MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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LINCOLN PLAZA NORTH

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MONDAY, SEPTEMBER 15, 2025

9:24 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chair

Mullissa Willette, Vice Chair

Malia Cohen, also represented by Deborah Gallegos

Michael Detoy

Fiona Ma, represented by Frank Ruffino

Lisa Middleton

Eraina Ortega

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Theresa Taylor

Yvonne Walker

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Chief Operating Investment Officer

Stephen Gilmore, Chief Investment Officer

Michele Nix, Chief Financial Officer

Scott Terando, Chief Actuary

David Bader, Investment Director

Robert Carlin, Senior Attorney

Peter Cashion, Managing Investment Director

APPEARANCES CONTINUED

STAFF:

Saeed Daroogheha, Investment Director

Amy Deming, Investment Director

Richard Fiebrandt, Investment Manager

Drew Hambly, Investment Director

May Leung, Investment Manager

Simiso Nzima, Managing Investment Director

Anton Orlich, Managing Investment Director

Brian Parks, Investment Manager

Arnie Phillips, Managing Investment Director

Lauren Rosborough Watt, Investment Manager

Todd Smith, Investment Manager

Hailey Tracy, Investment Officer III

ALSO PRESENT:

Ralph Ballart

Jakob Evans, Sierra Club California

Christy Fields, Meketa Investment Group

Steve Hartt, Meketa Investment Group

Edward Hasbrouck, Divest from Tesla

Linda Hayward, Third Act Sacramento

J.J. Jelincic, Retired Public Employees Association

Sally Kalaghan

APPEARANCES CONTINUED

ALSO PRESENT:

Ali Kazemi, Wilshire Advisors

Eric Lerner, California Common Good, ACCE

Susan McCarthy

Steve McCourt, Meketa Investment Group

Jennifer O'Dell, Laborers' Union

Thomas Pattison, Divest from Tesla

Ruth Radetsky, Divest from Tesla

Preston Rudy, California Faculty Association

Frank Ruiz

Glayol Sahba, MD, Third Act Sacramento

Mark Swabey

Mark Tavianini, Third Act Sacramento

Sara Theiss, Fossil Free California

Tom Toth, Wilshire Advisors

Mary Jo Walker

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PROCEEDINGS

CHAIR MILLER: Okay. I would like to call the Investment Committee meeting to order and our first thing is the roll call.

BOARD CLERK ANDERSON: David Miller.

CHAIR MILLER: Here.

BOARD CLERK ORTEGA: Mullissa Willette.

VICE CHAIR WILLETTE: Here.

BOARD CLERK ANDERSON: Deborah Gallegos for Malia Cohen?

ACTING COMMITTEE MEMBER GALLEGOS: Here.

BOARD CLERK ANDERSON: Michael Detoy.

COMMITTEE MEMBER DETOY: Here.

BOARD CLERK ANDERSON: Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Present.

BOARD CLERK ANDERSON: Lisa Middleton.

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK ANDERSON: Eraina Ortega.

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK ANDERSON: Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki.

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK ORTEGA: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Present.
BOARD CLERK ANDERSON: Theresa Taylor.
COMMITTEE MEMBER TAYLOR: Here.
BOARD CLERK ANDERSON: Yvonne Walker.
COMMITTEE MEMBER WALKER: Here.
BOARD CLERK ANDERSON: Dr. Gail Willis.
CHAIR MILLER: Thank you. We'll now recess into closed session for items 1 and item 5a from the closed session agenda. We'll immediately reconvene in open session after the closed session.
Thank you and we're going to go to recess now.
(Off record: 9:25 a.m.)
(Thereupon the meeting recessed into closed session.)
(Thereupon the meeting reconvened open session.)
(On record: 10:30 a.m.)
CHAIR MILLER: Okay. I'll call the Investment Committee open session back to order, and we've already done our roll call, so I guess we'll move right on into the executive report.
CHIEF INVESTMENT OFFICER GILMORE: Thank you very much, Chair Miller. Today, we have a number of items of course. We'll start with a, I guess, a note of welcome to Director Middleton. It's great to have you back. So

really looking forward to that.

Also, just a reminder. From beginning of October, we'll have another team member in the Investment team. So Mascha Canio will be joining as the Managing Investment Director for Private Debt. So very much looking forward to welcoming her.

In terms of today's agenda, Lauren Rosborough Watt and I will talk about the trust level review, so we'll review the last year. That will be followed by Wilshire and Meketa who will give their updates. Then we'll move to the first reading of the asset liability management review. Remember, the first reading takes place this month with the final reading in November. That will be followed by a couple of portfolio reports. So we'll have Arnie Phillips of fixed income and Simiso for equities. And with that, I'll pass it back to the Chair.

CHAIR MILLER: Okay. Thank you.

Our next order of business is our action consent for the approval of the --

COMMITTEE MEMBER PACHECO: Move approval.

CHAIR MILLER: Motion by Director Pacheco.

Second?

COMMITTEE MEMBER PALKKI: Second.

CHAIR MILLER: Seconded by Director Palkki. So this is for the approval of the June 16th, 2025 Investment

Committee closed session meeting minutes.

Any discussion?

Seeing none. It's already been moved and seconded. So I'll call for the question. All in favor?

(Ayes.)

CHAIR MILLER: Any abstentions?

Any nays?

Okay. The ayes have it.

BOARD CLERK ANDERSON: Chair Miller, we also did have public comment for number -- item number 2.

CHAIR MILLER: Oh, we have public comment on -- oh, okay. We've got public commenters. So, I'll call for that item. Okay. So the public commenters you'll come down here on the left. I'll call a few of you by name at a time, down here on my left, your right. And you'll have three minutes to make your comments. The clock will start when you introduce yourself and start speaking.

So, the first two people I'll call down is Jakob Evans and Eric Lerner come on down and they will be followed by Sally Kalaghan and Mark Tavianini.

Welcome. Just take your seats and looks like your mics are live, so go ahead at your convenience.

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

Sierra Club of California. I'm here today in appreciation of CalPERS's ambitious Climate Action Plan with suggestions for how it can be made more robust. CalPERS is not the only pension plan to have made commitments to investments like climate solutions, but it's a clear leader with its ambitious $100 billion commitment. While commendable, this commitment can be made more impactful with a set of climate principles that provide a framework for transparency and engagement within the organization with stakeholders and with external managers.

For example, a robust climate investment strategy excludes unproven and uneconomic solutions in high emitting companies without credible transition plans. This means excluding carbon offsets and investments in gas infrastructure, and including definitions for renewable energy and green affordable housing investments.

The Sierra Club has developed a set of principles for climate solution investments endorsed by 35 and counting, leading environmental, labor and community organizations, and that set standards for credible, impactful investments in climate solutions. We try to do this with the Board and sustainable investment teams and we will publish them later this month.

Implementing a set of core principles would allow CalPERS to enhance his leadership and set an example for other funds to model. We recognize that CalPERS is development new strategies to address the climate crisis, which requires ongoing dialogue with external managers and peers. Now only con CalPERS create a leading model amongst peers, but clear and transparent principles would provide a mandate for responsible and credible climate investment offerings impacting the broader financial industry.

We appreciate the Board's and staff's interest in dialogue on these points and look forward to discussing public climate action plan can become more robust and transparent.

Thank you.

CHAIR MILLER: Thank you.

The next commenter.

ERIC LERNER: Good morning.

CHAIR MILLER: Jet hit the button. There, you're on now. You're good.

ERIC LERNER: Good morning. My name is Eric Lerner. I'm speaking today on behalf of California Common Good, a coalition that includes California public sector unions and ACCE, a statewide community organization focused on housing and climate justice and low-income communities. I want to begin by highlighting the Sierra Club's principles for climate solution investments, endorsed by more than 35 environmental labor and community organizations, including California Common Good and ACCE.

These principles set clear standards for credible, impactful investments in climate solutions. They've been shared with the Board and the Sustainable Investments team and will be published later this month. Our goal is simple to make CalPERS climate solution investments stronger, clearer, and more effective.

Why do we support these principles? Because our members are concerned about the lack of transparency in the Climate Action Plan and about investments, even partial ones, in fossil fuel companies being counted as climate solutions. At the same time, we recognize the plan's real potential to reduce fund risk and support genuine climate progress. A robust strategy should exclude unproven technologies and emitters without credible transition plans, direct resources to communities, reducing bills, building affordable housing, and strengthening resilience, prioritizing renewable energy, greenhousing, and climate smart infrastructure, invest in California, especially regions most affected by the energy transition supporting local economies, public service, and jobs.

By doing this, CalPERS can reduce financial risk while showing national leadership, moving markets and setting just transition standards for the portfolio companies and managers. As climate impacts grow, the fund faces significant risks. Mitigating those risks mean investing in solutions that actually reduce carbon emissions while funding urgently needed adaptation. The Sierra Club's principles, endorsed by a broad coalition, align with CalPERS goals. They set clear expectations for staff, managers, and shareholders, ensuring consistent definitions of true climate solutions.

Strong principles give CalPERS the tools to implement the Board's vision and establish best-in-class climate investment policies for public pensions.

Thank you.

CHAIR MILLER: Thank you. Next, Sally Kalaghan and Mark Tavianini followed by Linda Hayward and Preston Rudy.

SALLY KALAGHAN: Hi. Thank you. Sally Kalaghan. I start out as a lamenter. Lamenters mourn the past and continued destruction of our planet. We hope our silence and presentation reaches past your personal and institutional rationalizations that promote the killing of our earth.

We hope you realize your importance in saving our world. CalPERS is bankrolling the climate crisis. The pension fund has over 27.9 billion invested in fossil fuel companies, more than any pension fund in the country. The State of California is suing five fossil fuel companies for misleading the public about climate change and CalPERS invests our pensions in all five of them. I can provide the source material, but you probably have it. If CalPERS had divested in 2009, it would have been $11.9 billion richer ten years later. Again, I can provide the information.

Despite lending equity markets in 2021 and '22, the fossil fuel sector posted a negative 4.8 percent return in '23. The sector stock prices and market weighing rose from record lows in 2020 to a modest 5.2 percent of the S&P 500 in December of 2022 before reversing in '23 with fossil fuels declining to 3.9 percent at year end.

Again, I hope that you realize your importance in saving our world.

Thank you.

CHAIR MILLER: Thank you. Next commenter.

MARK TAVIANINI: And I and my spouse are both CalPERS members. I'm here to comment on CalPERS climate and sustainability plan. You've already heard from several people that there are any number of solutions that you all could be working on to deal with climate investments. I'm going to focus on something that's a little more near and dear to my heart.

In my 28-year career with the California Air Resources Board, I worked every day to reverse and prevent the well-documented adverse health effects of air pollution and global climate change. I believe that I understand better than most the need to move away from fossil fuel based world. So I take it somewhat personally that a significant portion of my retirement fund is undoing the work that I and my dedicated colleagues did and are doing.

CalPERS huge investment in fossil fuels also runs counter to California's commitments to a clean, carbon free energy situation made -- these commitments were made by Governor Newsom. For example, 90 percent clean energy by 2035, phaseout of fossil fuel demand by 94 percent by 2045, cutting greenhouse gases by 85 percent by 2045, and in 2022 a 5 -- $54 billion investment in climate change.

To sum up, CalPERS 27.9 billion investment in Fossil fuels undermines the work that I did. The State's environmental protection goals contributes to climate -- the climate crisis and, as has been pointed out, undermines your own investment goals, and therefore the sustainability of our pensions.

I'm also going to make a side note that you all work and we -- I'm very proud to be a neighborhood person.

I live right down the street in an LEED building, which is Leadership in Energy and Environmental Design. So I'd ask that you take that to heart and provide some leadership to the world by divesting from fossil fuels. That's the bottom line.

Thank you.

CHAIR MILLER: Thank you. The next commenters Preston Rudy and Linda Hayward followed by Glayol Sahba and Jane -- oh, and that's -- and a caller on the phone.

Okay. Go ahead at your convenience.

LINDA HAYWARD: Good morning. My name is Linda HaywArd. I'm here to comment on the Gilmore executive report and why I feel there has to be a plan for fossil free pension plans. I'm a beneficiary of my late husband's CalPERS pension. I'm so proud of him and how hard he worked for our family and the citizens of California. He was the chief consultant to the Senate Education and Finance committees, and later the State Chancellor of the California Community Colleges.

He would be saddened to know that his hard earned retirement funds were being put to work in ways that accelerate the destruction of our environment. Our planet is warming as a direct result of the use of fossil fuels.

It also breaks my heart that our four grandsons, all fine civic-minded young men, will be forced to contend with the consequences of our choices, the devastation of fires and floods, the coming chaos of population shifts, and foot shortages, unhealthy air, and on, and on.

They, their children, and their children's children don't deserve this. No one does. We all must do what we can to get fossil fuels out of our lives and institutions. There are plenty of viable clean energy systems to invest in. I ask you to lead CalPERS in a direction that acknowledges the scientific reality of global warming and that respects the right of future generations to inherit a livable planet.

Thank you.

CHAIR MILLER: Thank you.

Next speaker.

PRESTON RUDY: Good morning.

CHAIR MILLER: Micro -- oh, nope. Touch it again. There now you're on.

Just don't touch it again. There you go. We gotcha. Just don't touch. We'll get it on.

There, you're good.

PRESTON RUDY: Okay. Good morning. Obviously, the technology challenges me.

(Laughter).

PRESTON RUDY: I'm here to comment on Stephen Gilmore's executive report. My name is Preston Rudy. I'm a CalPERS retiree. I am a retired professor from the CSU system and a member of the California Faculty Association. First of all, I want to thank you for your service on the Board and for your vigilance over an institution that makes California a better place.

Our investment returns are at risk because of the insistence of this Board to maintain our retirement funds in fossil fuel corporations. CalPERS is not supporting the State's commitment to a fossil free future, and California -- CalPERS is a laggard in withdrawing investments from fossil fuels. Among others, the State of California, public employee retirement funds in New York City, in the City of Chicago, Baltimore, Los Angeles, and numerous others have withdrawn their investments from fossil fuels.

This is an embarrassment for California and for this Board in particular. We have always been at the leadership. I was reading the history of CalPERS out front and our current investment policies do not follow that long brilliant tradition that we have in this state.

So for the good of CalPERS retirees, for the good of future retirees, for the good of the State of California, I ask that CalPERS sell all its investments in fossil fuels.

Thank you very much.

CHAIR MILLER: Thank you.

Next, we have Dr. Sahba and then a caller on the fall.

DR. GLAYOL SAHBA: Good morning. My name is Dr. Glayol Sahba and I'm the facilitator for Third Act Sacramento, which is a group of senior citizens, many of whom are CalPERS and CalSTRS members who are passionate about democracy and protecting the climate.

We've been writing, we've been demonstrating, we've been attending Board meetings for years urging divestment, so that there will be a livable future for all, including your CalPERS members without any result. CalPERS quotes engagement with fossil fuels companies as their strategy for many decades. According to a review of CalPERS proxy votes, your shareholder engagement efforts have failed to get these companies to reduce greenhouse gas emissions, increase their renewable energy production or reduce fossil fuel financing by big banks.

Other pension funds have recognized the risk of fossil fuel investments and have divested globally 1,667 and counting pension funds with assets of about $40 trillion, have made commitments to divest from fossil fuels. Full divestment commitments have been made by State of Maine. And my colleague mentioned about some of the other ones, but I'll mention a few others, State of

Maine, New York City Employees Retirement System, New York City Teachers Retirement System, on and on.

We often hear being fiduciaries as the excuse for not divesting, but fiduciaries must look at facts, trends and risks, and not just short-term, long-term. Multiple studies have been done showing fossil fuel projected demands are downward. One of them I believe was done by an oil company. I'm happy to provide the slide if anyone wants it. Renewables are showing exponential growth. Please explain why you feel you can ignore all of these trends and facts and even studies by BlackRock citing the risk of stranded assets. Thank you for your service and your attention.

CHAIR MILLER: Thank you.

Next, I believe we have a caller for item 2 on the phone.

CALPERS STAFF: Yes, Chair Miller. We have Sarah Theiss with Fossil Free California here to speak to Item 2. Sarah, you are now live and can proceed with your comments.

SARA THEISS: Good morning, Board, and thank you as usual for my wonderful CalPERS pension. I just wanted to make some context comments about what people have been saying. And these are recent updates -- reports from July and there are some numbers in here so I will be sending you my sources afterwards, because I know how much you care about risk and the climate, and I am very sincere when I say that. So these -- this relates to both of those things.

So, this is a recent report from the science-based Target Initiative. And I'm not sure if CalPERS is a part of that. I did a simple Google search and nothing came up, but you may very well be. But you probably know that then in July, it's -- their report stated that to be 1.5 degree aligned, that is with the Paris agreement, financial institutions must stop funding firms that are expanding fossil fuel projection and use. This means an immediate end to fossil fuel project plans. So, that's sort of the climate part of it.

And the risk part of it is, and this is a report that updates the finding of the 2022 paper published by Nature Climate Change with new labels global data stating that investments in coal, oil and gas reserves, and, of course, related investments, may lose their value well before expected timelines - sometimes you hear a hundred years, whatever -- by 2040. So, 2040, not very long from now. And this is based on medium climate scenario model, limiting warming to 1.7 degrees, a 50 percent probability of 1.7 degrees. And this is pretty modest. And again, that is a 2022 -- that number is based on the early 2022 figures. So, yeah.

And then finally, this is back to climate, per the UN, there's a 70 percent chance that in the next five years the average global temperature will achieve 1.5.

So, those are contexts that I think support what prior people have said. And it's going to be new information. I don't -- unless you've got it, but anyway these are both updates from July. And again, thank you for your time, attention and your service to us retirees.

CHAIR MILLER: Thank you. I believe that concludes our public comment for item 2. Okay.

We'll move on to item 3, action consent items. This is 3a and 3b.

COMMITTEE MEMBER PALKKI: We've done it.

COMMITTEE MEMBER TAYLOR: We did it.

CHAIR MILLER: We've done them. Okay. We've done them.

So we're on to Information Consent 4a annual calendar review. Oh, they're information. Nobody has asked to pull any of these, so, off to 5. 5a

BOARD CLERK ANDERSON: Chair Miller, you do have a public comment for 4e.

CHAIR MILLER: On 4? Oh. Okay. So, do we need to go -- we should go through the information item before having public comment on it then or can we just go to the public comment, Robert.

SENIOR ATTORNEY CARLIN: (Nods head.)

CHAIR MILLER: Okay. We can go straight to public comments. So I'll call down Mark Swabey and Frank Ruiz. And there they are.

I'm feeling extra disorganized today, all these pieces of paper. Okay. Welcome and you're familiar faces, so I know you know how the process works. So, just start at your convenience.

MARK SWABEY: My name is Mark Swabey. I'm a CalPERS member. And I want to thank you for allowing me to speak to you today. I would also like to thank Meketa, Wilshire, any other contributors and the CalPERS executives for their excellent marketing presentations today, but I cannot do so in good conscience.

So why are the CalPERS executives out of jail?

Issue number one. Failure to update, recreate or otherwise report on the summary total amounts and billions of dollars invested in private equity contracts that were listed on the alternative investment vehicle schedule of fees and expenses, aka the AIV report dated 6-30-2024. According to the totals line for private equity investments, CalPERS showed 145 plus billion in private equity contracts. CalPERS executives have failed to update the AIV report for fiscal year '24-'25. This failure to compute private equity investments for the '24-'25 fiscal year without $145 billion as a starting point is gross negligence by the executives.

Issue number two, the Sacramento Bee in early fiscal year '24-'25 reported that CalPERS executives sold $39 billion worth of global public equity securities. The only evidence of these transactions that's discernable to 2.3 CalPERS members is a change in percentage of global public equity securities from approximately 50 percent of the total PERF as of 6-30-2024 and the reduction to 38 percent of the total PERF as of 6-30-2025. Failure to report this change of financial position to CalPERS members is gross negligence.

Thirty-nine billion added to the executives failure to report on 145 billion from issue number one is 184 billion in unreported funds from the PERF. That's 33 percent of the PERF, and that is gross negligence.

Issue number three, failure to report changes in financial position, including gains or losses from invested principal amounts in their special accounts, namely customized investment accounts and co-investment contracts fiscal year '24-'25.

Once upon a time, Enron executives failed to report changes in financial position, including reporting periodic investments of principal for their special accounts to the appropriate governing bodies. Some Enron executives went to jail.

Thank you for your time and I appreciate the Sergeant at Arms in attendance today. And may I also add, please vote no a ALM, TPA, and any other proposals from the executives coming forward in November.

Thank you.

CHAIR MILLER: Thank you for your comments.

Next.

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

Why are the CalPERS executives out of jail? I want to thank the CalPERS executive staff and Meketa for the wonderful and splendid colorful graphs, pie charts, bar graphs, et cetera, that are going to be presented today. However, this information says nothing about the annual comprehensive financial report for fiscal year '24-'25. Consequently, CalPERS does not know where its financial foundation stands.

One builds a house on a solid foundation to support the weight of the walls, the roofs, et cetera. At this time, CalPERS has no information on the financial status of the PERF. In this case, CalPERS needs to build its financial house on a solid financial return to support the outgoing pension funds. The annual financial returns in billions of dollars will support the CalPERS pension. Projected marketing presentations will not, yet the executive staff has not provided an annual financial report to date. So is CalPERS on solid ground or standing on a projected marketing report's carpet supported by quicksand.

CalPERS Board, you must ask for a report of how CalPERS made the $56 billion reported last year and where the billions were invested in. In the this last two presentations, Mark and I have laid out what needs to be reported. Included in the handout submitted to the Board are the kinds of mandated information that needs to be provided to the Board and its 2.3 million members, which we're passed out to you. Otherwise, how can CalPERS approve the executive staff and Meketa proposals in November. If certain Board members cannot ask the executive staff for the mandated reports, then possibly the other Board members can request that the report be submitted.

As a result, with no report, the Board must vote no on the executive staff November proposal. In addition, we have included a sample of contracts that have matured in the last five years. You can see for yourselves a 95 percent show no return. Also, you will find an article of the Oregon Pension Fund private equity investment disaster results. The Board cannot allow the same results in California. You must be vigilante. You must exercise your mandated oversight responsibilities. Please, for God's sake, look at the numbers. You're getting percentages. They mean nothing if you don't have the hardcore numbers. Why aren't you guys getting the hardcore numbers?

