGE]

6 INVESTMENT MANAGER DAWOOD: The blue bars here
7 represent the one-year rolling excess return of the
8 active, both going back ten years. The dotted black line
9 is our ten-year average excess return of 80 basis points.
10 And over the long term, that's about where we expect to
11 be. The dotted green line is the average excess return
12 since we reintroduced active risk to the book in late
13 2022. And that is 160 basis points, twice the ten-year
14 average. And again, you'll see our one year exception 371
15 basis points of excess return.

16 We are pleased with this result, but we also want
17 to set appropriate expectations. Performance at this
18 level is exceptional, not normal. So if excess returns
19 moderate over time, that should not automatically be seen
20 as deterioration. That would be a return to a more normal
21 range of outcomes. There will inevitably be periods of
22 muted return and even negative excess return. That's all
23 part of active investing.

24 While each period's performance is important, we
25 also want to evaluate those results in the contexts of the

1 risk we've taken and our longer term expectations. Our
2 focus remains on maintaining disciplined processes that we
3 believe can generate meaningful excess return over the
4 long term.

5 [SLIDE CHANGE]

6 INVESTMENT MANAGER DAWOOD: Our performance has
7 been strong not only in absolute returns, but also
8 relative to our peers. The reporting period for this
9 chart is the four-year period ending in December 2025 to
10 align with the latest CEM data. The first column
11 represents the total GE program, which is both the active
12 and the passive strategy, while the following two columns
13 focus on the active strategy. And you'll see across all
14 three measures, we rank in the top quartile amongst our
15 peers.

16 One result here that I want to point out is the
17 four-year information ratio of 0.99 compared to our peer
18 median of negative 0.12. This shows that strong excess
19 returns we've just -- we just discussed weren't simply a
20 result of taking on more risk. On a risk-adjusted basis,
21 the portfolio -- the active portfolio also compares very
22 well with our peers.

23 [SLIDE CHANGE]

24 INVESTMENT MANAGER DAWOOD: These results weren't
25 driven by a single decision. They reflect several years

1 of work to strengthen how we deploy capital and manage the
2 active portfolio. Over the past fiscal year, the team
3 deployed 34 billion to active strategies in a risk-aware
4 manner. As you heard earlier, that was both to existing
5 strategies where we had constriction as well as to new
6 strategies.

7 At the same time, we deployed -- we developed
8 more rigorous frameworks around underwriting, capital
9 allocation, and fee alignment. And despite the strong
10 results, we don't view the work as finished. We operate
11 in an environment of continuous improvement. We've done
12 extensive work on our toolkit, but there is always room
13 for improvement. Our focus is on further strengthening
14 conviction based asset allocation, analytics, strategy
15 selection and monitoring, and our data and technology
16 capabilities.

17 [SLIDE CHANGE]

18 INVESTMENT MANAGER DAWOOD: Look forward, our
19 objective is to build on these results while continuing to
20 evolve the portfolio within the total portfolio approach.
21 We have four key priorities for the coming year, all
22 focused on strengthening how GPE contributes to the total
23 fund. While we're pleased with the performance we've
24 delivered. Our focus remains forward looking continuing
25 to improve how we allocate risk, capture opportunities,

1 and contribute to the total fund.

2 [SLIDE CHANGE]

3 INVESTMENT DIRECTOR HAMBLY: Thank you, Shazia.

4 Drew Hambly, CalPERS Investment staff.

5 For the last portion of our review today, I'm
6 going to walk us through the annual stewardship program
7 review. So just a reminder, we rest this program on four
8 key pillars. It starts with research and partnerships to
9 understand what's happening in the market, what's
10 happening in governance and the regulatory environment,
11 and we exercise those duties through engaging with
12 portfolio companies and voting at their annual and special
13 shareholder meetings.

14 [SLIDE CHANGE]

15 INVESTMENT DIRECTOR HAMBLY: The next slide is
16 just a representation of the size of the program. I'll
17 just highlight in the fiscal year, we voted at more than
18 11,000 shareholder meetings and we engaged companies
19 representing \$121 billion. As you saw the total size of
20 the portfolio is 242. So we engaged half the money in the
21 global equity portfolio.

22 [SLIDE CHANGE]

23 INVESTMENT DIRECTOR HAMBLY: So I want to talk
24 about what's happened in the last proxy season. And we
25 can't do that without talking about the regulatory

1 environment. And we are swimming into or sailing into
2 some significant headwinds where we've had tailwinds for
3 many years. This slide is already out of date. As you've
4 seen some of the actions from the SEC, we expect
5 rescinding of Rule 14a-8, which governs the process by
6 which the SEC plays referee or umpires no action requests
7 by companies.

8 As they relate to shareholder proposals, we think
9 we're going to see a retraction in the amount of
10 information in companies that have to report on executive
11 compensation. And the shareholder landscape in terms of
12 proposals - we'll talk about this in a few minutes - we've
13 seen a downturn in the number of proposals over the last
14 year.

15 This is not an exhaustive list. In partnership
16 with Peter, Travis, and the SI team, we have written
17 comment letters on many of these issues. We've also done
18 comment letters on individual companies with poor
19 governance structures.

20 [SLIDE CHANGE]

21 INVESTMENT DIRECTOR HAMBLY: I want to spend a
22 minute to talk about say on pay. As you can see our
23 number is slightly higher in our opposition, 45 percent.
24 We collaborated within the team this year to do an
25 extensive study on the last ten years of CEO pay and

1 performance. The net of that story was no correlation
2 between pay on performance for CEO pay and company
3 performance. When you unpack the results of what's
4 happened in say the Russell 3000, where over the last five
5 years, more than a third of those companies had
6 negative -- zero or negative annual returns, or 72 percent
7 of companies in that broader benchmark had average returns
8 below the benchmark. So you can see our 45 percent
9 support is quite unusual and quite high in this
10 marketplace. We are swimming alone here.

11 The average support for say-on-pay in the U.S. is
12 around 91 percent in this last proxy season. We are
13 really working hard in understanding the data and making
14 sure that we're voicing our opinion in areas where we
15 don't believe we're getting the return vis-à-vis the pay
16 the executives are receiving.

17 [SLIDE CHANGE]

18 INVESTMENT DIRECTOR HAMBLY: As I mentioned
19 before, we saw a downturn in the number of proposals filed
20 or the ones that we were voting on. We think part of this
21 was the November 2025 announcement by the SEC to pull back
22 on reviewing no action requests. We did see some
23 companies try to exclude proposals and were taken to
24 court. Most of those quickly decided that litigation was
25 not the appropriate path. But we did vote against some

1 companies where reasonable proposals were filed and the
2 company refused to put it on the ballot to get shareholder
3 input.

4 [SLIDE CHANGE]

5 INVESTMENT DIRECTOR HAMBLY: We continue our
6 partnership on climate and talking to companies,
7 especially high emitters in the portfolio, both from an
8 engagement and voting standpoint. We continue to work
9 with our partners to understand the landscape how this is
10 changing. I think we've had a lot of success over the
11 years in disclosure and positive engagement. That said,
12 the trajectory of greenhouse gases in the atmosphere has
13 not abated.

14 [SLIDE CHANGE]

15 INVESTMENT DIRECTOR HAMBLY: And then key
16 priorities for the upcoming year. A lot of what we've
17 done in the past, what we've added to this, and there's
18 been a lot of discussion about AI and what we're doing.
19 We talked about -- in March about potential frameworks.
20 We've been reticent at this point to try to adopt a
21 framework given the evolving changing nature. And we've
22 seen both Microsoft and Anthropic come out over the
23 weekend with statements on AI. What we are doing is
24 talking -- through our engagement program talking to
25 hyperscalers talking to people who use AI, talking about

1 the opportunity set, and also the risks and the emphasis
2 we place on Board oversight to really think through all
3 the risks and opportunities. So we're learning in real
4 time.

5 We're working with the SI team, as they're
6 putting together some information. We'll continue to work
7 with the rest of the Investment Office, as we understand
8 better what this means for the portfolio. But we thought
9 it was premature given the changing -- rapid changing
10 nature of this to think we would have some off-the-shelf
11 playbook that we could employ.

12 So that concludes my prepared remarks and those
13 of the team. We'll now open it up to questions from the
14 Board.

15 CHAIR PALKKI: Thank you for that report. Let's
16 start with Ms. Middleton.

17 COMMITTEE MEMBER MIDDLETON: Okay. I want to
18 start, Drew, with you, and go back to the work that we've
19 done on CEO pay for performance. I greatly appreciate
20 that we are casting votes and trying to get our voice out
21 on the these issues, but it's not resulting in us winning
22 on these. What are some of the strategies that we can
23 initiate, particularly with Board involvement, that would
24 amplify much more loudly the conclusions that the pay is
25 outrageous, the performance is average?