Lastly, we want money. We want money. This is something we've been echoing to you. We want money to come to CalPERS not to the prime contractors, not to contracts out there. And so my question again is why are the CalPERS executives out of jail? Why are you not doing your mandated jobs?

Thank you for allowing me to speak.

CHAIR MILLER: Thank you.

I think that concludes public comment for Item 4.

Okay. So, back to our agenda. Item 5, information agenda items. Let's see. What do we have here? CalPERS trust level review. My goodness, here we go.

(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: Thank you. Thank you, Chair. Today, we're going to go through the financial performance for the last year. Obviously, we gave a brief update in July, but we'll talk a little bit more about some of the numbers and also talk about some of the, I guess, economic and market considerations looking backwards and also looking forwards.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Now, as a reminder, as of the end of June, we had 556 billion under management in the PERF. The one-year return for the fiscal year was 11.6 percent. That was 171 basis points above our benchmark. That return of 11.6 percent helped the funded ratio increase to approximately 79 percent. Now, the 10-year return, 7.1, the five-year return, eight percent, all above the current discount rate.

I'd also note that the cumulative value-add of that one year was 8.4. And, of course, we're really thinking about the longer term, but the one-year result helped considerably.

With respect to private assets, currently at around 34.6 percent. That's expected to increase gradually through time. We're highlighting here the liquidity ratio, that 1.3. It's actually much stronger than a 1.3. It kind of suggests, because we're looking at an extreme event and we're also looking at liquidity that allows us to continue, not just paying pensions, but allows to us maintain all the strategies that we want to maintain.

Also, just under 65 percent of our portfolio is invested in active strategies. Quite a few of those are -- they're internal, but that's reasonably high proportion of active strategies.

Operationally, we've reduced the vacancy rates slightly. We now have 318 team members. I'll also note that the costs are relatively low for a fund of our size. Partly that becomes through some of the internal management. It also comes through the strategies we've embarked upon in the areas like private equity.

And with that, I'll talk a little bit about the backdrop before passing over to Lauren. It's been a fascinating year. If we go back into 2024, equities were doing pretty well, especially coming into election. Then things were a little bit different coming into the first quarter -- the end of the first quarter, liberation day, tariffs being imposed, markets reacting badly. We saw the U.S. dollar weakening quite considerably during this calendar year. Other equity markets outside the U.S. performed better. We've seen changes in fiscal positions, particularly in places like Europe where there's more spending on defense. Things are different in places like Japan, where Japan for a long time was stuck within what gets referred to as secular stagnation, very hard to generate growth or more particularly to generate inflation and now we're seeing that changing.

So, a lot of things going on that are a little bit different, but Lauren is going to tel you all about it. And I'm looking forward to hearing her thoughts on how we navigate the journey over the next few years.

Lauren.

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you, Stephen. Honestly, I'm not sure that I'm needed at all. He summarized well for me. No.

Well, thank you for having me all here today, Chair Miller, Vice Chair Willette. I'm Lauren Rosborough Watt. I work for the Investment Office here at CalPERS.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Last time I spoke with you, I spoke a bit about sort of the long run, thinking about some of the long run trends. And today, I'm going to spend a little bit more time talking around the current conditions and where we currently are.

I want to start with a quote, and that's attributed to the eminent MIT economist Rudi Dornbusch who has passed away. He is quote is, "Things take longer to happen than you think they will, and then they happen faster than you thought they could." And I feel this aptly describes the U.S. and global environment right now, as Stephen alluded to before. Over the past fiscal year, we've witnessed what feels like an extraordinary number of significant events, both global and domestic. And yet, the U.S. economy performed relatively well growing on average two percent on a quarter on quarter seasonally adjusted annual rate over the past 12 months. That's the fiscal year in June.

(Clears throat)

INVESTMENT MANAGER ROSBOROUGH WATT: Excuse me. Financial market returns over the year --

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you for the slide -- have been variable, but ended up positive markets, also as Stephen mentioned. In particular, equity markets were buoyed ahead of the U.S. election or actually around that time in anticipation of a business-friendly administration, but it reversed sharply after the Liberation Day tariff announcements and have subsequently rebounded.

On this chart, which shows selected market indices, there's two features I think are worth mentioning, and that's the bar on the right and the bar on the left. Gold prices, the one on the right, rose over 40 percent in the past year and are 120 percent higher than in late 2022. Reports site this as predominantly safe haven buying by retail investors and diversification by central backs and their reserve portfolios.

The left side of the chart is oil prices, which were weaker over 2024-25 due in both by demand and supply, and prices have continued to ease further this year. They're now 45 percent lower than the 2022 peak. Both rising gold prices and falling oil prices usually suggests a cautious or slowing economic environment.

Indeed, moving into the really economies -- next chart, please. Next slides.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you.

Oh, sorry. Thank you.

Perhaps the most prominent discussion in the media in recent weeks has been the U.S. labor market. Now, this chart has not updated for the most recent numbers, but what we saw with the latest data point was also very weak, and there were revisions in the monthly change in employment for the fiscal year through to March -- sorry, for the year through to March 2025.

So in short, the labor market is far softer than previously thought. This is through less hiring though, not yet firing -- or at least not firing to date. And you can see that fire stable and low unemployment rate at 4.3 percent, so the black line.

Also, in last week's data releases, we had U.S. CPI inflation and that printed 2.9 percent year on year, with tariff-related inflation starting to show more clearly. Indeed, tariffs have been relatively slow to free throw to inflation, so to link back to my initial quote. This is due to changes in the administration policy and pauses as negotiations took place.

I want to bring your attention to Stephen's comment in the last Board meeting where he spoke about slowflation. And I think it's very apt. It's certainly what we appear to be seeing at the moment. But slower employment growth, despite higher prices, puts the Federal Reserve in play.

Next slide, please. Sorry.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you.

Apologies. I've never -- I've never had to do this myself before, so I appreciate it. Thank you.

Indeed, the Federal Reserve is expected to cut rates this week by 25 basis points. And at least one more this year. Some economists anticipating an additional two cuts this year, and further, over a hundred basis points over the next nine months.

I'd like to briefly speak to some of the other countries on this char to highlight the lack of synchronicity across countries at present. And a few years ago, we spoke about deglobalization, one of the themes that's been cited regularly. And we can see this in the lack of this, what we call, a global factor. For example, we've got the Bank of Canada is expected to cut rates this week. It faces an exceptionally weak economy. It had a negative GDP print. The one for September is expected to also be incredibly soft.

France, as Stephen mentioned, has elevated political uncertainty. It's got a New Prime Minister just recent -- just recently. It has the highest budget deficit in the EU, and it's -- the bond yields relative to an equivalent, say Germany, have been widening. It was also down rated by Fitch.

Bank of England, for example, is expected to remain on hold. It has a stagnant economy with inflation running at 3.8 percent and also a lot of tension on the budget side. And then, as Stephen mentioned, Japan is expected to raise rates - that's the yellow line there - quite distinctive from many other economies, as the economy emerges from, as Stephen said, 25 odd years of secular stagnation.

Thinking back to the U.S. with weaker -- expectations for weaker growth and higher inflation, let's see if I can do this. Now, I see. I can't. There we to.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Oh, I just didn't push hard enough. The economy, as we mentioned in February, looked to be moving towards the left. And, in fact, you can see that I spoke around the mild stagflation, so that light red area. Now, the pushing out of some of the tariff announcements, some of the negotiations that have happened, we haven't seen inflation increase as economists had expected near the start of the year. And that's that move from May through to August, so still weaker growth. Less inflation, as expected, for the end of this year. Nonetheless, CPI inflation is anticipated to be around 3 to 3.2, anywhere up to, in fact, one or two economists have 3.5 percent CPI inflation by December of this year.

We're in a position right now where growth is expected to be below potential, so that's left of the middle on the chart. It's around 1.2 percent Q on Q, seasonally adjusted annual rate for 2026. So it's not a recession, but -- and the Fed now has far more capacity today to ease policy to support any deteriorating economy.

The risk, of course, that with an economy that is growing slowly, it is vulnerable to negative shocks. And given the rapidity of news and events that we've seen, as we've both mentioned this morning, uncertainty remains very high. That's the end of my written remarks. Happy to pass back to Stephen.

CHIEF INVESTMENT OFFICER GILMORE: Thanks very much, Lauren.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: I talked about the returns, but it's always very helpful to understand where those returns have come from. And this bridge chart here shows the contribution by asset class over the last 10 years. So all the assets classes contributed -- the biggest contributor, of course, public equities, because the return in equities but also the size of the allocation to equities.

But it's also interesting to look at where performance has come from. And here, I've got a chart of the last one year. So this is the 11.6 percent return.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And I said the portfolio generated 171 basis points above the benchmark. And you can see that in the last year, private equity contributed 105 basis points of that 171. So a large part of the outperformance came from that. So it's the case of the strategy working.

You can see that all of the asset classes actually helped contribute to that excess return.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: I also wanted to mention the active versus passive implementation. And as noted earlier, you know, most of the implementation is active. We have decent amounts of passive in public equity and income, totaling just over 35 percent of the portfolio.

Of course, it's always interesting to note how a portfolio has been performing relative to expectations or projections. And I always like these cone charts, which show the centerline, the gray line is the projection, the expected, and the blue line is the cumulative performance. And we're actually very closely aligned to what we might have expected slightly outperforming over this -- over this period.

And with that, I'll pass it back to you, Chair for any questions

CHAIR MILLER: Okay. I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you, Chairman Miller, and thank you, Ms. Watt, for your -- for your comments. I wanted to go back to your comment regarding the slide number -- page -- attachment two, page five on the trust level with the many central banks have reduced their interest rates. And you're seeing that the Fed will be -- you're expecting 25 basis point drop and an addition 100 basis in the next -- in the next year.

Do you feel that that will -- where would that lend us in terms of our growth and our stagnation and so forth in the other chart? Just your understanding of that, because I feel that there is -- there will be a lag in terms of how -- if the -- if the interest rates do drop, how that would affect the overall economy.

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you for your question. So, current market pricing is 425 basis points this week. And then the expectations between now and June of next year I think are -- excuse me, 116 basis points, so a little over another hundred basis points. Recall, we had a hundred basis points of cuts also in 2024. So that's quite sufficient easing by the Fed.

Most economists anticipate that easing by the Fed will help to extend out the growth in the economy. That doesn't mean growth will necessarily bounce back, but should -- any deterioration will help to alleviate any deterioration going forward. Now, of course, we're in very uncertain times. And there's a lot of news flow that occurs, a lot of changes that do occur that could change people's sentiment around that.

Two other things I'd like to add and one is that while tariffs, the yell -- budget model anticipates tariffs will take around half a percentage point of GDP for the year. The one Big Beautiful Bill Act is anticipated to add around 0.2 to 0.5 on GDP for 2025, more going into 2026, I have to say.

So there is some countering offset on both. So when you put all that together, the expectations for growth, and I'm just trying to call off the top of my head, is for growth to continue at around this mid to low ones before returning up towards the 1.9 percent Q on Q seasonally adjusted annual rate by the end of next year.

COMMITTEE MEMBER PACHECO: So will we still be landing in the lower left corner of that -- of that graph or we'll be more in the upper right? I'm just trying to understand where we'll be in terms of -- with respect to these adjustments from the Central Bank.

INVESTMENT MANAGER ROSBOROUGH WATT: So if everything remains unchanged, which, of course, we know it doesn't --

COMMITTEE MEMBER PACHECO: Right.

INVESTMENT MANAGER ROSBOROUGH WATT: -- current expectations are that we move slightly further towards the left and then revert back towards the Middle. That said, economists do have a -- broadly speaking a 40 percent chance of a recession over the next 12 months. It ranges anywhere between 30 percent and I think Zandi at Moody's, the chief economist there, has a 48 percent probability. I think that's the highest for a recession over the next 12 months. And hence, my comment around it being highly uncertain.

This chart in general tends to move. It's never static. And this is also expectations for the end of this year. So, as we move closer to the end of the year, then it will convert to expectations for 2026.

COMMITTEE MEMBER PACHECO: I see. And then my last question is, I know this isn't taken into account, but with respect to any geopolitical volatility, how would that play into this as well?

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. So the transmission mechanisms there would be, it depends on what the event is. If we think about -- if we go back to sort of personal consumption, which is 70 percent of the U.S. economy, think about individuals who have got, you know, the higher income earners tend to spend a lot of their money on services. They tend to save about four percentage points more than say the lower income end of the distribution. If they feel uncertain, then they will increase their savings and decrease their spending on services, and that will allude to a slower economy in the U.S.

But that said, as I said, it depends on the event. There is a lot of geopolitical events external to the U.S. that isn't impacting directly on U.S. consumers. And so, that has a direct effect -- or therefore doesn't have a direct effect on U.S. GDP.

COMMITTEE MEMBER PACHECO: Thank you, Ms. Watt. I appreciate all your comments.

CHAIR MILLER: Okay. Frank Ruffino for Treasurer Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair and thank you for the presentation.

I've got two quick questions. The first one regarding risk and the second one about strategic alignment. So, let's take the easy one, the risk one. How does the trust level risk profile today compares with our positioning say three to five years ago and what lessons has staff drawn from those shifts?

CHIEF INVESTMENT OFFICER GILMORE: I would say that the trust level risk now is slightly higher than it might have been three or four years ago. And when I say that I'm looking at the effect of equity exposure -- so if we look at the whole portfolio and its sensitivity to equities, it's slightly higher, but it is lower than it might have been in 2016 and the years preceding that. The changes aren't that dramatic.

Now, of course, if we go into those different environments that we have up here, recession, stagflation, inflationary boom, et cetera, it is going to be the equity exposure that is going to be the dominant driver of the portfolio outcomes. So, going back to say three years or so was slightly higher in terms of -- in terms of risk, but not dramatically so.

ACTING COMMITTEE MEMBER RUFFINO: Okay. And with respect to strategic alignment, specifically pension sustainability, again this agenda item links back to our strategic goal of pension sustainability, from the staff's perspective, what would be the single most important action that the Board could take in the next year to reinforce sustainability at the trust level?

CHIEF INVESTMENT OFFICER GILMORE: Sustainability at the trust level, obviously, we want to improve the funded ratio, so the focus is on having a portfolio that does that. Given our funded position, given our horizon, I would expect that we can have a slightly higher exposure to risk than we currently have. What's really important though is that we don't let behavioral biases come into play that were fully consistent with the amount of risk we take through time.

So I think it's really having that clarity of focus on the importance of generating, you know, those strong risk-adjusted returns with the aim of having a portfolio that is, you know, seeking to improve the funded ratio in a prudent way.

So I think, you know, having the Investment Committee approve our recommendations on the total portfolio approach would be very helpful, in terms of having that clarity around the risks we're taking and that longer term focus, especially important for an organize like ours to take advantage of those areas where we have strengths. And that probably means being a little bit more agile than we have been in the past.

ACTING COMMITTEE MEMBER RUFFINO: Okay. One last question, Mr. Chair. And on the economic and the market outlook. So, you know, given the current economic environment and market volatility, how is CalPERS stress testing the trust level portfolio against potential downturns, and what early warning indicators does staff rely on most heavily?

CHIEF INVESTMENT OFFICER GILMORE: We use a number of different stress tests. So we'll look at what happened in various crises, and we report, from time to time, on what happens if we were going into another, you know, Great Financial Crisis, or looking at other shocks. So we have that.

But we also look at this type of framework where we've got real GDP growth and inflation and we look at what happens to the portfolio. Now, the reality is it's actually very hard to anticipate things ahead of time or ahead of the market pricing. So the most important thing is probably to understand what happens to the portfolio if we were to go into these various scenarios and to make sure that we don't panic or that we actually use some of those scenarios to take advantage of the strengths we have.

But I'll pass over to Lauren to talk about some of the scenarios. And if Saeed, I might actually call him up as well, but Lauren.

INVESTMENT MANAGER ROSBOROUGH WATT: Yeah. So if Saeed does want to come up. So we collaborate in that -- on the economic side, we look at the, "What if" and "Where are we today in terms of growth and inflation relative to potential. I don't want to speak for Saeed. He looks at scenarios in a slightly different way in terms of the resiliency of the portfolio. But Saeed, did you want...

INVESTMENT DIRECTOR DAROOGHEHA: Saeed Daroogheha, Investment Director with the Total Fund.

I love Janus, the Roman two-faced God. The idea of this scenario, as you know, on the one hand we look at the past. We look at history to see what happened, how it happened. There were a lot of lessons learned. Then the other face of the Janus looks forward, which is exactly what we do. We try to understand the drivers of the next crisis. Crises, by definition, are not predictable and that's why it's called crises, because it's hard to find out, but there are a lot of signs around what will happen. And most importantly, when it happens, what are the opportunities?

And that's what we spend most of the time to take advantage of the long-term availability of CalPERS capital, and mainly take advantage of those crises.

ACTING COMMITTEE MEMBER RUFFINO: Excellent. Thank you. Thank you for your answers. I appreciate that and thank you, Mr. Chair.

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

COMMITTEE MEMBER DETOY: Thank you. Thank you for the report. Just a quick question. I think it's November now, the Supreme Court is going to be hearing the tariff case. I know you mentioned tariffs quite a bit, and the potential outcome of that court case could have anywhere from 1. -- you know 1 percent to 1.5 percent swing on the GDP. How does that affect, you know, interest rates, and, you know, how are we stress testing those potential cases for the PERF moving forward?

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you.

Thank you for your question. You're absolutely right. And I think that's why I spoke more today around current conditions than the future, because there is a lot of uncertainty around direction going forward. Depending on the results of that court case, it could well take time for tariffs to say be unwound in one direction or for markets to settle down and continue on the other.

As we know, tariffs have taken some time to come through, in both the fiscal revenue side and also in terms of any prices that we're seeing through inflation. And I would anticipate something similar going forward, and that that will take time to there -- move through in terms of prices and real activity and also in terms of continuous behavior in response to that.

Now, what the Federal Reserve has indicated over the past few years, that it's moved far more into more of a risk management type role. So, while it still forecasts going for, it does like to look and see where that trade-off between growth and inflation is. For now, the FOMC has noted that inflation is expected to be somewhat transitory and they're closely watching to see whether it is or whether it's not.

If tariffs do unwind, in any way, shape or form, that may put pause for the Fed or at least slow down the pace of rate cuts, because we certainly are seeing a deterioration in the labor market that warrants some Federal Reserve easing going forward.

COMMITTEE MEMBER DETOY: Perfect. Thank you.

Thank you, Mr. Chair.

CHAIR MILLER: Okay. I'm not seeing any more requests and we appreciate the information and we shall see what the future holds.

Anything else before we move to our consultant reports?

CHIEF INVESTMENT OFFICER GILMORE: No.

CHAIR MILLER: Okay. Moving right along. Thank you. Welcome Wilshire to the microphone.

(Slide presentation).

TOM TOTH: Thank you.

CHAIR MILLER: Oh, you turned it off.

There you go.

TOM TOTH: There we go.

CHAIR MILLER: I can see it. You can't.

TOM TOTH: Hello. Tom Toth with Wilshire Advisors to cover the trust level performance review from your consultant. I'll start with Attachment 1, which includes a number of slides on the economic environment, but given Lauren's presentation, I'll keep -- I'll keep these comments brief.

In past reports, we've highlighted increasing federal debt levels and the risks that that might present going forward. If we flip to slide 8 --

[SLIDE CHANGE]

TOM TOTH: -- this plots the deficit as a percentage of GDP together with the unemployment rate. And what's striking about the chart is the gap between the recent low unemployment numbers and the elevated deficit. In other words, we're running substantial deficits during reasonably good economic times. And the risk is that we'll have a limited ability to provide support when we run into the inevitable slow down and we want to be cognizant of that. As we're talking to clients, we highlight on slide nine, what that might mean for opportunities around asset allocation.

I like this chart. And as you think about what you, or I, or a business would do when we borrow, you kind of have two choices. You can pay it back or you can default or restructure it. Both of those are relatively painful occurrences.

The government also has those two options, but they also have a third and that's to print money, in order to pay it back. And in the short-term, that's a relatively easy path. And historically, when we've seen these types of scenarios, that is the path that governments tend to take. So what does that mean for asset allocation? This is likely to benefit assets of limited supply with inherent inflationary protection. And in our view, this is likely to be a long-term asset allocation trend. And it's one that the TPA framework, which we've been discussing, we'll continually evaluate and is likely to drive volatility and therefore opportunity to enhance portfolio returns.

Are there any questions that I can answer on the market? I know Lauren and Stephen started with that.

CHAIR MILLER: I'm not seeing any questions.

TOM TOTH: Okay.

[SLIDE CHANGE]

TOM TOTH: So Wilshire's regular independent performance attribution work is in your materials, I won't go to them, but just will point that out, given that Stephen covered portfolio performance. I'll simply highlight a couple of points from Wilshire's annual firm review letter, which is in your materials, which covers our qualitative assessment of the activities of the Investment Office.

We are optimistic that the CIO's experience in driving strong portfolio results will push the total fund in a positive direction. Successful implementation of the TPA approach requires alignment across investment teams, but it takes time to ensure the buy-in across those teams.

His actions around culture, engagement and leadership development remain a work-in-progress. Team members need to share a common investment language, the trust and the focus on total fund performance rather than just individual benchmarks or composites.

A collaborative culture should be inclusive with an openness to evaluating opportunities wherever they may lie across broad capital markets. And, while it's early, Wilshire has seen evidence of this collaboration in our discussions both with leadership and the various investment teams and will continue monitoring these efforts on behalf of the Board.

Turning to Attachment 4 in Agenda Item 5b. That comes up. This is our regular peer performance comparison. We've updated the universe based on Board feedback to focus on the largest plans in the universe. So if you were to compare this to last year, we're now focusing in on plans, which are greater than $50 billion in size. Previously, that cutoff had been 10 billion.

[SLIDE CHANGE]

TOM TOTH: On page three, I note that CalPERS total fund peer rankings have improved markedly over the one- and two-year periods, ranking in the top decile over the last year and around the top third of the universe for the two-year period. Longer term rankings do remain more challenged. We've talked about that in the past, but we are seeing positive momentum.

And one of the big drivers of that momentum is found on page nine, which covers private equity.