1 INVESTMENT DIRECTOR HAMBLY: Yeah. Thank you,
2 Director Middleton. So a couple of things we've done this
3 year to many amplify that message. The first was we
4 hosted a webinar in late February to discuss the results
5 of the study we had done. We believe we have to continue
6 to lead by example. So the overall market looks really
7 good, but when you unpack the returns of individual
8 companies, you get a lot of mediocrity. And we know
9 there's a handful of companies driving the overall
10 returns, but we continually see companies inch up pay for
11 the chief executives, even though their returns are below
12 the market average.

13 We continue to talk to our partners. We do a key
14 vote survey in the third quarter. That is going out next
15 week to highlight these efforts, but it's a little lonely
16 right now, but we have to -- it's an evergreen program
17 grounded in data and research and we have to continue to
18 lead by example. And, as I think some of you have pointed
19 out earlier, there's always a correction. And I think
20 those who have been voting favorably because of some good
21 tailwinds are going to take a different tune when we see
22 some headwinds.

23 COMMITTEE MEMBER MIDDLETON: This is an area
24 where CalPERS has a reputation that goes back decades, in
25 terms of having an impact. And I think it's time for all

1 of us, particularly those of us on the Board, to have much
2 more engagement as to how do we, in fact, amplify our
3 voice and become more effective spokespersons on these
4 issues of corporate governance.

5 Thank you.

6 CHAIR PALKKI: Thank you.

7 Ms. Taylor.

8 COMMITTEE MEMBER TAYLOR: Yeah, thank you, Drew,
9 for your report. And I appreciate the work you do on our
10 proxy voting. That's a lot of stuff that you guys have to
11 do, but also plugging along with everything else that we
12 want done, and understanding that a lot of people kind of
13 dropped this. We have talked some people back into
14 Climate Action 100.

15 But anyway, with the say-on-pay, it's so
16 disconnected -- disconnect seems to be the word of the
17 day -- disconnected from reality, right? That it's -- I'm
18 just -- I'm just shocked that they don't seem to care.
19 But anyway, I do appreciate that we are proxy voting on
20 that. I also -- did we not write a comment letter. I
21 just wanted to make sure. The six-month rule where they
22 don't have to disclose any earnings whatsoever, so we have
23 no idea what we're investing in basically.

24 INVESTMENT DIRECTOR HAMBLY: Yeah. And so we
25 have commented on that. And that comes from Travis

1 Antonio and Peter's team and the SI team, and he and I
2 collaborate on that sort of disclosure.

3 And just so you know, the vast majority, I think
4 it was 98, 99 percent of the comments on that proposal,
5 were in favor of keeping the quarterly disclosure. That
6 said, I think this current regime might move forward
7 anyway.

8 COMMITTEE MEMBER TAYLOR: The article I read just
9 a minute ago, so yeah.

10 INVESTMENT DIRECTOR HAMBLY: Yeah. You know,
11 that would be our expectation. And when we find ourselves
12 in an area where we get -- one of the reasons -- it's not
13 the only reason the U.S. Capital markets have been -- done
14 so well over the years is because people send their money
15 here -- both here and from abroad, because we know we have
16 a good disclosure regime and it's well regulated. And
17 when we start taking that away, I think it would reduce
18 some of the confidence in what we're seeing. So we're
19 hopeful that many companies, even though they have the
20 opportunity potentially not to disclose quarterly, we'll
21 still keep that regime, and I'm hoping market participants
22 will encourage them to do so.

23 COMMITTEE MEMBER TAYLOR: I appreciate that. I
24 think we're asking a lot of companies unfortunately,
25 because we don't have a government that wants to require

1 these things. And one of things I find really interesting
2 is a lot of our work in governance, and Simiso did this
3 himself was going to other countries and trying to get
4 them to use our reporting regimes, right, and the western
5 nations reporting, because they weren't, and therefore we
6 couldn't really invest in them, but there was opportunity
7 there, so that was part of our work with governance, I
8 thought. So it will be interesting to see if we lose that
9 ourselves.

10 Thank you.

11 CHAIR PALKKI: Thank you.

12 Ms. Gallegos.

13 ACTING COMMITTEE MEMBER GALLEGOS: Thank you. So
14 just following up on Director Middleton's comments, I
15 would encourage staff to also engage with the index funds,
16 because given the number of shares they control and their
17 tendency to vote with management, we could run ourselves
18 in circles trying to engage with the, but it won't make a
19 difference if we're not engaging with the index funds as
20 well.

21 INVESTMENT DIRECTOR HAMBLY: So we do engage two
22 of the largest ones. One focuses mostly on retail, so a
23 little out of our remit. We've shared some of the
24 findings of our research. And like I said, since the
25 markets overall have been in a positive direction, they've

1 had a little cover there. That can change, and -- but
2 we'll continue speaking with them about that.

3 CHAIR PALKKI: Thank you.

4 Mr. Henning.

5 ACTING COMMITTEE MEMBER HENNING: We've talked a
6 lot about say-on-pay, but pay-and-play has also been
7 opened up by the SEC. It would be great to get -- for us
8 to consider that as we start to look at this type of
9 stuff. I'm sure that you're already taking a look. But
10 I'd also like to ask our General Counsel's office to take
11 a look at that rule rescission and how it may affect,
12 particularly the member side by proxy that are more
13 involved in the political world than others, and how that
14 would affect us.

15 INVESTMENT DIRECTOR HAMBLY: Yeah, I'll leave
16 that to Prashant and his team. They -- he's more the
17 expert there.

18 ACTING COMMITTEE MEMBER HENNING: Yeah, more on
19 that side, but then also, you know, I think the Board
20 might have a larger opinion about how pay-to-play affects
21 our investments.

22 CHAIR PALKKI: Thank you.

23 Ms. Walker.

24 COMMITTEE MEMBER WALKER: Thank you. Drew, I
25 thought I heard you say, and I might have misheard,

1 talking about - and I thought it was talking about this -
2 AI and not having a framework or policy on where we're at?
3 Did I hear that right?

4 INVESTMENT DIRECTOR HAMBLY: Yes. So, for
5 example, in our proxy voting policy we did amend it this
6 year, where we see instances where we believe the Board
7 has made some missteps in oversight of their AI. So, for
8 example, I think there were one or two instances where
9 there were some -- a company used AI as a pretense for
10 layoffs and then would have to hire some people back,
11 because the AI wasn't quite as good as they thought. And
12 so, we've been using sort these one-offs to try to hold
13 people accountable with our proxy vote. But we don't have
14 a clear rule of best practices where we can implement from
15 a policy standpoint just yet and we're trying to learn
16 through these conversations on who looks better vis-à-vis
17 the other. So it's not that we don't have any playbook,
18 but we don't have an existing set of much rules that we're
19 ready to put in place for a proxy voting policy at this
20 point.

21 COMMITTEE MEMBER WALKER: Okay. This might not
22 be the right place. If it's not, let me know, and I'll
23 just come back and ask it again. But I am concerned about
24 the AI. And I know we've seen a lot of different opinions
25 over the last couple of weeks of the things coming out.

1 The President has been clear. He doesn't think that we
2 should have any regulations. The companies should
3 regulate themselves. That has never worked well in the
4 history of anything that I know.

5 And so when we look at the -- the -- there's not
6 going to be -- at least I don't see it in the future, any
7 government like guardrails, right? And I get that we're
8 supposed to make money, but what guardrails do we put in
9 place, right? Because -- just -- you know, when we did
10 the atomic bomb, right, so, Einstein sent a letter to
11 Roosevelt and said, hey, you know, we better get on top of
12 this, because, you know, we don't want Germany to get it
13 before us. We don't want them to have that technology,
14 right?

15 And, you know, so we got a lot of really smart
16 people in the room and they're thinking about all the
17 wonderful things that we can do. And then woop we got a
18 bomb. And Einstein said, fuck, if I had known -- Einstein
19 said, damn, if I had known that, I would not have -- you
20 know, I would not have pushed so hard. You know, and then
21 I've read, you know, the Anthropic CEO say, you know, we
22 are in it. We think we should, you know, like slow down,
23 but we don't think we can, because these other companies
24 are not slowing down and we don't want them to get there
25 first, right?

1 And again, I think we're in another instance of
2 having a lot of smart people, young people, and they're
3 seeing something that can happen, and it's so good. And
4 without any guardrails, we are going to be in a problem.
5 And I think it presents a problem for us as fiduciaries,
6 right, because we look at it and we -- if government is
7 not going to put guardrails, we have to have guardrails.
8 We just think about if this, then that.