[SLIDE CHANGE]

TOM TOTH: Not too far. Great. Private equity returns rank at the very top of the universe going back five years and remain a very strong driver of total fund returns. I think it's also worth pointing out that earlier in the Board packet in Agenda Item 5a, attachment 4, there is an independent verification that the performance reporting provided to the Board is in compliance with Global Investment Performance Standards, also known as GIPS. The Board should feel very confident that the portfolio figures that you see are presented fairly and accurately.

I'm happy to stand for questions before turning it over to Meketa for their comments.

CHAIR MILLER: Okay. We do have a few questions. I'll start things off with just do you have any thoughts in terms of how well we're positioned for the -- with this cultural and structural change toward the total portfolio approach, in terms of our approach to incentives and compensation versus where we currently are with our asset allocation model and this movement toward putting more emphasis on the total performance and the total team effort versus the individual asset classes or silos.

TOM TOTH: Sure.

CHAIR MILLER: Do you feel like we're making progress in that direction and we're lined up well?

TOM TOTH: Chair Miller, yes. In fact, the move to the focus on total fund performance as it relates to incentive compensation has been a long time in the making, more than five years at this point, to the point where we are completely transitioned to focusing on total fund performance when it comes to inventive compensation. And that aligns very well with TPA, because that's all that that is concerned about. So, a bit of a long-winded way of saying, yes, I feel like you are positioned appropriately around that.

CHAIR MILLER: Thank you.

Next, we have Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you, Tom, for your -- for your comments. I want to go back to the private equity one you just mentioned. First of all, on page nine, the different "T"s and so forth, but I was really interested in page 10, the next page over, the graph. And I noticed that with respect to the "T", where we land right now, we're in the more return and less risk. And I'm wondering what does that mean? And I've also --

if I recall, and please forgive me, because it's been several years, where were we before that, you know, a couple years before that? Were we more in the lower right or the lower left? I'm just trying to understand where we were as a comparison?

TOM TOTH: Yeah. Member Pacheco, thank you for the question. You're testing my memory a little bit. Let me start with what this chart shows now. So, being up and to the left is the goal of these comparisons. That means you're getting more return, while taking less risk than peers. I would argue, you're kind of let's say right about median from a risk level, which simply says that you're not generating those strong returns by taking on outsized levels of risk.

In terms of where it was previously, I would have to get back to you. I don't want to say, it was in one quadrant or another without looking at the data.

COMMITTEE MEMBER PACHECO: And with respect to this data, it's showing five-year -- a five-year spread.

TOM TOTH: This is the five-year number, so this is the measurement of the last five years.

COMMITTEE MEMBER PACHECO: And from what I can see is that we've done really well with our current strategy that we've had in place, correct, the strategic asset allocation and so forth.

TOM TOTH: I would probably refine that just a little bit. The current strategy has not been in place for the full five-year timeframe, but it is done so well that it has pulled up the results of the full five-year period.

COMMITTEE MEMBER PACHECO: Oh, I see. I understand then. And that's -- and that's how we've -- we're able to land on this particular area.

TOM TOTH: That's correct

COMMITTEE MEMBER PACHECO: All right. That's all my questions, sir. Thank you.

CHAIR MILLER: Okay. Thank you. Next, we have Frank Ruffino for Treasurer Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. Just a quick question about peer comparison -- comparisons. Obviously, a report compares, you know, CalPERS to other large public pension funds. Where do we consistently lead relative to peers, and where do we see opportunities, and what do those differences tell us about our long-term positioning?

TOM TOTH: So where do you consistently lead? I would probably start with private equity. That's the one that has shown the most consistent performance. In terms of where are -- where are opportunities, Mr. Gilmore has alluded to the increased level of active risk being taken across the portfolio. I'll pick out global equity. That has traditionally been relatively index focused, which means it tends to plot kind of around the middle. You would sort of expect that for an index-oriented portfolio. Over the last couple of years, the utilization of active risk taking there has increased, and there are moves to continued to evaluate that to drive stronger returns. So I would use that as one area of opportunity.

Global fixed income, from a relative performance standpoint, has been a pretty consistent strong performer, but with relatively constrained active risk guardrails as that level has increased across the portfolio, whether it's in emerging market debt or corporate investment grade bonds. Given their consistency, that's an opportunity to enhance returns there as well.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Great, Mr. Toth. Appreciate that.

Thank you, Mr. Chair.

CHAIR MILLER: Okay. I'm seeing no more requests to speak, so thank you very much. Always appreciate your expertise and we'll welcome Meketa up.

STEVE McCOURT: Good morning, Meketa -- good morning, Committee. Steve McCourt from Meketa Investment Group. Your consultant for the private market asset classes, which includes private equity, private credit, infrastructure and real estate. We'll be fairly brief with our comments and happy to answer questions after I highlight some of the elements of our trust level review for each of the four asset classes.

To begin with, I'll just summarize by saying each of the four asset classes are performing at or above expectation. And the execution by staff across these four areas is consistent with the strategy that's been adopted by staff in each of the areas.

I'll start first with private equity, which staff and Wilshire commented a bit on. Performance has been quite strong. For the trailing one-year period, the private equity asset class returned 14.3 percent, which was about six percentage points higher than the policy benchmark over that time period. Over the last five years, the private equity asset class returned 16.6 percent per year. And over the last 10 years, 11.5 percent, roughly at or slightly exceeding various benchmarks over that time period. So performance has been at or above expectations in that area of the -- of the portfolio.

Within private equity, because it's a -- it's a broad category, most of CalPERS commitments are in buyout strategies and in growth/expansion strategies. Those two broad sectors of the market have also been the highest performing sectors that CalPERS has been invested in over time.

And I'll note by type of investment, the structure of the investment itself, the strongest returns recently have been generated by co-investments and customized investment accounts, both of which are fee advantaged structures in the private equity asset class.

The customized investment accounts over the last year were up 21 percent. And co-investments were up 14.4 percent. So the low fee strategy that CalPERS has adopted has so far paid off for the fund, which is great to see.

I'll highlight as well that the performance drivers geographically continue to be both private equity investments in the U.S. and in developed markets outside the U.S. Both of those regions were up over 14 percent over the last year.

And I'll highlight that the portfolio was invested within all policy parameters at the end of June 30th.

Moving on to private debt. Private debt has also had strong performance. Recently, for the one-year period, the asset class was up 12.8 percent, about 440 basis points above the return of its policy benchmark. For the last three years, the asset class has returned 12 percent per year on average, and since its inception with

CalPERS, up 10.8 percent per year on average, exceeding the policy benchmark over each of those periods.

As you know, the private debt portfolio has been in a building phase over the last several years. The portfolio at the end of June was valued at $21.1 billion. And that comprised primarily 81 percent of direct lending strategies. The other 19 percent of the portfolio was allocated to specialty lending and real estate financing within the asset class.

Much like the story with private equity, the private debt asset class has also benefited from low and no fee investment structures. Within the private credit asset class, customized investment accounts are where these low fee structures reside. For the last year, customized investment accounts returned 13.1 percent per year, and over the last three years, 12.6 percent per year. For both periods, percent to a percent and a half per year higher than fund investments made by -- made by staff over this time period.

So again, that just highlights the growing evidence that reducing fees in these asset classes results in higher net of fee returns. And it's notable that geographically more of the private credit asset classes is global typically. As of the end of June 30th, 46 percent of the private debt portfolio was invested in the U.S., 41 percent in global strategies, which include both U.S. and non-U.S., and 13 percent in Europe-specific strategies. Performance across the regions were fairly consistent, 12 to 13 percent per year, over recent periods. And I'll also note there that the private debt asset class was invested within all policy parameters.

Real estate has been the one private market asset class that has been particularly challenged over the last several years. As you know, and we've reported, over the last three years, the real estate asset class return was negative five percent per year in line with the real estate benchmark that you use. The trailing 5- and 10-year returns were two percent and four percent per year on average.

Your portfolio, as a diversified real estate portfolio, has largely tracked the performance of the overall benchmark over this time period. We noted last time and continue to note that there are elements of the beginnings of a turning within the real estate market. And some sectors have started to see increased valuations, as we moved into the first couple of quarters of this year, so we'll be hopeful and look forward to more improvement in the asset class in the future.

As we've noted before, the large -- largest part of your real estate portfolio is in the core program, which are largely fully leased and paying real estate properties. The performance of the core portfolio has exceeded the return of the real estate policy benchmark over the trailing one-, three-, five- and 10-year periods. And the real estate portfolio was invested within all policy guidelines and parameters at the end of the quarter.

And the final asset class I'll summarize is infrastructure. Infrastructure, as you know, is managed within the real assets asset class, but we break it out for performance and monitoring. For the trailing one-year period, the infrastructure portfolio returned 7.5 percent, trailing three, five and 10 years, six percent, eight percent, and nine percent respectively. For each of those periods, the portfolio has meaningfully outperformed its benchmark. You'll recall that there's a little bit of a benchmark mismatch with infrastructure, because it is today benchmarked to the real estate benchmark, as it's housed within the real assets category. Nevertheless, the performance of the infrastructure asset class has met or exceeded you're expectations for the asset class over long periods of time.

And I'll highlight that staff continues to implement the infrastructure program according to all policies and consistent with their strategic plan.

So with that, that concludes my formal comments on each of the four programs and I've got our resident experts in each asset class behind me. We're happy to take any questions that you might have on the portfolios.

CHAIR MILLER: Okay. Thank you. I just have kind of a -- kind of an overarching kind of question. When it comes to real assets or maybe I'll focus it more on private equity, we've seen over the last decade or more, this trend, this burgeoning growth in the market for -- where things are offered as private opportunities, private equity opportunities, and that equity -- that opportunity set has grown proportionate to the market of equities. And do you see that trend kind of continuing at this kind of pace or is it naturally limited at some point where the opportunity set will start to, as a proportion, shrink where it will constrain us?

I know challenges just with pacing and deploying have been, you know, an issue over time. But do you see that kind of continuing shift of more and more of where we can put our money to advantage will be in the private space versus publicly traded equities?

STEVE McCOURT: Yeah. And the answer, Chair Miller, could be a little different for each of the asset classes. So, I'll provide a response and I'll open it up if anyone else from my Meketa team wants to provide a response as well.

But generally speaking, the -- I'll just go one by one. The infrastructure asset class, there appears to be for, at least the foreseeable future, a increasing demand for private capital to fund infrastructure projects. That's largely been focused on the significant growth of data centers and technology complexes, which has been increasingly financed through infrastructure -- private infrastructure strategies.

In real estate, of course, that's been an asset class that has had private investment for a long, long time, and that seems to continue to facilitate private investment quite well vis-à-vis public market investment.

Private credit continues to grow. It might be the fastest growing private market asset class of the four that we've discussed. The historical tailwind to private credit has largely been the reduction of lending from the banking sector, some of which has been driven by financial regulations, some of which has been driven by financial decisions that banks have made themselves. Nevertheless, it appears that there continues to be a strong need for ever-increasing amounts of private capital in the credit markets in the U.S.

Private equity has been a growing asset class for several decades, and part of its growth has been a function of fewer and fewer companies choosing to go public and choosing to be publicly traded. The primary reason that we hear anyway that companies don't wish to go public tends to be the higher regulatory burdens, the costs associated with them, the quarterly and sometimes much more frequent scrutiny on decisions, which prevents the companies from making good long-term decisions. Most of those factors haven't changed in the last 20 years. So absent a change in some of those factors, one would expect that the private markets will continue to be a dominant source of financing for much of the economy going forward. The IPO market, absent maybe the technology area, hasn't really been a strong source of capital at large in the economy for the last decade or so.

CHAIR MILLER: Yeah, because it just -- it seems pretty clear to me that, you know, with publicly traded stuff, it's just -- the comparative natural advantage we have of having a -- you know, the kind of talent management and the kind of talented team we have gives us an edge. But in the private markets, we have some natural advantages of size, scope, structure, commitment and history, these things that our stakeholders are always pointing out to us. You've got to use those where you have those kind of advantages comparative advantages. It seems like having more and more opportunities in that opportunity set, plus the ability to differentiate ourselves in terms of performance by levering those advantages we have, in addition to our talented team, I just -- I'm hopeful that we'll continued to serve us.

But I'm wondering, at some point, in each of those classes, there has some to be some sort of kind of natural limit or structure, or the whole world can't, you know, stop being in the public marketplace.

STEVE McCOURT: Yeah. Yeah. I mean, one would think. And I think it's a -- it's a -- it's a good concern to have as a large investor in those spaces and I'm sure one that staff is continually reviewing in terms of its ability to deploy capital in a productive way in those areas.

CHAIR MILLER: Yeah. Well, thanks for allowing me to prevail upon you for all that. I'll move to Director Middleton.

COMMITTEE MEMBER MIDDLETON: Thank you.

Steve, a couple of questions, one on private equity and then a real estate question.

With private equity, looking back over the last decade or so at CalPERS, many who have been arguing that we have not been as effective as we should have been have cited the inconsistency with our commitments over time. Are you satisfied as you're looking at the portfolio in private equity now, that we have got the stability of investment direction that we need.

STEVE McCOURT: Yeah. Maybe, Steve, I'll have you comment on that specific one on private equity.

STEVE HARTT: Good morning. Steve Hartt from Meketa Investment Group. Good to see you again, Lisa.

I'd say that the team has developed and gelled around an approach that utilizing CalPERS strengths and relationships with the general partners to really be a partner with them in executing on their investments. And that's been, you know, a long-term transformation and shift that's taken place. And it feels very solid right now. CalPERS has an excellent reputation in the marketplace for being a trusted partner. And the team has done a really remarkable job to develop that and to keep it. And my expectation is that they'll -- they have the platform to be able to continue that.

STEVE McCOURT: And from a commitment pacing perspective, the -- your staff operates through a -- through a pacing model. The target allocation to private equity has been increased several times over the last 10 years. So, you would see the commitment amounts year by year increase over the last decade. That's, from our perspective, less a function of a value judgment on the asset class or a market-timing decision. It's just simply reflective of the amount of capital that needs to consistently be put to work to achieve the target allocation that was approved by the Committee at that time.

COMMITTEE MEMBER MIDDLETON: It's always going to be an asset class, particularly for a public entity that is under considerable scrutiny and attacks by any number of individuals. So are there steps that you recommend we take in order to be able to better present to the public the value that private equity is presenting to our portfolio.

STEVE McCOURT: Two things come to mind immediately, Ms. Middleton. One is you adopted Labor Principles in the last couple of years that apply to all of your asset classes, but obviously private equity is arguably the asset class that has been the focus of most labor concerns. And I think they represent a strong tool that your staff has to manage labor issues in the asset class. And I would encourage you to continue to get regular feedback from staff on engagement on Labor Principles and private equity. The other -- the other item I would highlight is the primary reason the asset class exists in yours and most other portfolios is to provide strong long-term returns and diversification benefits.

So, we highlight to you every quarter the performance versus benchmarks. And I think it's important to continue to focus on the long-term productivity of the asset class and its role in helping CalPERS achieve its long-term investment objectives.

COMMITTEE MEMBER MIDDLETON: All right. So shifting gears to real estate. It's now been five years since COVID hit and we had such a dramatic change in workplaces, which affected tremendously downtown core values. Are we at a point where this market is going to begin to stabilize and what do you see as the long-term future for downtown core assets?

CHRISTY FIELDS: Am I on?

Christy Fields, Meketa Investment Group.

I think we are starting to see that inflection point in offices. Certainly, it's market by market. Some CBD, central business districts, in certain cities are still struggling significantly, but the pricing in offices has reset significantly enough that people are able to come in and make improvements to the buildings and attract new tenants.

And indeed, we've seen the performance of the office subsector within your benchmark post positive numbers over the last two quarters. So I think that's evidence further.

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

CHAIR MILLER: Okay. Frank Ruffino for Treasurer Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair and thank you, Meketa, and team for the presentation.

Quick question -- actually two questions. The first one with respect to oversight. Obviously, independent reviews are critical for transparency, for accountability, and I would say is important for learning. From your perspective, when can boards like ours sharpen its oversight the most?

STEVE McCOURT: Interesting question. So, your Committee does its work in public meetings like this. And as a consequence, the appropriate venue to elevate learning and oversight is in these meetings that you have. I would imagine the biggest challenge with education and monitoring as a Committee member is prioritizing the vast amounts of information and knowledge that you're expected to have to be able to serve your role responsibly.

So I would, I guess number one, make sure that in meetings and off-sites that sufficient time is allotted for those activities, but then also that you engage with staff to prioritize the areas that the Committee feels most strongly about, so that you're getting education in the areas that you feel are most critical for you.

We're obviously open to any and all suggestions as well.

ACTING COMMITTEE MEMBER RUFFINO: And then just to follow up on Ms. Middleton's question. Given the overweight in office investments, you know, and the outlook for elevated vacancies and decline leasing activities, do we have a contingency in place, or a strong contingency in place, that should these trends continue or persist in the future?

CHRISTY FIELDS: So you're actually underweight office, relative to your benchmark, which has been a positive contributor to your program -- program's performance. We've seen the proportion of the benchmark holdings, office use to represent nearly 40 percent, if we look back 10 years ago, and now we're kind of in the mid-teens. So everyone has kind of been decreasing their exposure to offices. Your staff is very focused on the office portfolio. Your portfolio is very high quality office properties. They're well leased. Your tenants are paying rent. And so, your portfolio, relative to the other institutional portfolios, is both smaller and stronger. But certainly, staff is paying very close attention to that portfolio, and where there's opportunity, to dispose of assets that are not deemed to be strategic, they're doing so.

ACTING COMMITTEE MEMBER RUFFINO: Good to hear. Thank you. Thank you all and thank you, Mr. Chair.

CHAIR MILLER: Great. I see no further requests, so I will thank you very much for your expertise and your time, and appreciate it.

Okay. Well is this a good point for us to break for lunch?

Okay. Let's come back, let's see, 12:45. Will that work for everybody? There you go. Okay. See you all back at 12:45. We're recessed for lunch.

Hang on. We're doing one o'clock. We'll be back one o'clock. Okay.

(Off record: 12:07 p.m.)

(Thereupon a lunch break was taken.)

AFTERNOON SESSION

(On record: 1:00 p.m.)

CHAIR MILLER: Okay. I think we're all here. Let's go ahead and get back to business. So now, I believe we're on 5c, asset liability management, if I'm not mistaken.

(Slide presentation).

CHAIR MILLER: Take it away.

CHIEF FINANCIAL OFFICER NIX: All right. Good afternoon, Board members. Michele Nix, CalPERS team member.

This agenda marks almost a full year of the asset liability management discussions and educational sessions. I want to complement the extraordinary cross-divisional collaboration and effort during this process. With proposed changes to a total portfolio approach, it has taken a lot of work to get here.

Today, the Investment and Actuarial offices will present the first reading of the ALM recommendations for the Public Employees Retirement Fund, PERF.

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CHIEF FINANCIAL OFFICER NIX: Even though we formally go through the ALM process every four years with a mid-cycle check-in every two years, the process always seems to feel a little different each year. This ALM cycle introduced a new investment framework that we call the Total Portfolio Approach. We began discussing concepts in November 2024 and have held Board education sessions, two stakeholder webinars and a variety of stakeholder engagement discussions.

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CHIEF FINANCIAL OFFICER NIX: The goal for today is to introduce the staff recommendations. This is a first reading. We will bring this back in November with any feedback we hear today incorporated in the final recommendations. The first recommendation will be to adopt the Total Portfolio Approach to investing. This would include the capital market assumptions that were used as inputs to the process and a risk profile that includes a 75/25 equity-to-bonds reference portfolio with a limit of 400 basis points of active risk that the team will use to make investments that are different from the reference portfolio.

Lastly, the staff is recommending no changes to the current 6.8 discount rate. To get us started on the discussion, I'm going to turn it over to Stephen Gilmore from the Investment Office and the Scott Terando from the Actuarial Office to present these recommendations in more detail.

Stephen.

CHIEF INVESTMENT OFFICER GILMORE: Thanks very much, Michele. It's very helpful to start with what's --

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CHIEF INVESTMENT OFFICER GILMORE: -- the same and what's different, under our proposed approach to a total portfolio view. I think, you know, where there are no changes, your know, there's no change to the Board oversight role or the Board authority for setting the investment risk governance model. There's also no change to the way the asset liability management process works with respect to us presenting or management presenting to the Board every four years with an interim check-in. And as we currently do, you get the actuarial assumptions and deliverables. So no changes there. You'll also get the capital market assumptions.

What's different is that the Board would be asked to adopt a somewhat different governance model, which sets the formal total risk for the fund. And it would do that through two main components, one would be a reference portfolio, and we've talked about the composition of that the possibly composition of that, which would be a combination of equities and bonds, so a very simple, passive portfolio. And then a clearer discretion around the way management could deviate from that reference portfolio, which we've referred to as active risk.

So every decision we make to deviate from the reference portfolio would be an active decision to take active risk. So that would be the main change, so going from individual asset classes to looking at a whole of portfolio, total risk as defined by a reference portfolio and the discretion to management as defined by active risk.

And just with the asset liability management process, we would go through and review or the Board would go through and review that formal total risk as a part of the asset liability management process.

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CHIEF INVESTMENT OFFICER GILMORE: Of course, it's always good to ask why are we making this proposal. At its heart, the aim is to generate better returns, better risk-adjusted returns, which lead to a better funded ratio and lower contributions. And there are multiple components to this. The first one is we think that there will be improved internal governance. And by that, I mean that the management team would be clearly focused on the risk that has been a great -- the risk as per the reference portfolio, as per the active risk discretion that has been delegated to management.

Historically, there have been times when risk has been taken up or down and sometimes that maybe deliberate, sometimes it may be unintentional. This would be very clear about the governance, and the risk, and the decisions that are made by management.

The reference portfolio itself is also, I think, an advantage in the sense that it is a simple, passive alternative portfolio. So, if we only had a handful of people, it's the portfolio that we would have. Very simple, very clear, and it gives passive returns.

That simplicity stands out quite markedly, I think, because right now, we have 11 different benchmarks for the various asset classes. With an approach to a total portfolio approach and I reference portfolio, we would have one benchmark, which would be the reference portfolio, and we'd use that for evaluating management's decisions.