9 And so I don't know if this is the right place
10 for it, but I would be really interested in having a much
11 fuller conversation. And don't get me wrong, I think that
12 AI is here and it's going to be here. It's not going
13 anywhere. You know, it's not looking -- I'm not looking
14 at stopping. But, you know, when it's sending out its own
15 emails and it's, you know, advocating for itself without,
16 you know, Mullissa behind the keyboard saying, hey, ask
17 this, I think that's problematic. And so, anyway. I just
18 think we need to have much fuller conversations. We talk
19 about AI on one side of the board about -- on one side of,
20 you know, what it's bringing, what it's doing, and
21 everything else, but we're not talking about like but what
22 are the risks that we're looking at? I mean, we're all
23 gung ho, but I just think as a Board, we need to really
24 talk about this and we really need to have some kind of,
25 you know, framework. And I believe that it will -- you

1 know, as we go on and learn more, of course, it will
2 evolve, but we have to start somewhere, and I don't think
3 that we should wait to start.

4 CHAIR PALKKI: Thank you for those comments. I
5 don't have any other questions from any other Board
6 members, so thank you all for that report. And Wilshire,
7 if you have any additional comments to add to the
8 discussion.

9 ALI KAZEMI: Thank you. Ali Kazemi with Wilshire
10 Advisors. Just some brief comments to add some context to
11 the letter as part of our annual review of the program. I
12 think obviously the team has walked through some really
13 strong numbers. And so apologies if I repeat anything
14 here. But overall as you see in the letter, our
15 assessment of the global public equity program remains in
16 the second decile within an A rating. And we believe
17 fiscal year 2026 represents an important milestone in the
18 program's evolution.

19 As noted, over the last several years, the team
20 has invested significant effort in building the
21 organizational, analytical, and portfolio construction
22 capabilities needed to support a larger active management
23 platform. In prior reviews, we noted these capabilities
24 we're being developed, but we were looking for longer term
25 performance, empirical evidence to point to to show that

1 we were translating into investment outcomes that were
2 desirable.

3 In our view, fiscal year 2026 has provided
4 evidence of that transformation. Indeed, the program
5 returned 24 percent during the fiscal year outperforming
6 its benchmark by 168 basis points, which the team noted.
7 It's generated \$3.2 billion of value added over the last
8 year and five billion over the trailing five-year period.
9 And these excess returns over the long term - again, we
10 want to focus on the long term here - have continued to
11 improve over the three-, five- and ten-year periods.

12 It's also been noted, but I also want to
13 highlight on a risk-adjusted basis, these numbers are
14 truly exceptional. As the team has ramped up the active
15 equity in the program, your active risk in your -- in your
16 program is still lower relative to a lot of your peers,
17 but your alpha is much stronger than many of those same
18 peers.

19 And so while I want to note and recognize that,
20 over the long term we would expect some moderation there.
21 And I think the team has been transparent in terms of
22 setting those expectations, and we would agree with those,
23 but it doesn't change the fact that we want to recognize
24 what we've seen more recently.

25 From a portfolio construction perspective, we

1 continue to view favorably the evolution from a structure
2 historically centered around the strategic asset
3 allocation segments towards a portfolio that is
4 increasingly managed through investment strategies. At
5 the same time, staff has continued to expand active and
6 enhanced strategies, while, and I want to emphasize,
7 maintaining strong risk controls and a disciplined
8 investment process.

9 In our conversations throughout the year, and as
10 part of our program review, we've truly been impressed
11 with the collaboration amongst the distinct teams, but
12 also as a -- personally from my standpoint being kind of a
13 quant junkie, the tools that have been developed by your
14 team to monitor, to source, and evaluate investment
15 outcomes -- investment products.

16 Our score increases this year were concentrated
17 in information gathering in forecasting. We observed, as
18 I noted, continued development of those analytical
19 capabilities, which were served as the basis for some of
20 those score increases. Team resources, portfolio
21 construction, implementation and attribution are also
22 components of our model. Those remain highly rated, but
23 were unchanged from the previous year.

24 Overall, we believe the key takeaway from this
25 year's review is that many of the capabilities on

1 frameworks developed over the last several years are now
2 beginning to demonstrate measurable results. We'll
3 continue to monitor, but as it stands now, the program
4 remains, well, positioned and future reviews will focus on
5 whether these outcomes continue to be sustained over a
6 full market cycle.

7 I'll pause there and happy to address any
8 questions from the Board.

9 CHAIR PALKKI: I'm not seeing any.

10 If there is no other discussion, thank you all
11 for that report, and thank you Wilshire for your comments.

12 I do have two requests for public speaking. Dr.
13 Britt Dowdy and Jameel Hunt.

14 DR. BRITT DOWDY: Hello. I'm Dr. Britt Dowdy.
15 And I serve as Co-Chair of the CFT Retirement Policy
16 Committee. We represent 30,000 classified professionals
17 working in the education sector and they are CalPERS
18 members.

19 Many people know CFT for representing teachers
20 and faculty in that other pension system that's on the
21 other side of town, but we wanted to let you know that we
22 know and love CalPERS as well. I'm a volunteer like many
23 of the speakers that you've heard from today. I work in
24 Orange County at a middle school. And today, I took time
25 away from my family and from my students, got up at 4

1 a.m., put on a suit for the first time in several months,
2 left my aloha shirt in the closet, you know, to come up
3 here to attend the meeting. And why did I do that?

4 One, is because, we value our retirement system
5 for our members. We value the work of what is being done
6 by this Board and by this staff, and want to make sure
7 that we remain informed as to what's happening with
8 CalPERS.

9 Secondly, we also wanted to say thank you on
10 behalf of CFT for many of the good things that you do.
11 This report, 6e, definitely highlights the positives that
12 are done from having strong engagement practices in your
13 public investments. And we want to say thank you as a
14 Board for establishing policies to set these engagement
15 criteria for having responsible stewardship of our
16 investments in retirement money.

17 We want to say thank you to listening to CalPERS
18 members for years in developing those policies. And we
19 also want to compare that those positive things that have
20 happened, you know, for making positive changes in paying
21 attention to workers rights, paying attention to climate
22 change, paying attention to the values that we all
23 cherish. And that is in contrast to increasing
24 investments in private equity, when private equity by its
25 very nature is opaque and you can't see what's going on.

1 And so as you move into your further work today,
2 CFT asks that you maintain a healthy skepticism about
3 things, and ask those hard questions, and think about how
4 your investments reflect those values. So, as you go into
5 closed session today, take some extra time, have the
6 candid conversations that I believe that this Board has,
7 continue that ongoing conversation, and continue the good
8 work that you've been doing.

9 We thank you.

10 CHAIR PALKKI: Thank you.

11 Go ahead Jameel.

12 JAMEEL HUNT: Hello. My name is Jameel Hunt and
13 I work as a Health Care Security Officer at SEIU United
14 Service Workers West. As my siblings from SEIU 521
15 mention Ed earlier today, SEIU leaders from multiple SEIU
16 locals, including USWW sent the CalPERS Board and staff a
17 letter asking CalPERS to take all appropriate steps to
18 proactive manage the fiduciary risks of the current U.S.
19 federal administration's approach to immigration
20 enforcement.

21 SEIU USWW members carryout essential work in
22 critical industries in which CalPERS invests, including
23 commercial real estate, aviation, entertainment, biotech,
24 and tech. Many of our members -- many of our members'
25 ability to carry out their duties effectively every day

1 are being negatively impacted by the current
2 administration's approach to immigration enforcement,
3 which is having a devastating impact on the communities
4 where they live and work here in California.

5 As mentioned earlier, this situation has only
6 worsened in recent months. According to a recent report
7 from UC Berkeley and UCLA, the administration -- the Trump
8 administration has detained almost 50,000 people in July
9 2026, marking its highest monthly arrest total during
10 President Trump's second term. Our letter made clear that
11 the economic devastation caused by this practice make it a
12 fiduciary imperative that CalPERS takes steps immediately
13 to understand the potential negative impacts of these
14 practices on the Fund.

15 So I am here on behalf of many SEIU members
16 across the state of California to ask for the Board to act
17 upon the request we made in our July letter and to meet
18 with us to discuss the issues covered in the letter.

19 Thank you for your consideration.

20 CHAIR PALKKI: Thank you for your comments.

21 That brings us to Item 6f, Summary of Committee
22 Direction, Mr. Cohen.

23 CHIEF OPERATING INVESTMENT OFFICER COHEN: Thank
24 you, Mr. Chair. Lots of good conversation. We're
25 planning on following up in November on a number of the

1 topics brought forth today, particularly AI and data
2 centers, but I didn't record any specific additional
3 direction. I'm happy to mark anything if I missed
4 something.