I think it's also -- there's another area where there's perhaps greater simplicity, and that is the active risk. And we're proposing that we have a limit of 400 basis points. What that's doing is aggregating all the discretion we currently have across various asset classes and doing it in a consistent way. So right now, we have policy ranges that vary depending on the asset class. So we'll be aggregating and into symbol -- a single simple number. It also means better transparency, because any decision that management makes to deviate from the reference portfolio is clear.

Right now, management can propose a strategic asset allocation. The Board might adopt it. It's not really clear who owns it. We own it jointly, but in terms of the clarity of decisions and who owns them, it becomes much clearer under the approach we're proposing.

And that clarity leads to greater transparency. So you will be able to assess how well management has done, in terms of its active risk taking. It becomes very clear, because any of these decisions will be, you know, a deviation from the reference portfolio. And that clarity transparency should drive more accountability.

Decisions will also be made on the basis of the whole portfolio. So yes, we need the asset class teams to implement their portfolio, but each of the teams will also be thinking about the whole of portfolio outcomes. And when we try to optimize the whole of portfolio, we're likely to get better outcomes than if we just simply optimized asset class by asset class. Putting them all together, as I mentioned, that should lead to better performance and better system funding.

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CHIEF INVESTMENT OFFICER GILMORE: Now, we have talked a bit about the reporting. And I think I'm having a -- making an attempt to perhaps make it a little bit clearer. Essentially, what you will get is everything you get now, plus we are going to introduce dashboards that you saw in July. And, of course, those dashboards will evolve as the portfolio evolves. But essentially, you'll get all the reports you're currently getting, you'll get all the stuff you normally get in open and closed. The one addition will be some additional dashboards reporting on the whole of portfolio. And as is the case now, each quarterly report, you'll see your report on the portfolio in terms of asset class and also the use of -- use of risk.

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CHIEF INVESTMENT OFFICER GILMORE: In terms of the recommendations, which Michele referred to, we're recommending a 75/25 equity bond reference portfolio. Now, that was set the formal total fund risk, that the Board approves. That's our recommendation the 75/25. And that becomes the performance benchmark. So all of our, you know, risk-adjusted returns are compared against that.

The choice of the 75/25 takes into account a lot of considerations. The currently portfolio is around 72/28. That 72/28 is slightly lower in risk terms than we might have had going back 10 years ago, but it represents a slight increase over the last few years. We think, however, that we can take a bit more risk, given our time horizon, and also given, you know, the funded levels. And we think, you know, on balance, that's kind of a number that gives us the right return and a risk-adjusted return since, but we'll talk a little bit more about that later

I'm also conscious that the Board has encouraged management to use more of the discretion that it has given management, and that's also part of this.

But, of course, when coming up with any of these numbers, we have to balance off that expected return with the risk, and that's always a judgment. So with the 75/25 we're expecting to get a slightly higher return, but with that, comes slightly higher risk, and we have to think about how that plays out. And when we do this together as a -- as a team, we're very conscious of some of the actuarial modeling as well and what it means for the funded status of the various plans. And we'll talk -- Scott will talk about that as we go through this.

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CHIEF INVESTMENT OFFICER GILMORE: Now, in terms of the projections we're using for returns, we start with the capital market assumptions, which you are familiar with. These were taken at the end of March to serve their 15 institutional providers. And I would emphasize the range rather than just to point estimates. I know people tend to focus on the point estimates, but there is a wide range, nevertheless, when coming up with the projected returns that the median returns we have taken, taking the midpoints for the 20-year.

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CHIEF INVESTMENT OFFICER GILMORE: And so if we go to the next slide, looking at what the expected returns are of the reference portfolio, the first line shows the prospective returns of the reference portfolio, plus the return we expect to get from taking active risk. Now, in terms of that active risk, we're thinking if you -- in this case, we're using 300 basis points of active risk and we're expecting to generate an extra 60 basis points of additional return by taking that active risk.

So those numbers you see on the top line represent that reference portfolio return plus the 60 basis points from taking the active risk. And as you can see, as we take slightly more risk, the expected return goes up.

At the same time that the return goes up -- expected return goes up, the portfolio volatility rises, and the various risk measures -- other risk measures also rise. So we're thinking about how best to, I guess, consider those additional returns and additional risks jointly. And that's, I guess, part of what we, as a group, need to do when coming up with these recommendations. When we consider them all, we think the 75/25 is the best option and that's why we're recommending it.

And with that, I'll pass it over to Scott to talk about some of the modeling on this risk side.

CHIEF ACTUARY TERANDO: All right. Thank you, Stephen. Good afternoon, Board members. Scott Terando, team member.

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CHIEF ACTUARY TERANDO: All right. All right. So, what the Actuarial Offers did is we did an extensive analysis looking at over 5,000 simulated investment returns for each of these three portfolios. And on this slide here, what we're looking at is we're looking at the State Miscellaneous plan. That's one of our largest plans, but we did look at public agencies, which we'll talk about in a few minutes. We also looked at the schools pool, which is included in the appendix, but the results are very similar in terms of the results you would see are consistent across all the groups.

And what you see here is we had three portfolios. We have the -- what we have is the associated discount rate associated with those portfolios. And then we have the table basically broken into two areas. In the top portion, we're looking at the employer contribution rates over the next 10 years. And in the lower portion, we're looking at the funded status after 10 years. What you can see is that as -- when we move from left to right, as we increase the risk of the reference portfolios, the average contribution rate drops somewhat, but you see a -- I would say a substantial increase in the volatility.

If you're looking at the contributions, for example, you can see that, you know, from the 70/30 portfolio, the probability of a single year increase is five percent or more is 14 percent. And when we jump up to an 80/20 that results in a 50 percent increase in just the volatility of contributions in one year.

When we go down to the funded status, you can see the funded status -- the median funded status is fairly consistent across the board. It increases -- as we increase the risk for the portfolios, you can see at the end points, there's a large probability of being below 50 percent as well as a larger portion of being greater than a hundred percent for the 80/20 versus the other two portfolios.

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CHIEF ACTUARY TERANDO: We did the same analysis with the same 5,000 simulated portfolio returns for the 420 nonpooled public agencies in CalPERS. It's also a very large group within CalPERS and we had the results split between the miscellaneous and safety plans. I think you can see between -- there's not much difference between miscellaneous and safety, in terms of variability, but we see similar results, in that the funded status for a more aggressive 80/20 portfolio results in a greater funded status.

In terms of the contributions, we have it displayed a little bit differently. We have the ratio of the contributions relative to our recommended 75/25 portfolio. So, for example, if you look at the, for example, the 70/30 portfolio, what we're saying is overall, the contributions for the 70/30 portfolio would be around 5.3 percent greater than the 75/25 portfolio.

The reason for those increased contributions are kind of -- there's two driving forces. One is the expected return is a little bit -- slightly lower, 6.7 versus a 6.8, and then also with that 6.7 percent, there's a decrease in the discount rate versus current 6.8, and that would incur, in the short-term, additional contributions. And that's why you see such a larger difference, if we were to go with a 70/30 portfolio. On the 80/20, the contributions are a little bit lower, as well as funded status being higher.

But when you look at this, it doesn't really convey all the variability and the volatility of these portfolios. And I think that's better illustrated on the next slide.

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CHIEF ACTUARY TERANDO: So what we have here is we're continuing with the 420 public agencies. And what we have is we have -- are looking at the fifth percentile of investment return rates. So everyone is just on the same page. When we say the fifth percentile, we're talking about the five worst percent returns of all the simulated results that we have. The we -- the reason we're looking this is we're looking kind of like on the downside risk. If returns are low, what are the potential downfalls to the system?

We have the three portfolios kind of laid out here. We have a dot for each plan, for each of the three portfolios. On the left-hand side, we have the funded status in the next 10 years. And on the bottom, we have the largest annual increase in employer contributions over that 10-year period.

In looking at the portfolios, I think you can see that there's a substantial amount of plans that would end up below 50 percent at the 80/20 portfolio. You know, almost three-fourths of the plans are ending up below 50 percent.

The 75/25, there's a little bit less. And, you know, the 70/30 looks a little bit better in terms of being over the -- that 50 percent threshold. I will remind everyone, you know, these are not the median results. They're the fifth percentile that's the worst, five percent worse returns. But this should give you a sense of how, as we add volatility to these portfolios, the chances of getting extreme or wild fluctuations increase on those portfolios.

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CHIEF ACTUARY TERANDO: At this point, I'll pass it back to Stephen who will discuss the active limit risk recommendations.

CHIEF INVESTMENT OFFICER GILMORE: Thanks, Scott. I would just say that, back on that last side, that was a -- you know, an important consideration in terms of why we didn't recommend an 80/20.

As for the active risk limit, which is

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CHIEF INVESTMENT OFFICER GILMORE: -- one of the other recommendations, we're recommending 400 basis points. And remember, that is the deviation that management makes or is able to make from the reference portfolio. So what we're doing with this number is consolidating all of the existing policy ranges we have. You'll recall that we currently have the ability to deviate by plus or minus seven percent and listed equities plus or minus six in fixed income, plus or minus 5 in other asset classes. So we're trying to use a consistent basis for looking at those deviations.

Now, if we're using the current policy ranges, we -- I think that adds up to around 450 basis points of active risk, but we're not asking for that much. We're asking for 400. We think that's adequate. We expect the operating range to be between 250 and 300 basis points. It might be clearer if I just showed this on a chart here.

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CHIEF INVESTMENT OFFICER GILMORE: So the current portfolio, when we did this analysis initially, the current portfolio was around 230 basis points. We're expecting to take more and currently management has plans to add to the existing active risk that we have. So we think the -- you know, the operating range is around 250 to 350. And the modeling I showed you earlier was based on somewhere in the middle of that range, around 300 basis points.

And with that, I'll pass back to Scott.

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CHIEF ACTUARY TERANDO: All right. Thanks, Stephen. So we get to our discount recommendation. And based on the 75/25 percent reference portfolio and the additional 400 basis points of active risk limit, our recommendation is to keep the discount rate consistent with where it is, at 6.8 percent. Keep in mind, you know, from the experienced, investment returns vary from year to year. And while we don't necessarily expect large deviations, we do monitor this every year. We formally come to this Board, you know, during the ALM process as well as the mid-cycle review. But if it at any point during the -- that period if we felt there was concern about the disconnect between where the discount rate is and the returns, we'd obviously bring this back to the Board for consideration -- for discussion.

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CHIEF ACTUARY TERANDO: While we -- our recommendation for the 75/25 portfolio is 6.8, we are -- we also went through our analysis for the other portfolios. For the 80/20 portfolio, we came up with a recommendation, also 6.8 percent. Based on our analysis, there was just slightly higher returns, but they -- a large amount of the volatility, which just basically then translate into, you know, us being comfortable with going any higher with 6.8 discount rate for the 80/20.

In terms of 70/30, that's kind of a reduction in the risk of where we are right now. So, it's getting to be a bit more conservative, and based on our analysis, our recommendation was 6.7 percent for the 70/30.

Looking at the chart below that, you can kind of see the probability of actually achieving those returns. They're all above 50 percent, which is something we definitely are looking for when we make our analysis, and they range between 50 and 55. Our preference is to be closer to the 55 than the 50. And that's kind of -- when you look at a chart, you can kind of see how that lines up with the 6.8 for the 75/25 portfolio and the other choices for the remaining portfolios presented HERE.

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CHIEF FINANCIAL OFFICER NIX: I think it's back to me. So today, you heard the first read of the asset liability management recommendations. We plan on discussing this with stakeholders and bringing it back for a final vote in November. Whatever the outcome, we do plan to hold a webinar for stakeholders on December 4th to discuss the results.

Also, I want to note that these are recommendations are for the PERF. And so, in the spring, we will begin discussions for the ALM for the affiliate trust funds. And other than that -- so it's not over. In spring, we'll have more. But, for now, this concludes the presentation and we're happy to take any questions you height have.

CHAIR MILLER: Okay. First off, Director Willette.

VICE CHAIR WILLETTE: All right. Thank you. Thank you for the presentation today and education that we've received over the past year to best understand why change to total portfolio approach is recommended. I do have a few questions. And I think if you and I promise to be pithy, I can get the Chair's permission to ask them all. Is that -- okay.

So first -- and I don't have slide references all the way, but we saw that risk modeling focuses heavily on strategic targets and stress tests within asset classes. So I'm wondering how are we ensuring that correlated risk across silos, like equity beta, credit exposure, and liquidity risk are being monitored at the total fund level, rather than assuming diversification across asset classes is enough and would a total portfolio approach give us clear or real time visibility into those interactions?

CHIEF INVESTMENT OFFICER GILMORE: Thank you for the questions. I think a total portfolio approach it has an advantage in terms of looking at the overall portfolio characteristics. So we do look at those, what each asset class contributes to the whole. What happens when you look at individual asset classes, you might think you've got diversification within the asset class, but you might have unintended concentration or it could be the reverse. It could be you're overdiversifying.

In the session in July, the education session, we did show whole of portfolio exposures to things like growth, to real rates, and to inflation. So with a total portfolio approach, there's much more focus on the metrics that you mentioned at all the portfolio levels. So I think it's an advantage.

VICE CHAIR WILLETTE: Thank you.

Another question. I think slide 10, the GFC example drawdown is probably something that gave us all heartburn. And in general, the presentation has referred to the long-term funding ratio challenges and the sensitivity to those market shocks. So given how quickly funding status can change, are we comfortable relying on the quarterly rebalancing to keep allocations aligned with liabilities or would adopting a total portfolio framework allow staff to respond dynamically to protect our funding ratio, while staying within our risk budget?

CHIEF INVESTMENT OFFICER GILMORE: I think what tends to happen when you have those shocks, there's always a danger that behavioral biases kick in and people panic and take off risk. And we've seen what happens in our own environment when there is that sort of shock and risk was taken down, so you miss out on the recovery.

I think one of the big advantages with a total port follow approach that we're proposing is it is very clear on what the risk tolerance is or what risks we're targeting. So if you do get those shocks -- and when you go get those shocks the prospective returns are higher. We're less likely to take off that risk at that time.

So what's really important for scenario modeling is to ensure that the portfolio can withstand those sorts of shocks, and that you don't have to deviate from the strategies. So again, I think the total portfolio approach is advantageous in terms that changed mind set.

VICE CHAIR WILLETTE: Thank you. Just a couple more questions. We hear a lot about ESG considerations, primarily in public equity and private markets. Earlier, we heard about how our labor principles could be a great tool that we use. So how do we ensure our labor principles, our climate commitments and ESG standards are consistently applied across all asset classes, rather than unevenly, and could the total portfolio approach help us embed these principles fund-wide?

CHIEF INVESTMENT OFFICER GILMORE: Look, I think the total portfolio approach is conducive to doing that. But I might, if I can, just call up Peter to make a couple of quick comments on that, because I think this is a really important area.

MANAGING INVESTMENT DIRECTOR CASHION: Thank you, Director Willette. TPA, Total Portfolio Approach, is very complementary to the whole sustainable investment work, because we work across all asset classes. So it's really facilitated when the total -- the way you're investing is covering all asset classes without any of the silos or barriers that you may see under an SAA. When it comes to ESG integration, as you may know, we've hired two ESG integration specialists, one for public, one for private.

They're working very closely with each of the asset classes. On the private side, we've developed a process for screening each of the new investments, the funds that come in and comparing them to their ESG standards to our internal requirements. If there's any gaps, we notify them of that. We determine the reporting requirements. On the public side for ESG integration, we're working first GPE public equity has in place already a strong ESG framework. On the fixed income side, we're working with them, first, to review all of their ESG requirements. They're particularly strong in the area of emerging markets, because there are potentially more ESG risks related there.

On the labor principles, first, all of the active asset managers have signed on attested to the Labor Principles, so that work has been ongoing. And that obviously covers all new managers that come into the portfolio. With respect to the public markets and labor principles, we're in the process of developing a Labor Principles scoring tool. And that tool takes each of the five Labor Principle characteristics and seeks to identify risks of companies, the securities that we hold with respect to those labor principles.

So, for example, if there are labor incidents in the -- in the press and the media, we will have a flag tag that will identify them, so that we can then assess if that labor risk is properly priced into the security.

VICE CHAIR WILLETTE: Thank yo. I think we'll be talking about public equities later today. So, don't go too far. Looking back at our total portfolio approach, as a public fund, and we heard earlier today and consistently here, concerns about transparency. We often see Complex performance and risk data presented by individual managers and asset classes. Today, we're going to get two of those.

For example, would a consolidated total portfolio dashboard kind of showing how all exposures, risk and sustainability measures interact improve our governance efficiency and let trustees focus on high level strategic choices rather than piecemeal reports?

CHIEF INVESTMENT OFFICER GILMORE: That is certainly the hope and I expect it will do that.

VICE CHAIR WILLETTE: Thank you. Those are all my questions. Thank you, Chair.

CHAIR MILLER: Okay. Thank you.

Next, we have Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you and thank you, Mr. Gilmore for your presentation and Scott as well. My question is back to page 6 of 27, change -- why change the Total Portfolio Approach, the improved internal governance. And I'm just curious about that process. I know that there might be significant changes with respect to governance, but how does that relate to our system and can you provide us any examples that may be helpful for us, so that we can make an informed decision.

CHIEF INVESTMENT OFFICER GILMORE: Maybe I should start with the high level and then go to a specific example. So if the Board approves the approach, approves the reference portfolio, approves the active risk limit, all of our decisions will be made based on those decisions. So, you know, the risk tolerance and then the discretion. We will also be constructing a portfolio based on that.

So we will have plans to execute a portfolio and we'll report that to you. So when it I comes to the individual decisions, maybe I can give you a specific example, let's say a big investment. What will happen is that let's say there's an investment in a private asset class. We'll make up one. Let's say infrastructure. And lets's say, you know, it's a very large -- let's say it's $2 billion, just make up a large number.

The first thing we'll want to know is that that investment is going to beat its cost of capital, because to invest that two billion, we have to sell something. And we'll sell some combination of equities and bonds. So the team, looking at it, the infrastructure team or real assets team will be trying to gain assurance that the prospective return is greater than the return we're giving up. In addition to that, there will also be an extra required return for giving up liquidity. So those large investments will be viewed in that context.

We've also created an investment screen, a consistent investment screen that will get used across the asset classes that will look at things like that. I don't know if you want any more detail, but that's kind of the idea. We'll frame it from the overall risk of the portfolio, then look at how we're allocating active risk, then we'll look at consistency in terms of cost of capital. And that consistency is, you know, the cost of funding and also liquidity and we'll do that across all asset classes in terms of the underwriting.

COMMITTEE MEMBER PACHECO: And that would be the -- that would be the framework then, is that -- is that -- is that what you're saying?

CHIEF INVESTMENT OFFICER GILMORE: Yes, that's part of the framework. Yes.

COMMITTEE MEMBER PACHECO: And if we were to pass it in November, then it would -- this would be implemented afterwards, right, the whole -- that whole process?

CHIEF INVESTMENT OFFICER GILMORE: Yes. The idea is that we would go live from the first of July 2026, but, of course, we've got a lot of work to do in terms of preparing that. So we have currently established a lot of working groups in an anticipation. So we're not waiting until the decision in November. We're preparing in case -- well, on the expectation that the Board does approve this. So there's a lot of -- a lot of different workstreams that focus on things like governance, and focus on reporting, and focus on portfolio construction, collaboration, et cetera.

COMMITTEE MEMBER PACHECO: So the framework is being -- is being worked on right now then?

CHIEF INVESTMENT OFFICER GILMORE: Absolutely

COMMITTEE MEMBER PACHECO: Thank you. That's all my questions I wanted to ask for. Thank you so much, sir.

CHAIR MILLER: Okay. I'm not seeing any other requests. I will -- I would just comment that I really appreciated the quality of this presentation. I felt pretty confident that I understood where we were going and everything before this, but now I feel like I'm much more clear on kind of the nuts and bolts and what it will be looking like both from the Board and what we'll be able to provide in terms of what our stakeholders are seeing. And I really don't see this as like a drastic revolutionary change. I see this as more of an evolution or a refinement. It's additive. It adds more and better information. It allows management to make more transparent processes and decisions. We will see more. We will understand more what's going on. I think our stakeholders ultimately will as well. And it allows us to do that leveraging of these comparative kind of natural advantages we have on size, scale, pacing, relationships, and, you know, optimizing how we put our fantastic staff talent and talent management to use.

And so, I'm very encouraged, and I feel like I can actually articulate this to people that I come across, stakeholders, and others much better for having had this presentation. So, thanks to the whole team and the presenters today.

Oh, I see Dr. Rubalcava thought of something while I was jabbering away.

COMMITTEE MEMBER RUBALCAVA: Thank you, Chair Miller. Thank you for the presentation. The staff memo explains the -- I like the way it's written, enshrines -- I don't know -- sorry, but I like that word -- in terms of really -- okay, about getting better results and stable contribution rates from the employer and higher funding levels, of course, is a positive. But it also mentions, there's many approaches or a variety of ways to implement the total portfolio approach and this -- the recommended approach or process is this formal total fund risk. But what are the other methods to get there and why is this one recommended?

CHIEF INVESTMENT OFFICER GILMORE: I think the key goes to the Chair's word, this is an evolution rather than revolution. And some organizations will be very strict about a reference portfolio. Some won't even have a reference portfolio. Some will talk about a total portfolio approach, whereas others might not consider it to be a total portfolio approach. I think the key characteristics are that you think of the portfolio as a whole and there are different ways of doing that. You may not use a reference portfolio. You may. I think for us it makes a lot of sense, because there's that transparency that comes with it.

There's also a need to allocate capital to those places where it gives you the best risk adjusted return at the portfolio level. So you're optimizing for the whole portfolio. And I think also, people need to be collaborating with that view for the whole portfolio, rather than individual asset classes.

In reality, people are still going to feel ownership for their asset class, as they should, but they need to be thinking about how their individual portfolio contributes to the whole. So, there's a whole continuum of things people could do as they move more towards a total portfolio approach.

You know, in the extreme, you can have, you know, a reference portfolio with active risk. You can have -- it could be very strict. It could -- there are different ways of thinking about overall portfolio risk scenarios. I'm probably not being very specific, because I think it's one of those things where every organization that pursues this does it a little bit differently.

So, what we have done is we've tried to come up with something that makes sense for us. And we are proposing what makes sense for us. So if you think about the active risk limit, we're taking the existing discretion that the Investment Committee has given management and working with that, although we're not asking for as much as we currently have.

The reference portfolio we've come up with that, because it actually tracks our portfolio very closely through time. And it's an additional transparency. And another reason of course for having that is it shows, you know, the path not taken in the sense that if we only had a handful of people, that's a passive portfolio, we would have. And if you want to, you know, to judge the management team, you should be saying, well, have you done better than this very simple passive portfolio.

And I think, you know, that is really us, you know, justifying our existences. So we should either generate higher returns or lower risk, but better risk-adjusted return. So it becomes very clear. And this is a very transparent organization. And I think having that reference portfolio and active risk the way we're expressing it is consistent with that transparency. Some other organizations won't have the degree of transparency that we do, so they may take a different approach to a total portfolio.

COMMITTEE MEMBER RUBALCAVA: So under this managing as whole and you have a reference, you know, it's equity and bonds. And that's it, equity and bonds. No asset classes anymore. The term that I kept -- I keep hearing is resulting about cost of capital. So how do you determine the cost analysis or the opportunity cost, I guess, when things appear -- I mean, like, I think I've asked before, but the -- like infrastructure in private equity. I mean, we're assuming there's a commitment that that's growing, and that that's making a return to the -- to the -- to the portfolio as a whole. But how does that cost of capital work in these opportunities? How do you identify these opportunities? And given this reference portfolio, I mean, you have -- based on so many basis points to move away -- deviate, I guess, from the reference -- from the reference portfolio. But how does it actually work? I'm not quite -- when there is no asset classes, I mean, how --

CHIEF INVESTMENT OFFICER GILMORE: What -- it's a good question. What we do is we look at the sensitivity of all those asset classes to the reference portfolio components. So we'll look at -- for instance, you mentioned infrastructure. Well, look at how a typical investment infrastructure performs relative to some combination of equities and bonds. And in the past, we've showed -- shown that relationship is maybe similar to 60 percent equities, 40 percent bonds. And we've done that for all of the asset classes. So we've tried to get an approximation using those underlying reference portfolio asset classes. So our team has done that work.

Wilshire has also done similar work to try and proxy all of the asset classes we have. And it just so happens that our own analysis and Wilshire's analysis is very close. So once you've got that, once you've done that analysis, and it could be regression analysis. It could be other forms of analysis. Once you've got that, you've got the component parts, so you've got that combination of equities and bonds. You can then work out what the foregone return is, from not having those equities and bonds. And that gives you the basis for working out the required return on the investment. And as I said, if it's an illiquid asset, you're going to want something in addition, because you're locking up liquidity. That's how we basically get the required return. And it's a consistent approach across all asset classes.

In private equity, it will vary depending on the type of private equity. If it's buyouts, it will be different from -- or if co-investment, it will be different from venture or even growth. So we do that across the asset classes.

COMMITTEE MEMBER RUBALCAVA: Thank you. And thank you for mentioning the equity question, because it being a mature plan, we want to make sure that we have enough -- if there's liquidity enough to make the benefit payments. So thank you. Thank, Mr. Chair.

CHAIR MILLER: Thank you.

Controller Cohen.

COMMITTEE MEMBER COHEN: Good. Thank you very much. Good afternoon, everyone.

This is the question that I asked when we were in closed session -- or in our briefing, and I just wanted to put it out in the public. And I wanted you to speak to what the specific challenges were or the limitations of the SAA framework compared to this new framework that you're proposing. There were some things that you saw that you wanted to rightsize. And, yeah, I'll rest there. I have a few more questions after that.

CHIEF INVESTMENT OFFICER GILMORE: Look, I think the -- I think the biggest constraint with an SAA is mindset, because you end up having all these siloed or relatively siloed asset classes.

COMMITTEE MEMBER COHEN: Right.

CHIEF INVESTMENT OFFICER GILMORE: So there's that. There's also the fact that you go through and do the asset liability management exercise maybe every four years with an interim every two years, and it -- and you tend to get locked into it. That mindset also tends to have organizations clinging to the strategic asset allocation rather than using discretion around that. We use some limited discretion, but it tends to be -- tends to be fairly small in general.

Likewise, with an SAA, you tend to get a problem with asset class is optimizing for their own asset class. So you can have unintended, you know, concentration or you can have overdiversification. And conceptually, if you optimize for a whole lot of different assets classes, and add it all up, it's inferior to optimizing for the whole.

So, I would say, you know, those things all matter in terms of outcomes. And when we look at the performance of those organizations that take a total portfolio approach, they tend to outperform those that have pursued the historic strategic asset allocation.

I think it also depends on how the strategic assets allocation is implemented. You know, historically organizations may have looked at historical returns and outcomes and then construct the portfolios based on that. In more recent years, people are spending more time being forward-looking. But I think the Total Portfolio Approach, you're really looking at things in holistic way. You're going to be supplementing it with, you know, scenarios and you're testing whole of portfolio, rather than individual asset classes.

COMMITTEE MEMBER COHEN: Let me just do a quick follow-up to that, which is interesting. So we're going to be transitioning from 11 benchmarks into one, which sounds Herculean, but I'm sure you're capable

CHIEF INVESTMENT OFFICER GILMORE: I would have thought 11 is Herculean.

COMMITTEE MEMBER COHEN: Okay. But so I -- so the question really is is how are we going to -- how does this impact the compensation structure for the -- for our -- for the individual investment team? You know, they were -- they've been trained and conditioned to perform in their individual asset class. And now, it's like going from a team an individual support into a team sport.

CHIEF INVESTMENT OFFICER GILMORE: Well, it's all -- well, actually, it's already a team sport.

COMMITTEE MEMBER COHEN: Okay.

CHIEF INVESTMENT OFFICER GILMORE: But we're not really set up as well we could to be playing that team sport. So, the team members are compensated based on the whole portfolio, rather than the individual asset classes, but they haven't necessarily got the enabling conditions to play as well as a team.

So we're trying to improve those enabling conditions.

COMMITTEE MEMBER COHEN: Okay. My next question actually has to do with kind of the technology, the structure. Do we have the infrastructure needed to make this transition? Do we have the capacity? Do we have the human resources? Do we have what we need?

CHIEF INVESTMENT OFFICER GILMORE: I think we do, but of course we're always looking to improve the technology. And so that's why one of our big strategic endeavors is to improve the investment data and technology by modernizing it, by simplifying some of that. A big part of it is to try and improve that total portfolio view. So, that's ongoing.

COMMITTEE MEMBER COHEN: So is this like a new system that we're going to be purchasing to support this transition?

CHIEF INVESTMENT OFFICER GILMORE: We're doing that anyway. It will make it easier for us.

COMMITTEE MEMBER COHEN: Okay. And last question is I think I heard this in the -- in the presentation, but I just want you to reiterate it again, how frequently will the composition and risk parameters for the portfolio be reviewed and adjusted?

CHIEF INVESTMENT OFFICER GILMORE: Okay. Now, I'm expecting that formally, we will -- you know, the Investment team, the management team will go through and update its plans annually, but based on three-year horizon. So one of the really important things is that we have, you know, reasonable exposure to private markets and we expect that to be increasing.

And the private market teams need a planning horizon. They've got relationships to manage. You've heard four conversations around sort of consistency of those plans that are illiquid assets, so they can't necessarily change that frequently. So, there's a need to balance of that certainty of horizon and planning with a sufficient amount of portfolio flexibility. And the team came to the view that the right frequency was to essentially do this three-year planning exercise in terms of where we think we have the investment opportunities, but to update it every year. So it will be a rolling three-year plan every year.

Now, as far as the Investment Committee is concerned, when we talk about the strategy of course we will share the conclusions of our strategy discussions annually, and you will see reported every quarter the actual portfolio, in terms of the asset allocation and in terms of risk usage.

COMMITTEE MEMBER COHEN: Thank you. Mr. Chair, I have no other questions.

CHAIR MILLER: Thank you. And I'm seeing no other questions. And I will restrain myself from commenting ad nauseam and we'll move it along.

I think that brings us to the -- oh, do I have comments? Yes. I might have -- let me check. Yes, I do have a commenter on this, a public comment from J.J. Jelincic. I'll call Mr. Jelincic down. Welcome. And you've got the mic there.

J.J. JELINCIC: I though you were going to skip me again.

CHAIR MILLER: No. I'm -- I've got so much paper here I've got to shuffle through.

J.J. JELINCIC: I can appreciate that.

J.J. Jelincic, RPEA.

I've listened to the sales job, and -- but part of what has been missing, it really is an educational component. And this is a long-term practice that the -- at CalPERS. Staff gives the Board, at least going back to the '80s, all the information they need to make the decision that staff has decided you should make.

You're being offered an increase in return with no downside. If that was true, then you're saying that other fiduciaries are violating their duty, because they're refusing to pick up free returns without any risk. You have to wonder why you're taking the position that others are rejecting their fiduciary duty.

The TPA will offer less disclosure about where and how trust funds are invested and less -- because there will be less disclosure on the equity components. You know, what part -- what parts of the equity are you dealing with 75/25 is much more aggressive than the traditional 60/40, but we're already closer to that.

But let me point out it's not defined. Is equity small cap, large cap, S&P, all cap, U.S., Ex-U.S., world, and in what mix? Or maybe it's whatever combination staff happens to hold. Is fixed income T-bills, long-term treasury, mortgage-backed securities, CDOs, junk bonds, U.S., emerging markets, developed markets, or some undefined contribution.

What is the performance benchmark that's to be used to measure success? Is it 75 percent S&P and 25 percent T-bills or maybe a 75 percent Mag Seven and 25 percent private debt, or some other undefined asset.

Right now, the staff has $40 billion worth of equity discretion. They're using about 12 and a half billion of it. That -- interestingly enough, that has increased the expected return on the portfolio and the expected risk, but it does nothing to change the benchmark that they're being measured against in terms of collecting bonuses. Will they use more or less discretion if they don't have to expose where it's going?

You're adopting a 40-basis point risk limit. You're adopting it. I assume you understand what you're doing. I don't understand it and I'm hoping that one of my trustees can explain it to me, since your -- seem to be focused on putting it in place to manage trust monies.

Okay. No answer.

CHAIR MILLER: I think your time is up.

J.J. JELINCIC: RPEA is not taking --

CHAIR MILLER: Wrap it up.

J.J. JELINCIC: I'm going to try. RPEA is not taking a position on TPA, because we do not have enough information to make an informed decision. We -- it is not clear to us that our trustees have that either.

Thank you.

CHAIR MILLER: Okay. Thank you. Don't believe we have any callers on this one?

No. Okay. So at that point, we will move on to it looks like 5D, global fixed income annual program review.

(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: Thanks very much, Chair. I'll pass over to Arnie and the team.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Thanks, Stephen. Good afternoon. I'd like to start by welcoming Ms. Middleton back to CalPERS. Good to see you again.

So this year we're doing a little bit different. I have the actual folks that touch the portfolio on a much more daily basis than I do, and they'll be able to give some attribution on performance and go into some specifics on the sustainability and ESG also.

So with me this year on the far end I have David Bader. He leads our emerging market debt team. He built the portfolio from scratch when it was added as a asset class in the last ALM process. Next to David, I have Brian Parks. Brian works with Lou Zahorak on a daily basis really closely with the investment grade corporate portfolio. Next to him is Richard Fiebrandt. Richard is actually taking Justin Scripps position at the moment. You saw Justin in June with private debt. He's on a secondment with private debt. As -- I would characterize it even part of this TPA of pulling the asset classes closer together and understanding the public-private trade-off in the fixed income world. And then next to me, Todd Smith. Todd heads up our high yield effort. Also manages the PERS short-term investment fund, and was really close working with JP Morgan on the ETF that we recently seeded.

So, to summarize the -- so to summarize the past year, it's been a very solid year from both an absolute and a relative performance standpoint. Stephen had mentioned in the trust level review referenced the cone charts. Tom Toth in his letter, and I believe Tom will speak after us, referenced that all five of our segments are within expectations of the last ALM. And the cone charts, which are in the appendix, I don't plan to go through them today, but we can go to any of them you want, show what Tom was referencing there.

[SLIDE CHANGE]

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this slide here -- and Stephen, and Wilshire, and Lauren kind of covered some of it during the trust level review. But Wilshire noted in their review letter that as interest rates have moved higher over the last few years, the expected return of fixed income has increased, which boosts the utility of fixed income assets in a diversified portfolio. Fixed income assets have historically provided a long-term economic diversifier to equity exposure while providing a source of income and liquidity.

We manage nearly 170 billion in five distinct segments -- five distinct segments, U.S. treasuries, mortgage-backed securities, investment grade corporates, high yield corporates, and emerging market debt. As I mentioned, Todd runs our PERS short-term investment fund and we also run an opportunistic mandate.

We do position our portfolios through a long-term investment horizon lens. We take more risk when assets are cheap, which may not be today. And Tom mentioned earlier the high grades that Wilshire give us -- well, I guess he'll mention it after potentially. But his letter that went to you references the high grades they gave us for our strong process and teamwork. It is something we take a lot of pride in and we do appreciate Wilshire pointing that out.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So Lauren did cover some of the topics here on this slide. The first one, which is where I think it gets really interesting for us on a day-to-day basis is what we'll just call the valuation paradox. Yields are attractive right now. They have gotten to where a lot of folks consider them to be, you know, quite an attractive entry point. But when we look at credit spreads relative to U.S. treasuries, they're actually historically on the richer side.

And so, it appears, just given the performance of the market, that more people care about the yield than they do about the spread. But it is something we are cautious on in the assets that are not in U.S. treasuries.

The Federal Reserve -- so they have a dual mandate, maximum employment and price stability. And I don't envy them right now. It's a tough trade-off there. Lauren mentioned the employment side softening, but inflation has been slowed to come down. And so, we're going to continue to monitor -- monitor the inflationary and growth impacts of tariffs and the tax policies, which the tax side is expected to be a little bit stronger in 2026, so it will be something we continue to monitor.

U.S. consumer has been a growth engine for quite some time. We all hear the joke that nothing can ever keep Americans from spending. It has been strong. We are starting definitely to see some cracks at the lower income cohort. A little bit more pressure on their finances as some of fiscal post-COVID dollars that they got have maybe ceased to be in their bank accounts any more.

Geopolitics, we all know those can escalate quickly. The regional conflicts, the trade negotiations they all bear watch.

Federal Reserve independence. Fixed income, where our best case is we get what we're promised and it only goes down from there. A world that loses faith that our Federal Reserve is independent will potentially have an impact on our portfolio. So we are definitely monitoring that for its potential impact on not only the level of interest rates, but the shape of the yield curve.

Finally, U.S. Budget deficits. Again, a topic Lauren covered. Large deficits come with large U.S. treasury issuance. That large issuance can crowd out other forms of financing. And if it gets large enough, you've got to pay more to sell the bonds.

U.S. is not alone. We're seeing similar issues in the UK, and France, and other European countries also.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this slide just kind of summarizes the mandates in global fixed income. We represent about 30 percent of the fund. We've added about 600 million in dollar value-add in the last five years. A little more than three-quarters of our assets are internally managed, and the majority of those assets are actively managed.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: This slide, again we talked a little bit about the strong absolute and relative performance. The passively managed U.S. treasury portfolio was up about three percent this year, but the four actively managed portfolios were up between six and a half to over nine percent. All four actively managed portfolios outperformed their relevant benchmarks by 18 to 32 basis points. So at this point, I thought I would turn it over to each of them to go through a little more specific performance on the non-U.S. side -- non-U.S. treasury side since that's past it will go through the other four segments.

And I guess we can just go down the line. Todd, do you want to go first.

INVESTMENT MANAGER SMITH: Sure. I thought we were going in the order we were up there, but, you know, that's fine. Just take it as we go here. So, good afternoon. Todd Smith, Global Fixed Income.

As noted on the previous slide, the high yield is one of our areas that does have some passive. It currently is 90 percent active and 10 percent passive. But I wanted to highlight that when you're looking at the five year returns up there, three of those years it was actually kind of the reverse. So it's really been over the last two years that it's been predominantly active. Prior to that, it was 85 percent passive and 15 percent active.

And if you look at some of the performance analysis in the appendix, on slide 23, you can see that the majority of the alpha in this segment over those time periods have really come in the last 18 months to two years. Thank you.

[SLIDE CHANGE]

INVESTMENT MANAGER SMITH: I wasn't going to turn there, but that works. So, you can kind of see that it really kind of started kind of around December of 23. So during that two-year period when the program was much more active is when we started to generate some excess returns.

And that's kind of where I want to turn next is that one of the -- as Lauren mentioned earlier, back in April, we had a significant sell off event for risk. And that is actually where our high-yield managers actually did a fantastic job, because usually, as Annie mentioned, just a few minutes ago, high yield -- or fixed income returns can be somewhat asymmetrical. That's especially true in high yield. So when you have a sell-off, it's usually particularly difficult for managers to outperform. But every single one of our managers actually generated excess alpha during that time period. And that's really where most of the alpha was generated in the portfolio this year.

Spreads basically ended the year pretty much where they started. So really, what they did was they managed to position themselves well for that sell off, and generated some excess returns, and was able to hold on to it generating 18 basis points of alpha for the current year.

So with that, Richard.

RICHARD FIEBRANDT: Thanks, Todd. Richard Fiebrandt, Global Fixed Income. And I'll cover the mortgage-backed securities segment.

So focusing on the one-year returns columns, we can see that both the total return and the excess returns for the MBS segment were quite strong this past fiscal year. Total return for mortgage-backed securities was 6.86 percent for the year, while active returns versus the benchmark were 28 basis points.

Mortgages came into the fiscal year at quite compelling valuations with pressures from the aggressive rate-hiking cycle, as well as a hangover from the Silicon Valley Bank asset sales weighing on the sector.

So starting elevated MBS yields combined with muted and declining interest rate volatility, tighter spreads and shorter data treasury yields declining approximately 100 basis points during the fiscal year led to strong performance for the asset class. The MBS portfolio is almost all managed internally. Only 28 basis points of outperformance versus our benchmark was primarily driven by an active relative value trading and security selection within agency mortgage-backed securities.

Further, we've been modestly increasing exposure within securitized credit. That's all I have on MBS and I'll turn it over to Brian Parks for investment grade.

INVESTMENT MANAGER PARKS: Thanks, Richard. Brian Parks, Global Fixed Income, and I'm going to touch on investment grade corporates, which we manage 100 percent internally on an active basis. So just taking a look back at the prior fiscal year, the portfolio delivered a strong absolute and relative performance, as you heard from Arnie earlier. Our one-year absolute total return was 6.48 percent, which was driven primarily by elevated bond yields, which generated strong current income for the portfolio and the combination of lower credit spreads, which generated positive marked to market gains for the portfolio.

On an active basis, the portfolio returned plus 31 basis points of performance relative to our index, which works out to approximately a hundred million dollars of dollar value added. In terms of how that active value was generated, it was primarily security selection. The portfolio was overweight some of the strongest performing issuers and companies in the index and were underweight some of the weakest performing companies in the index. In addition, our portfolio also took advantage of the sell-off in April to add risk at attractive valuations.

Overall, I would say the past year's performance reflects the strength of our fundamental credit research, our active management approach, and a market where we're seeing increased dispersion of winners and losers.

Lastly, it's worth noting the portfolio was overall defensively positioned and underweight credit risk through the entire fiscal year, which makes, you know, the absolute and relative performance even more meaningful.

And with that, over to you, David.

INVESTMENT DIRECTOR BADER: Thank you, Brian. David Bader. I head the emerging market debt program. It's a pleasure to be speak with you today. With respect to the 2025 fiscal year, the emerging market debt program generated a positive total return of 7.9 percent, which includes 32 basis points of excess return above our policy benchmark. Over the course of the year, emerging market spreads narrowed to near record tight levels due to largely ongoing improvements in fiscal positions and overall sovereign credit quality, particularly in lower rated credits.

That said, spread compression wasn't ubiquitous throughout the year. There was two notable spread widening events. The first in August following a change in the Bank of Japan's monetary policy stance and weakening U.S. data. And the second caused by the uncertain surrounding U.S. trade and tariff policies in March and April.

Nevertheless, our investment results benefited from the combination of positive issuer and security selection, as well as a spread carry advantage, owing to a high proportion of high yield securities in the portfolio relative to the policy benchmark. While the overweight to high yield detracted from performance to a certain degree during the two episodes of volatility. The decision to hold our overweight to risk ultimately proved beneficial to the portfolio.

Finally, I'll briefly note, and I think this is on the previous slide, but our relatively short two and a half years since inception period, the emerging market debt program has generated an annualized 34 basis points of excess returns, which equates to over $240 million in dollar value-added contribution to the PERF. Since inception, our internal portfolio generated 33 basis points of excess return, while our external managers delivered 73 basis points, net of fees.

The value contribution from our external partners goes well beyond portfolio performance. When we hired our external managers, we were deliberate in not only hiring best-in-class managers, but also those with very unique investment styles. We are partnering with some of the brightest minds in emerging markets to leverage their deep resources and to enhance the returns of the internal portfolio, and the overall program, which has resulted in very strong risk-adjusted performance to date.

Overall, I'm very proud of the hard work our team has put into building the EMD program, and the results we've been able to generate so far for our beneficiaries.

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MANAGING INVESTMENT DIRECTOR PHILLIPS: Sorry. Looking back at the last year, so we've had a few conversations about the high yield ETF that we provided seed capital on with JP Morgan. I think one thing that has been lost so far in the press, and especially when you hear us talk about valuations being on the tighter side, is the portrayal is that we added new money to this. It was an allocation from an existing high yield mandate and we believe, given where spreads are at and the volatility, that the ETF gives us a chance for outperformance going forward, but the portrayal has been that it was new money and that was not the case.

We've also done quite a bit of cross-asset class collaboration. And I think as we consider TPA, it's extremely important -- you've heard Stephen said it many, many times. We already talked about Justin Scripps secondment to private debt. I will selfishly say, you know, Justin is one of my best people. And so from a pure fixed income hat, it wasn't the top of things I was looking forward to do. But when you take your asset class hat off and look at what's best for the total fund, it was a no-brainer.

And so, we've continued to do that. We worked with the private debt team on an insurance-linked securities investment and also on some investment grade opportunities that were partnered up with private debt options that they had. So continuing to kind of blur that line between public and private fixed income, while making sure we don't run afoul of any MNPI or anything like that. So Amy's team has been very helpful to make sure we stay in the proper lanes.