5 CHAIR PALKKI: I think -- yeah, thank you, Mr.
6 Henning. You just unclicked yourself.

7 ACTING COMMITTEE MEMBER HENNING: I was going to
8 say, Mr. Palkki --

9 CHAIR PALKKI: Yeah, if we could -- if we
10 could --

11 ACTING COMMITTEE MEMBER HENNING: -- just an
12 analysis of pay-to-play, SEC proposed ruling, and how it
13 will affect members of the Committee and our investments.

14 CHIEF OPERATING INVESTMENT OFFICER COHEN: We'll
15 do. And I know Ms. Gallegos had asked the question.
16 We're coming back with a second reading on the affiliates
17 policy, so we'll be ready to respond to that as well.

18 CHAIR PALKKI: Hold on. I got Ms. Taylor.

19 COMMITTEE MEMBER TAYLOR: I think I'm asking you
20 to look into writing a comment letter or some sort of
21 letter agreeing to this slow down, since we do have a
22 government that agrees.

23 Thank you.

24 CHIEF OPERATING INVESTMENT OFFICER COHEN: Thank
25 you.

1 CHAIR PALKKI: Thank you.

2 I do have one public comment on 6f. Mr. Michael
3 Flaherman.

4 MICHAEL FLAHERMAN: Good afternoon. Michael
5 Flaherman again from RPEA. You're about to enter closed
6 session, and there are two items I want to call your
7 attention to, which is the Global Fixed Income Program
8 Strategy, which is 5a and Global Public Equity Program
9 Strategy 5b.

10 These are noticed I presume under -- if you look
11 at the agenda itself, it has the section of the Government
12 Code, the Bagley-Keene Act, 11126(c)(16). I assume the
13 (a)(1) is mentioned, that's personnel, and (e) is
14 mentioned also, which is litigation. I don't think it's
15 either of those. So I assume it's (c)(16). (c)(16)
16 allows closed sessions when considering investment
17 decisions, right? So the question is I hope you'll ask in
18 closed session are we considering an investment decision?
19 The reason to be wondering that is the information that we
20 provided at the offsite that there have been almost no
21 investment decisions made in closed session going back
22 many, many years.

23 And I want to highlight one other fact also,
24 which is that these closed sessions are really decided on
25 and orchestrated by your staff. And the reason why that

1 matter is because an illegal closed session that you
2 knowingly participate in is a misdemeanor under Government
3 Code 11130.7. It's a misdemeanor for you. They have no
4 liability. They decided that you should take a risk about
5 having a closed session on something that's not really an
6 investment decision, potentially. Maybe it is, but I hope
7 you'll -- I hope you'll ask about that. But they don't
8 have liability.

9 So I hope that that thought about who's deciding
10 and who has liability is in the front of your mind as you
11 think about this issue.

12 Thanks very much.

13 CHAIR PALKKI: Thank you for your comments.

14 We will now -- we'll, we'll break for lunch, but
15 then when we come back, we'll immediately go into closed
16 session, at which point we will go over items 1 through 7
17 from the closed session agenda. And then once we close
18 closed session, we'll immediately go into open session,
19 where we'll adjourn the meeting.

20 So we'll take lunch. Let's come back at 1:45 and
21 then we'll immediately go into closed session. And just
22 for the record, I just want to note it's always good to
23 see so many of our past Board members come and comment at
24 our -- during our public comment. So thank you for that.

25 (Off record: 12:46 p.m.)

1 (Thereupon the meeting recessed into
2 closed session at 1:15 p.m.)

3 (Thereupon the meeting reconvened
4 open session.)

5 (On record: 3:38 p.m.)

6 CHAIR PALKKI: Thank you. We are -- we ended
7 closed session. We are now back in open session. And
8 this adjourns the Investment Committee meeting. Thank you
9 all and see you tomorrow for Performance, Talent
10 Management at 8:30 in the morning.

11 (Thereupon, the California Public Employees'
12 Retirement System, Board of Administration,
13 Investment Committee meeting open session
14 adjourned at 3:38 p.m.)

C E R T I F I C A T E O F R E P O R T E R

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 meeting 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 19th day of September, 2026.



JAMES F. PETERS, CSR
Certified Shorthand Reporter
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