Also, you know, as we move to more and more privates, the liquidity work is paramount. I've said it before up here. I think it's quite possibly the best thing we do in the Investment Office at the moment, extremely collaborative, and my treasury team and my mortgage team are both highly utilized by the centralized financing desk for liquidity, leverage and things like that. And so the collaboration there is just a must and it works really well.

And then last thing, we've spent a lot of time on staff development and culture building. And succession planning is a big deal. And, you know, our fixed income team was once probably twice the size it was, and so we had a lot more bodies, and we have a lot fewer bodies now. I think they're all extremely high quality, and just ensuring that if we have a departure, we have very capable people behind has been a focus of ours in the last year.

What can we get better at?

Stephen mentioned a little bit of it. You know, strategy redesign. When I started here 30 plus years ago, we had a single portfolio. We went wherever relative value was at. Fast forward to 2017, our funded ratio was in -- was in a different position. We were concerned about equity drawdown. And some of those tools were taken away to ensure overall total fund stability. With a new sheriff in town, we're looking at putting some of those tools back in that tool kit. So, I would say David's emerging market debt team is the furthest along in doing that, but we're looking at it in all the segments.

Data and tech, all Investment Office folks are heavily involved in the data and tech modernization initiative, but we do a lot of work within our team also to manage data and everything else. And so that will continue.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So looking ahead, we are as -- kind of in that strategy redesign, we're exploring value-add strategies and mandates in all the segments. We're reviewing potential external managers, for the investment grade corporates, high yield and mortgage-backed securities area as well, onboarding external managers in the emerging market sovereign bond area.

And then we continue to collaborate with Peter's SI team to assess and evaluate investment opportunities, to support the 2030 goals, and to further ESG integration.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So as we talk about sustainability and governance, I've said it pretty much every year, but I kind of feel like it almost, after a while, loses its effectiveness, but it really is business as usual for us in the last decade. And with Peter's team now being fully staffed, we're really starting to leverage the integration work that they can help us with to get things -- he mentioned that a potential technology product that could highlight companies that have things going on on labor. We're working a lot closer with Drew's team on the corporate governance side.

So I think it's something we've cared about, because it ultimately matters to fundamental analysis, but we as an Investment Office, I think, have gotten a lot better at it. And I think we're benefiting from it within fixed income. We were the first team to get all external managers to attest compliance with the Labor Principles and we've always utilized ESG questionnaires with our external managers. But I feel like that's kind of high level, and we probably could benefit from getting into the weeds a little bit. So I've asked David and Brian to maybe share some of the specific work they're doing with the portfolios in the investment grade portfolio and the emerging market debt. So whoever wants to go first.

INVESTMENT DIRECTOR BADER: Thank you, Arnie. Sure. So just to give a little bit of insight into how we look at ESG within emerging markets. You know first and foremost, we evaluate a country's willingness and ability to service this debt, and based on both quantitative and qualitative metrics. Those factors include macroeconomic, political and ESG based metrics. The analysis of environmental, social and governance factors has always been long central to the fundamental view of sovereign credits, in particular, social and governance scores are often correlated with higher ratings and tighter credit spreads.

And we generally see that in more developed economies with higher social indicators and stronger institutions. In the EMD program, we utilize a variety of sources and tools to monitor ESG developments over time, focusing on political and social rankings, such as governance indicators from the World Bank, social indicators from Freedom House, Greenhouse gas emissions data from EDGAR. These indicators include, among other factors, energy sustainability, civil liberties, freedom -- personal freedoms, voice and accountability, control of corruption, and rule of law.

We also use labor rights grants to look deeper into labor-related data from various sources, including the ITUC Global Rights Index and the Labor Rights Index. These screens include numerous labor topics, including fair wages, decent working hours, employment security, safe work, fair treatment, child and labor and freedom of association.

In addition to the fundamental ESG analysis that underlies our investment process. Pardon. And so in addition to the ESG analysis in our investment process. We also consider ESG labeled bonds that include green, social, sustainable and sustainability linked notes. These securities are analyzed against conventional policies to assess the relative.

Currently, the internal portfolio holds nearly a two percent overweight to ESG-labeled bonds relative to the policy benchmark. Finally, I would note that in less developed countries, we are often investing alongside international organizations, such as the IMF and the World Bank. These investments run parallel with their missions to promote global stabilization initiatives, which foster domestic social and economic activity and stability in these countries.

In a world where sustainability and stability are increasingly intertwined, commitment to integrated ESG principles and to emerging market analysis not only drives smarter investments decisions, but also fosters a future share of prosperity, resilience and progress for all.

INVESTMENT MANAGER PARKS: Brian Parks from the investment grade corporate portfolio. Just, you know, a bit of update on our ESG integration work and to review the history ESG integration has been a central tenet of our fundamental credit research process. We have a quarterly process where we screen our portfolio based on analyses put together by the credit rating agencies reviewing the potentially worst performing companies in the portfolio on various ESG criteria. And it's also something that we consider when we underwrite new investments in our existing portfolio.

What we really wanted to highlight today is our increased collaboration with the Corporate Governance team. And that's really increased, as we've taken steps to increase communication and coordination between our two teams to ensure that we're in touch on key issues affecting companies in our portfolio.

For starters, this past year, we shared our credit research coverage list with the team in corporate governance to make sure the right people were connecting with each other. And as a result, there's been a number of engagements over the year that I'd like to just quickly highlight.

On the subject of labor, our team collaborated with corporate governance on labor relations issues at Uber, as well as the 2024 Boeing machinists union strike, which was an extremely important issue facing the company. It's supply chains. It's production and it was a company that we were heavily invested in in the portfolio.

On the subject of the environment, our team joined an engagement with corporate governance with AT&T on their lead wire remediation issues. We also held a joint session with S&P and the corporate governance team on sustainability topics in the utility sector, and then also collaborated on EV strategies in the automotive sector.

And then lastly, trying our attention to the energy space, our team joined with Corporate Governance on engagements with executives at Phillips 66, ExxonMobil, which included a due diligence visit to the -- to an ExxonMobil facility and also our Corporate Governance colleagues connected our team with the methane finance working group co-led by PIMCO, which our team subsequently joined.

And that concludes my remarks. Back to you, Arnie.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Chairman Miller, those are our talking points. I know Wilshire also has comments. I don't know if you want to ask questions of us first then go to Wilshire after or you want to hear from them know. However you'd like to proceed.

CHAIR MILLER: Yeah. Why don't we have Wilshire come up and then we'll do all the questions at once. How does that sound, because they might answer some of our questions.

Welcome again, Tom.

TOM TOTH: Thank you very much. Good afternoon. As the scoring at the end of our opinion letter shows, Wilshire's qualitative assessment places the global fixed income program in the third decile overall and second decile in isolation. Just for -- to be very clear, those are very strong scores in both cases. This year, that includes a modest increase in the team component of the score, with some additions around credit research and the emerging market debt program.

The program consistently demonstrates strong scores in portfolio construction and implementation, which has generated consistent, positive active returns versus the program benchmark as the exhibits which the team share just showed.

Overall, the score highlights the experience team and their success in managing the portfolio with a focus on risk control over extended time horizons. The investment approach remains consistent with the key strategic objective of providing income, stability, and equity risk diversification within the total fund. I thought it might be useful to point out that going forward the role in portfolio construction under TPA could lead to higher correlation -- correlations of excess return with equities, i.e. when equities do well, the credit risk parts of global fixed income also do well -- and Member Willette actually you asked that question earlier.

And this is a risk that will be monitored as part of the overall broader portfolio construction process under TPA, so something that is being paid attention to and will be going toward.

So with that, I'll stop and see if there are questions for Wilshire or I can turn it back to Arnie and team.

CHAIR MILLER: Okay. Any questions for Wilshire? President Taylor, was your question for Wilshire or the team?

COMMITTEE MEMBER TAYLOR: The team.

CHAIR MILLER: Okay. Not seeing any, so thanks for that, Tom.

TOM TOTH: Great. Thank you.

CHAIR MILLER: Okay. And so, our first question for the team -- and again, thanks for the presentations. And it's really good to see so many of the team here and hear about all the fine work that everybody is doing and the rest of the team just behind the scenes. This continues to be one of those things where, you know, we really do have the ability to count on our team as one of our real strategic advantages -- comparative advantages to -- that we want to build on and that our stakeholders are counting on. So really appreciate hearing from them.

So President Taylor.

Try it again.

Third time's a charm.

There it is.

COMMITTEE MEMBER TAYLOR: So, thank you very much, you guys, all of your reports. I always get stuck on the seed capital to the EFT. That's not the only one, right? I mean, there's a bunch of stuff going on. That was big thing that you brought to us a couple times.

Oh, you turned it off.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Sorry. That one has been public in the press. And so -- and we had a few updates over the last year, but it's the first active high yield ETF. They tend to be passive. And so, it fits in with our overall active high yield strategy. We just felt it ultimately added the ability to potentially capture some of the volatility going forward in the world.

COMMITTEE MEMBER TAYLOR: And I appreciate that. And we are looking for more active opportunities, I assume, of course.

MANAGING INVESTMENT DIRECTOR PHILLIPS: (Nods head).

COMMITTEE MEMBER TAYLOR: So I wanted to kind of get into -- and I wasn't going to ask any questions at first. The sustainable investments, integration of governance and sustainability. So went through a bunch of stuff you were talking about. And I guess I got a little -- so, you -- you're collaborating on issues including labor rights. You use an internalized ESG risk screen based on rating agency scores, and you've implemented that. What does that exactly mean?

INVESTMENT MANAGER PARKS: So, we rely on Moody's and Fitch, which publish on a quarterly or semi-annual basis, updated ESG scores, which we then consolidate into, you know, various analytics and we review the worst performing issuers and companies in our portfolio. And we'll then, you know, meet once a quarter and talk through why we're seeing downgrades on those key ESG scores and also if new investments are added to the portfolio. We'll review those scores to make sure that, you know, we're on top of, you know, the potentially worst offenders in the portfolio and in our index.

COMMITTEE MEMBER TAYLOR: So how many meetings have you had based on that?

INVESTMENT MANAGER PARKS: Just once a quarter.

COMMITTEE MEMBER TAYLOR: So it's with -- but I mean, how many companies numerically. I don't need you to name the companies obviously.

INVESTMENT MANAGER PARKS: This is an internal meeting. And our current focus list is approximately 15 to 20 companies.

COMMITTEE MEMBER TAYLOR: Okay. And then you mentioned the questionnaire and the integration, and that you had met with a couple of companies that were poor performers, I think, that you engaged with, so -- and this is a new -- is this new for you guys? Is this not something you used to do?

INVESTMENT MANAGER PARKS: Many of these engagements were led by the Corporate Governance team. And so, really when these sort focus issues come up, and they're affecting both the credit and the equity portfolio. You know, they were bringing us in to join, you know, the engagement work and hear directly from the companies how they were handling these issues.

COMMITTEE MEMBER TAYLOR: Okay. So these issues were brought forward, and I'm going to assume like they usually are, through some sort of press or somebody engaged with our sustainability group and said, hey, this is going on.

INVESTMENT MANAGER PARKS: Correct.

COMMITTEE MEMBER TAYLOR: I think you mentioned something with the airlines or --

INVESTMENT MANAGER PARKS: The Boeing strike.

COMMITTEE MEMBER TAYLOR: The Boeing strike, which was three years ago now. Was there something more recent?

INVESTMENT MANAGER PARKS: It was in 2024, the Boeing machinists union strike.

COMMITTEE MEMBER TAYLOR: Oh, I thought that -- I thought you said '22. Okay. Was this something more recent though? I think you -- one of the things you mentioned was more recent.

INVESTMENT MANAGER PARKS: Yeah. I mean, so there are a few topics. So one AT&T was dealing with their lead wire remediation issues in Lake Tahoe. That came out in the summer of 2024. And so there was a focal point of engagement on understanding how those are going to be removed. And then more recently, our energy analyst went on a site visit tour of an ExxonMobil facility to understand, you know, various issues affecting that potential facility. I'm not a hundred percent versed on the nature of that. I'm sure Peter and the Corporate Governance team could opine a bit better.

COMMITTEE MEMBER TAYLOR: I think that was to find out whether or not they actually were doing what they said they were doing for clean energy, as I recall, for that particular investment, because that's what we're -- one of the reasons that we're listing them on our Climate Action 100 plus, Exxon, because they have this particular investment.

So other than that, and do any of these issues -- do you guys -- you get these scorings and that sounds very scientific and removed, right, that you -- kind of then you engaged. Do you guys actually engage with the company and say, hey, these scores are pretty bad, what's going on? Do you find out exactly what it is specifically that have gotten these scores down?

INVESTMENT MANAGER PARKS: That's correct. So we do go through a process of trying to understand why the scores have deteriorated and then collectively as a group we decide whether or not the change in the score is relevant to our underwriting of the credit, and if we think it's appropriate to potentially reduce our investment exposure in that particular issuer. But in terms of direct engagement with the companies, that's not our purview. So our job is to, you know, put the money to work in the portfolio and, you know, we are -- the Board doesn't have any fiduciary duties to their bond holders. It's to their equity.

And so, the best we can do from a credit perspective is to choose not to investment in these companies if we determine that the ESG issues are of such a important degree that we don't want to be involved.

COMMITTEE MEMBER TAYLOR: Has anything come up in particular?

INVESTMENT MANAGER PARKS: I would say, you know, in terms of our work to date, the most important thing that we kind of came to the conclusion was that we were extremely comfortable that the Boeing strike was going to get resolved in a manner that was going to get production back online and ramped up relatively quickly.

And so, you know, once we sort of came to that conclusion, it became one of the single largest overweights in our portfolio.

COMMITTEE MEMBER TAYLOR: So that's the one that comes to mind was that one.

INVESTMENT MANAGER PARKS: The most recent.

COMMITTEE MEMBER TAYLOR: Okay. So you also mentioned that political stuff comes -- is taken into consideration. Could you go over that again, what that specifically was?

INVESTMENT MANAGER PARKS: Can you clarify?

COMMITTEE MEMBER TAYLOR: You said something about political holding -- or not holdings, but standings. And you went over it really quick. It was part of your presentation, something about politics

INVESTMENT MANAGER PARKS: Yeah. No.

CHAIR MILLER: I think it was geopolitical the word came up.

COMMITTEE MEMBER TAYLOR: It could have been geopolitical, but exactly what was it, do you remember?

MANAGING INVESTMENT DIRECTOR PHILLIPS: That may have been me and overall market concerns. Certainly --

COMMITTEE MEMBER TAYLOR: I don't think so, but that's okay. Yeah.

MANAGING INVESTMENT DIRECTOR PHILLIPS: No. Okay. Maybe, David, did you hit it in the --

COMMITTEE MEMBER TAYLOR: Well, I think it was part of this whole ESG factor, is that polit -- something political was in it. And I was trying to figure out what exactly would be something in our fiduciary duty that would --

INVESTMENT MANAGER PARKS: I would say probably the most important political issue that, you know, affected the portfolio over the past year was just the implementation of tariffs on Liberation Day and positioning the portfolio, such that we were defensively positioned going in. And, you know, as credit spreads widened materially in the sell off in April, we took that opportunity to add risk to the portfolio.

COMMITTEE MEMBER TAYLOR: Okay. That's what I -- and if you want to go over the geopolitical again, that's fine.

MANAGING INVESTMENT DIRECTOR PHILLIPS: No, I just wanted -- I think this collaboration with Drew's team on the governance side has been a big improvement. As bondholders, as Brian pointed out, we don't have a vote, but we do have a lot of dollars. And the coordination with Drew's team does have the direct line to these companies has been helpful in Brian's example with Boeing to get in front of them, understand the issues and position our portfolio accordingly.

Without the direct work with Drew's team, we would be using whatever we see in research reports and others, but this allows us a direct channel that just isn't as direct with us being bondholders. And so, leveraging the full CalPERS balance sheet has -- we have found has benefited our ability to get information and position our portfolio accordingly. So from standpoint, you know, the work that Peter's team has done to integrate this, but really pulling us together with Simiso's team and Drew has been extremely helpful.

COMMITTEE MEMBER TAYLOR: And we do appreciate that. It's a pretty good presentation. I think -- and I don't want to, you know, harp on anything. I think you guys have done a really good job here trying to implement some of the stuff. So, the labor strike, just real quick, did that -- did that resolve?

INVESTMENT MANAGER PARKS: Yes, it did.

COMMITTEE MEMBER TAYLOR: Okay. You said you thought it was going to come to resolution. I just want to make sure. Additionally, have -- has anyone thought about -- I mean, besides maybe not investing next time or not increasing the amount you're going to invest or bonds that you're holding, have you guys decided to, at any time when you're looking at the Labor Principles or any of these ESG principles, that they're -- and a company may not be biding by them and you're -- it's a tough fight with Drew and Simiso's team, or whatever, right, besides, gee, we're not going to give you "X" amount of dollars this time, have you guys thought -- does it -- do you take it any further? Is it a, oh, well, you know what, we're going to hold off now on your new bond that you're trying to sell us, or whatever?

MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah. And a lot of it is trying to determine if we're getting compensated for the risk and Labor Principles, overall governance, they're a risk. And if we feel like the company isn't taking it serious and the spreads that we can deploy dollars at are not reflecting that risk, we will be positioned accordingly.

In this case, we got comfortable with the outcome was going to be resolved. The bonds were trading cheap. It became one of our larger positions and it -- and a profitable one. I guess we'll never know if, you know, we would have had a smaller position had we not had Drew's ability to help us out, but everything for us comes down to conviction. And the more we are convicted that we understand a situation, the more we're willing to deploy.

And so I have to think having access through Drew's team, that the conviction could be negative conviction at some point, but any additional information -- we are always trying to get from 73 percent conviction to 74, to 77, to 81.

And so, any access point we can leverage to hopefully get something we don't currently have will help that conviction level. Then it's just a question of whether we feel the market is reflecting the risk or the lack thereof.

COMMITTEE MEMBER TAYLOR: Yeah. Somebody said that early, whether the market is pricing it in. And I'm not sure the market ever prices it in, unless folks get involved first.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah. And that's even the paradox I talked about. When, you know, you look at spreads to risk-free assets, they historically don't look cheap, but they keep going richer, because a lot of people in the world don't care about spread. They care about just all-in yield. And so yields are attractive. And so, that trade-off -- and at some point, you know, the other side might start winning and we'll get a different outcome, but that's, in essence, what you have us here for is to try to gauge that risk and determine if we're getting compensated for the positions we're put on.

And that NTPA should be even a stronger relative value, because we can invest anywhere in the capital structure from equities, to bonds, to T-bills if we don't like anything. So -- so that -- looking at it from a total lens, and now we have the ability to also do private debt. And a lot of the same, you know -- especially on that -- the asset-based financing side, a lot of the same consumers are showing up in public markets and private markets. And for us to determine whether we're getting loan covenants or structures that are beneficial, are we getting compensated for liquidity all that allows us different parts of the capital structure and the market to deploy.

COMMITTEE MEMBER TAYLOR: I do appreciate the improvement, because this was a totally different presentation than a couple meetings ago, so thank you very much.

CHAIR MILLER: Okay. I'm not seeing any other requests to speak. Again, thanks to the team. Thanks for the expertise and all the hard work. And good results.

So that brings us to global public equity and Simiso. I thought I saw Simiso down there. Oh, there he is.

(Slide presentation).

CHAIR MILLER: You have the floor, sir.

MANAGING INVESTMENT DIRECTOR NZIMA: Good afternoon, members of the Investment Committee. Simiso Nzima, I CalPERS staff.

I'm excited to be here today with some of my colleagues to present the Global Public Equity annual program review, on behalf of the 28-person Global Public Equity team. CalPERS Investment Belief number 7 says CalPERS will take risk only where we have a strong belief we'll be rewarded for it.

In November 2022, the Global Public Equity team sought and received authorization from the Investment Office's Total Fund Management Committee to restart taking active risk in public equity markets based on our strong believe that we'll be rewarded for it.

In today's presentation, we'll show that the global public equity team has been increasing its use of active risk and in alignment with Investment Belief number 7, we're being paid for it. During last year's annual program review, Director Ruffino said we should keep on bringing the good news of our public equity portfolio outperforming it's benchmark. I'm happy to report that we're back. We're bringing good news again. Our publish equity portfolio outperformed its benchmark this year, the same as last year.

As you'll hear from my colleagues, the global public equity portfolio generated $800 million of dollar value-add in the past 12 months alone and $1.5 billion of DVA in the past three years. These are additional dollars over and above the benchmark return that go into paying benefits to CalPERS beneficiaries. While these are great DVA numbers, we're only in year three of our five year plan of increasing active risk in public equity portfolio.

Our goal is to build a public equity portfolio that can generate sustainable DVA and stay true to Investment Belief number 7 that is we get rewarded for the risk we are taking.

[SLIDE CHANGE]

INVESTMENT MANAGER LEUNG: Thank you, Simiso. Good afternoon. I'm May Leung, CalPERS team member. In today's presentation, I would like to touch on three things, the role of global public equities, key themes from today's market environment, and how we have positioned the portfolio in recent years to create more opportunities for alpha and dollar value-add. The role of GPE is to provide growth exposure and liquidity by delivering equity-beta exposure in a risk and cost aware manner.

As of June 2025, AUM stands at $215 billion, which includes 82 percent in the cap-weighted segment and

18 percent in the factor-weighted segment. Sixty-eight percent of our assets is passive, 32 percent active. The program is highly cost effective as we internally manage all of our passive funds and a sizable portion of the active funds. Eighty-nine percent of the portfolio is internally managed and 11 percent externally managed. Our approach is guided by our core beliefs including a long-term horizon, prudent risk taking, and effective execution.

[SLIDE CHANGE]

INVESTMENT MANAGER LEUNG: So while we won't be diving into the details on the market environment, I would like to highlight key things that are top of mind for us. Volatility remains driven by geopolitical and policy uncertainty. Elevated valuations are another source of volatility, but not a deterrent in our view. Market gains continue to be concentrated in the narrow sets of companies, particularly those linked to artificial intelligence.

Regional dispersion is likely to grow, given the U.S. dollar's path and diverging policy rates. We remain mindful of the market concentration and bifurcation, but believe that the backdrop continues to be supportive of the U.S. large cap, which has been a source of optimism. So while the current market can be more vulnerable to shocks, it is important that we remain invested through the short-term volatility and strategically pursue active risk. From an active management standpoint, greater volatility creates richer opportunities through dislocations and dispersions. And we will continue to focus on active management in the less efficient markets.

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INVESTMENT MANAGER LEUNG: GPE portfolio represents 39 percent of the total fund, close to the mid-cycle ALM interim target. Within GPE, the cap-weighted segment accounts for 82 percent and factor-weighted 18 percent. We are slightly over the cap-weighted segment, but remains well within the policy bands.

[SLIDE CHANGE]

INVESTMENT MANAGER LEUNG: So a key effort in recent years has been prudently rebuilding active risk, as Simiso mentioned. And we believe that active management can and does deliver alpha over the long term, by exploiting market inefficiencies, which requires skill, discipline and strong governance. This effort leverages our breadth and scale, favorable economics, experienced team, disciplined manager selection, and effective portfolio design. Historically, GPE reduced active risk in 2019 under the total fund direction.

In November 2022, GPE sought and was granted the approval by the Total Fund to reintroduce active risk after making a case that the team has the capability to generate alpha from active risk taking. Since then, over the past three years, active equity's allocation has increased from eight percent to currently 32 percent. That was a result of deploying a total of $33 billion of new allocation into active strategies over the past three years, a substantial commitment of resources and efforts by the team.

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INVESTMENT MANAGER LEUNG: Increasing our allocation to active equities has had a direct impact on alpha generation. In the past three years, since reintroducing active risk, results has been very encouraging. While the history is short, we strongly believe that it reflects prudent risk taking rather than luck. The left side on the chart is the rolling three-year average allocation to active equities from fiscal year-end 2202 to fiscal year-end 2025.

The right side is the active equities dollar value-add, or DVA, which is the alpha above benchmark in dollar terms over the same time period. The data shows that increasing active equities allocation by 2.2 times, corresponded with a 2.3 times increase in DVA from the active part. We're not suggesting a one-to-one relationship, but the directional link is clear, when implemented effectively, active risk and alpha go hand-in-hand.

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INVESTMENT MANAGER LEUNG: Now, that I have walked you through our past three-year journey of rebuilding active risk and demonstrating its efficacy, I would like to turn your attention to GPE's overall performance. Over the past five years, GPE has delivered 13.2 percent annualized total return, outperform the benchmark by 25 basis points, and generated 2.39 billion in DVA. The most recent fiscal year was particularly strong. GPE Delivered 16.8 percent total return, outperformed the benchmark by 45 basis points and generated 804 million in DVA.

These results highlight two things, the importance of maintaining active allocation and the tangible value CalPERS staff have created through discipline, manager selection, and effective portfolio design.

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INVESTMENT OFFICER TRACY: Good afternoon. I'm Hailey Tracy, CalPERS team member.

So as May shared with you, over the last few years, we've been focused on rebuilding active equities. And now, I'd like to take you a step further and talk about how those efforts have translated and added value. So this first slide shows how staff decisions have added $1.5 billion in added value over the three-year horizon. And this was selected to align with the reintroduction of active risk that May covered earlier.

And one point that I want to emphasize is that this figure reflects value-added in excess of the benchmark. You may recall we presented a similar slide last year showing these four core components conceptually. And this year, we prepared an analysis to quantify the impact of each component. And I'd like to focus on the primary drivers of this value, which are portfolio construction, and manager and strategy selection. These dimensions are tied to our active book, and together account for nearly 80 percent of the dollar value added shown.

And these dimensions are interconnected. So I like to think of it as solving a puzzle. So, selecting each strategy is like a unique puzzle piece. But having the right pieces isn't enough by itself. It's about how you fit them together in a complementary way that matters, and that's where portfolio construction comes in. And so together, we can create a sum -- or a result that's greater than the sum of its parts.

And the global public equity team is focused on continuous improvement to add value and manage risks. So over the last few years, the team has worked to improve quantitative and qualitative inputs to evaluate strategy profiles and manager skill. And importantly, this is an iterative process. So moving forward, we expect to make incremental improvements focused on strengthening our toolkit and automating processes to free up staff time to allow us to focus more on value-add workstreams. And in turn, this will help us solve that puzzle more effectively.

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INVESTMENT OFFICER TRACY: This slide highlights performance for the CalPERS active equity's book, which represents only a portion of global public equity's total assets. But before diving into performance, I want to take a moment to step back and talk about the why and how behind our pursuit of active management.

So at its core, active management is about delivering value over the long term by exploiting market efficiencies. And so to outperform the benchmark, you have to different from it. But being different doesn't guarantee outperformance. It means there's to be periods of underperformance as well. So understanding this, it's important to think about our long-term horizon and our ability to withstand short-term volatility. And our active book's track record reflects a balance between consistency and magnitude. And so by that, I mean that despite some inevitable down periods, the overall benefits we've captured from active management have outweighed the impact of occasional losses.

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INVESTMENT OFFICER TRACY: So with that in mind, I would like to turn to the results of the active book. So the punch line here is that the active book has delivered strong risk-adjusted returns net of fees overall horizons. And I'd like to highlight the strength of the information ratio shown here, which measures how much excess return is generated relative to the risks taken to achieve it.

So a higher value is indicative of consistent risk efficient outperformance with 0.5 widely viewed as an interactive threshold. And I'd like to highlight that here you'll see our active book's ratio has exceeded that threshold. And I think that's evidence of the team's progress and disciplined approach in rebuilding active equities. And so to kind of cover the how we're approaching it, that's really important, because picking active managers is not easy. So we're using active management selectively in less efficient markets. And the team conducts extensive analysis and due diligence when picking managers.

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INVESTMENT OFFICER TRACY: To provide further context for performance, we've included a peer analysis for the three-year period ending December 2024. And I want to note that the December period was chosen to align with the latest data available from CEM Benchmarking.

So this first column shows excess performance for the total global public equity program relative to peers, but this is preliminary, as peer data is still being collected. This currently includes 10 peers with median total assets under management of $359 billion. And the punch line is that the CalPERS global public equity program ranks above the peer group median.

Now, moving on to the second and third column shown here, I want to emphasize that this only shows our active book relative to an active management universe from eVestment. And the key takeaway is that the active program ranks in the top quartile for both excess return and information ratio.

So, as I wrap up, I would just like to leave you with this, that the active equities program has delivered strong risk-adjusted returns relative to its benchmark and it has performed well relative to the peer group as well. And so while we're proud of the progress we've made, we acknowledge that there's always refinement on the horizon, since we embrace a culture of continuous improvement.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: Thank you, Hailey. Looking back on what worked this past year, I'm not going to go through this list. I think, you know, May and Hailey, and Drew is going to give a -- sort of a good presentation of what actually worked. So I want to focus more on the area of refinement. And during last year's annual program review, Director Pacheco commented on his appreciation on our slide that shows how staff's decisions contribute to value-added. And, you know, this is why you see we came back with the actual statistics, but only look at those statistics about 80 percent of the value-added is coming from portfolio construction and manager selection.

And this is an area where we want actually to focus more on and sharpen our toolkit, because we think we can add more. We want to take that 80 percent contribution from portfolio construction and manager selection to above 90 percent. So we think that at the end of -- you know, when we get to the five-year mark of our, you know, active risk addition, that number should be above -- the number should be above 90 percent. And in

Wilshire's opinion letter to the Board, they actually did mention that we stood up a new group, which is the Public Equity Portfolio Design and Analytics team. And both May and Hailey are part of that group. It is a four-person group. We add a new Investment Director to lead that group.

And really this is specifically to address that are, because we think we can deliver more and higher DVA if we get some of those metrics right. So really, really we're looking at that squeezing more juice from active risk that we taking and wanting to continue to be in alignment with Investment Belief number 7.

Next slide.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: On the key initiatives, looking forward. Again, I won't -- I won't, you know, go through each one of these, but really supporting TPA and the ALM process, continuing to enhance active risk framework and portfolio construction methodologies, supporting the data tech modernization initiative. As Arnie mentioned earlier, almost everyone in the Investment Office is involved in this effort. And then progressing the Sustainable Investments to aid in their strategy working with Peter's group, and looking at some of the active strategies around climate change.

I won't go into detail in this, but the Board is going to hear about these and encouraged about this throughout the year, but those are kind of the key initiatives looking forward.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: Good afternoon, everybody. Drew Hambly, Investment Director, Global Public Equities.

Before I start my prepared remarks, I want to touch on a topic from the last panel to Director Taylor's question and loop in the questions that Director Cohen had for Stephen.

When we think about this move to TPA, the word Stephen uses that's most important to our team is mindset. And so, last summer, I sat down with the team and said where could we start being more collaborative than we've been in the past, and sort of where are our expertise and what are we good at, and what could we further enhance throughout the total portfolio?

And two things came to mind. One, we had been working with Peter's team and Sustainable Investments on reviewing companies and various ESG data and scorecards. We think we have a lot of expertise there. We have a lot of expertise in engaging with public companies from an equity mindset.

So I walked down the hall and talked to some people on Arnie's team and said, hey, how can we be more intentional -- intentionable about collaborating together on some of these engagements. So I think Brian mentioned 15 to 20 engagements. I think it's around 20 that we've initiated over the last year. There was that trip that our two teams did to a facility down in Texas. And I think importantly, and Arnie touched on this, about are we getting paid for this? And I think bringing this equity view into their world is not just about should we buy this one? Are we getting the right price and do we have the right sizing?

And so, this mindset that Stephen talked about I think is really starting to show some additivity to portfolio.

So let me stop there. We can talk about that more, if you like, and I'll get to my prepared remarks.

The hallmark of this program is engaging with companies and then using our voice through our proxy voting. So you've seen this slide before. I don't spend too much time on it.

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INVESTMENT DIRECTOR HAMBLY: Over the past year, we voted nearly 10,000 meetings. We vote against management. We have no problem doing that. Say-on-pay 40 percent vote against in the U.S. Over 400 directors for climate reasons, over 1,200 directors for human capital management issues. A hundred -- we engage with over 400 companies representing nearly 120 billion of our equity portfolio. That's over 55 percent of the total portfolio.

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INVESTMENT DIRECTOR HAMBLY: Just looking forward, what are the key themes? We'll continue this collaboration with Arnie and Peter's team. We'll continue to focus on climate and sustainability, governance issues, performance, pay, board structure, and then human capital management.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: So we haven't done this in the past, but we have a new administration. And we have a lot of regulatory developments that we haven't seen or the pace of regulatory developments in my tenure here. And so, not to go through these exhaustively, but the takeaway from here is there seems to be a real focus on reducing shareholder rights. And so there's a lot of different efforts here. There's ones from the EPA, from the SEC, from the House Financial Services Committee all looking to chip away at, you know, hard fought rights that we have.

We have pushed back on a number of these. We have written letters. We will continue to do so. So without having to go through each one of these individually, I just think the high level takeaway is a real push to diminish shareholder rights at the moment.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: Not to pick on any particular companies, but we just want to highlight some examples, how does this program work in practice? The first two examples are governance and performance related. The next two examples refer to our efforts to get disclosure on environmental issues, and then the last two with the focus on human capital management and social issues.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: We continue our pursuit of oversight of climate risk. We're still participants in the CA 100. We continue to look at the highest emitters in our portfolio. I think we look at the top 350 emitters. That makes up about 80 percent of our emissions. And we have continued to focus on these companies, both from an engagement and a voting standpoint.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: And there are support levels. As you can see in the left-hand column, total proposals, these are our shareholder proposals in the United States. You can see the support level is nearly identical year over year highlighting the consistency of our program. I will point out on the dark blue bar, we see about 110 less proposals year over year. And we know some of the reasons for that. The SEC is looking 14A rules. More relief -- no action relief from the SEC this year than we've seen in the past, and some of the chilling effects that we spoke out against last year, companies like Exxon.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: And just to highlight, we talked about this earlier. Forty-one percent against say-on-pay. We've been showing five years on this. And you'll notice, this will be the last year you see the dark blue bar of almost 2,600 meetings. When we lowered the number of companies in the global equity portfolio, we'll now be consistently voting on around a thousand to 1,100 say-on-pays in the U.S., at least for the near future.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: That concludes my remarks. And do you have anything for the appendix?

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah. Thank you, Drew, and thanks, May and Hailey for the presentation.

I just want to conclude by making two points. The first one is that the use of active risk by the Global Public Equity team has been rewarded, as shown by the higher DVA, since we restarted taking active risk. We'll continue along this path guided by Investment Belief number 7.

The second point I want to leave you with is just like to thank the Global Public Equity team for the excellent work that they are doing in generating value. This is really important, because it goes to pay the benefits. Before we -- maybe we open it up for questions and comments, with your concurrence, Mr. Chair, maybe we'll ask Wilshire to come and give a comment, and then we can have the questions.

CHAIR MILLER: Yes, indeed.

ALI KAZEMI: Good afternoon, Ali Kazemi with Wilshire Advisors. Going along with the positive sentiment that you just heard from the team, I think that is reflected within our letter. Our annual review of CalPERS Global Public Equity program underscores the program's continued strength and strategic evolution.

Some of these metrics you've already heard, so forgive me. But over the past year, the program has delivered more than $800 million in value-add above its benchmark, nearly $2.4 billion over the last five years. And that's really been driven by the allocation to active management, which obviously you've just heard about. That has increased significantly now comprising nearly a third of the portfolio, which is up significantly from six percent just five years ago. So that really speaks to a lot of the effort that has gone into the expansion of that active risk.

And getting to that point requires something that really hasn't been touched on that I do want to highlight and that is team stability. There's been no turnover within this team over the last three years. I think that's pretty remarkable just given the natural course of turnover within organizations. I think it speaks to the culture within the team that they're building. And that has really afforded them the luxury of spending more time on investments rather than spending time on recruiting. And I think you've seen -- you'red starting to see the benefits of that.

Part of the result of that too, which Simiso alluded to, which we factored into our scoring is evolution of the portfolio design and analytical capabilities within the team. And so we're really excited as we review some of those capabilities through our monthly check-ins and our annual check-in that those are coming to fruition and should benefit overall value-add as well.

Factoring all of those considerations both quantitative and qualitative, Wilshire's assessment now places the program in the second decile, with a -- with a score of an A grade relative to last year when we were third decile score of B. Both very good scores, but obviously slightly higher now reflecting a lot of the work that I've just discussed.

We are going to continue to monitor things as the Board's consultant and continue to evaluate the value-add over the long term. So if we continue to see some of these shorter term excess returns manifest into longer term returns, that should afford more room for us to continue to increase that score.

But, I'll pause there. Happy to address any questions for Wilshire or if you want to turn it back to the team

CHAIR MILLER: Okay. Well, I will thank everybody for their comments and go to questions here. And the Board members can direct them to who they choose. So first, I have President Taylor.

COMMITTEE MEMBER TAYLOR: So first of all, congrats on getting -- being so successful with the active investments. I always -- when I first started, I always wondered why we didn't do that in the beginning, so, yay. And it's working.

Drew, we -- you were there. CII discussed a lot about the change in the rules. Do we expect them to all go through, probably?

INVESTMENT DIRECTOR HAMBLY: Yeah. I think our expectations, at least in the beginning, a lot of these are going to go through. There's rules around pay disclosures and proxies. I'm pretty sire the SEC is going to have some room to move there. Obviously, Delaware went forward. I think our efforts there at least slowed them down for a minute to think about it. Although, it still went through.

COMMITTEE MEMBER TAYLOR: I talked to the Treasurer, and she said that she was -- she read our letter.

INVESTMENT DIRECTOR HAMBLY: Well, Matt Jacobs unfortunately not with us at the fund any more. He and I had a spirited debate with some people there. So, yes, our expectations in the near term, a lot of these things are -- the pendulum is going to swing probably a little too far one way. And, you know, when that happens, I think we'll see some of the unintended consequences, and, you know, we'll keep up the efforts to, you know, bring it back to the middle and keep it focused on long-term value creation, and less focused on the politics.

COMMITTEE MEMBER TAYLOR: Well, fortunately, it's not really politics when you're talking about proxy voting, right? I mean, say-on-pay is something we've been doing for years. I guess, you could call it politics.

INVESTMENT DIRECTOR HAMBLY: Yeah. I think it's been more politicized than we've seen in a long time. And, you know, just getting back to the basics, what does good governance look like in this market and all the markets we invest in? You know, ironically, we're not seeing these types of changes in other markets. It's really just here in this effort to say, hey, there's something wrong with U.S capital markets. Yet, but when we look at the indexes they're hitting record highs. So we're not sure why we're -- need to make all these changes, but they're being made regardless.

COMMITTEE MEMBER TAYLOR: So at -- in that, we did have some key proxy votes on a bunch of different things. And I believe -- and I don't know if I should say this out loud. There's a company that I think is coming up right now, right?

INVESTMENT DIRECTOR HAMBLY: Um-hmm.

COMMITTEE MEMBER TAYLOR: Okay. Do we think that that say-on-pay thing is going to happen right before that happens?

INVESTMENT DIRECTOR HAMBLY: So, you know, like we've done in the past with every company, it will get a full review by my team using our existing frameworks. As you can see, we say no 41 percent of the time. We look for both structure and quantum relative to performance. And when those are not in line, that will generate a no vote. So, will these pass? Sometimes when you have a high retail shareholder base that, you know, buys a stock for a certain reason, that could lend itself to getting high enough support to pass.

COMMITTEE MEMBER TAYLOR: Oh, I'm pretty sure.

INVESTMENT DIRECTOR HAMBLY: But we will continue to use the framework that we have used in the past, which has gotten us to a different result.

COMMITTEE MEMBER TAYLOR: Then finally, I kind of wanted to bring up the other thing that I thought was very odd, which is the reincorporating in Texas and Nevada rather than Delaware, and the starting -- which has not started, the starting of its own stock exchange in Texas. Where do you think -- after we had this lively debate about it at CII is -- what are you thinking for all of that?

INVESTMENT DIRECTOR HAMBLY: Yeah. So hard to predict what the future will hold, but in the last year, we saw, in terms of proposals, in our portfolio, we saw a total of one asking shareholders to reincorporate in Texas. And I think we saw seven or eight in Nevada. Now, there's lots of corporations that aren't publicly traded that, you know, may move around. I think a lot of companies are talking about this, but at the end of the day, they want certainty of judgments. And while Nevada and Texas, for example, are trying to make the case that their environment would be good to move to, they don't have sort of the Delaware Chancery's 70, 80 years of, you know, court history to fall back on.

So I think companies are carefully weighing this before they, you know, jump too quickly. Will there be a Dexit? It's still hard to say, but in the last year, we've seen only a handful up of companies -- publicly traded companies ask shareholders, because you have to vote on this, ask for the move. And only one that we've seen so far into Texas.

COMMITTEE MEMBER TAYLOR: I know what one that is, but -- okay. Well, doesn't that make our companies less viable, because now they don't have the -- so other countries that may want to invest in these companies do not have the certainty of the -- of the Dow and the Delaware experience that you were talking about.

INVESTMENT DIRECTOR HAMBLY: Yeah. And I think that's why we've seen only a handful so far make that move.

COMMITTEE MEMBER TAYLOR: Okay.

INVESTMENT DIRECTOR HAMBLY: And so there was a lot of fear that this was going to be a rapid exit. It hasn't happened yet. I can't -- you know, my crystal ball is only so good. I'm not sure if there will be. But so far, since these things have happened, it's been a -- you know, only a handful that have chosen to make that move.

COMMITTEE MEMBER TAYLOR: I appreciate it. I thought that was something we should be discussing here, because it does impact risk for the fund in general.

INVESTMENT DIRECTOR HAMBLY: Yeah.

COMMITTEE MEMBER TAYLOR: So thank you very much, you guys.

INVESTMENT DIRECTOR HAMBLY: Thank you.

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

COMMITTEE MEMBER PACHECO: Thank you and thank you, Simiso and team for your comment. I want to go back to page 12 of 30, the looking back on the business and key initiatives. And first of all, I want to congratulate you on your active risk and active management of the public equities. I want to know how the active management is related to the advanced automation and development of the manager skill assessment. If you can elaborate on that?

INVESTMENT MANAGER LEUNG: Yeah. I can -- I can probably start and Simiso can elaborate on it. So as he had mentioned, you know, we have this new team that is the portfolio design and analytics. So in the past year, we actually have done a lot of work streamlining a lot of the processes and going through what actually would provide the insights that the team needs, in order to understand more in-depth of the strategy and how they actually generate alpha, so we can form an opinion on how persistent we believe that alpha sources and the skill sets of each of the manager will be able to bring to the table for the long run, because, you know, each strategy can go through different cycles, but we want to make sure that it is a consistent stream of alpha sources and diversify set of alpha sources.

So the teamwork worked really hard to develop, you know, expand the toolkit and also have a very intentional purpose for each of the tools to come together to form that opinion on the manager.

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah. May did, you know, say it well, maybe better than I could. Actually, you know, May is at the center of some of the development of those tools, both May and Hailey. And this part of that portfolio design team really is about understanding what's in the portfolio, what's driving alpha generation, because again when you look at, you know, the different aspects, the different components where we are adding value, there's the portfolio construction, whereas the manager selection is really -- on manager selection, we really want to understand how they're driving their -- that alpha. And then on the portfolio construction, you're trying to say how -- when you put together these different managers how the overall portfolio looks.

So there's a lot of insight and analytics that goes into that. And this is something which, you know, we started talking about this, about developing that -- at least standing up that team when Nicole was -- yeah, when -- initially when we started saying would like to put active risk back in the portfolio. So this was something which like we want to build this team, because this is the only way we can actually be able to do a better job, and risk controlled, and, you know, consistent deliverable of alpha.

COMMITTEE MEMBER PACHECO: And thank you for that comment, because it kind of relates to the next question I have. In the same area is the staff development and culture promoting a connected and novel team. I -- you know, when I read the letter from Wilshire saying that your team has been -- has had -- really has no -- had no real turnover and you've been consistent. I'm just curious as to how you've -- how you've been able to foster that. Was it through the culture clubs and, I mean, I'm just curious of your -- because that is unique and that's something that we should -- we should -- we should embrace.

So please elaborate, sir.

MANAGING INVESTMENT DIRECTOR NZIMA: Yes. Yeah, I've -- we've been fortunate that really we've had a team that has worked together for a long time. And then we actually do a lot of things again as a team. I think one of the things which I've tried to do is to be more inclusive. When I was appointed the head of public equities in 2020, one of the things that I did was to meet with each and every individual at least once, if not twice or three times, just to understand, you know, where each person was, what are the things that we could do better as a team, to work better together, and so forth. And I actually have meetings with each and every person in the team, a 28-person team. So it's not a big team, but on a -- on a continuous periodic basis, I have those meetings, trying to understand where each individual is -- where they are and how I can be helpful in terms of developing them, in terms of the work that actually interests them and so forth.

And also fortunate that, I think, two members of the team were part of the culture club, the -- you know, 1.0 Culture Club. So two of the members of the team were there, but also as part of this inclusion. For example, some of the Capital Allocation or Investment Review Committee meetings -- we actually have the entire team, because we're a small team, we have the decision-making -- you know, where people vote on those committees. But for the actual meetings where we talk about the investment, the strategies, the capital allocation, the entire Global Equity team is part of that. So just trying to provide those opportunities, I make sure that everyone is heard. They feel they are part of the team, they are helping develop the strategy going forward.

And, you know, it's -- I think it's been helpful, but I don't know if, you know, others want to chime in, if they have any thoughts.

INVESTMENT DIRECTOR HAMBLY: Well, I'll chime in. So -- because I've only been here coming up on three years and it gets back to this, I said it before, mindset. And even before we were talking about TPA, you know, Simiso's leadership style was very inclusive. And so, when you have that collaboration within, I think, it's now 28 of us, and anybody can just walk down to somebody's desk, has really sort of strengthened the collaboration within the team and then allows us to go outside.

So I think that's been a big benefit for our team.

COMMITTEE MEMBER PACHECO: And that's just -- that's wonderful to hear that, because I think that's something that it's a great model to elaborate and have that culture and that collaboration.

Drew, the -- I have -- my last question is actually for you. Regarding the Climate Action 100 and that area of sustainability, I know that we were -- you know, we's been in -- are we still in a leadership position in that and how are we --

INVESTMENT DIRECTOR HAMBLY: Yes. Michael still sits on the executive committee of that.

COMMITTEE MEMBER PACHECO: And how have -- how have we been doing in terms of, you know, promoting our initiatives and our alignment. You know, other -- you know, other entities have seemed to moved away from it. But I would just like to know what our position is and how we've been -- we've kept the course -- kept the course and kept the -- our north star with this. Thank you.

INVESTMENT DIRECTOR HAMBLY: Yeah. So the issues just don't go away just because people drop out. I mean, they're still there. And what we're seeing in other regions, the European region, the Asian region, and then

U.S. asset owners within the U.S. That coalition is still moving forward. It's unfortunate that we've seen some large organizations in the U.S., you know, step back from that. Well, like I said, you know, greenhouse gases are going to be there whether you're part of a coalition or not. So, we continue to do the good work. We continue to have input into the steering committee that, you know, Michael is on to make sure that we're focused on the things that are of long-term value to shareholders.

So are we going to get some of those people who dropped out back in the fold any time soon? Probably not in the next 12 months, but the issues aren't going away. And, you know, hopefully they'll realize and we'll invite them back in when they're ready to come.

COMMITTEE MEMBER PACHECO: That would be -- that would be -- that would be great, if they did come back, but yeah. Thank you so much for your stewardship. And thank you, Michael, for your leadership on the Climate Action 100+. Those are my questions.

Thank you.

CHAIR MILLER: Okay. Thank you.

Next, Director Willette.

VICE CHAIR WILLETTE: Thank you, Chair. I really enjoyed the presentation. Thank you guys. I'm really impressed with the team here today and more impressed with the work that's been done. I want to use this opportunity -- GPE covers a lot of ground. So quickly, I want to take a beat to recognize our beneficiaries who've invested their personal time and resources to engage with us on any of our holdings, a majority of which are public equity holdings. And that engagement does underscore what the presentation reminded us over and over, our public equity strategy succeeds when we manage risk with discipline and align our investments with our governance and sustainability standards.

And I really appreciate highlighting the Investment Belief 7, that we should seek risk-adjusted returns where we have high conviction. And that strong governance is a critical risk factor in the decision-making. I know we're not -- I don't encourage individual company discussions, but President Taylor opened it up, so I think -- I think it warrant's a discussion a little bit about Tesla and Tesla's past gains don't erase the present picture.

I think we all know its price-to-earnings ratio is near 200. Even far tech firms are, you know, below 40. I think the last two quarters -- or the first two quarters of 2025 showed steep declines in sales and profits. The loss of the U.S. carbon credits are impactful. The shrinking European sales. A lot of our pensions in Europe have divested from Tesla. I think the growing legal regulatory liabilities, the mis -- I recall the misrepresentation lawsuit verdict, the class actions, the DMV, NHTSA investigations, right, all compound the risk of our investment. And the speculative bets like the robots are now cited as their most -- as the company's future value, which doesn't really align with that disciplined active risk-taking approach that we talked about today.

I really was excited to see these presentation, reaffirm corporate governance, and human capital practices. But as noted, a hand-picked board, outsized pay packages, strange AGM dates, weakened shareholder rights, rejection of climate and labor proposals, ongoing discrimination suits. Those all fall short of the governance standards that CalPERS does promote across the market.

I would like to say that any pause or other investment decisions related to Tesla would be discussed in closed session, not here today. But given the valuation risk, operational headwinds, the governance failures, the sustainability noncompliance, and in line with our Investment Belief 7 that we take risk where we believe we will be rewarded, through the Board I'd like -- or sorry, through the Chair, I'd like Board direction to ask staff to investigate and report on the risks of our current Tesla exposure, including our passive holdings, and return with recommendations on whether reducing our position best protects our beneficiaries' pensions and CalPERS values.

Yes?

CHAIR MILLER: Sounds like direction from the Committee to me.

VICE CHAIR WILLETTE: Thank you.

Anyone can make a comment, if you'd like. I'm not asking for it.

INVESTMENT DIRECTOR HAMBLY: Well, if you'd like, we can talk about this more in closed about the specifics. Happy to walk through some of the work Simiso and I have, you know, done and looked at, but I think that would be more appropriate for next session.

VICE CHAIR WILLETTE: Excellent. Thank you.

CHAIR MILLER: Thank you.

Director Middleton.

COMMITTEE MEMBER MIDDLETON: Thank you. And again, I want to thank you for all of the work that we've done. I'm very proud of the record that CalPERS has in terms of the work we've done in corporate America going back for any number of years.

As I've sat at home over the last few months watching things, and I want to make sure that I phrase this not in a political fashion, but what we have seen in a variety of institutions over the course of this year is leaders that are incredibly well-compensated folding like a three dollar tent. And I understand paying tens of millions of dollars in annual salaries for individuals that are capable of producing results that nobody else can do.

But I'm starting to struggle with how we justify the kinds of compensation levels that have become the norm when I look out and I don't see exemplary leadership. I see something else. And that's a comment, but it's a comment that's going to come up over and over again, as we expect extremely well-compensated individuals to produce at an extreme level, and we're not seeing that.

CHAIR MILLER: Thank you. I'm not seeing any more requests to speak, and so thank you to the team. I won't repeat all the superlatives. We're running a little over time for our transcriptionist, and I want to be courteous, but we'll go to Committee comments. We've got some comments on this item. And I'll call up Ruth Radetsky, Edward Hasbrouck, followed by Mary Jo Walker and Jennifer O'Dell.

Please come on down. The seats are on my far left, your right, be available. And we'll get the mics on for you and you can start whenever you're ready. And the clock will be up here for you to keep track. You'll have three minutes for your comments each.

RUTH RADETSKY: Good afternoon. I'm Ruth Radetsky, retired teacher and California taxpayer from San Francisco asking you to sell Tesla. Thank you so much, Director Willette.

Some of us met with CalPERS Global Public Equity staff back in August. They told us that most, and we heard today 68 percent, of CalPERS public equity holdings, including Tesla, are actively -- passively managed, that is they follow an index, and that CalPERS practices allow no room for discretion with respect to individual stocks in the index allocation.

Following the index is the safest way to get consistent returns, says conventional wisdom. Maybe in normal times, though even in normal times, I would argue that you should keep a fairly close eye on billion dollar holdings. And no one can argue that these are normal times.

In his August 28th column, Nobel Laureate economist Paul Krugman said, "The market is a conventional wisdom processor, that is it reflects views that seem safe to hold, because many other people hold them."

Krugman went on to define what was, to me, a new technical term, the Wile E. Coyote moment, the moment when the cartoon character having run several steps off the edge of the cliff, looks down, and realizes that there's nothing supporting him. Following conventional wisdom, that is passively following an index is safe until it's not, or as I said to you in July, just because everyone else is doing it, doesn't mean it's a good idea.

Please do your fiduciary duty to the public servants who work so hard for us. Please change your policies to require staff perform company-specific risk assessments of your 20 largest public equity holdings twice a year, even those on the passively managed side.

If you did perform such assessments, I am confident that, for the reasons my colleagues Mary Joe and Thomas, and Director Willette give, you would conclude that you should sell Tesla now before Tesla's Wile E. Coyote moment.

Thank you.

CHAIR MILLER: Thank you.

Next speaker.

EDWARD HASBROUCK: My name is Edward Hasbrouck and I want to call your attention to what's missing from the report you just heard, any assessment of the performance, risk or valuation of any of your even largest public equity holdings. When we met with some of you on the Board, we've heard you say that you don't -- the Board doesn't pick stocks or monitor them, but you rely on your well paid and expert staff to monitor specific investments. But as Ruth just said, when we met with your investment staff, the equity managers last month, they told us they've never conducted any individualized assessment of the valuation or risk of any of the stocks in the passive index allocation, and that they can't imagine any circumstances in which they would do so, no matter how large a proportion of the portfolio they came to represent, as a result of market capitalization, and no matter much many red flags their financial fundamentals raised about their valuation or risk.

The staff makes individualized decisions as they've talked about about how to vote proxies, but they make -- give no thought at all to the passive decisions much more fundamental about whether to buy, sell or hold these stocks in the first place. Your fiduciary duty is to exercise the care that a prudent person would apply to their personal investments. A prudent individual wouldn't monitor every stock in their mutual fund or index holdings, but they would check once or twice a year to look at the top holdings of each of their mutual funds, and think about whether those still are appropriate investments or should be changed.

And for the same reason, your fiduciary duty is to, as Director Willette has suggested -- and I urge you to act today on her proposal under this agenda item to direct the staff to conduct individualized risk assessments perhaps annually or twice a year or for your top 20 investments, but starting with -- now, starting with Tesla, which is the most extreme outlier and the most questionable holding passively adopted to look at its risk and valuation and whether it's appropriate. The decision to hold more than a billion dollars in Tesla at this point we now know from our discussions from your Investment staff is not a considered decision. It is a blindly passive decision. And if you want to exercise due diligence, you can't just count on the staff to do it magically. You need to direct them to do so. And when you've conducted that evaluation, I am confident that you will choose to sell Tesla, all of it promptly.

Thank you.

CHAIR MILLER: Thank you.

Next speaker.

MARY JO WALKER: My name is Mary Jo Walker. I'm a CalPERS member. I've been a member for 40 years and I'm a retired certified public accountable, retired city finance director, and the retired Auditor Controller for the County of Santa Cruz. And I'm here also to advocate for selling Tesla stock and to advocate for a policy to review your public equity holdings that are, you know, passively managed for compliance and appropriateness in your portfolio.

I'll try not to be redundant to things that have already been said, but I will say this that when I -- when Elon Musk first went to Washington firing civil servants right and left, mostly left, calling public employees parasites, calling us low efficiency. I've never felt like a low-efficiency employee. I was outraged. I quickly found out that my pension plan owns billions of dollars. Now, I know -- understand it's only maybe one percent, but it's still, to regular people, billions of dollars is real money in Tesla. Owns billions of dollars in Tesla.

Being the analytical type that I am, I quickly realized that what a bad investment it is and I couldn't really reiterate better than what's already been said about the technology, about the CEO, et cetera, et cetera, why it's risky and it's a bad investment. And then, of course, there's this trillion dollar pay package, which we've just heard about. And you may not know this, this hasn't been mentioned yet, that the Tesla investment over the past five years, since January of 2021, has been earning you about two to three percent a year.

Now, it's very volatile. It goes up. It goes down. It goes up. It goes down a lot. It's way more volatile than any of the other Magnificent Seven, but depending on the day you look at it, it's getting two to three, maybe four percent a year for you, which is -- and it hasn't -- it hasn't skyrocketed like a lot of the other ones. So, that's something that we should take into account.

Let's see, as has been mentioned before, and I'll just reiterate this, because I find this astounding, is that there is no review of these investments that are purchased, that are passively managed. We -- you buy them you hold them. That's the way it is. It will not -- we will -- your Investment staff told us in no uncertain terms that that is the way they're managed.

And I think it's your fiduciary responsibility to look at some of these largest holdings, billions of dollars of holdings regularly to see whether they still comply with your, you know, desires, and the desires of the people in your -- of your members.

Thank you very much.

CHAIR MILLER: Thank you.

Jennifer O'Dell. There you are.

JENNIFER O'DELL: Good afternoon, Board of Trustees and staff. It's nice to see you. My name is Jennifer O'Dell from the Laborers Union in Washington

D.C., and I wanted to let the Investment Committee and staff know about a situation that we're following in New Jersey.

Blackstone Real Estate Debt Strategies has provided the Kushner Companies with a $515 million for the first phase of a project called The Journal in development in Jersey City, New Jersey. Over the course of the construction of The Journal, the New Jersey Department of Labor has opened multiple investigations into companies subcontracted to perform work under the general contractor, AJD, and concrete contractor called Concrete Rising on this site.

Let me give you a little bit more detail. The DOL has open investigations into five contractors on this project, four of these contractors have been issued stop work orders in the spring of 2025 for a bunch of violations that I'll list including worker misclassification, non-payment or late payment of wages, failure to pay overtime, lack of workers compensation insurance, and hindering the Department of Labor's investigation or failing to provide records to the DOL.

They're also investigating a fifth company, one of the subcontractors of Concrete Rising, for nonpayment of wages following complaints from no fewer than 76 workers on this project. They reported work -- these workers reported working for weeks without pay in the summer of 2024. And the investigator from the DOL found that there had been violations and violations of not providing wages to employees.

These workers still haven't been paid. They remain unpaid and await resolution of this case. They've -- the DOL has indicated that this general contractor is unable to pay in full. They're prepared to hold the subcontractors jointly liable for making these workers whole.

This decision to allow these workers -- this contractor to work on this project calls into question Blackstone's selection process. Concrete Rising has a history of safety problems, which I can detail later. I know I'm running out of time, but it involves a worker falling on another project in Jersey City. The use of irresponsible contractors can lead to grave dangers, I don't have to tell you, for workers. It can lead to project delays. We have a few suggestions of what CalPERS could do.

One, they should urge Blackstone to adopt a new responsible contractor policy that prohibits use of irresponsible contractors. We've been successful with the laborers in getting a number of debt firms to adopt such language. We should ensure that developers conduct due diligence during the contractor selection process, and also, CalPERS should recommend that developers solicit bids from qualified responsible contractors participating in collective bargaining agreements that protect workers rights. Thank you so much for your time and I look forward to working with you on this.

CHAIR MILLER: Thank you. Okay. Any more public commenters on -- yes, on the phone?

BOARD CLERK ANDERSON: We have one more in-person as well.

CHAIR MILLER: Oh, one more in Person.

BOARD CLERK ANDERSON: Thomas Pattison.

CHAIR MILLER: I have him for "G". Okay.

THOMAS PATTISON: Thank you so much for allowing me to speak to you --

CHAIR MILLER: There we go.

THOMAS PATTISON: And I represent Defund Tesla in Yolo County. We have 1,500 signatures from voters in Yolo County recommending that Tesla be defunded by CalPERS. I've been a -- Thomas Pattison is my name. I've been a practicing physician for 35 years taking care of injured workers, including several from the Fremont plant unfortunately.

I'm advocating that you follow Denmark's pension lead that divested from Tesla. And the CEO cited three critical concerns that CalPERS should seriously consider, many of which have been mentioned before. But Board independence, it's zero. CEO suitability brand destruction. So the core investment risks, Tesla has the least independent Board among the many cap stocks, literally consisting of family and friends. The lack of oversight enabled the $56 billion dollar CEO pay package, the Delaware courts rejected twice. We have a new $29 billion interim. Now, a proposed plan of $1 trillion over 10 years. This is in contrast to the worker that I took care of gets $22 an hour at the Fremont plant and can't live there and has to go -- come up from Fresno and sleep in car overnight.

Anyway, even if he doesn't get the full trillion dollars, if Tesla only doubles in value, seven percent return, he still gets 20 billion. An average return will boost that another tranche to 40 billion.

So, operational headwinds. European sales are down 40 percent. Years of missed autonomy promises, robotaxis in 2020, liability for false advertising resulted in a large liability claim in Florida, heavy reliance on regulatory credits that are fading, zero shareholder returns, particularly when you take Musk's salary and just subtract the total returns that have been delivered to shareholders is zeros out.

There's a key man risk obviously, in this that the -- Musk has conditioned his focus obtaining 25 percent voting control, while spreading attention across multiple ventures and increasingly controversial political activities and kind of mismanagement of that. And the Danish model includes that Musk is in the process of destroying the brand and value. They gave Tesla Board one final chance at their meeting and they failed. You did that too when you asked -- you had concerns about the pay package. I'm sure you'll repeat that. But I think it's time to do more.

We should do a heightened risk assessment, follow Oregon's lead, but also consider just eliminating Tesla, selling it now before it goes down.

Thank you.

CHAIR MILLER: Thank you. And we have a caller.

CALPERS STAFF: Yes, Chair Miller, We have Susan McCarthy to comment on Agenda Item 5g. Susan, you are now live and can make your comments.

SUSAN McCARTHY: Hi. I'm Susan McCathy. I live in San Francisco and I'm in CalPERS through my husband's employment.

I ask that CalPERS divest from Tesla stock because of the activities and changing positions of its CEO Elon Musk. As they say on Kids TV, one of these things is not like the other. This guy is different. This company is different. The risk is different. And that speaks to your fiduciary duty. You've heard that before, but have you heard how many Elon Musks it takes to change a light bulb? It takes two. One to hold the light bulb and one to take so much ketamine that the room starts to spin around, and around, and around.

(Laughter).

SUSAN McCARTHY: Now, you might say that's not completely fair. He has people to change light bulbs for him.

Well, what's the difference between a joke and a fist full of off-label prescription drugs? Elon Musk can't take a joke.

Now, some people might think his life sounds like fun. Did you hear about the kid who told his mother, "Mom, when I grow up, I want to be Elon Musk." She had to tell him, "Oh, honey. You can't do both."

Here's a joke not everyone gets. How do you stop Elon Musk from fathering you? Have a baby with him.

But let's talk about business matters. You know the fastest way to create multi-million dollar company? Sell it to Musk for 44 billion.

Oh, do you know how you can tell that Elon Musk joined Tesla after it was founded. Not called X cars.

Elon Musk is not a predictable CEO. As a result, the Tesla corporation doesn't follow a predictable course. As a result of that, it presents an unpredictable financial risk. Yeah, this one is different. I haven't even told you all my Musk jokes and Tesla jokes.

Do not get me started on cyber trucks. Please consider divestment. Thank you for your time

CHAIR MILLER: Thank you for your comments.

Okay. I think that brings us circling back to Committee direction.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Thanks, Mr. Chair. Just one item the Tesla report back that you just directed us for.

CHAIR MILLER: Okay. Well, I think that is it for open session. If I hear no objection, we'll adjourn and then we'll go into closed session.

BOARD CLERK ANDERSON: Chair Miller, I do think we have one more public comment on the phone

CHAIR MILLER: Oh, we do. Okay. One more on the phone. Let's go to that.

CALPERS STAFF: Thank you, Chair Miller. We have Ralph Ballart to speak to Item 5g. Ralph, you are now live, please proceed with your comments.

RALPH BALLART: Yes. Well, it's another person, part of the Divest Tesla Initiative. I'm afraid, I won't be able to top Sue Mac, but I've had the pleasure of talking to multiple CalPERS Board members, and also to your investment team as part of our group. Many, many thanks to all of you for that opportunity.

As you know, we consider Tesla with its price earnings of now 227 and a collapsing sales environment, it's just a very poor investment with the potential to lose CalPERS a billion dollars.

As some of my colleagues have mentioned, we now avenue a more general concern. We've learned that your Investment team does no annual review of any of your largest holdings in the index funds. To be clear, we understand you review the proxy statements and we hope that you will vote no Musk's new one trillion dollar pay increase. But you do not review your largest holdings to understand their fundamental risk to CalPERS.

Years ago, CalPERS lost $200 million in today's dollars when Enron collapsed. We now understand, because Enron was held in an index, that loss was, in fact, inevitable. So we are concerned that losses of even greater magnitude are going to be outstanding.

We believe the Investment Committee should report on a regular basis to the Board on the investment risk associated with CalPERS's 20 largest individual stock holdings that are held in index funds. This kind of regular review is something you know Warren Buffett does. It's a prudent financial strategy and we hope you'll consider it.

Thank you again so much for your time.

CHAIR MILLER: Thank you.

Okay. Any other callers?

Nobody has appeared at the last moment.

Okay. So we'll be going into closed session after adjournment. And hearing no objections, we are adjourned.

(Off record: 3:51 p.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 5:59 p.m.)

CHAIR MILLER: Okay. We've just finished our closed session. We're back in open session and with no objection, I will adjourn the meeting.

COMMITTEE MEMBER TAYLOR: You have Wilshire sitting up here for some odd reason.

CHAIR MILLER: Oh. Item 7.

TOM TOTH: Sorry. But I understand how long that day has been.

(Thereupon the meeting recessed

into executive closed session.)

(Off record: 6 p.m.)

(Thereupon the meeting reconvened open session.)

(On record: 6:09 p.m.)

CHAIR MILLER: Well, we've just finished our closed session. We're back in open session. And unless I hear an objection, I will call this meeting adjourned.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 6:09 p.m.)

CERTIFICATE OF REPORTER

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of September, 2025.

James F. Peters

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